FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000950152-99-002410

FILER

NATIONAL BANCSHARES CORP /OH/

CIK:**790362**| IRS No.: **341518564** | State of Incorp.:**OH** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **000-14773** | Film No.: **99573467**
SIC: **6021** National commercial banks

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended Dec. 31, 1998
Commission File Number 0-14773

NATIONAL BANCSHARES CORPORATION

Ohio	34-1518564
State of incorporation	I.R.S. Employer Identification No.

112 West Market Street, Orrville, Ohio 44667
Address of principal executive offices

Registrant's telephone number: (330) 682-1010

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act:

Common Stock, No Par Value
Title of Class

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. __X__

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of March 1, 1999: $59,888,857.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of March 1, 1999.
Common Stock, No Par Value: 2,255,035

Documents Incorporated by Reference:

- Portions of the registrant's Proxy Statement dated March 22,1999 and previously filed March 18, 1999, are incorporated by reference into Part III.
- Portions of the registrant's Annual Report to Shareholders, December 31, 1998 are incorporated by reference in Parts I, II, IV.

Form 10-K Cross Reference Index

Note 1 - Incorporated by reference from the registrant's Annual Report to Shareholders for the year ended December 31, 1998 -- Appendix A

Note 2 - Incorporated by reference from the registrant's proxy statement dated March 22, 1999 previously filed with the SEC on March 18, 1999

Item 1 - Business:
National Bancshares Corporation (the "Company"), incorporated in 1985, is a one-bank holding company for First National Bank, Orrville, Ohio (the "Bank"). The formation was approved by shareholders on April 24, 1986 and consummated on June 2, 1986. The Bank offers a full line of services usually found in any commercial bank operation, including checking accounts, savings accounts, certificates of deposit, personal loans, loans to business and industry, installment loans, safety deposit boxes and credit cards. While the Company's chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment. The Bank does not have trust powers and, therefore, does not offer trust

services. The Bank operates nine full service offices and one limited service office in a market area comprising most of Wayne County, portions of western Stark County, northeastern Holmes County and southern Medina County. There are approximately 15 other banking and thrift organizations in the immediate market area. The Bank also competes with insurance companies, consumer finance companies, credit unions, mortgage banking companies, and commercial finance and leasing companies. In addition, money market mutual funds and brokerage houses provide many of the financial services offered by the Bank. The principal methods of competition are the rates of interest charged and paid for loans and deposits, fees charged for services, the quality of services provided and the convenience of banking hours and branch locations. No major elimination of services presently offered is anticipated in the immediate future.

Lending policies of the Bank follow the guidelines set forth in the Bank's Credit Policy, which is approved by the Board of Directors on an annual basis. The Credit Policy designates lending authority for the Chief Executive Officer, Senior Vice President, Chief Loan Officer and all loan officers. The Credit Policy also sets forth the maximum aggregate amount that may be loaned to any one customer. Guidelines are established for credit types, loan mix, concentration of credit and credit standards. Collateral is generally obtained on loans and an appraisal is required to determine the value of the collateral. Loan decisions are based on the five C's of credit: capacity, character, capital, collateral and conditions. For real estate loans, guidelines have been established for maximum loan-to-value ratios. Guidelines are also established for the term of the loan, which must coincide with the credit purpose and life of the collateral. In addition to the Credit Policy, the Bank has established a series of control procedures to monitor the overall credit quality of the loan portfolio. These controls include checklists, loan diaries, annual loan reviews of all loans over $75,000 (excluding first mortgage loans), monthly board reports of problem loans, and a monthly review and determination of the adequacy of the allowance for loan losses.

Management estimates the allowance for loan loss balance required using past loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors.

The Bank is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation. It is subject to supervision, examination and regulation by the Comptroller of the Currency. The Company is also subject to supervision, examination and regulation by the Federal Reserve System. Management is not currently aware of any regulatory recommendations which if were to be implemented would have a material effect on the registrant.

Item 2 - Properties:

The headquarters of the Company and the Bank are located in Orrville, Ohio. The Bank has a total of ten banking office buildings which are located in Orrville, Dalton, Kidron, Smithville, Mt. Eaton, Apple Creek, Lodi and Seville, Ohio. All buildings are owned by the Bank with the exception of the Seville Office which is a leased facility. During 1998, the Company purchased a facility in Wooster and plans to open a full-service branch at this location in the spring of 1999.

Item 3 - Legal Proceedings

There were no legal proceedings during 1998 other than ordinary routine litigation incidental to business which was not material.

Item 5 - Number of shareholders of common stock

The Company had 940 shareholders of common stock as of March 10, 1999.

Item 10 - Executive Officers

The Executive Officers of the Company are as follows:

Name	Age	Position
Charles J. Dolezal	45	President President of First National Bank
Kenneth R. VanSickle	51	Senior V.P., Secretary Senior V.P., Chief Loan Officer of First National Bank
Lawrence M. Cardinal, Jr.	47	Vice President, Treasurer Vice President & Controller of First National Bank

There is no family relationship between any of the above executive officers. Mr. Dolezal has been an executive officer of the Company since its formation in 1986 and the President of the Bank since 1981. Mr. VanSickle was appointed Senior V.P., Secretary of the Company on April 24, 1997 and has been a senior loan officer of the Bank since 1986. Mr. Cardinal was appointed Vice President, Treasurer of the Company and Vice President & Controller of the Bank on April 24, 1997. Mr. Cardinal previously worked as an audit manager for the CPA firm of Reinhard, Kopko and Keller from 1995 to 1997 and as Senior Vice President and Controller for The First National Bank of Ohio from 1993 to 1995.

VOLUME AND RATE VARIANCE ANALYSIS

The following table represents a summary analysis of changes in interest income, interest expense and the resulting net interest income on a tax equivalent basis for the periods presented each, as compared with the preceding period. Volume is based on daily average balances.

<TABLE>
<CAPTION>

(Dollars in thousands)	1998 versus 1997 Increase (Decreases) Due to Changes In			1997 versus 1996 Increase (Decreases) Due to Changes In		
	Volume	Rate	Net Change	Volume	Rate	Net Change
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Income						
Investment securities:						
Taxable	($315)	($170)	($485)	$71	($56)	$15
Nontaxable (tax equivalent basis)*	220	(74)	146	181	(17)	164
Federal funds sold	103	(21)	82	46	15	61
Loans (including Nonaccrual loans)	510	(127)	383	310	(66)	244
Total interest Income (tax equivalent basis)*	$518	($392)	$126	$608	($124)	$484
Interest Expense						
Deposits						
Interest bearing checking	($20)	($92)	($112)	($18)	($16)	($34)
Savings	(10)	2	(8)	24	(1)	23
Time, $100,000 And over	76	(28)	48	160	(9)	151
Time, other	(4)	(12)	(16)	35	(13)	22
Other funds purchased	32	(17)	15	52	(2)	50
Total interest Expense	$74	($147)	($73)	$253	($41)	$212
Changes in net Interest income (tax Equivalent basis)*	$444	($245)	$199	$355	($83)	$272

</TABLE>

* Tax equivalence based on highest statutory tax rates of 34%.

INVESTMENT PORTFOLIO

The carrying amounts and distribution of the Company's investment securities held are summarized in the Annual Report to Shareholders (Appendix A, Page 13, Note 2). The carrying amount, maturities and approximate weighted average yields (on a tax equivalent basis) of debt securities at December 31, 1998 are as follows:

<TABLE>
<CAPTION>

INVESTMENT PORTFOLIO
December 31, 1998
(Dollars in thousands)

	Total		0 to 1 Year		1 to 5 Years		5 to 10 Years		Over 10 years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Available for Sale:										
US Agencies	$ 5,055	6.8%			$ 1,000	6.3%	$ 4,055	6.9%		
State & political Subdivisions	2,887	8.3%							$2,887	8.3%
Other securities	3,821	6.3%			1,437	6.4%	2,384	6.2%		
TOTAL	$11,763	7.0%			$ 2,437	6.4%	$ 6,439	6.6%	$2,887	8.3%
Held to Maturity:										
US Treasury	$ 6,250	7.1%	$4,013	6.7%	$ 1,010	7.2%	$ 1,227	8.5%		
US Agencies	20,134	6.6%	211	5.7%	4,093	5.8%	15,700	6.8%	$ 130	10.2%
State & political Subdivisions	18,569	8.6%	1,773	8.8%	9,147	8.6%	2,741	9.1%	4,908	8.3%
Other securities	11,826	6.8%	2,528	6.7%	7,554	6.9%	1,437	6.5%	307	6.4%
TOTAL	$56,779	7.4%	$8,525	7.1%	$21,804	7.4%	$21,105	7.2%	$5,345	8.2%

</TABLE>

There was no single issuer of securities where the total book value of such securities exceeded 10% of shareholders' equity except for US government obligations.

LOAN PORTFOLIO

The detail of the loan portfolio balances are included in the Annual Report to Shareholders (Appendix A, Page 14, Note 3).

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES
The following are approximate maturities and sensitivity to changes in interest rates of certain loans exclusive of real estate mortgages and consumer loans as of December 31, 1998.

<TABLE>
<CAPTION>

Types of Loans (Dollars in Thousands)	0 to 1 Year	1 to 5 Years	5 and Over Years	Total
<S>	<C>	<C>	<C>	<C>
Commercial	$15,251	$1,326		$16,577
Real Estate Construction	$ 242	$ 667	$303	$ 1,212

Above loans due beyond 1 year with:	
Predetermined interest rates	$ 597
Adjustable interest rates	$ 1,699

</TABLE>

NONACCRUAL AND PAST DUE LOANS

Generally, recognition of interest income is discontinued where reasonable doubt exists as to the collectability of the interest. Income from non-accrual loans is recorded when received. The difference between interest income recognized on such loans and income that would have been recognized at original contractual rates is immaterial. The bank generally places loans on a non-accrual status when a default of principal or interest has existed for 90 days or more. The bank generally does not renegotiate loans due to deterioration in the financial position of the borrower. The amounts of renegotiated loans are not considered material.

(Dollars in Thousands)	12/31/98	12/31/97
90 Days Past Due and Accruing	$141	$126
Nonaccruing Loans	$168	$427

POTENTIAL LOAN PROBLEMS

Management reviews the loan portfolio for potential loan problems on a monthly basis. The following loans were classified by management, which excludes the above non-accrual loan totals. The amount shown below is the outstanding loan balance, which has not been reduced by collateral values.

(Dollars in Thousands)	12/31/98	12/31/97
Loss	$ 0	$ 0
Doubtful	64	45
Substandard	1,232	1,083
OAEM	180	585
Watch	0	0
Total	$1,476	$1,713

LOAN CONCENTRATIONS

Due to the nature of our market area, there are no significant loan concentrations of 10% of total loans to borrowers engaged in similar activities other than noted in the loan categories disclosed in the Annual Report to Shareholders (Appendix A, Page 14, Note 3).

SUMMARY OF LOAN LOSS EXPERIENCE

The determination of the balance of the allowance for loan losses historically has been based on an overall analysis of the loan portfolio and reflects an amount, which, in management's judgment, is adequate to provide for potential loan losses. This analysis considers, among other things, the Company's loan loss experience, present and potential risks of the loan portfolio and general economic conditions. In addition, management considers the examinations of the loan portfolio by federal regulatory agencies and internal reviews and evaluations. The Company's allocation of the allowance for loan losses by category represents only an estimate for each category of loans based upon a detailed review of the loan portfolio by management.

Transactions in the allowance for loan losses are maintained by three major loan categories and the summary of such transactions for periods indicated follows:

CHANGES IN ALLOWANCE FOR LOAN LOSSES (Dollars in Thousands)	1998	1997
Balance at the beginning of period	$1,232	$1,151
Loans charged off:		
Commercial & industrial	34	34
Real estate	11	19
Consumer	90	38
Total loans charged off	135	91

Recoveries of loans charged off:		
Commercial & industrial	7	1
Real estate	45	30
Consumer	28	21
Total recoveries	80	52
Net loans charged off	55	39
Provision charged to operating expense	120	120
Balance at end of period	$1,297	$1,232
Net charge-offs to average loans	0.07%	0.05%

<TABLE>
<CAPTION>

DISTRIBUTION OF ALLOWANCE FOR
LOAN LOSSES BY CATEGORY
(Dollars in thousands)

	December 31, 1998		December 31, 1997	
	Amount	% of Total Loans	Amount	% of Total Loans
<S>	<C>	<C>	<C>	<C>
Commercial & industrial	$ 345	20%	$ 91	16%
Real estate construction	12	1%	0	2%
Real estate mortgages	222	68%	18	70%
Consumer loans	152	11%	11	12%
Unallocated	566	N/A	1,112	N/A
TOTAL	$1,297	100%	$1,232	100%

</TABLE>

DEPOSITS

The classification of average deposits and the average rate paid on such deposits for periods ending December 31, 1998, 1997 and 1996 is included in Analysis of Net Interest Earnings included in the Annual Report to Shareholders (Appendix A, Page 19).

A summary of maturities of time deposits of $100,000 or more is as follows.

	12/31/98
Three months or less	$10,131,596
Over 3 months through 6 months	991,930
Over 6 months through 12 months	315,596
Over 12 months	546,490
	$11,985,612

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL BANCSHARES CORPORATION

DATE: 3-16-99	/s/ Charles J. Dolezal
	Charles J. Dolezal, President
DATE: 3-16-99	/s/ Lawrence M. Cardinal, Jr.
	Lawrence M. Cardinal, Jr., V.P., Treasurer (Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

DATE: 3-16-99	/s/ Charles J. Dolezal
	Charles J. Dolezal, Chairman
DATE: 3-16-99	/s/ Sara Balzarini
	Sara Balzarini, Director
DATE: 3-16-99	/s/ Bobbi Douglas
	Bobbi Douglas, Director
DATE: 3-16-99	/s/ John W. Kropf
	John W. Kropf, Director
DATE: 3-16-99	/s/ Steve Schmid
	Steve Schmid, Director
DATE: 3-16-99	/s/ John E. Sprunger
	John E. Sprunger, Director

DATE: 3-16-99	/s/ Howard J. Wenger
	Howard J. Wenger, Director
DATE: 3-16-99	/s/ James F. Woolley
	James F. Woolley, Director
DATE: 3-16-99	/s/Albert Yeagley
	Albert Yeagley, Director

<TABLE>
<CAPTION>

EXHIBIT INDEX

<S> Exhibit No. Under Reg. S-K, Item 601	<C> Form 10-K Exhibit No.	<C> Description of Exhibits	<C> If incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(3)(i)		Amended Articles of Incorporation	Registration Statement S-4 filed 3/31/86 File No. 33-03711
(3)(ii)		Code of Regulations	Registration Statement S-4 filed 3/31/86 File No. 33-03711
(11)	A20	Computation of Earnings per Share	Incorporated by reference
(12)	A20	Computation of Ratios	Incorporated by reference
(13)	A	1998 Annual Report to Shareholders	
(21)	A1	Subsidiaries of the registrant	Incorporated by reference
(23.1)		Consent of Deloitte & Touche, LLP	
(23.2)		Consent of Crowe, Chizek and Co. LLP	
(27)		Financial Data Schedule	

</TABLE>

No other exhibits are required to be filed herewith pursuant to Item 601 of Regulation S-K.

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[LOGO] NATIONAL BANCSHARES CORPORATION

1998 ANNUAL REPORT

[GRAPHIC]

DIVIDENDS

ASSETS

DEPOSITS

LOANS

EQUITY

INTEREST

2

FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

(YEAR END BALANCES)	1998	1997	PERCENTAGE CHANGE
Total Assets	$190,203,604	$182,982,332	3.95%
Deposits	157,714,551	151,081,856	4.39%
Loans-Net	92,037,075	78,257,778	17.61%
Investment Securities	69,808,933	80,940,781	-13.75%
Shareholders' Equity	27,192,882	26,177,793	3.88%
SUMMARY OF OPERATIONS			
Net Interest Income	8,235,686	8,086,035	1.85%
Net Income	2,344,645	2,349,587	-0.21%
Regular Cash Dividends	1,001,743	948,651	5.60%
Net Income Per Share	1.03	1.03	0.00%
Cash Dividends Per Share	0.44	0.42	6.02%
Book Value Per Share	$ 11.93	$ 11.48	3.92%

National Bancshares Corporation is a one-bank holding company with assets totaling over $190 million. First National Bank, its subsidiary, is headquartered in Orrville, Ohio. Serving Wayne County, southern Medina County, and parts of Stark and Holmes counties through ten banking offices, First National Bank offers a variety of personal and commercial deposit and lending services.

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DEAR SHAREHOLDERS

[PHOTO OF CHARLES J. DOLEZAL]

Year end balance sheet results posted respectable financial gains for 1998. Total assets reached an all time high of over $190 million, increasing over year end 1997 by $7.2 million, almost a 4% growth. Total loans increased by $13.8 million, or approximately 17.6% over December 31, 1997. Investment securities decreased by $11 million or 13.8% as maturing bonds were redeployed to fund increasing loan demand. Total deposits increased by over $6.6 million or 4.4% over the end of the previous year. Deposit growth was primarily in core deposits.

Net income from operations finished the year nearly flat with that from the previous year. Net interest income was up 1.9%, or approximately $150 thousand. Noninterest income increased by $129 thousand, or 17.3% over 1997. A portion of this increase included a gain from the sale of mortgage loans to the secondary market. We will continue to receive servicing income from these loans since we service loans that are sold. Total noninterest expenses increased by $371 thousand dollars, or 6.5%. This increase stemmed partially from a one time cost associated with converting all main data processing systems to a new service bureau in August of 1998.

Cash dividends declared during 1998 totaled 44 cents per share. This was a 6% increase over 1997's total declared cash dividends. This continues the long-term trend of increasing annual cash dividends. We have experienced this increase for more than the past 30 consecutive years.

On May 29, 1998, a 2 for 1 stock split was issued to shareholders of record as of May 15, 1998. The market value of our stock continued to climb through 1998. The locally quoted bid price increased by over 22% during the past 12 months. When coupled with the total declared cash dividends, the total return for the year equates to approximately 24%. The annualized compounded rate of return on our stock for the past five years was 25.4% per year. We hope you will continue to hold National Bancshares Corporation stock as an important part of your investment portfolio.

After many years of service, two of our directors, Jim Gerber and Ray Gill, retired on October 31, 1998. Jim and Ray have assisted our organization in its growth during the past number of years. Jim has served on the boards of National Bancshares Corporation and First National Bank for the past 19 years while Ray has served both boards for six years. During their tenure, they assisted in the growth of our organization through branch acquisition and market expansion. We thank them for their many years of service and wish them all the best in their retirement.

Two new directors were appointed by the board of directors to fill the vacancies created by the retiring board members. Howard Wenger of Dalton and Bobbi Douglas of Wooster have joined the bank and holding company Board of Directors. Howard is President of Wenger Excavating, Inc., Lake Region Oil, Inc. and Northstar Asphalt, Inc. Bobbi is Executive Director of Wayne County Alcoholism Services and Every Woman's House. Howard and Bobbi have both been very active in various community affairs. We welcome them to our organization and look forward to working with them.

We were saddened in December with the passing of Paul Smucker. Paul had served on the Board of Directors of First National Bank since 1955 and National Bancshares Corporation since its inception in 1986. He retired from both boards on December 31, 1996. Upon his retirement he was appointed Director Emeritus in recognition of his extensive service to our organization. During the 41 years that Paul served our organization, he assisted the growth of our institution and helped oversee numerous mergers and branch acquisitions as well as the formation of our holding company. We will greatly miss him.

In the near future, we will be facing the coming of a new millennium. With this new century comes the challenge of making sure all computer systems will operate appropriately. Certain computer hardware and software was designed to read the year in two digits rather than four. Under this design, moving from the year 1999 (read as 99 in a two digit system) to the year 2000 (read as 00) would be read by the computer as the year 1900. This could create significant problems in systems that perform calculations using dates. We began addressing this situation in our organization quite some time ago. We established a schedule for testing and remediating all our internal computer hardware and software programs to determine compatibility with the year 2000. Systems that did not pass the testing have been upgraded or replaced with compliant systems. Outside computer vendors that provide service have been actively testing and upgrading their systems as well. In August, we converted to new mainframe computer software with Computer Services, Inc. of Paducah, Kentucky. These systems have been tested and passed for year 2000 compliance. They will take us into the new millennium and will also enable us to offer more services to our customers.

Last fall, we purchased the former Giffin Prescription Center building located at 1725 Cleveland Road in Wooster, Ohio. We are currently renovating this building to establish a full service office at this location. Regulatory approval has been received from the Office of the Comptroller of the Currency. We are anticipating commencing operations at this new site on, or around, April 1, 1999. We look forward to serving the Wooster market.

The global economic scene during 1998 has been quite interesting. As economic problems began in Asia and spread to Latin America and Russia, the reverberation was felt worldwide. International stock markets, as well as those in the United States, fell dramatically, only to regain some lost momentum later. The stock markets continue to move rather erratically from day to day. Interest rates declined during the course of the past year as well. Even though numerous countries throughout the world are in difficult economic times, the economy in the United States has been moving forward. Inflation is at historic lows while employment has been at historic highs. Two very desirable, but at times conflicting, realities for a country to experience. Hopefully, our domestic economy will continue its positive move forward in the future, and we may all benefit from these relatively good economic times.

/s/ Charles J. Dolezal

Charles J. Dolezal
President and Chairman

FINANCIAL REVIEW

National Bancshares Corporation experienced continued success in 1998. Total assets grew approximately $7.2 million ending 1998 at $190,203,604. This represents a 3.9% increase over the previous year. Average assets also experienced growth in 1998, increasing to approximately $184.7 million from $179.1 million in 1997, or an increase of $5.6 million. Net income in 1998 totaled $2,344,645 compared to $2,349,587 in 1997. This represents a decrease of $4,942 or 0.2%.

Cash and due from banks amounted to $7,675,122 and $8,068,623 at December 31, 1998 and 1997, respectively. This was a decrease of $394 thousand, or 4.9%. Cash reserves are maintained at appropriate levels in order to meet customer needs with consideration given to security. Excess cash is prudently invested in order to maximize a safe and profitable return on assets. A significant portion of this account represents the normal processing of outgoing cash letters, which represents checks deposited with us that were drawn on other banks.

INVESTMENT SECURITIES
(Millions of Dollars)

<TABLE>
<CAPTION>

1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>
69.8	80.9	76.7	78.4	90.0

</TABLE>

Total investment securities decreased approximately $11.1 million ending 1998 at $69,808,933 compared to $80,940,781 at the end of 1997. The average balance of taxable investment securities decreased from $59.2 million in 1997 to $54.6 million in 1998, while the average nontaxable investment securities increased approximately $2.5 million in 1998 from 1997. The market or fair value of the total portfolio was $71,614,775 and $82,611,495 as of December 31, 1998 and 1997, respectively.

U.S. treasury and agency obligations decreased approximately $6.4 million or 18.0% with balances of $29,355,141 on December 31, 1998 compared to $35,798,775 on December 31, 1997. The net market appreciation of this category was approximately $607 thousand as of December 31, 1998.

Mortgage backed securities were $2,083,805 and $3,480,116 on December 31, 1998 and 1997, respectively. This was a decline of $1.4 million or 40.1%. The net market appreciation of these securities was $31 thousand on December 31, 1998.

Obligations of states and political subdivisions ended 1998 at $21,456,109, which was 2.7% lower than the $22,057,244 balance on December 31, 1997. The net market appreciation was approximately $1.1 million as of December 31, 1998. To assist in local development, the bank actively purchases bonds issued by local municipalities, school systems and other public entities when opportunities present themselves.

Other securities ended 1998 at $16,913,878, which was 13.7% lower than the December 31, 1997 balance of $19,604,646. This group of securities is primarily comprised of high quality corporate bonds and notes. The net market depreciation was approximately $164 thousand as of December 31, 1998, primarily resulting from the decrease in market value of certain equity securities owned by the Corporation.

Federal funds sold were $13,215,000 and $8,545,000 as of December 31, 1998 and 1997, respectively. Average balances increased during the year with 1998 averaging $11.7 million compared to $9.8 million during 1997. Federal funds sold are overnight investments with our correspondent banks. This is an investment tool that is used to maximize the earning assets of the bank.

Net loans increased by approximately $13.8 million, or 17.6% during 1998.

Net loan balances were $92,037,075 and $78,257,778 on December 31, 1998 and 1997, respectively. Average net loans posted an increase of $5.4 million with a yearly average of $84.6 million for 1998.

Loans collateralized by real estate totaled $64,714,431 on December 31, 1998, as compared to $56,562,774 as of December 31, 1997. All real estate categories, except construction, posted increases in 1998. There was a $2.2 million increase in commercial real estate loans, $3.9 million increase in residential mortgages, home equity loans increased $2.7 million while construction loans declined by $706 thousand.

Consumer loans, totaling $8,842,643 on December 31, 1998, were 2.3% above the 1997 ending total of $8,641,966. Commercial loans were $16,576,714 and $11,923,679 as of December 31, 1998 and 1997, respectively. Credit card loans increased 8.3% during the year with balances of $1,129,516 on December 31, 1998. Other loans increased $675 thousand during 1998 ending the year at $2,402,317.

The allowance for loan losses was $1,296,513 and $1,232,464 as of December 31, 1998 and 1997, respectively. The allowance for loan losses to total loans percentages were 1.39% and 1.55% and net charge-off to total loans percentages were .06% and .05% for 1998 and 1997, respectively. As with any charge-off, the bank continues to attempt recovery where feasible. The ratio of non-perform-

ing loans to total loans was .18% for 1998 compared to .54% in 1997. Non-performing loans consist of loans past due 90 days or more and loans that have been placed on nonaccrual status. A substantial portion of the loan growth during 1998 was in residential mortgages and home equity loans, which generally carry less risk than other types of loans. Management reviews the allowance for loan losses on a regular basis to determine the adequacy of the reserve.

Premises and equipment totaled $2,650,105 on December 31, 1998 as compared to $2,477,058 on December 31, 1997. During 1998 capital expenditures exceeded depreciation by $173 thousand. Improvements and repairs to bank buildings and equipment are performed as needed to keep them in good working order in an effort to provide convenient and pleasant banking offices to meet our customers needs. During 1998, the Corporation purchased a facility in Wooster and plans to open a full-service branch at this location in the spring of 1999.

Total deposits posted a $6.6 million or 4.4% increase ending 1998 at $157,714,551, as compared to $151,081,856 on December 31, 1997. Average deposits increased from $149.0 million in 1997 to $152.3 million in 1998.

Demand deposits, which represent noninterest-bearing checking accounts, ended 1998 at $31,486,957, which was a growth of 14.3% over the December 31, 1997 balance of $27,544,730. The average demand accounts for 1998 were $27.0 million as compared to $23.8 million in 1997.

Interest-bearing checking accounts finished 1998 at $31,128,562 compared to $29,574,234 a year earlier. This was an increase of $1.6 million, or 5.3%. Average balances declined by $0.7 million from $30.1 million in 1997 to $29.4 million in 1998. Interest bearing checking accounts include our Negotiable Order of Withdrawal accounts and Money Market Deposit Accounts.

Savings accounts totaled $42,723,134 on December 31, 1998, approximately $527 thousand above the end of the previous year. Average savings accounts decreased from $42.0 million during 1997 to approximately $41.7 million in 1998. First National offers both passbook and statement savings accounts.

LOANS - NET
(Millions of Dollars)

1998	1997	1996	1995	1994
92.0	78.3	78.1	73.1	56.2

DEPOSITS
(Millions of Dollars)

1998	1997	1996	1995	1994
157.7	151.1	149.8	147.0	145.9

Time deposits of less than $100,000 amounted to $40,390,286 and $39,045,508 as of December 31, 1998 and 1997, respectively. This represents an increase of $1.3 million or 3.4%. Average time balances of less than $100,000 decreased approximately $77 thousand giving 1998 an average time deposit balance of $40.2 million as compared to approximately $40.3 million in 1997.

Time deposits of $100,000 and over decreased from $12,721,340 on December 31, 1997 to $11,985,612 on December 31, 1998. Average time deposits of $100,000 and over increased by $1.3 million over 1997 giving 1998 an average of $14.1 million.

Securities sold under agreements to repurchase were $3,956,501 on December 31, 1998 in comparison to $3,576,966 at the end of 1997, or approximately $380 thousand higher. The Federal Reserve note account balance was $87,358 and $1,000,000 as of December 31, 1998 and 1997, respectively. The average of other funds purchased increased in 1998 to $4.3 million from $3.7 million during 1997.

Shareholders' equity had an ending balance of $27,192,882 on December 31, 1998. This is an increase of $1.0 million or 3.9% above the 1997 ending balance of $26,177,793. This growth translates to a $0.45 increase in book value per share, raising the book value per share to $11.93 on December 31, 1998, as compared to $11.48 on December 31, 1997. Under the federal risk-based capital regulations, the Bank's total capital to risk based assets of 21.58% on December 31, 1998 was more than twice the 8% minimum required. The Bank remains in a very favorable position when compared to its peer group in the area of capitalization.

Shareholders' equity also reflects the change in accumulated other comprehensive income. This represents the unrealized appreciation or depreciation in the market value of investment securities (net of taxes) that are available for sale. During 1998 accumulated other comprehensive income decreased by $266,269, resulting in an unrealized

depreciation balance of $174,514 at December 31, 1998. While the majority of the debt securities in the available for sale portfolio show market appreciation, the market value of equity securities reflects market depreciation at December 31, 1998.

In summary, the Corporation continued to experience balance sheet growth highlighted by increases of approximately 17.6% in loans, 4.4% in deposits and 3.9% in shareholders' equity.

LIQUIDITY

Liquidity is the consideration of the Corporation's ability to meet its necessary outgoing cash flow needs. Cash equivalents for the cash flow statement of $20.9 million is composed of $7.7 million in cash and due from banks and $13.2 million in federal funds sold. Management considers the Corporation to be in a satisfactory liquidity position with the ability to meet the demands of its customers and the local economy.

RESULTS OF OPERATIONS

Net income for 1998 was $2,344,645, or approximately 0.2% below 1997's net income of $2,349,587. Net income for 1997 was approximately 5.1% over 1996's net income of $2,236,452. This equates to net income per share of $1.03 for 1998 and 1997 and $0.98 for 1996. The primary source of income continues to be interest on loans and other investments with additional revenues generated from fees on non-interest related services.

Interest and fees on loans of $7,823,312 for 1998 was above 1997 by 5.2%, or approximately $384 thousand. Interest and fees on loans also increased from 1996 to 1997, improving by 3.4%, or approximately $243 thousand. The improvement in both years was primarily due to an increase in average loan volume. Average interest yields on loans were 9.25%, 9.40% and 9.48% for 1998, 1997 and 1996, respectively.

SHAREHOLDERS' EQUITY
(Millions of Dollars)

<TABLE>
<CAPTION>

1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>
27.2	26.2	24.8	23.4	22.1

</TABLE>

Interest on federal funds sold was $621,579, $540,056 and $479,248 for 1998, 1997 and 1996, respectively. The increase of $82 thousand in 1998 was the result of higher volume of average funds sold. The increase of $61 thousand in 1997 was the result of higher average interest yields and higher volume.

Interest on taxable investment securities decreased by approximately $485 thousand ending 1998 at $3,569,761. This 12.0% decrease in interest income was due to decreases in both the average investment balances and average interest rates. In 1997, interest on taxable investment securities increased by approximately $15 thousand or 0.4% over 1996. This increase was due to an increase in average investment balances.

Interest on obligations of states and political subdivisions totaled $1,220,486 for 1998, which was $97 thousand or 8.7% above 1997. The average balance of these investments increased $2.5 million while the average taxable equivalent yield declined from 8.94% in 1997 to 8.60% in 1998. Interest on obligations of states and political subdivisions totaled $1,123,230 for 1997, which was $109 thousand or 10.7% above 1996. The average balances increased $2 million in 1997 while the average taxable equivalent yield declined from 9.03% to 8.94%.

Total interest income of $13,235,138 for 1998 was $77 thousand higher than 1997's total of $13,157,905 as a result of the generally increasing loan volumes. 1997's total interest income exceeded 1996's by $427 thousand due to higher volumes of loans, investments and federal funds sold.

Interest on deposits totaled $4,807,849 in 1998 as compared to $4,896,074 in 1997. This $88 thousand decrease, which equaled a 1.8% decline, was due to lower average rates on deposits. Comparing 1997 to 1996, interest on deposits increased $162 thousand or 3.4%. The increase was due to higher average balances in savings and time deposits.

Interest expense on other funds purchased was $191,603, $175,796 and $126,003 for 1998, 1997 and 1996, respectively. The increases in 1998 and 1997 were the result of higher average balances.

Net interest income before provision for loan losses was $8,235,686, $8,086,035 and $7,870,342 for 1998, 1997 and 1996 respectively. This represents an increase of 1.8% in 1998 and 2.7% in 1997. The net interest margin, which is calculated on a tax equivalent basis was 5.14%, 5.18% and 5.24% for 1998, 1997 and 1996, respectively, reflecting a slightly narrowing interest margin for the Corporation.

The Bank provides for potential loan losses throughout the year. In both 1998 and 1997 the provision for loan losses was $120,000. In 1996 the provision for loan losses was $180,000. The provision for loan losses is based on the Bank's past loan loss experience, current delinquencies, mix and various types of loans, general economic conditions and trends, and an evaluation of the losses inherent in the current loan portfolio.

Net interest income after provision for loan losses was $8,115,686, $7,966,035 and $7,690,342 in 1998, 1997 and 1996, respectively. This represents an increase of 1.9% in 1998 and 3.6% in 1997.

Noninterest income totaled $874,699, $745,380 and $795,444 for 1998, 1997 and 1996, respectively. Noninterest income is primarily comprised of checking account fees, which were $545 thousand in 1998, $497 thousand in 1997 and $515 thousand in 1996. Other noninterest income includes safety deposit box rents, net security gains/losses, net gains/losses on loans sold and other miscellaneous fees and collections.

Noninterest expenses were $6,051,569 for 1998, $5,680,885 in 1997 and $5,620,865 in 1996. This represents a $371 thousand or 6.5% increase in 1998 and a $60 thousand or 1.1% increase in 1997. The increase in 1998 was due to higher salaries and employee benefits, data processing fees and miscellaneous other expenses. The higher salaries and employee benefits were mainly due to normal salary increases and increased medical insurance premiums. The increase in 1997 was due mainly to higher miscellaneous other expenses.

NET INCOME
(Millions of Dollars)

<TABLE>
<CAPTION>

1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>
2,345	2,350	2,236	2,169	2,018

</TABLE>

The income tax provision amounted to $594,171, $680,943 and $628,469 in 1998, 1997 and 1996, respectively. The growth in nontaxable interest income and noninterest expenses was the main reason for this decrease in 1998. The income tax provision increased in 1997 due to the growth in taxable interest income.

Cash dividends declared during 1998 were $0.44 per share, compared to $0.42 per share in 1997 and $0.40 per share in 1996. The dividend payout percentage was 42.72%, 40.38% and 40.25% in 1998, 1997 and 1996, respectively. Return on average equity was 8.71%, 9.23% and 9.24% for 1998, 1997 and 1996, respectively. Return on average assets was a respectable 1.27%, 1.31% and 1.30% in 1998, 1997 and 1996, respectively.

ASSET AND LIABILITY MANAGEMENT

Management considers interest rate risk to be the Corporation's most significant market risk. Management focuses on maintaining consistent growth in net interest income, while managing interest rate risk within Board-approved policy limits. The Corporation's Asset/Liability Management Committee, which consists of the Corporation's Executive Officers and reports directly to the Board of Directors, monitors and manages interest rate risk in order to maintain an acceptable level of possible change in net interest income as a result of changes in interest rates. The Corporation does own a limited amount of equity securities, which have more price volatility compared to debt securities. This does subject the Corporation to some equity risk. The Corporation does not own any trading assets and is not subject to foreign currency exchange or commodity price risk.

The Corporation uses a static gap analysis model as its primary method to identify and manage its interest rate risk. The model measures the difference between the assets and liabilities repricing or maturing within specific time periods. The model also considers prepayment assumptions and estimated paydowns in the loan and investment portfolios. An asset-sensitive position indicates that there are more rate-sensitive assets than rate-sensitive liabilities repricing or maturing within specific time horizons, which would generally imply a favorable impact on net interest income in periods of rising interest rates and a negative impact in periods of falling rates. A liability-sensitive position would generally imply a negative impact on net interest income in periods of rising rates and a positive impact in periods of falling rates.

Management's goal is to manage the Corporation's interest rate risk by maintaining the gap between interest-earning assets and interest-bearing liabilities repricing in a one-year period within a range of plus or minus 10% of total assets.

Gap analysis has limitations because it cannot measure the effect of interest rate movements and competitive pressures on the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities. The model assumes that certain assets and liabilities of similar maturity or repricing opportunities will react the same to changes in interest rates. However, certain types of financial instruments may react in advance to changes in market rates, while other types of financial instruments may lag behind the change in general market rates.

At December 31, 1998 the Corporation was relatively balanced with a one year cumulative gap of .37% of total assets, indicating a slightly higher balance of rate sensitive assets than rate sensitive liabilities. The estimated impact on the net interest margin from modestly rising or falling interest would be relatively insignificant due to the short duration of mismatch within the first 12 months. The following table shows the estimated change in net interest income over 12 months if interest rates were to immediately increase or decrease by 200 basis points.

<TABLE>
<CAPTION>

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income Over 12 Months
+200	-2.2%
-200	0.6%

</TABLE>

FORWARD-LOOKING STATEMENTS

The Corporation is not aware of any trend, events or uncertainties that will have or are reasonably likely to have a material affect on the liquidity, capital resources or operations except as discussed herein. Also, the

Corporation is not aware of any current recommendations by regulatory authorities which would have such an affect if implemented. The Corporation cautions that any forward-looking statements contained in this report, in a report incorporated by reference to this report or made by management of the Corporation involves risk and uncertainties and are subject to change based on various important factors. Actual results could differ materially from those expressed or implied. Additionally, the Corporation claims no notification responsibilities should their opinions change from those expressed herein.

YEAR 2000 COMPLIANCE

The Corporation uses an outside data processing center which also provides processing services to other financial institutions. The Corporation's lending and deposit activities are almost entirely dependent upon computer systems which process and record transactions, although the Corporation can effectively operate with manual systems for brief periods when its electronic systems malfunction or cannot be accessed. In addition to its basic operating activities, the Corporation's facilities and infrastructure, such as security systems and communications equipment, are dependent, to varying degrees, upon computer systems.

CASH DIVIDENDS PER SHARE
(Millions of Dollars)

1998	1997	1996	1995	1994
$.44	$.42	$.40	$.36	$.33

The Corporation is aware of the potential Year 2000 related problems that may affect the computers which control or operate the Corporation's operating systems, facilities and infrastructure. In 1997, the Corporation began a process of identifying any Year 2000 related problems that may be experienced by its computer-operated or computer-dependent systems. Each application has been identified as "Mission Critical" or "Non-Mission Critical." The Corporation has contacted the companies that supply or service the Corporation's computer-operated or computer-dependent systems to obtain confirmation that each system material to the operations of the Corporation is either Year 2000 compliant or is expected to be Year 2000 compliant. The Corporation believes all Mission Critical hardware and software systems are Year 2000 compliant. With respect to systems that cannot presently be confirmed as Year 2000 compliant, the Corporation will continue to work with the appropriate supplier or servicer to ensure all such systems will be rendered compliant in a timely manner, with minimal expense to the Corporation or disruption of the Corporation's operations. System testing, renovation, validation and implementation will continue through 1999. As a contingency plan, however, the Corporation has determined that if the Corporation's systems fail, the Corporation would implement manual systems until such systems could be re-established. The Corporation does not anticipate that such short-term manual systems would have a material adverse effect on the Corporation's operations. At this time, however, the expense that may be incurred by the Corporation in connection with system failure related to the Year 2000 issue cannot be determined.

In addition to the possible expense related to its own systems, the Corporation could incur losses if loan payments are delayed due to Year 2000 problems affecting any of the Corporation's significant borrowers or impairing the payroll systems of large employers in the Corporation's primary market area. Because the Corporation's loan portfolio is highly diversified with regard to individual borrowers and types of businesses and the Corporation's primary market area is not significantly dependent on one employer or industry, the Corporation does not expect any significant or prolonged Year 2000 related difficulties will affect net earnings or cash flow. At this time, however, the expense that may be incurred by the Corporation in connection with Year 2000 issues cannot be determined.

IMPACT OF NEW ACCOUNTING STANDARD

A new standard requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. The standard does not allow hedging of a security which is classified as held to maturity. Accordingly, companies may reclassify any security from held to maturity to available for sale upon adoption of the pronouncement if they wish to be able to hedge the security in the future. The standard is effective for the Corporation in 2000. Management does not expect the adoption of this standard to have a significant impact on the Corporation's financial statements.

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PRICE RANGES OF COMMON STOCK

The stock prices below reflect inter-dealer bid prices, without adjustments for retail markups, markdowns or commissions and may not represent actual transactions.

1998	HIGH	LOW	DIVIDENDS PER SHARE
First Quarter	$ 26.00	$ 23.87	$ .090
Second Quarter	28.00	26.00	.090
Third Quarter	29.00	28.00	.090
Fourth Quarter	29.00	29.00	.170

1997	HIGH	LOW	DIVIDENDS PER SHARE
First Quarter	$ 18.50	$ 17.50	$ .085
Second Quarter	19.50	18.50	.085
Third Quarter	20.00	19.50	.085
Fourth Quarter	23.75	21.00	.160

Per share information restated for a 2 for 1 stock split on May 29, 1998.

SHAREHOLDER INFORMATION

CORPORATE OFFICE
National Bancshares Corporation
112 West Market Street
P.O. Box 57
Orrville, Ohio 44667
(330)682-1010

STOCK TRADING INFORMATION

The shares of common stock of National Bancshares Corporation are traded on the local over-the-counter market primarily with brokers in the Corporation's service area.

FORM 10-K

A copy of the Corporation's 1998 Annual Report on Form 10-K as filed with the SEC will be furnished free of charge to shareholders upon written request to the company.

SHAREHOLDER ASSISTANCE AND TRANSFER AGENT

Shareholders with questions are invited to write or call the Transfer Agent, Registrar and Transfer Company, 10 Commerce Drive, Cranford, NJ 07016, 1-800-368-5948 or National Bancshares Corporation, Shareholder Services Department, at (330)682-1030.

DIVIDEND REINVESTMENT PLAN

This plan makes available an opportunity to increase ownership of National Bancshares Corporation common stock through the automatic reinvestment of all or part of the dividends paid to shareholders without paying brokerage commissions or service charges.

DIVIDEND DIRECT DEPOSIT PLAN

This plan permits shareholders to electronically deposit cash dividends to their checking or savings accounts. This free service provides a convenient and safe method of receiving dividend payments.

CONSOLIDATED
BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

<TABLE>
<CAPTION>
ASSETS

<S>	1998 <C>	1997 <C>
Cash and due from banks	$ 7,675,122	$ 8,068,623
Federal funds sold	13,215,000	8,545,000
Total cash and cash equivalents	20,890,122	16,613,623
Securities available for sale	13,030,285	10,565,945
Securities held to maturity (fair value 1998 - $58,584,490; 1997 - $72,045,550)	56,778,648	70,374,836
Federal bank stock	884,500	842,800
Loans, net of allowance for loan losses 1998 - $1,296,513; 1997 - $1,232,464	92,037,075	78,257,778
Accrued interest receivable	1,351,375	1,574,829
Premises and equipment - net	2,650,105	2,477,058
Other assets	2,581,494	2,275,463
TOTAL	$ 190,203,604	$ 182,982,332

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES:		
Deposits	$ 157,714,551	$ 151,081,856
Securities sold under repurchase agreements	3,956,501	3,576,966
Federal reserve note account	87,358	1,000,000
Accrued expenses and other liabilities	1,252,312	1,145,717
Total liabilities	163,010,722	156,804,539
SHAREHOLDERS' EQUITY:		
Common stock, 1998 - no par value; 1997 - $10 par value; 6,000,000 shares authorized, 2,289,528 and 1,144,764 shares issued in 1998 and 1997	11,447,640	11,447,640
Additional paid-in-capital	4,689,800	4,689,800
Accumulated other comprehensive income	(174,514)	91,755
Retained earnings	11,523,005	10,137,118
Less 10,588 and 4,446 treasury shares - at cost	(293,049)	(188,520)
Total shareholders' equity	27,192,882	26,177,793
TOTAL	$ 190,203,604	$ 182,982,332

</TABLE>

See accompanying notes to consolidated financial statements.

CONSOLIDATED
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>

<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
INTEREST INCOME:			
Loans, including fees	$ 7,823,312	$ 7,439,692	$ 7,196,393
Federal funds sold	621,579	540,056	479,248
Securities:			
Taxable	3,569,761	4,054,927	4,040,191
Nontaxable	1,220,486	1,123,230	1,014,707
Total interest income	13,235,138	13,157,905	12,730,539
INTEREST EXPENSE:			
Deposits	4,807,849	4,896,074	4,734,194
Short-term borrowings	191,603	175,796	126,003
Total interest expense	4,999,452	5,071,870	4,860,197
Net interest income	8,235,686	8,086,035	7,870,342
PROVISIONS FOR LOAN LOSSES	120,000	120,000	180,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,115,686	7,966,035	7,690,342
NONINTEREST INCOME			
Checking account fees	545,212	496,523	514,511
Securities gains	--	--	21,097
Other	329,487	248,857	259,836
Total noninterest income	874,699	745,380	795,444
NONINTEREST EXPENSE			
Salaries and employee benefits	2,959,396	2,774,583	2,776,429
Data processing fees	761,320	717,417	734,680
Net occupancy expense	403,066	421,772	417,719
Franchise taxes	352,211	355,500	332,287
Maintenance and repairs	157,232	156,682	157,262
Other	1,418,344	1,254,931	1,202,488
Total noninterest expense	6,051,569	5,680,885	5,620,865
INCOME BEFORE INCOME TAXES	2,938,816	3,030,530	2,864,921
INCOME TAX EXPENSE	594,171	680,943	628,469
NET INCOME	$ 2,344,645	$ 2,349,587	$ 2,236,452
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	2,281,166	2,285,812	2,280,706
BASIC EARNINGS PER COMMON SHARE	$ 1.03	$ 1.03	$ .98

</TABLE>

See accompanying notes to consolidated financial statements.

CONSOLIDATED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

NET UNREALIZED

	COMMON SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	GAIN (LOSS) OF SECURITIES AVAILABLE FOR SALE	RETAINED EARNINGS	TREASURY SHARES	TOTAL SHAREHOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, January 1, 1996	915,651	$ 9,156,510	$ 4,689,800	$ 84,529	$ 9,650,046	$(194,954)	$23,385,931
Comprehensive income:							
Net income					2,236,452		2,236,452
Change in unrealized securities gain (loss), net				(53,078)			(53,078)
Total comprehensive income							2,183,374
Stock split (5 for 4)	228,551	2,285,510			(2,285,510)		
Cash distribution in lieu paid for fractional shares					(12,299)		(12,299)
Cash dividends declared, $.40 Per Share					(900,103)		(900,103)
Shares issued under dividend reinvestment plan (9,480 shares)					12,341	135,004	147,345
Balance, December 31, 1996	1,144,202	11,442,020	4,689,800	31,451	8,700,927	(59,950)	24,804,248
Comprehensive income:							
Net income					2,349,587		2,349,587
Change in unrealized securities gain (loss), net				60,304			60,304
Total comprehensive income							2,409,891
Cash dividends declared, $.42 Per Share					(948,651)		(948,651)
Shares issued under dividend reinvestment plan (7,042 shares)	562	5,620			35,255	93,687	134,562
Purchase of 10,601 treasury shares						(222,257)	(222,257)
Balance, December 31, 1997	1,144,764	11,447,640	4,689,800	91,755	10,137,118	(188,520)	26,177,793
Comprehensive income:							
Net income					2,344,645		2,344,645
Change in unrealized securities gain (loss), net				(266,269)			(266,269)
Total comprehensive income							2,078,376
Stock split (2 for 1)	1,144,764						
Cash dividends declared, $.44 Per Share					(1,001,743)		(1,001,743)
Shares issued under dividend reinvestment plan (6,867 shares)					42,985	139,921	182,906
Purchase of 8,563 treasury shares						(244,450)	(244,450)
Balance, December 31, 1998	2,289,528	$11,447,640	$ 4,689,800	$ (174,514)	$11,523,005	$(293,049)	$27,192,882

</TABLE>

See accompanying notes to consolidated financial statements.

CONSOLIDATED
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 2,344,645	$ 2,349,587	$ 2,236,452

Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	120,000	120,000	180,000
Depreciation and amortization	539,665	723,928	840,396
Federal Home Loan Bank stock dividend	(41,700)	(25,900)	(2,400)
Securities gains	--	--	(21,097)
Gain on sale of loans	(43,395)	(7,285)	--
Change in deferred taxes	(132,022)	(45,278)	(89,938)
Changes in other assets and liabilities	178,974	(163,327)	(2,601)
Net cash from operating activities	2,966,167	2,951,725	3,140,812
CASH FLOWS FROM INVESTING ACTIVITIES:			
Securities held to maturity			
Proceeds from maturities and repayments	20,015,915	13,258,515	14,606,026
Purchases of investments	(6,462,252)	(13,395,743)	(11,239,312)
Securities available for sale			
Proceeds from maturities and repayments	1,860,000	300,000	1,010,548
Proceeds from sales	--	--	1,000,000
Purchases	(4,761,674)	(4,874,355)	(4,358,288)
Capital expenditures	(543,152)	(300,175)	(575,847)
Net increase in loans to customers	(13,855,902)	(220,498)	(5,188,709)
Net cash from investing activities	(3,747,065)	(5,232,256)	(4,745,582)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand and savings accounts	6,023,645	597,331	498,546
Net increase in time deposits	609,050	660,205	2,329,661
Net increase (decrease) in short-term borrowings	(533,107)	(333,470)	1,279,671
Dividends paid	(980,647)	(937,030)	(896,489)
Dividends reinvested	182,906	134,562	147,345
Purchase of treasury shares	(244,450)	(222,257)	--
Net cash from financing activities	5,057,397	(100,659)	3,358,734
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,276,499	(2,381,190)	1,753,964
BEGINNING CASH AND CASH EQUIVALENTS	16,613,623	18,994,813	17,240,849
ENDING CASH AND CASH EQUIVALENTS	$ 20,890,122	$ 16,613,623	$ 18,994,813
SUPPLEMENTAL DISCLOSURES			
Cash paid for interest	$ 5,010,902	$ 5,064,473	$ 4,869,056
Cash paid for income taxes	632,762	703,935	787,342

</TABLE>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

Years Ended December 31, 1998 and 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include National Bancshares Corporation and its wholly-owned subsidiary, First National Bank, Orrville, Ohio, together referred to as "the Corporation." Intercompany transactions and balances are eliminated in consolidation.

The Corporation provides financial services through its offices in Orrville, Ohio, and surrounding communities. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Most loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Other financial instruments, which potentially represent concentrations of credit risk, include deposit accounts in other financial institutions and federal funds sold.

SEGMENTS: As noted above, the Corporation provides a broad range of financial services to individuals and companies in northern Ohio. While the Corporation's chief decision makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Corporation-wide basis. Accordingly, all of the Corporation's banking operations are considered by management to be aggregated in one reportable operating segment.

USE OF ESTIMATES: To prepare financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, fair values of financial instruments and fair values of certain securities are particularly subject to change.

CASH FLOWS: Cash and cash equivalents includes cash, deposits with other financial institutions with original maturities under 90 days, and federal funds sold. Net cash flows are reported for loan and deposit transactions.

SECURITIES: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Other securities such as Federal Home Loan Bank stock are carried at cost.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

LOANS: Loans are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days. Payments received on such loans are reported as principal reductions.

ALLOWANCE FOR LOAN LOSSES: The allowance for loan losses is a valuation allowance for probable credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

FORECLOSED ASSETS: Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

PREMISES AND EQUIPMENT: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the asset useful lives on the straight-line basis.

INTANGIBLES: Purchased intangibles, including goodwill of $321,000 and core deposit value of $141,000 at year-end 1998, are recorded at cost and amortized over the estimated life. Goodwill amortization is straight-line and core deposit amortization is accelerated.

LONG-TERM ASSETS: These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at discounted amounts.

REPURCHASE AGREEMENTS: Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

BENEFIT PLANS: Retirement plan expense is the amount of required matching contributions plus any discretionary contributions as determined by Board decision. Deferred compensation plan expense allocates the benefits over years of service.

INCOME TAXES: Income tax expense is the total of the current-year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

FINANCIAL INSTRUMENTS: Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer-financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay.

EARNINGS PER COMMON SHARE: Earnings per common share are calculated based on the weighted average number of shares outstanding during the period. During 1998, the Corporation declared a 2 for 1 stock split, effected in the form of a 100% stock dividend. Accordingly, earnings per share and dividends per share for 1997 and 1996 have been restated to reflect the increased number of shares.

COMPREHENSIVE INCOME: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which is also recognized as a separate component of equity. The accounting standard that requires reporting comprehensive income first applies for 1998, with prior information restated to be comparable.

NEW ACCOUNTING PRONOUNCEMENTS: Beginning January 1, 2000, a new accounting standard will require all derivatives to be recorded at fair value. Unless designated as hedges, changes in these fair values will be recorded in the income statement. Fair value changes involving hedges will generally be recorded by offsetting gains and losses on the hedge and on the hedged item, even if the fair value of the hedged item is not otherwise recorded. This is not expected to have a material effect since the Corporation currently has no derivative holdings.

LOSS CONTINGENCIES: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

DIVIDEND RESTRICTION: Banking regulations require maintaining certain capital levels and limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

FAIR VALUE OF FINANCIAL INSTRUMENTS: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

2. SECURITIES

Year-end securities are as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1998			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
AVAILABLE FOR SALE:				
U.S. Government and federal agency	$ 5,008,958	$ 46,665	$ --	$ 5,055,623

State and municipal	2,815,131	80,994	(9,431)	2,886,694
Corporate bond and notes	3,750,813	70,030	--	3,820,843
Total debt securities	11,574,902	197,689	(9,431)	11,763,160
Equity securities	1,719,797	13,125	(465,797)	1,267,125
Total	$13,294,699	$ 210,814	$ (475,228)	$13,030,285
HELD TO MATURITY:				
U.S. Government and federal agency	$24,299,518	$ 595,272	$ (34,766)	$24,860,024
State and municipal	18,569,415	998,443	(2,550)	19,565,308
Mortgage-backed	2,083,805	38,523	(7,667)	2,114,661
Corporate bond and notes	11,825,910	225,074	(6,487)	12,044,497
Total	$56,778,648	$ 1,857,312	$ (51,470)	$58,584,490

</TABLE>

<TABLE>
<CAPTION>

	DECEMBER 31, 1997			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
AVAILABLE FOR SALE:				
U.S. Government and federal agency	$ 4,030,144	$ 45,792	$ --	$ 4,075,936
State and municipal	2,824,568	75,682	(14,591)	2,885,659
Corporate bond and notes	2,287,412	15,122	(5,184)	2,297,350
Total debt securities	9,142,124	136,596	(19,775)	9,258,945
Equity securities	1,284,797	27,000	(4,797)	1,307,000
Total	$10,426,921	$ 163,596	$ (24,572)	$10,565,945
HELD TO MATURITY:				
U.S. Government and federal agency	$31,722,839	$ 530,561	$ (22,623)	$32,230,777
State and municipal	3,480,116	44,731	(12,380)	3,512,467
Mortgage-backed	19,171,585	1,009,614	(8,871)	20,172,328
Corporate bond and notes	16,000,296	220,609	(90,927)	16,129,978
Total	$70,374,836	$ 1,805,515	$ (134,801)	$72,045,550

</TABLE>

The Corporation received proceeds of $1,000,000 for the sale of securities in 1996, resulting in a gain of $21,097. There were no sales of securities in 1997 or 1998.

Contractual maturities of debt securities at year-end 1998 were as follows:

<TABLE>
<CAPTION>

	AMORTIZED COST	FAIR VALUE
<S>	<C>	<C>
AVAILABLE FOR SALE:		
Due in one year or less	$ --	$ --
Due from one to five years	2,421,105	2,437,624
Due from five to fifteen years	6,547,619	6,653,406
Due after fifteen years	2,606,178	2,672,130
Total	$11,574,902	$11,763,160

</TABLE>

<TABLE>
<CAPTION>

	AMORTIZED COST	FAIR VALUE
HELD TO MATURITY:		
Due in one year or less	$ 8,382,921	$ 8,478,002
Due from one to five years	23,122,471	23,794,426
Due from five to fifteen years	23,374,897	24,295,526
Due after fifteen years	1,898,359	2,016,536
Total	$56,778,648	$58,584,490

Securities pledged at year-end 1998 and 1997 had carrying values of $31,459,000 and $27,664,000, and were pledged to secure public deposits and repurchase agreements.

3. LOANS

Loans at year-end were as follows:

	DECEMBER 31, 1998	DECEMBER 31, 1997
Collateralized by real estate:		
Commercial	$ 25,173,356	$ 22,935,097
Residential	33,045,472	29,173,322
Home equity	5,283,968	2,536,760
Construction	1,211,635	1,917,595
	64,714,431	56,562,774
Consumer	8,842,643	8,641,966
Commercial	16,576,714	11,923,679
Credit cards - unsecured	1,129,516	1,043,101
Other	2,402,317	1,727,530
	93,665,621	79,899,050
Unearned and deferred income	(160,627)	(195,968)
Unamortized discount on purchased loans	(171,406)	(212,840)
	93,333,588	79,490,242
Allowance for loan losses	(1,296,513)	(1,232,464)
	$ 92,037,075	$ 78,257,778

Activity in the allowance for loan losses for the year was as follows:

	YEARS ENDED DECEMBER 31, 1998	1997	1996
Beginning balance	$ 1,232,464	$ 1,150,917	$ 1,046,542
Provision for loan losses	120,000	120,000	180,000
Loans charged-off	(135,408)	(90,895)	(142,308)
Recoveries	79,457	52,442	66,683
Ending balance	$ 1,296,513	$ 1,232,464	$ 1,150,917

Impaired loans were as follows:

<TABLE>
<CAPTION>

	1998	1997
Year-end loans with no		

allocated allowance for loan losses	$ --	$262,611
Year-end loans with allocated allowance for loan losses	83,504	20,000
Amount of the allowance for loan losses allocated	43,913	4,000
Average of impaired loans during the year	$196,250	$358,961
Interest income recognized during impairment	5,543	6,950
Cash-basis interest income recognized	5,543	6,950

</TABLE>

4. PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1998	1997
<S>	<C>	<C>
Land	$ 285,592	$ 285,592
Buildings	3,312,352	2,989,708
Furniture, fixtures and equipment	2,991,777	2,836,724
	6,589,721	6,112,024
Less: Accumulated depreciation	3,939,616	3,634,966
	$2,650,105	$2,477,058

</TABLE>

Depreciation included in noninterest expense was $370,105, $340,771 and $278,548 in 1998, 1997 and 1996.

5. DEPOSITS

Year-end deposits were as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1998	1997
<S>	<C>	<C>
Demand, noninterest bearing	$ 31,486,957	$ 27,544,730
Demand, interest bearing	31,128,562	29,574,234
Savings	42,723,134	42,196,044
Time, $100,000 and over	11,985,612	12,721,340
Time, other	40,390,286	39,045,508
	$157,714,551	$151,081,856

</TABLE>

A summary of time deposits at year-end by maturity follows:

<TABLE>
<CAPTION>

	1998
<S>	<C>
Within 12 months	$39,360,568
12 months to 24 months	6,911,971
24 to 60 months	6,067,762
Over 60 months	35,597
	$52,375,898

===========
</TABLE>

6. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase generally mature within thirty days from the transaction date. Information concerning agreements to repurchase is summarized as follows:

	1998	1997
Average balance during the year	$3,825,286	$3,094,542
Average interest rate during the year	4.27%	4.70%
Maximum month-end balance during the year	$5,963,258	$4,621,601

7. BENEFIT PLANS

The Corporation has a 401(k) retirement plan that covers substantially all employees. The plan allows employees to contribute up to 15% of their pay with the Corporation matching 50% of contributions up to 6% of an employee's pay. Discretionary contributions may also be made to the plan. Total matching and discretionary contributions made by the Corporation during 1998, 1997 and 1996 amount to $102,269, $103,642 and $99,949, respectively.

The Corporation has an Employee Stock Purchase Incentive Plan for full-time employees. Under the Plan, each employee will be entitled to receive a cash payment equal to 20% of the purchase price of Corporation common stock acquired by the employee on the open market, up to a maximum of 100 shares per calendar year.

The Corporation has a director retirement and death benefit plan for the benefit of all members of the Board of Directors. The plan is designed to provide an annual retirement benefit to be paid to each director upon retirement from the board. The retirement benefit provided to each director is an annual benefit equal to $1,000 for each year of service on the board after August 24, 1994. In addition, each director has the option of deferring any portion of directors' fees to a maximum of $1,000 per month until retirement. Expense recognized in 1998, 1997 and 1996 for this plan was $35,476, $21,862 and $27,721.

8. INCOME TAXES

The components of deferred tax assets and liabilities were as follows:

	DECEMBER 31, 1998	DECEMBER 31, 1997
Deferred tax assets:		
Bad debts	$280,685	$248,964
Deferred loan fees	51,950	54,640
Core deposit intangibles	37,228	45,339
Deferred compensation	83,813	52,972
Unrealized securities losses	89,901	--
Total	543,577	401,915
Deferred tax liabilities:		
Securities accretion	28,133	115,457
Depreciation	87,219	87,516
Unrealized securities gains	--	47,268
Other	7,360	--
Total	122,712	250,241
Net deferred tax asset	$420,865	$151,674

The components of income tax expense are as follows:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, 1998	1997	1996
<S>	<C>	<C>	<C>
Currently payable	$ 726,193	$ 726,221	$ 718,407
Deferred	(132,022)	(45,278)	(89,938)
Total	$ 594,171	$ 680,943	$ 628,469

</TABLE>

The following is a reconciliation of income tax at the federal statutory rate to the effective rate of tax on the financial statements:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, 1998		1997		1996	
	RATE	AMOUNT	RATE	AMOUNT	RATE	AMOUNT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Tax at federal statutory rate	34%	$ 999,197	34%	$1,030,380	34%	$ 974,073
Tax-exempt income	(15)	(428,371)	(12)	(370,979)	(12)	(339,466)
Other	1	23,345		21,542		(6,138)
Income tax expense	20%	$ 594,171	22%	$ 680,943	22%	$ 628,469

</TABLE>

9. RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates in 1998 were as follows:

<TABLE>

<S>	<C>
Beginning balance	$ 6,849,934
New loans	7,054,395
Effect of changes in related parties	(1,854,891)
Repayments	(4,564,801)
Ending balance	$ 7,484,637

</TABLE>

Unused commitments to these related parties totaled $791,000 at year-end 1998.

10. CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

The Company and the Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective-action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective-action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

Actual and required capital amounts and ratios are presented below at year-end.

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS)	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1998						
Total capital to risk-weighted assets						
Consolidated	$27,904	23.80%	$ 9,379	8.00%	$11,724	10.00%
Bank	24,994	21.58	9,265	8.00	11,582	10.00
Tier 1 (core) capital to risk-weighted assets						
Consolidated	26,607	22.69	4,690	4.00	7,034	6.00
Bank	23,697	20.46	4,633	4.00	6,949	6.00
Tier 1 (core) capital to average assets						
Consolidated	26,607	14.40	7,390	4.00	9,237	5.00
Bank	23,697	12.92	7,374	4.00	9,167	5.00
1997						
Total capital to risk-weighted assets						
Consolidated	25,766	23.75	8,679	8.00	10,849	10.00
Bank	25,218	23.53	8,574	8.00	10,718	10.00
Tier 1 (core) capital to risk-weighted assets						
Consolidated	25,534	23.54	4,340	4.00	6,509	6.00
Bank	23,986	22.38	4,287	4.00	6,431	6.00
Tier 1 (core) capital to average assets						
Consolidated	25,534	14.25	7,166	4.00	8,957	5.00
Bank	23,986	13.43	7,146	4.00	8,933	5.00

</TABLE>

The Bank is restricted by regulation in the amount of dividends it may pay to the holding company. Under the most restrictive dividend limitations, at year-end approximately $1.25 million is available for the Bank to pay dividends to the holding company.

11. COMMITMENTS, CONTINGENCIES AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer-financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met. These agreements usually have fixed expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

Financial instruments with off-balance-sheet risk were as follows at year-end.

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Unused lines of credit	$ 18,317,000	$ 16,371,000
Letters of credit	1,575,000	1,803,000

</TABLE>

The Corporation was required to have approximately $1,328,000 and $1,233,000 of cash on hand or on deposit with the Federal Reserve Bank at year-end 1998 and 1997. These balances do not earn interest. The

Corporation has also committed to invest up to $225,000 in a limited partnership that purchases stock of financial companies.

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

Carrying amount and estimated fair values of financial instruments were as follows at year-end:

<TABLE>
<CAPTION>

	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<S>	<C>	<C>	<C>	<C>

Financial assets:				
Cash and cash equivalents	$ 20,890,122	$ 20,890,122	$ 16,613,623	$ 16,613,623
Securities available for sale	13,030,285	13,030,285	10,565,945	10,565,945
Securities held to maturity	56,778,648	58,584,490	70,374,836	72,045,550
Federal bank stock	884,500	884,500	842,800	842,800
Loans, net	92,037,075	92,676,056	78,257,778	78,873,635
Accrued interest receivable	1,351,375	1,351,375	1,574,829	1,574,829
Financial liabilities:				
Deposits	(157,714,551)	(157,910,772)	(151,081,856)	(151,143,842)
Short-term borrowings	(4,043,859)	(4,043,859)	(4,576,966)	(4,576,966)
Accrued interest payable	(545,377)	(545,377)	(556,827)	(556,827)

</TABLE>

The methods and assumptions used to estimate fair value are described as follows.

Carrying amount is the estimated fair value for cash and cash equivalents, short-term borrowings, Federal bank stock, accrued interest receivable and payable, demand and savings deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of loans held for sale is based on market quotes. Fair value of debt is based on current rates for similar financing. The fair value of off-balance-sheet items, based on the current fees or cost that would be charged to enter into or terminate such arrangements, is not material.

13. OTHER COMPREHENSIVE INCOME

Other comprehensive income components and related taxes were as follows.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Unrealized holding gains and losses on available-for-sale securities	$(403,438)	$ 91,369	$(101,516)
Less reclassification adjustment for gains and losses later recognized in income	--	--	21,097
Net unrealized gains and losses	(403,438)	91,369	$ (80,419)
Tax effect	137,169	(31,065)	27,341
Other comprehensive income	$(266,269)	$ 60,304	$ (53,078)

</TABLE>

14. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial statements for National Bancshares Corporation (parent only) are as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,	
<S>	1998 <C>	1997 <C>

BALANCE SHEETS

Assets:		
Cash	$ 1,877,605	$ 29,435
Dividend receivable	--	600,294
Investment in Bank subsidiary	24,281,663	24,614,936
Securities available for sale	1,267,125	1,307,000
Other assets	153,909	--
Total assets	$27,580,302	$26,551,665
Liability and shareholders' equity:		
Dividends payable	$ 387,420	$ 366,324
Other liabilities	--	7,548
Shareholders' equity	27,192,882	26,177,793
Total liabilities and shareholders' equity	$27,580,302	$26,551,665

</TABLE>

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, 1998	1997	1996
<S>	<C>	<C>	<C>
STATEMENTS OF INCOME			
Income:			
Dividends from Bank subsidiary	$ 2,752,913	$ 2,086,961	$ 919,201
Other dividends	12,724	2,500	--
Total income	2,765,637	2,089,461	919,201
Expenses:			
Misc. expense	(40,571)	(28,736)	(28,097)
Undistributed equity in net income of Bank	(380,421)	288,862	1,345,348
Net income	$ 2,344,645	$ 2,349,587	$ 2,236,452

</TABLE>

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, 1998	1997	1996
<S>	<C>	<C>	<C>
STATEMENTS OF CASH FLOWS			
Cash flows from operating activities:			
Net income	$ 2,344,645	$ 2,349,587	$ 2,236,452
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of Bank	380,421	(288,862)	(1,345,348)
Change in dividends receivable	600,294	(243,869)	(18,759)
Net cash from operating activities	3,325,360	1,816,856	872,345
Cash flows from investing activities:			
Purchase of securities	(434,999)	(1,284,798)	--
Cash flows from			

financing activities:			
Dividends paid	(980,647)	(937,030)	(896,489)
Dividends reinvested	182,906	134,562	147,345
Purchase of treasury shares	(244,450)	(222,257)	--
Net cash from financing activities	(1,042,191)	(1,024,725)	(749,144)
Net increase (decrease) in cash	1,848,170	(492,667)	123,201
Cash, beginning of year	29,435	522,102	398,901
Cash, end of year	$ 1,877,605	$ 29,435	$ 522,102

</TABLE>

[CROWE CHIZEK LOGO]

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
National Bancshares Corporation
Orrville, Ohio

We have audited the accompanying consolidated balance sheet of National Bancshares Corporation as of December 31, 1998, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Corporation's financial statements as of December 31, 1997, and for each of the two years in the period then ended were audited by other auditors, whose report dated January 16, 1998, expressed an unqualified opinion thereon.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Bancshares Corporation as of December 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ Crowe, Chizek and Company LLP

Columbus, Ohio
January 29, 1999

ANALYSIS OF NET INTEREST EARNINGS

Rate spread and effective rate differential (on a tax equivalent basis). The following table presents an analysis of net interest earning assets and interest bearing liabilities.

<TABLE>
<CAPTION>

	1998			1997			1996		
(DOLLARS IN THOUSANDS)	DAILY AVERAGE BALANCE	INTEREST	AVERAGE RATE	DAILY AVERAGE BALANCE	INTEREST	AVERAGE RATE	DAILY AVERAGE BALANCE	INTEREST	AVERAGE RATE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS									
Interest earning assets:									

Investment securities:									
Taxable	$ 54,565	$ 3,570	6.54%	$ 59,159	$ 4,055	6.85%	$ 58,132	$ 4,040	6.95%
Nontaxable (tax equivalent basis)*	21,493	1,848	8.60%	19,028	1,702	8.94%	17,024	1,538	9.03%
Federal funds sold	11,692	622	5.32%	9,823	540	5.50%	8,962	479	5.34%
Net loans (including nonaccrual loans)	84,610	7,823	9.25%	79,187	7,440	9.40%	75,917	7,196	9.48%
Total interest earning assets	172,360	13,863	8.04%	167,197	13,737	8.22%	160,035	13,253	8.28%
All other assets	12,389			11,942			11,933		
Total Assets	$184,749			$179,139			$171,968		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest bearing liabilities									
Deposits:									
Interest bearing checking	$ 29,376	$ 676	2.30%	$ 30,139	$ 788	2.61%	$ 30,801	$ 822	2.67%
Savings	41,657	1,245	2.99%	42,003	1,253	2.98%	41,200	1,230	2.99%
Time, $100,000 and over	14,082	768	5.45%	12,737	720	5.65%	9,938	569	5.73%
Time, other	40,196	2,119	5.27%	40,273	2,135	5.30%	39,621	2,113	5.33%
Other funds purchased	4,350	191	4.39%	3,679	176	4.78%	2,600	126	4.85%
Total interest bearing liabilities	129,661	4,999	3.86%	128,831	5,072	3.94%	124,160	4,860	3.91%
Demand deposits	27,030			23,844			22,637		
Other liabilities	1,132			1,017			962		
Shareholders' equity	26,926			25,447			24,209		
Total Liabilities and Shareholders' Equity	$184,749			$179,139			$171,968		
Net interest income (tax equivalent basis)*		$ 8,864			$ 8,665			$ 8,393	
Net interest spread			4.18%			4.28%			4.37%
Net yield on total earning assets*			5.14%			5.18%			5.24%

</TABLE>

*Tax equivalence based on highest statutory tax rate of 34%.

HISTORICAL FINANCIAL SUMMARY

<TABLE>
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FINANCIAL POSITION (YEAR END BALANCES)	1998	1997*	1996*	1995*	1994*
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Total Assets	$190,203,604	$182,982,332	$180,631,014	$175,144,085	$173,041,984
Cash and Due from Banks	7,675,122	8,068,623	8,194,813	7,946,503	8,261,107
Investment Securities	69,808,933	80,940,781	76,719,305	78,406,304	89,956,248
Loans-Net	92,037,075	78,257,778	78,149,995	73,141,286	56,215,091
Deposits	157,714,551	151,081,856	149,824,321	146,996,114	145,862,240
Shareholders' Equity	27,192,882	26,177,793	24,804,248	23,385,931	22,089,249
Book Value Per Share	$ 11.93	$ 11.48	$ 10.86	$ 10.24	$ 9.67
SUMMARY OF OPERATIONS					
Total Interest Income	$ 13,235,138	$ 13,157,905	$ 12,730,539	$ 12,611,712	$ 10,766,011
Total Interest Expense	4,999,452	5,071,870	4,860,197	4,762,140	3,694,748
Net Interest Income	8,235,686	8,086,035	7,870,342	7,849,572	7,071,263
Provision for Loan Losses	120,000	120,000	180,000	180,000	180,000
Net Interest Income After Provision for Loan Losses	8,115,686	7,966,035	7,690,342	7,669,572	6,891,263
Total Noninterest Income	874,699	745,380	795,444	740,236	740,183
Total Noninterest Expense	6,051,569	5,680,885	5,620,865	5,650,586	5,152,378
Income Before Income Taxes	2,938,816	3,030,530	2,864,921	2,759,222	2,479,068
Income Taxes Expense	594,171	680,943	628,469	590,330	460,833

Net Income	$ 2,344,645	$ 2,349,587	$ 2,236,452	$ 2,168,892	$ 2,018,235
Net Income Per Share	$ 1.03	$ 1.03	$ .98	$ .95	$ .88
Cash Dividends	$ 1,001,743	$ 948,651	$ 900,103	$ 822,014	$ 736,730
Cash Dividends Per Share	$ .44	$ .42	$ .40	$ .36	$ .33
Dividend Payout Percentage	42.72%	40.38%	40.25%	37.90%	36.50%
Weighted Average Number of Shares Outstanding	2,281,166	2,285,812	2,280,706	2,280,706	2,280,706
Return on Average Assets	1.27%	1.31%	1.30%	1.28%	1.29%
Return on Average Equity	8.71%	9.23%	9.24%	9.49%	9.37%
Average Equity to Total Assets	14.57%	14.21%	14.08%	13.46%	13.82%
Risk-Based Capital Percentage	23.80%	23.75%	22.30%	20.67%	20.45%
Full Time Equivalent Staff	96	96	95	94	92
Average Total Assets to Full Time Equivalent Staff	$ 1,924,474	$ 1,866,035	$ 1,810,186	$ 1,806,496	$ 1,694,535

</TABLE>

* All share and per share data restated for a 2 for 1 stock split on May 29, 1998.

DIRECTORS

Charles J. Dolezal
Chairman, President,
Chief Executive Officer

Sara Balzarini
Member of Management Committee
Contours, Ltd.

Bobbi Douglas
Executive Director
Wayne County Alcoholism Services
Every Woman's House

John W. Kropf
Attorney
Kropf, Wagner, & Hohenberger

Steve Schmid
President
Smith Dairy Products, Inc.

John E. Sprunger
President
Kidron Auction, Inc.

Howard J. Wenger
President
Wenger Excavating, Inc.
Lake Region Oil, Inc.
Northstar Asphalt, Inc.

James F. Woolley
Chief Executive Officer
R.W. Screw Products, Inc.

Albert Yeagley
Plant Manager
J.M. Smucker Company

Robert F. Gumz
Director Emeritus

OFFICERS

NATIONAL BANCSHARES CORPORATION

Charles J. Dolezal
President

Kenneth R. VanSickle
Senior Vice President,
Secretary

Lawrence Cardinal, Jr.
Vice President, Treasurer

FIRST NATIONAL BANK

Charles J. Dolezal
President

CONTROL
Lawrence Cardinal, Jr.

BRANCH ADMINISTRATION

David Chapman
Assistant Vice President,
Manager Mt. Eaton Office

Carolyn Forrer
Administrative Officer,

Vice President & Controller

Angela Smith
Assistant Controller

LENDING
Kenneth R. VanSickle
Senior Vice President, Chief Loan Officer

Scott Holmes
Assistant Vice President,
Manager of Loan Department

Dean Karhan
Loan Officer

Sara Martin
Loan Officer

Carol Yoder
Loan Officer

OPERATIONS
Robert Woodruff
Vice President & Cashier

Jackie Samsa
Assistant Vice President,
Manager of Human Resources

Jan Zacharias
Operations Officer

SALES AND BUSINESS DEVELOPMENT
Harold Berkey
Vice President of Customer Services

SECURITY/COMPLIANCE
Ron Armentrout
Assistant Vice President,
Security Officer, Compliance Officer

AUDIT
Jim Huntsberger
Auditor

Manager Main Office Lobby

Karen Hicks
Assistant Vice President,
Manager Smithville Office

Michelle Kieffaber
Loan Officer,
Dalton Office

James Kuschmeader
Assistant Vice President,
Manager Dalton Office

Susan Kutz
Administrative Officer,
Manager West High Office

Larry Kytta
Assistant Vice President,
Manager Lodi Office

Steve Riddick
Assistant Vice President,
Manager Seville Office

Valerie Stein
Assistant Vice President,
Manager Kidron Office

Rita Tyrrell
Administrative Officer,
Dalton Office

Betty Wyant
Assistant Vice President,
Manager Midway Office

[GRAPHIC IN BACKGROUND]

[NATIONAL BANCSHARES CORPORATION LOGO]

112 West Market Street
Orrville, Ohio 44667
(330)682-1010

www.fnborrville.com

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

National Bancshares Corporation

We consent to the incorporation by reference in Registration Statement No. 33-63005 of National Bancshares Corporation on Form S-3 of our report dated January 16, 1998, which has been incorporated by reference in the Annual Report on Form 10-K of National Bancshares Corporation for the year ended December 31, 1998.

/s/ Deloitte & Touche LLP

Cleveland, Ohio
March 26, 1999

Exhibit 23.2

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in Registration Statement No. 33-63005 on Form S-3 of National Bancshares Corporation of our report dated January 29, 1999 on the consolidated balance sheets of National Bancshares Corporation as of December 31, 1998 and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended; which report is incorporated by reference into this Annual Report on Form 10-K.

/S/CROWE, CHIZEK AND COMPANY LLP
Crowe, Chizek and Company LLP

Columbus, Ohio
March 25, 1999

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