EMCLAIRE FINANCIAL CORP
Form 10-Q
November 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____________ to _____________

Commission File Number: 000-18464

EMCLAIRE FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Pennsylvania	25-1606091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

612 Main Street, Emlenton, Pennsylvania	16373
(Address of principal executive offices)	(Zip Code)

(724) 867-2311

(Registrant's telephone number)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer|_| Accelerated filer|_| Non-accelerated filer |X|

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

The number of shares outstanding of the Registrant's common stock was 1,267,835 at November 9, 2007.

EMCLAIRE FINANCIAL CORP.

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PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp. and Subsidiary
Consolidated Balance Sheets
As of September 30, 2007 (Unaudited) and December 31, 2006
(Dollar amounts in thousands, except per share data)

	September 30, 2007	December 31, 2006
Assets		
Cash and due from banks	$ 6,290	$ 7,540
Interest-earning deposits with banks	117	9,177
Cash and cash equivalents	6,407	16,717
Securities available for sale, at fair value	48,835	51,774
Loans receivable, net of allowance for loan losses of $2,118 and $2,035	226,199	213,344
Federal bank stocks, at cost	2,608	2,217
Bank-owned life insurance	4,938	4,794
Accrued interest receivable	1,481	1,374
Premises and equipment, net	7,785	7,958
Goodwill	1,422	1,422
Deferred tax asset	539	533
Prepaid expenses and other assets	676	427
Total Assets	$ 300,890	$ 300,560
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 45,643	$ 44,045
Interest-bearing	190,505	200,447
Total deposits	236,148	244,492
Short-term borrowed funds	7,600	-
Long-term borrowed funds	30,000	30,000
Accrued interest payable	732	825
Accrued expenses and other liabilities	1,650	1,326
Total Liabilities	276,130	276,643
Stockholders' Equity:		
Preferred stock, $1.00 par value, 3,000,000 shares authorized; none issued	-	-
Common stock, $1.25 par value, 12,000,000 shares authorized; 1,395,852 shares issued; 1,267,835 shares outstanding	1,745	1,745
Additional paid-in capital	10,887	10,871
Treasury stock, at cost; 128,017 shares	(2,653)	(2,653)
Retained earnings	15,278	14,370
Accumulated other comprehensive loss	(497)	(416)

Total Stockholders' Equity	24,760	23,917
Total Liabilities and Stockholders' Equity	$ 300,890	$ 300,560

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Income
For the three and nine months ended September 30, 2007 and 2006 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For the S
	2007	2006	2007
Interest and dividend income:			
Loans receivable, including fees	$ 3,937	$ 3,670	$ 11,
Securities:			
Taxable	388	352	1,
Exempt from federal income tax	169	176	
Federal bank stocks	35	28	
Deposits with banks	6	14	
Total interest and dividend income	4,535	4,240	13,
Interest expense:			
Deposits	1,578	1,530	4,
Borrowed funds	361	324	1,
Total interest expense	1,939	1,854	5,
Net interest income	2,596	2,386	7,
Provision for loan losses	45	90	
Net interest income after provision for loan losses	2,551	2,296	7,
Noninterest income:			
Fees and service charges	412	387	1,
Commissions on financial services	83	101	
Net gain on sale of available for sale securities	18	134	
Net gain on sales of loans	15	9	
Earnings on bank-owned life insurance	55	53	
Other	113	109	
Total noninterest income	696	793	2,

Noninterest expense:			
Compensation and employee benefits	1,241	1,391	3,
Premises and equipment	404	387	1,
Intangible amortization expense	-	2	
Other	610	485	1,
Total noninterest expense	2,255	2,265	6,
Income before provision for income taxes	992	824	2,
Provision for income taxes	238	132	
Net income	$ 754	$ 692	$ 2,
Basic and diluted earnings per share	$ 0.59	$ 0.55	$ 1
Average common shares outstanding	1,267,835	1,267,835	1,267,
Dilutive shares	-	-	

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Condensed Consolidated Statements of Cash Flows
For the nine months ended September 30, 2007 and 2006
(Unaudited)
(Dollar amounts in thousands)

	For the nine months ended September 30,	
	2007	2006
Cash flows from operating activities		
Net income	$ 2,012	$ 1,8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	497	5
Provision for loan losses	120	1
Amortization of premiums and accretion of discounts, net	9	
Amortization of intangible assets and mortgage servicing rights	12	
Realized gain on sales of available for sale securities, net	(194)	(3
Net gains on sales of loans	(22)	
Stock compensation expense	16	
Earnings on bank owned life insurance, net	(144)	(1
Increase in accrued interest receivable	(107)	(2
(Increase) decrease in prepaid expenses and other assets	(225)	1
Increase (decrease) in accrued interest payable	(93)	1
Increase (decrease) in accrued expenses and other liabilities	324	(3
Net cash provided by operating activities	2,205	1,8

Cash flows from investing activities		
Loan originations and principal collections, net	(14,575)	(26,0
Proceeds from the sale of loans	1,615	1,0
Available for sale securities:		
Sales	1,275	8
Maturities, repayments and calls	13,869	4,7
Purchases	(12,136)	(1,7
Held to maturity securities:		
Maturities, repayments and calls	-	
Purchases of federal bank stocks	(391)	(5
Purchases of premises and equipment	(324)	(1,3
Net cash used in investing activities	(10,667)	(23,2
Cash flows from financing activities		
Net increase (decrease) in deposits	(8,345)	8,5
Net increase in overnight borrowed funds	7,600	11,0
Dividends paid on common stock	(1,103)	(1,0
Net cash provided by (used in) financing activities	(1,848)	18,5
Net decrease in cash and cash equivalents	(10,310)	(2,8
Cash and cash equivalents at beginning of period	16,717	10,3
Cash and cash equivalents at end of period	$ 6,407	$ 7,4
Supplemental information:		
Interest paid	$ 5,953	$ 4,8
Income taxes paid	366	5
Supplemental noncash disclosure:		
Transfers from loans to foreclosed real estate	-	

See accompanying notes to consolidated financial statements.

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Emclaire Financial Corp. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the three and nine months ended September 30, 2007 and 2006 (Unaudited)
(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For the nine months en September 30,	
	2007	2006	2007	200
Balance at beginning of period	$ 23,990	$ 23,480	$ 23,917	$ 23,
Net income	754	692	2,012	1,
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on available for sale securities, net of taxes	381	529	47	
Less reclassification adjustment for gains included in net income, net of taxes	(12)	(88)	(128)	(

Other comprehensive income (loss)	369	441	(81)	(
Total comprehensive income	1,123	1,133	1,931	1,
Stock compensation expense	15	-	16	
Dividends declared	(368)	(342)	(1,103)	(1,
Balance at end of period	$ 24,760	$ 24,271	$ 24,760	$ 24,
Cash dividend per common share	$ 0.29	$ 0.27	$ 0.87	$ 0

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp. and Subsidiary
Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Basis of Presentation.

Emclaire Financial Corp. (the "Corporation") is a Pennsylvania company organized as the holding company of Farmers National Bank of Emlenton (the "Bank"). The Corporation provides a variety of financial services to individuals and businesses through its offices in western Pennsylvania. Its primary deposit products are checking, savings and certificate of deposit accounts and its primary lending products are residential and commercial mortgages, commercial business and consumer loans.

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, the Bank. All intercompany transactions and balances have been eliminated in preparing the consolidated financial statements.

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's consolidated financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's Form 10-Q and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2006, as contained in the Corporation's 2006 Annual Report of Form 10-K filed with the Securities and Exchange Commission.

The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. The results of operations for interim quarterly or year to date periods are not necessarily indicative of the results that may be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to conform to the current year's financial statement presentation.

2. Earnings per Common Share.

Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Corporation. Options on 83,000 shares of common stock were not included in computing diluted earnings per share because their effects were not dilutive.

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3. Securities.

The Corporation's securities as of the respective dates are summarized as follows:

(Dollar amounts in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale:				
September 30, 2007:				
U.S. Government agencies and related entities	$ 28,857	$ -	$ (189)	$ 28,
Mortgage-backed securities	2,047	-	(77)	1,
Municipal securities	14,205	495	-	14,
Equity securities	3,933	2	(438)	3,
	$ 49,042	$ 497	$ (704)	$ 48,
December 31, 2006:				
U.S. Government agencies and related entities	$ 31,354	$ -	$ (606)	$ 30,
Mortgage-backed securities	2,434	-	(95)	2,
Municipal securities	14,688	574	-	15,
Equity securities	3,382	176	(132)	3,
	$ 51,858	$ 750	$ (833)	$ 51,

4. Loans Receivable.

The Corporation's loans receivable as of the respective dates are summarized as follows:

(Dollar amounts in thousands) September 30, December 31,

	2007	2006
Mortgage loans on real estate:		
Residential first mortgages	$ 65,301	$ 64,662
Home equity loans and lines of credit	49,928	47,330
Commercial	67,626	61,128
	182,855	173,120
Other loans:		
Commercial business	36,022	34,588
Consumer	9,440	7,671
	45,462	42,259
Total loans, gross	228,317	215,379
Less allowance for loan losses	2,118	2,035
Total loans, net	$ 226,199	$ 213,344

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5. Deposits.

The Corporation's deposits as of the respective dates are summarized as follows:

(Dollar amounts in thousands)	September 30, 2007		December 31, 2006	
Type of accounts	Amount	%	Amount	%
Noninterest-bearing deposits	$ 45,643	19.3%	$ 44,045	18.0%
Interest-bearing demand deposits	72,675	30.8%	70,951	29.0%
Time deposits	117,830	49.9%	129,496	53.0%
	$ 236,148	100.0%	$ 244,492	100.0%

6. Guarantees.

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Of these letters of credit at September 30, 2007, $85,000 will expire within the next twelve months, $275,000 will automatically renew within the next twelve months and $517,000 will automatically renew within thirteen to twenty-five months. The Corporation, generally, holds collateral and/or personal guarantees supporting these commitments. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The current amount of the liability as of September 30, 2007 for guarantees under standby letters of credit issued is not material.

7. Employee Benefit Plans.

The Corporation maintains a defined contribution 401(k) Plan. Eligible employees participate by providing tax-deferred contributions up to 20% of qualified compensation. Employee contributions are vested at all times. The Corporation provides a matching contribution of up to 4% of the participant's salary. Matching contributions for the nine months ended September 30, 2007 and 2006 amounted to $100,000 and $63,000, respectively.

The Corporation provides pension benefits for eligible employees through a defined benefit pension plan. Substantially all full-time employees participate in the retirement plan on a non-contributing basis and are fully vested after five years of service.

The Corporation uses December 31 as the measurement date for its plans.

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7. Employee Benefit Plans (continued).

The components of the periodic pension cost are as follows:

(Dollar amounts in thousands)	For the three months ended September 30, 2007	For the three months ended September 30, 2006	For the nine months ended September 30, 2007	For the nine months ended September 30, 2006
Service cost	$ 66	$ 56	$ 180	$ 160
Interest cost	68	62	198	178
Expected return on plan assets	(74)	(69)	(228)	(201)
Transition asset	4	(2)	-	(6)
Prior service costs	(8)	(7)	(24)	(23)
Recognized net actuarial loss	10	23	24	47
Effect of Special Termination Benefits	-	-	-	-
Net periodic pension cost	$ 66	$ 63	$ 150	$ 155

The expected rate of return on plan assets was 8.50% for the periods ended September 30, 2007 and 2006. The Corporation contributed $360,000 to its pension plan for the 2007 plan year during the quarter ended September 30, 2007.

8. Stock Compensation Plans.

In May 2007, the Corporation adopted the 2007 Stock Incentive Plan and Trust. Under the Plan, the Corporation may grant options to its directors, officers and employees for up to 177,496 shares of common stock. Incentive stock options, non-incentive or compensatory stock options and share awards may be granted under the Plan. The exercise price of each option shall at least equal the market price of a share of common stock on the date of grant and have a contractual term of ten years. Options shall vest and become exercisable at the rate, to the extent and subject to such limitations as may be specified by the Corporation. Effective January 1, 2007, the Corporation adopted SFAS No. 123(R), Share-Based Payment, which requires that compensation cost related to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued. For the three and nine-month period ended September 30, 2007, the Corporation recognized $15,000 and $16,000, respectively in compensation expense for stock options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Nine months ended September 30, 2007
Dividend yield	4.46%
Expected life	10 years
Expected volatility	14.09%
Risk-free interest rate	5.10%

The expected volatility is based on historical stock price fluctuations. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on the maximum term of the options. The dividend yield assumption is based on the Corporation's history and expectation of dividend payouts.

8. Stock Compensation Plans (continued).

A summary of option activity under the Plan as of September 30, 2007, and changes during the period then ended is presented below:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Term (in years)
Outstanding at the beginning of the year	-	$ -		-
Granted	83,000	26.00		9.7
Exercised	-	-		-
Forfeited	-	-		-
Outstanding as of September 30, 2007	83,000	$ 26.00	$ -	9.7
Exercisable as of September 30, 2007	-	$ -	$ -	-

A summary of the status of the Corporation's nonvested shares as of September 30, 2007, and changes during the period then ended is presented below;

	Options	Weighted-Average Grant-date Fair Value
Nonvested at the beginning of the year	-	$-
Granted	83,000	3.39

Vested	-	-
Forfeited	-	-
Nonvested as of September 30, 2007	83,000	$3.39

As of September 30, 2007, there was $265,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.7 years.

9. Effect of Recently Issued Accounting Standards.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Corporation is currently evaluating the potential impact, if any, of the adoption of SFAS 157 on its consolidated financial statements.

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9. Effect of Recently Issued Accounting Standards (continued).

In September 2006, FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements (EITF 06-4). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policy holder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The EITF is effective in fiscal years beginning after December 15, 2007, with early adoption permitted. The Corporation is currently evaluating the impact that the implementation of EITF 06-4 may have on its consolidated financial statements.

In September 2006, FASB's EITF issued EITF Issue No. 06-5, Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance (EITF 06-5), The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of key persons. The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The implementation of EITF 06-5 had no effect on the Corporation's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for the Corporation January 1, 2008. The Corporation is evaluating the impact that the adoption of SFAS 159 will have on its consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section discusses the consolidated financial condition and results of operations of Emclaire Financial Corp. (the "Corporation") and its wholly owned subsidiary bank, the Farmers National Bank of Emlenton (the "Bank"), for the three and nine months ended September 30, 2007 compared to the same periods in 2006 and should be read in conjunction with the Corporation's December 31, 2006 Annual Report of Form 10-K filed with the Securities and Exchange Commission and with the accompanying consolidated financial statements and notes presented on pages 1 through 9 of this Form 10-Q.

The Private Securities Litigation Reform Act of 1995 contains safe harbor provisions regarding forward-looking statements. When used in this discussion, the words "believes," "anticipates," "contemplates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Those risks and uncertainties include changes in interest rates, the ability to control costs and expenses and general economic conditions. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

CHANGES IN FINANCIAL CONDITION

Total assets increased $330,000 to $300.9 million at September 30, 2007 from $300.6 million at December 31, 2006. This increase resulted from increases in loans receivable, net of allowance for loan losses of $12.9 million or 6.0% to $226.2 million at September 30, 2007 from $213.3 million at December 31, 2006 and federal bank stocks of $391,000 or 17.6% to $2.6 million at September 30, 2007 from $2.2 million at December 31, 2006. Partially offsetting this increase were decreases in cash and cash equivalents of $10.3 million or 61.7% to $6.4 million at September 30, 2007 from $16.7 million at December 31, 2006 and securities available for sale of $2.9 million or 5.7% to $48.8 million at September 30, 2007 from $51.8 million at December 31, 2006, as these funds were utilized in funding commercial real estate and business loans.

Total liabilities decreased $513,000 to $276.1 million at September 30, 2007 from $276.6 million at December 31, 2006, while total stockholders' equity increased $843,000 to $24.8 million at September 30, 2007 from $23.9 million at December 31, 2006. The decrease in total liabilities was primarily due to a decrease in customer deposits of $8.3 million partially offset by increases in short-term borrowed funds and accrued expenses and other liabilities of $7.6 million and $324,000, respectively.

RESULTS OF OPERATIONS

Comparison of Results for the Three Month Periods Ended September 30, 2007 and 2006

General. Net income increased $62,000 or 9.0% to $754,000 for the three months ended September 30, 2007 from $692,000 for the same period in 2006. This increase was a result of an increase in net interest income and decreases in the provision for loan losses and non-interest expense of $210,000 $45,000, and $10,000, respectively, partially offset by a decrease in noninterest income of $97,000 and an increase in the provision for income taxes of $106,000.

Net interest income. Net interest income on a tax equivalent basis increased $206,000 or 8.3% to $2.7 million for the three months ended September 30, 2007 from $2.5 million for the same period in 2006. This net increase can be attributed to an increase in tax equivalent interest income of $290,000, partially offset by a $84,000 increase in interest expense.

Interest income. Interest income on a tax equivalent basis increased $290,000 or 6.7% to $4.6 million for the three months ended September 30, 2007, compared to $4.3 million for the same period in the prior year. This increase can be attributed to increases in interest earned on loans, securities and federal bank stocks of $265,000, $26,000 and $7,000, respectively, partially offset by a decrease in interest earned on interest-earning deposits with banks of $8,000.

Tax equivalent interest earned on loans receivable increased $265,000 or 7.2% to $4.0 million for the three months ended September 30, 2007, compared to $3.7 million for the same period in 2006. During that time, average loans increased $8.3 million or 3.8%, accounting for $144,000 in additional loan interest income. This increase can be primarily attributed to growth in the Corporation's commercial loan portfolios. Additionally, the yield on loans increased 22 basis points to 7.01% for the three months ended September 30, 2007, versus 6.79% for the same period in 2006, contributing $120,000 in additional interest income. The increase in the yield was primarily due to the increased origination of higher rate commercial loans. Also contributing to the increase in the yield on loans between the periods was the collection of $60,000 of interest due associated with the payoff of a previously nonperforming commercial loan in August 2007. In connection with the loan payoff, the Corporation received all principal and interest due under the contractual terms of the loan agreement and interest collected was recorded as loan interest income during the three months ended September 30, 2007.

Tax equivalent interest earned on securities increased $26,000 or 4.3% to $633,000 for the three months ended September 30, 2007, compared to $607,000 for the same period in 2006. The average volume of securities decreased $1.9 million or 3.6%, accounting for a $23,000 decrease in interest income. Offsetting this volume decrease, the yield on securities increased 38 basis points to 5.03% for the three months ended September 30, 2007, versus 4.65% for the same period in 2006, as a result of certain lower yielding securities maturing. This favorable yield variance contributed an additional $48,000 to interest income.

Interest earned on interest-earning deposit accounts decreased $8,000 to $6,000 for the three months ended September 30, 2007 from $14,000 for the same period in 2006. The average volume of these assets decreased $667,000 or 59.5%, primarily as a result of funding loans and purchasing securities, decreasing interest income by $9,000. Partially offsetting this decrease in volume, the average yield on interest-earning deposit accounts increased 63 basis points to 5.58% for the three months ended September 30, 2007, compared to 4.95% for the same period in the prior year, contributing $2,000 in additional interest income. The increase in the average yield reflects the increases in short-term interest rates. Interest earned on federal bank stocks increased $7,000 or 25.0% to $35,000 for the three month period ended September 30, 2007 from $28,000 for the same period in the prior year as a result of both higher volume and higher yield.

Interest expense. Interest expense increased $84,000 or 4.5% to $1.9 million for the three months ended September 30, 2007, compared to $1.8 million for the same period in the prior year. This increase in interest expense can be attributed to increases in interest incurred on deposits and borrowed funds of $48,000 and $36,000, respectively.

Interest expense incurred on deposits increased $48,000 or 3.1% to $1.6 million for the three months ended September 30, 2007, compared to $1.5 million for the same period in the prior year. This increase can be attributed to the cost of interest-bearing deposits increasing 12 basis points to 3.26% for the three months ended September 30, 2007, compared to 3.14% for the same period in 2006 contributing $57,000 in additional expense. Offsetting this rate increase, the average volume of deposits decreased $1.1 million to $192.3 million for the three months ended September 30, 2007, compared to $193.4 million for the same period in 2006 causing a $9,000 decrease in interest expense. The increase in the rate paid on deposits reflects the increases in short-term market interest rates between the periods.

Interest expense incurred on borrowed funds increased $36,000 or 11.1% to $361,000 for the three months ended September 30, 2007, compared to $325,000 for the same period in the prior year. This increase in interest expense can be attributed to the increase in the average balance of borrowed funds of $4.0 million or 14.1% to $32.1 million for the three months ended September 30, 2007, compared to $28.1 million for the same period in the prior year contributing $45,000 in additional expense. This volume increase was the result of $15.0 million of FHLB term borrowings placed in the second and third quarters of 2006 used primarily to fund loan growth. Partially offsetting this volume increase, the cost of borrowed funds decreased 12 basis points to 4.46% for the three months ended September 30, 2007, compared to 4.58% for the same period in 2006.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resulting average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average loan balances include non-accrual loans and exclude the allowance for loan losses and interest income includes accretion of net deferred loan fees. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis. The information is based on average daily balances during the periods presented.

(Dollar amounts in thousands)	Three months ended September 30			
	2007			
	Average Balance	Interest	Yield / Rate	Average Balance

Interest-earning assets:					
Loans, taxable	$ 218,421	$ 3,867	7.02%	$ 209,615	$
Loans, tax exempt	6,255	102	6.46%	6,797	
Total loans receivable	224,676	3,969	7.01%	216,412	
Securities, taxable	35,401	388	4.35%	36,706	
Securities, tax exempt	14,543	245	6.68%	15,118	
Total securities	49,944	633	5.03%	51,824	
Interest-earning deposits with banks	454	6	5.58%	1,121	
Federal bank stocks	2,283	35	6.08%	2,201	
Total interest-earning cash equivalents	2,737	41	6.00%	3,322	
Total interest-earning assets	277,357	4,643	6.64%	271,558	
Cash and due from banks	5,770			6,711	
Other noninterest-earning assets	14,774			13,740	
Total Assets	$ 297,901			$ 292,009	
Interest-bearing liabilities:					
Interest-bearing demand deposits	$ 73,740	240	1.29%	$ 73,362	
Time deposits	118,585	1,338	4.48%	120,047	
Total interest-bearing deposits	192,325	1,578	3.26%	193,409	
Borrowed funds, short-term	2,086	21	3.99%	2,479	
Borrowed funds, long-term	30,000	340	4.50%	25,645	
Total borrowed funds	32,086	361	4.46%	28,124	
Total interest-bearing liabilities	224,411	1,939	3.43%	221,533	
Noninterest-bearing demand deposits	46,334	-	-	44,674	
Funding and cost of funds	270,745	1,939	2.84%	266,207	
Other noninterest-bearing liabilities	2,930			2,105	
Total Liabilities	273,675			268,312	
Stockholders' Equity	24,226			23,697	
Total Liabilities and Stockholders' Equity	$ 297,901			$ 292,009	

Net interest income	$ 2,704	$
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)	3.21%	
Net interest margin (net interest income as a percentage of average interest-earning assets)	3.87%	

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Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Corporation's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(Dollar amounts in thousands)	Three months ended September 30, 2007 versus 2006 Increase (Decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$ 144	$ 120	$ 2
Securities	(23)	48	
Interest-earning deposits with banks	(9)	2	
Federal bank stocks	1	6	
Total interest-earning assets	113	176	2
Interest expense:			
Deposits	(9)	57	
Borrowed funds	45	(9)	
Total interest-bearing liabilities	36	48	
Net interest income	$ 77	$ 128	$ 2

Provision for loan losses. The Corporation records provisions for loan losses to maintain a level of total allowance for loan losses that management believes, to the best of its knowledge, covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio.

Information pertaining to the allowance for loan losses and non-performing assets for the quarters ended September 30, 2007 and 2006 is as follows:

(Dollar amounts in thousands)	At or for the three months ended September 30, 2007	2006
Balance at the beginning of the period	$ 2,086	$ 1,898
Provision for loan losses	45	90
Charge-offs	(16)	(7)
Recoveries	3	4
Balance at the end of the period	$ 2,118	$ 1,985
Non-performing loans	$ 931	$ 1,653
Non-performing assets	1,015	1,739
Non-performing loans to total loans	0.41%	0.75%
Non-performing assets to total assets	0.34%	0.59%
Allowance for loan losses to total loans	0.93%	0.90%
Allowance for loan losses to non-performing loans	227.48%	120.08%

The provision for loan losses decreased $45,000 or 50.0% to $45,000 for the three month period ended September 30, 2007 from $90,000 for the same period in the prior year. Management's evaluation of the loan portfolio, including the changing composition of the portfolio as well as economic trends, regulatory considerations and other factors contributed to the recognition of $45,000 in the provision for loan losses during the three months ended September 30, 2007.

Noninterest income. Noninterest income decreased $97,000 or 13.9% to $696,000 during the three months ended September 30, 2007, compared to $793,000 during the same period in the prior year. This decrease can be attributed to decreases in commissions earned on financial services and gains on securities of $18,000 and $116,000, respectively. Partially offsetting this decrease in noninterest income were increases in fees and service charges, gains on the sale of loans, earnings on bank-owned life insurance and other noninterest income of $25,000, $6,000, $2,000 and $4,000, respectively.

Noninterest expense. Noninterest expense decreased $10,000 to $2.25 million during the three months ended September 30, 2007, compared to $2.26 million during the same period in the prior year. This decrease in noninterest expense can be attributed to a decrease in compensation and employee benefits of $150,000, partially offset by increases in premises and equipment and other noninterest expenses of $17,000 and $125,000, respectively.

Compensation and employee benefits decreased $150,000 or 10.8% to $1.2 million for the three months ended September 30, 2007, compared to $1.4 million for the same period the prior year. This decease can be attributed primarily to cost savings from staffing reductions associated with the 2006 reorganization, partially offset by the costs associated with the staffing of one additional branch facility opened in November 2006.

Premises and equipment increased $17,000 or 4.4% to $404,000 for the three months ended September 30, 2007, compared to $387,000 for the same period in the prior year. This increase can be attributed primarily to the operation of the additional branch facility opened in November 2006.

Other noninterest expense increased $125,000 or 25.8% to $610,000 during the three months ended September 30, 2007, compared to $485,000 for the same period in the prior year. This increase can be attributed primarily to increases in professional fees relating to Sarbanes-Oxley Section 404 compliance, data processing center information technology initiatives and other operations and compliance.

Provision for income taxes. The provision for income taxes increased $106,000 or 80.3% to $238,000 for the three months ended September 30, 2007, compared to $132,000 for the same period in the prior year. This was due to an increase in pre-tax earnings of $168,000 to $992,000 for the three months ended September 30, 2007, compared to $824,000 for the same period in the prior year and an increase in the effective tax rate to 24.0% for the three months ended September 30, 2007, compared to 16.0% for the same period in 2006. The difference between the statutory rate of 34% and the Corporation's effective tax rate is due to tax-exempt income earned on certain tax-free loans and securities and bank-owned life insurance.

Comparison of Results for the Nine Month Periods Ended September 30, 2007 and 2006

General. Net income increased $132,000 or 7.0% to $2.0 million for the nine months ended September 30, 2007 from $1.9 million for the same period in 2006. This increase was a result of an increase in net interest income of $487,000 partially offset by a decrease in noninterest income of $94,000 and an increase in noninterest expense and the provision for income taxes of $167,000 and $95,000, respectively.

Net interest income. Net interest income on a tax equivalent basis increased $427,000 or 5.9% to $7.7 million for the nine months ended September 30, 2007 from $7.3 million for the same period in 2006. This net increase can be attributed to an increase in tax equivalent interest income of $1.3 million, partially offset by a $910,000 increase in interest expense.

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Interest income. Interest income on a tax equivalent basis increased $1.3 million or 10.9% to $13.6 million for the nine months ended September 30, 2007, compared to $12.3 million for the same period in the prior year. This increase can be attributed to increases in interest earned on loans, securities, federal bank stocks, and interest-earning deposits with banks of $1.2 million, $55,000, $38,000 and $88,000, respectively.

Tax equivalent interest earned on loans receivable increased $1.2 million or 11.3% to $11.4 million for the nine months ended September 30, 2007, compared to $10.3 million for the same period in 2006. During that time, average loans increased $16.0 million or 7.9%, accounting for $826,000 in additional loan interest income. This increase can be primarily attributed to growth in the Corporation's commercial loan portfolios. Additionally, the yield on loans increased 21 basis points to 6.95% for the nine months ended September 30, 2007, versus 6.74% for the same period in 2006, contributing $330,000 in additional interest income. Contributing to the increase in the yield on loans between the periods was the collection of $120,000 of interest due associated with the payoff of previously non-performing commercial loans in April and August 2007 that had been on non-accrual status. In connection with the loan payoffs, the Corporation received all principal and interest due under the contractual terms of the loan agreements and interest collected was recorded as loan interest income during the nine months ended September 30, 2007.

Tax equivalent interest earned on securities increased $55,000 to $1.9 million for the nine months ended September 30, 2007. The average yield on securities increased 28 basis points to 4.92% for the nine months ended September 30, 2007, versus 4.64% for the same period in 2006, as a result of certain lower yielding securities maturing. This favorable yield variance contributed an additional $106,000 to interest income. Partially offsetting this increase was a decrease in the average volume of $1.4 million or 2.7%, primarily as a result of the utilization of these funds for loan growth. This resulted in a $51,000 decline in interest income.

Interest earned on interest-earning deposit accounts increased $88,000 to $143,000 for the nine months ended September 30, 2007 from $55,000 for the same period in 2006. The average volume of these assets increased $2.0 million, primarily as a result of the investment of funds from maturing securities, contributing $80,000 in additional interest income. Additionally, the average yield on interest-earning deposit accounts increased 62 basis points to 5.26% for the nine months ended September 30, 2007, compared to 4.64% for the same period in the prior year, contributing $8,000 in additional interest income. The increase in the average yield reflects the increases in short-term interest rates. Interest earned on federal bank stocks increased $38,000 to $106,000 for the nine month period ended September 30, 2007 from $68,000 for the same period in the prior year as a result of a higher volume and a higher yield. The higher yield resulted from the recognition of a special dividend on FHLB capital stock.

Interest expense. Interest expense increased $910,000 or 18.4% to $5.9 million for the nine months ended September 30, 2007, compared to $5.0 million for the same period in the prior year. This increase in interest expense can be attributed to increases in interest incurred on deposits and borrowed funds of $520,000 and $390,000, respectively.

Interest expense incurred on deposits increased $520,000 or 12.1% to $4.8 million for the nine months ended September 30, 2007, compared to $4.3 million for the same period in the prior year. This increase can be attributed to the cost of interest-bearing deposits increasing 29 basis points to 3.29% for the nine months ended September 30, 2007, compared to 3.00% for the same period in 2006 contributing $429,000 in additional expense. The increase in the rate paid on deposits reflects the increases in short-term interest rates. The average volume of deposits increased $4.0 million or 2.1% to $195.3 million for the nine months ended September 30, 2007, compared to $191.3 million for the same period in 2006 contributing $91,000 in additional expense.

Interest expense incurred on borrowed funds increased $390,000 or 59.3% to $1.0 million for the nine months ended September 30, 2007, compared to $658,000 for the same period in the prior year. This increase in interest expense can be attributed to the increase in the average balance of borrowed funds of $11.1 million to $31.3 million for the nine months ended September 30, 2007, compared to $20.2 million for the same period in the prior year. This volume increase was the result of $15.0 million of FHLB term borrowings placed in the second and third quarters of 2006 contributing $371,000 in additional expense. Such borrowings were primarily used to fund loan growth. Additionally, the cost of borrowed funds increased 12 basis points to 4.48% for the nine months ended September 30, 2007 from 4.36% for the same period in 2006 contributing an additional $19,000 in interest expense.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resulting average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average loan balances include non-accrual loans and exclude the allowance for loan losses and interest income includes accretion of net deferred loan fees. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis. The information is based on average daily balances during the periods presented.

(Dollar amounts in thousands)	Nine months ended September 30,				
	2007				
	Average Balance	Interest	Yield / Rate	Average Balance	I
Interest-earning assets:					
Loans, taxable	$ 213,477	$ 11,116	6.96%	$ 196,972	$
Loans, tax exempt	6,364	308	6.46%	6,835	
Total loans receivable	219,841	11,424	6.95%	203,807	
Securities, taxable	37,241	1,171	4.20%	38,332	
Securities, tax exempt	14,877	745	6.70%	15,235	
Total securities	52,118	1,916	4.92%	53,567	
Interest-earning deposits with banks	3,633	143	5.26%	1,585	
Federal bank stocks	2,271	106	6.24%	1,850	
Total interest-earning cash equivalents	5,904	249	5.64%	3,435	
Total interest-earning assets	277,863	13,589	6.54%	260,809	
Cash and due from banks	5,865			6,908	
Other noninterest-earning assets	14,659			13,295	
Total assets	$ 298,387			$ 281,012	
Interest-bearing liabilities:					
Interest-bearing demand deposits	$ 72,925	697	1.28%	$ 73,103	
Time deposits	122,372	4,116	4.50%	118,220	
Total interest-bearing deposits	195,297	4,813	3.29%	191,323	
Borrowed funds, long-term	30,000	995	4.43%	18,663	
Borrowed funds, short-term	1,297	52	5.36%	1,528	

Total borrowed funds	31,297	1,047	4.47%	20,191	
Total interest-bearing liabilities	226,594	5,860	3.46%	211,514	
Noninterest-bearing demand deposits	44,939	-	-	43,604	
Funding and cost of funds	271,533	5,860	2.89%	255,118	
Other noninterest-bearing liabilities	2,785			2,271	
Total liabilities	274,318			257,389	
Stockholders' equity	24,069			23,623	
Total liabilities and stockholders' equity	$ 298,387			$ 281,012	
Net interest income		$ 7,729			$
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			3.08%		
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.72%		

Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Corporation's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(Dollar amounts in thousands)	Nine months ended September 30, 2007 versus 2006 Increase (Decrease) due to		
	Volume	Rate	Total
Interest income:			
Loans	$ 826	$ 330	$ 1,156
Securities	(51)	106	55
Interest-earning deposits with banks	80	8	88

Federal bank stocks	17	21	38
Total interest-earning assets	872	465	1,337
Interest expense:			
Deposits	91	429	520
Borrowed funds	371	18	389
Total interest-bearing liabilities	462	447	909
Net interest income	$ 410	$ 18	$ 428

Provision for loan losses. The Corporation records provisions for loan losses to maintain a level of total allowance for loan losses that management believes, to the best of its knowledge, covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectibility of the loan portfolio.

Information pertaining to the allowance for loan losses and non-performing assets for the nine months ended September 30, 2007 and 2006 is as follows:

(Dollar amounts in thousands)	At or for the nine months ended September 30,		At or for the year ended December 31,
	2007	2006	2006
Balance at the beginning of the period	$ 2,035	$ 1,869	$ 1,869
Provision for loan losses	120	168	358
Charge-offs	(63)	(74)	(221)
Recoveries	26	22	29
Balance at the end of the period	$ 2,118	$ 1,985	$ 2,035
Non-performing loans	$ 931	$ 1,653	$ 1,841
Non-performing assets	1,015	1,739	1,939
Non-performing loans to total loans	0.41%	0.75%	0.85%
Non-performing assets to total assets	0.34%	0.59%	0.65%
Allowance for loan losses to total loans	0.93%	0.90%	0.94%
Allowance for loan losses to non-performing loans	227.48%	120.08%	110.54%

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The provision for loan losses decreased $48,000 or 28.6% to $120,000 for the nine month period ended September 30, 2007 from $168,000 for the same period in the prior year. Management's evaluation of the loan portfolio, including the changing composition of the portfolio as well as economic trends, regulatory considerations and other factors contributed to the recognition of $120,000 in the provision for loan losses during the nine months ended September 30, 2007.

Noninterest income. Noninterest income decreased $94,000 or 4.1% to $2.2 million for the nine months ended September 30, 2007, compared to $2.3 million during the same period in the prior year. This decrease can be attributed to decreases in gains on the sale of securities of $182,000. Offsetting this decrease was increases on fees and service charges, commissions earned on financial services, gains on the sale of loans, earnings on bank-owned life insurance and other noninterest income of $6,000, $9,000, $13,000, $19,000 and $42,000, respectively.

Noninterest expense. Noninterest expense increased $167,000 or 2.5% to $6.9 million during the nine months ended September 30, 2007, compared to $6.7 million during the same period in the prior year. This increase in noninterest expense can be attributed to increases in premises and equipment and other noninterest expenses of $65,000 and $306,000, respectively, partially offset by a decrease in compensation and benefits of $197,000.

Premises and equipment increased $65,000 or 5.7% to $1.2 million for the nine months ended September 30, 2007, compared to $1.1 million for the same period in the prior year. This increase can be attributed primarily to the operation of one additional branch facility opened in November 2006.

Other noninterest expense increased $306,000 or 19.2% to $1.9 million during the nine months ended September 30, 2007, compared to $1.6 million for the same period in the prior year. This increase can be attributed primarily to increases in professional fees relating to Sarbanes-Oxley Section 404 compliance, data processing center information technology initiatives and other operations and compliance.

Compensation and benefits decreased $197,000 or 4.9% to $3.8 million for the nine months ended September 30, 2007, compared to $4.0 million for the same period the prior year. This decrease can be attributed primarily to cost savings from staffing reductions associated with the 2006 reorganization, partially offset by the costs associated with the staffing of one additional branch facility opened in November 2006.

Effective January 1, 2007, the Federal Deposit Insurance Corporation (FDIC) created a new risk framework of four risk categories and established assessment rates to coincide with each category. Assessment rates for Risk Category I institutions, which includes the Bank, range from 5 to 7 basis points. The FDIC also approved a one-time assessment prior to that date. The Bank believes that the one-time credit will more than offset the new FDIC assessment cost for 2007 and anticipates that the credit will be depleted in the second quarter of 2008. Accordingly, the Bank will begin to recognize the FDIC assessment cost at that time.

Provision for income taxes. The provision for income taxes increased $95,000 or 20.0% to $569,000 for the nine months ended September 30, 2007, compared to $474,000 for the same period in the prior year. This was due to an increase in pre-tax earnings of $227,000 to $2.6 million for the nine months ended September 30, 2007, compared to $2.4 million for the same period in the prior year and the increase in the effective tax rate to 22.0% for the nine months ended September 30, 2007, compared to 20.1% for the same period in 2006. The difference between the statutory rate of 34% and the Corporation's effective tax rate is due to tax-exempt income earned on loans, securities and bank-owned life insurance.

LIQUIDITY

The Corporation's primary sources of funds generally have been deposits obtained through the offices of the Bank, borrowings from the FHLB and amortization and prepayments of outstanding loans and maturing securities. During the nine months ended September 30, 2007, the Corporation used its sources of funds primarily to fund loan originations and security purchases. As of such date, the Corporation had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $27.8 million, and standby letters of credit totaling $877,000.

At September 30, 2007, time deposits amounted to $117.8 million or 49.9% of the Corporation's total consolidated deposits, including approximately $67.5 million of which are scheduled to mature within the next year. Management of the Corporation believes that it has adequate resources to fund all of its commitments, that all of its commitments will be funded as required by related maturity dates and that, based upon past experience and current pricing policies, it can adjust the rates of time deposits to retain a substantial portion of maturing liabilities.

Aside from liquidity available from customer deposits or through sales and maturities of securities, the Corporation has alternative sources of funds such as a term borrowing capacity from the FHLB and, to a limited and rare extent, the sale of loans. At September 30, 2007, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $108.7 million.

Management is not aware of any conditions, including any regulatory recommendations or requirements, which would adversely impact its liquidity or its ability to meet funding needs in the ordinary course of business.

CRITICAL ACCOUNTING POLICIES

Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses as a critical accounting policy.

The allowance for loan losses provides for an estimate of probable losses in the loan portfolio. In determining the appropriate level of the allowance for loan loss, the loan portfolio is separated into risk-rated and homogeneous pools. Migration analysis/historical loss rates, adjusted for relevant trends, have been applied to these pools. Qualitative adjustments are then applied to the portfolio to allow for quality of lending policies and procedures, national and local economic and business conditions, changes in the nature and volume of the portfolio, experience, ability and depth of lending management, changes in the trends, volumes and severity of past due, non-accrual and classified loans and loss and recovery trends, quality of the Corporation's loan review system, concentrations of credit, and external factors. The methodology used to determine the adequacy of the Corporation's allowance for loan losses is comprehensive and meets regulatory and accounting industry standards for assessing the allowance, however, it is still an estimate. Loan losses are charged against the allowance while recoveries of amounts previously charged-off are credited to the allowance. Loan loss provisions are charged against current earnings based on management's periodic evaluation and review of the factors indicated above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk for the Corporation consists primarily of interest rate risk exposure and liquidity risk. Since virtually all of the interest-earning assets and interest-bearing liabilities are at the Bank, virtually all of the interest rate risk and liquidity risk lies at the Bank level. The Bank is not subject to currency exchange risk or commodity price risk, and has no trading portfolio, and therefore, is not subject to any trading risk. In addition, the Bank does not participate in hedging transactions such as interest rate swaps and caps. Changes in interest rates will impact both income and expense recorded and also the market value of long-term interest-earning assets. Interest rate risk and liquidity risk management is performed at the Bank level. Although the Bank has a diversified loan portfolio, loans outstanding to individuals and businesses depend upon the local economic conditions in the immediate trade area.

One of the primary functions of the Corporation's asset/liability management committee is to monitor the level to which the balance sheet is subject to interest rate risk. The goal of the asset/liability committee is to manage the relationship between interest rate sensitive assets and liabilities, thereby minimizing the fluctuations in the net interest margin, which achieves consistent growth of net interest income during periods of changing interest rates.

Interest rate sensitivity is the result of differences in the amounts and repricing dates of the Bank's rate sensitive assets and rate sensitive liabilities. These differences, or interest rate repricing "gap", provide an indication of the extent that the Corporation's net interest income is affected by future changes in interest rates. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities and is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income and a positive gap would adversely affect net interest income. The closer to zero that gap is maintained, generally, the lesser the impact of market interest rate changes on net interest income.

Based on certain assumptions provided by a federal regulatory agency, which management believes most accurately represents the sensitivity of the Corporation's assets and liabilities to interest rate changes, at September 30, 2007, the Corporation's interest-earning assets maturing or repricing within one year totaled $77.7 million while the Corporation's interest-bearing liabilities maturing or repricing within one-year totaled $103.6 million, providing an excess of interest-bearing liabilities over interest-earning assets of $25.9 million or a negative 8.7% of total assets. At September 30, 2007, the percentage of the Corporation's assets to liabilities maturing or repricing within one year was 75.0%.

For more information, see "Market Risk ManaFgement" in Exhibit 13 to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. Controls and Procedures

The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Corporation's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e).

There has been no change made in the Corporation's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

As of the quarter ended September 30, 2007, the Corporation carried out an evaluation, under the supervision and with the participation of the

Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on the foregoing, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective. There have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Corporation completed its evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation is involved in various legal proceedings occurring in the ordinary course of business. It is the opinion of management, after consultation with legal counsel, that these matters will not materially effect the Corporation's consolidated financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes in the Corporation's risk factors from those previously disclosed in the 2006 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

(a) Not applicable.

(b) Not applicable.

Item 6. Exhibits

Exhibit 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
Exhibit 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
Exhibit 32.1 CEO Certification Pursuant to 18 U.S.C. Section 1350
Exhibit 32.2 CFO Certification Pursuant to 18 U.S.C. Section 1350

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.

EMCLAIRE FINANCIAL CORP. AND SUBSIDIARY

Date: November 9, 2007	By: /s/ David L. Cox
	David L. Cox Chairman of the Board, President and Chief Executive Officer
Date: November 9, 2007	By: /s/ William C. Marsh
	William C. Marsh Chief Financial Officer and Treasurer