UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of

the Securities Exchange Act of 1934

For the Quarterly period ended September 30, 2012

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

OHIO	**34-1371693**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No)**

20 South Broad Street Canfield, OH	**44406**
(Address of principal executive offices)	**(Zip Code)**

(330) 533-3341

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2012
Common Stock, No Par Value	18,802,269 shares

CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)

	(In Thousands of Dollars) September 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 15,927	$ 14,161
Federal funds sold and other	63,567	38,261
TOTAL CASH AND CASH EQUIVALENTS	79,494	52,422
Securities available for sale	429,845	400,029
Loans held for sale	4,574	677
Loans	572,903	571,806
Less allowance for loan losses	8,625	9,820
NET LOANS	564,278	561,986
Premises and equipment, net	18,216	16,461
Goodwill	3,709	3,709
Other intangibles	2,425	2,732
Bank owned life insurance	15,404	15,015
Other assets	14,801	14,840
TOTAL ASSETS	$ 1,132,746	$ 1,067,871
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	$ 117,108	$ 96,117
Interest-bearing	783,030	744,008
TOTAL DEPOSITS	900,138	840,125
Short-term borrowings	96,870	98,088
Long-term borrowings	10,488	11,263
Other liabilities	4,242	3,950
TOTAL LIABILITIES	1,011,738	953,426
Commitments and contingent liabilities		
Stockholders Equity:		
Common Stock - Authorized 25,000,000 shares; issued 18,802,282 in 2012 and 18,757,437 in 2011	104,504	104,261
Retained earnings	7,175	2,133
Accumulated other comprehensive income	9,329	8,051
Treasury stock, at cost; 13 shares in 2012 and 2011	0	0
TOTAL STOCKHOLDERS EQUITY	121,008	114,445
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,132,746	$ 1,067,871

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)

	(In Thousands except Per Share Data)			
	For the Three Months Ended		For the Nine Months Ended	
	Sept 30, 2012	**Sept 30, 2011**	**Sept 30, 2012**	**Sept 30, 2011**
INTEREST AND DIVIDEND INCOME				
Loans, including fees	$ 7,945	$ 8,303	$ 23,928	$ 25,123
Taxable securities	1,901	2,121	6,135	6,038
Tax exempt securities	705	725	2,124	2,193
Dividends	50	48	152	147
Federal funds sold and other interest income	29	21	80	40
TOTAL INTEREST AND DIVIDEND INCOME	10,630	11,218	32,419	33,541
INTEREST EXPENSE				
Deposits	1,409	1,660	4,394	5,042
Short-term borrowings	22	75	89	276
Long-term borrowings	98	248	294	748
TOTAL INTEREST EXPENSE	1,529	1,983	4,777	6,066
NET INTEREST INCOME	9,101	9,235	27,642	27,475
Provision for loan losses	325	700	725	3,650
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,776	8,535	26,917	23,825
NONINTEREST INCOME				
Service charges on deposit accounts	540	562	1,499	1,535
Bank owned life insurance income, including death benefits	129	143	389	421
Trust fees	1,328	1,354	4,111	4,057
Security gains	473	0	473	0
Impairment of equity securities	0	(11)	0	(11)
Insurance agency commissions	28	28	89	120
Investment commissions	210	215	645	669
Net gains on sale of loans	204	0	407	0
Other operating income	387	405	1,339	1,216
TOTAL NONINTEREST INCOME	3,299	2,696	8,952	8,007
NONINTEREST EXPENSES				
Salaries and employee benefits	4,808	4,184	14,476	12,855
Occupancy and equipment	1,083	944	3,134	2,649
State and local taxes	293	233	904	718
Professional fees	490	516	1,353	1,326
Advertising	210	265	668	621
FDIC insurance	166	171	535	763
Intangible amortization	102	112	307	367
Core processing charges	303	338	1,023	962
Other operating expenses	1,373	1,414	3,944	3,822

TOTAL NONINTEREST EXPENSES	8,828	8,177	26,344	24,083
INCOME BEFORE INCOME TAXES	3,247	3,054	9,525	7,749
INCOME TAXES	758	683	2,230	1,571
NET INCOME	$ 2,489	$ 2,371	$ 7,295	$ 6,178
NET INCOME PER SHARE - basic and diluted	$ 0.13	$ 0.13	$ 0.39	$ 0.34

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)

	(In Thousands except Per Share Data)			
	For the Three Months Ended		For the Nine Months Ended	
	Sept 30, 2012	**Sept 30, 2011**	**Sept 30, 2012**	**Sept 30, 2011**
NET INCOME	$ 2,489	$ 2,371	$ 7,295	$ 6,178
Other comprehensive income:				
Net unrealized holding gains (losses) on available for sale securities	695	5,140	2,438	11,003
Reclassification adjustment for (gains) losses realized in income	(473)	11	(473)	11
Net unrealized holding gains (losses)	222	5,151	1,965	11,014
Income tax effect	(77)	(1,803)	(687)	(3,854)
Other comprehensive income (loss), net of tax	145	3,348	1,278	7,160
TOTAL COMPREHENSIVE INCOME	$ 2,634	$ 5,719	$ 8,573	$ 13,338

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)

	(In Thousands of Dollars) Nine Months Ended	
	Sept 30, 2012	**Sept 30, 2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,295	$ 6,178
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	725	3,650
Depreciation and amortization	1,250	1,210
Net amortization of securities	1,996	1,022
Security gains	(473)	0
Impairment of equity securities	0	11
(Gain) loss on sale of other real estate owned	(56)	132
Increase in bank owned life insurance	(389)	(421)
Origination of loans held for sale	(25,217)	0
Proceeds from loans held for sale	21,727	0
Net gains on sale of loans	(407)	0
Net change in other assets and liabilities	(844)	(1,149)
NET CASH FROM OPERATING ACTIVITIES	5,607	10,633
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	62,216	30,511
Proceeds from sales of securities available for sale	56,463	3,361
Purchases of securities available for sale	(148,054)	(92,397)
Loan originations and payments, net	(4,361)	19,885
Proceeds from sale of other real estate owned	1,814	345
Purchase of bank owned life insurance	0	(3,000)
Proceeds from BOLI death benefit	0	108
Additions to premises and equipment	(2,623)	(1,500)
NET CASH FROM INVESTING ACTIVITIES	(34,545)	(42,687)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	60,013	45,148
Net change in short-term borrowings	(1,218)	33,450
Repayment of Federal Home Loan Bank borrowings and other debt	(775)	(1,431)
Cash dividends paid	(2,253)	(1,681)
Proceeds from dividend reinvestment	243	380
Net proceeds from issuance of common shares	0	13,772
NET CASH FROM FINANCING ACTIVITIES	56,010	89,638
NET CHANGE IN CASH AND CASH EQUIVALENTS	27,072	57,584
Beginning cash and cash equivalents	52,422	37,305
Ending cash and cash equivalents	$ 79,494	$ 94,889
Supplemental cash flow information:		
Interest paid	$ 4,809	$ 6,127
Income taxes paid	$ 1,455	$ 3,065

Supplemental noncash disclosures:		
Transfer of loans to other real estate	$ 1,344	$ 514

See accompanying notes

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

Farmers National Banc Corp. (the Company) is a one-bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company provides full banking services through its nationally chartered subsidiary, The Farmers National Bank of Canfield (the Bank). The Company provides trust services through its subsidiary, Farmers Trust Company (the Trust), and insurance services through the Bank s subsidiary, Farmers National Insurance. The consolidated financial statements include the accounts of the Company, the Bank and its subsidiary and the Trust. All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation:

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2011 Annual Report to Shareholders included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year. Certain items included in the prior period financial statements were reclassified to conform to the current period presentation. There was no effect on net income or total stockholders equity.

Estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, deferred tax assets, carrying amount of goodwill and other intangibles and fair values of financial instruments are particularly subject to change.

Allowance for Loan Losses:

The Company changed its methodology for estimating the valuation allowance for probable incurred loan losses for the three and nine month periods ended September 30, 2012. During the most recent period end, management computed the historical loss percentage based upon the loss history of the past 12 quarters. In previous years, management used a historical loss percentage based on the past 8 quarters. Using a 12 quarter loss history resulted in a larger historical loss ratio than what would have been computed using an 8 quarter history. The primary factor for the change was the lower historical loss percentage applied to homogeneous and pass rated loans due to recent lower levels of net charge-offs. This new 12 quarter history methodology resulted in a $325 thousand and $725 thousand loan loss provision for the three and nine month periods ended September 30, 2012. Under the previous eight quarter method the unallocated portion of the allowance for loan losses would have increased during those same three and nine month periods.

Segments:

The Company provides a broad range of financial services to individuals and companies in northeastern Ohio. While the Company s chief decision makers monitor the revenue streams of the various products and services, operations are managed and financial performance is primarily aggregated and reported in two lines of business, the Bank segment and the Trust segment.

Comprehensive Income:

Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss consists solely of the change in net unrealized gains and losses on securities available for sale, net of reclassification for gains or losses recognized in income.

Recent Accounting Pronouncements

In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The effect of adopting this standard did not have a material effect on the Company s operating results or financial condition, but the additional disclosures are included in the Fair Value footnote.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. The Company adopted this amendment for the year ended December 31, 2011, by presenting comprehensive income in new Consolidated Statements of Comprehensive Income. The new statements follow the Consolidated Statements of Income.

Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at September 30, 2012 and December 31, 2011 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income:

(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012				
U.S. Treasury and U.S. government sponsored entities	$ 70,465	$ 1,830	$ (15)	$ 72,280
State and political subdivisions	78,643	5,357	(9)	83,991
Corporate bonds	1,232	17	0	1,249
Mortgage-backed securities - residential	247,330	6,829	0	254,159
Collateralized mortgage obligations	17,504	209	0	17,713
Small business administration	179	1	0	180
Equity securities	140	138	(5)	273
Totals	$ 415,493	$ 14,381	$ (29)	$ 429,845

(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011				
U.S. Treasury and U.S. government sponsored entities	$ 53,689	$ 2,300	$ (1)	$ 55,988
State and political subdivisions	78,288	4,446	(44)	82,690
Corporate bonds	758	11	0	769
Mortgage-backed securities - residential	217,644	5,384	(310)	222,718
Collateralized mortgage obligations	36,806	416	0	37,222
Small business administration	318	1	(4)	315
Equity securities	139	194	(6)	327
Totals	$ 387,642	$ 12,752	$ (365)	$ 400,029

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Proceeds from the sales of investment securities were $56.5 million during the three and nine month periods ended September 30, 2012. Gross gains of $671 thousand and gross losses of $198 thousand were realized on these sales during 2012. There were no security sales during the three months ended September 30, 2011 and only one security sale during the nine month period ended September 30, 2011. Proceeds from the sale were $3.4 million with no gain or loss recognized.

The amortized cost and fair value of the debt securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if issuers have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed, CMO and SBA securities are not due at a single maturity date and are shown separately.

	September 30, 2012	
(In Thousands of Dollars)	Amortized Cost	Fair Value
Maturity		
Within one year	$ 15,967	$ 16,224
One to five years	75,340	78,725
Five to ten years	45,853	48,539
Beyond ten years	13,180	14,032
Mortgage-backed, CMO and SBA securities	265,013	272,052
Total	$ 415,353	$ 429,572

The following table summarizes the investment securities with unrealized losses at September 30, 2012 and December 31, 2011, aggregated by major security type and length of time in a continuous unrealized loss position. Unrealized losses for Mortgage-backed securities residential and Small business administration securities for the period ended September 30, 2012 and Corporate bonds for the period ended December 31, 2011, rounded to less than $1 thousand.

	Less Than 12 Months		12 Months or Longer		Total	
(In Thousands of Dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2012						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	$ 10,712	$ (15)	$ 0	$ 0	$ 10,712	$ (15)
State and political subdivisions	1,316	(9)	0	0	1,316	(9)
Mortgage-backed securities residential	9	0	53	0	62	0
Small business administration	0	0	39	0	39	0
Equity securities	0	0	8	(5)	8	(5)
Total	$ 12,037	$ (24)	$ 100	$ (5)	$ 12,137	$ (29)

	Less Than 12 Months		12 Months or Longer		Total	
(In Thousands of Dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2011						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	$ 249	$ (1)	$ 0	$ 0	$ 249	$ (1)
State and political subdivisions	0	0	2,420	(44)	2,420	(44)
Corporate bonds	507	0	0	0	507	0
Mortgage-backed securities residential	43,426	(203)	9,652	(107)	53,078	(310)
Small business administration	0	0	233	(4)	233	(4)
Equity securities	0	0	7	(6)	7	(6)
Total	$ 44,182	$ (204)	$ 12,312	$ (161)	$ 56,494	$ (365)

Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Investment securities are generally evaluated for OTTI under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, *Investments Debt and Equity Securities*. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, whether the market decline was affected by macroeconomic conditions and whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. In analyzing an issuer s financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, or U.S. government sponsored enterprises, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, the OTTI shall be recognized in earnings equal to the entire difference between the investment s amortized cost basis and its fair value at the balance sheet date. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income or loss. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

As of September 30, 2012, the Company s security portfolio consisted of 403 securities, 19 of which were in an unrealized loss position. The majority of the unrealized losses on the Company s securities are related to its holdings of U.S. Treasury and U.S mortgage-backed securities as discussed below.

Unrealized losses on debt securities issued by U.S. government-sponsored entities have not been recognized into income because the securities are of high credit quality, management does not have the intent to sell these securities before their anticipated recovery and the decline in fair value is largely due to fluctuations in market interest rates and not credit quality. Consequently, the fair value of such debt securities is expected to recover as the securities approach their maturity date.

Unrealized losses on debt securities issued by state and political subdivisions have not been recognized into income. Generally these securities have maintained their investment grade ratings and management does not have the intent to sell these securities before their anticipated recovery. The fair value is expected to recover as the securities approach their maturity date.

The Company s equity securities are made up of local and regional bank holdings. The unrealized losses associated with these holdings have not been recognized into income. Generally these securities have suffered as most banking securities have suffered during the recent economic cycle. The fair value is expected to recover as the banking sector recovers. Management does not have the intent to sell these securities before their anticipated recovery.

Loans:

Loan balances were as follows:

(In Thousands of Dollars)	**September 30, 2012**	**December 31, 2011**
Commercial real estate		
Owner occupied	$ 92,710	$ 100,710
Non-owner occupied	84,579	80,585
Other	21,487	17,394
Commercial	83,795	74,875
Residential real estate		
1-4 family residential	136,485	145,743
Home equity lines of credit	23,551	21,943
Consumer		
Indirect	115,447	115,681
Direct	11,417	11,596
Other	1,491	1,520
Subtotal	570,962	570,047
Net deferred loan costs	1,941	1,759
Allowance for loan losses	(8,625)	(9,820)
Net loans	$ 564,278	$ 561,986

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2012 and 2011:

Three Months Ended September 30, 2012

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 4,626	$ 1,752	$ 1,607	$ 1,020	$ 43	$ 9,048
Provision for loan losses	(142)	205	33	99	130	325
Loans charged off	(446)	(187)	(49)	(256)	0	(938)
Recoveries	23	9	21	137	0	190
Ending balance	$ 4,061	$ 1,779	$ 1,612	$ 1,000	$ 173	$ 8,625

Nine Months Ended September 30, 2012

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 4,880	$ 1,529	$ 1,802	$ 972	$ 637	$ 9,820
Provision for loan losses	(87)	610	414	252	(464)	725
Loans charged off	(814)	(400)	(657)	(703)	0	(2,574)
Recoveries	82	40	53	479	0	654
Ending balance	$ 4,061	$ 1,779	$ 1,612	$ 1,000	$ 173	$ 8,625

Three Months Ended September 30, 2011

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 6,053	$ 1,886	$ 1,542	$ 1,123	$ 272	$ 10,876
Provision for loan losses	13	79	263	38	307	700
Loans charged off	(296)	(32)	(190)	(312)	0	(830)
Recoveries	3	2	7	226	0	238
Ending balance	$ 5,773	$ 1,935	$ 1,622	$ 1,075	$ 579	$ 10,984

Nine Months Ended September 30, 2011

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 5,780	$ 1,707	$ 881	$ 875	$ 64	$ 9,307
Provision for loan losses	918	413	1,417	387	515	3,650
Loans charged off	(936)	(221)	(1,086)	(881)	0	(3,124)
Recoveries	11	36	410	694	0	1,151
Ending balance	$ 5,773	$ 1,935	$ 1,622	$ 1,075	$ 579	$ 10,984

The following tables present the balance in the allowance for loan losses and the recorded investment in loa