

FIRST NATIONAL COMMUNITY BANCORP INC
Form 10-Q
November 07, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2008**

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 No. 333-24121

First National Community Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania

23-2900790

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

102 E. Drinker St. Dunmore, PA

Identification Number)

18512

(Address of Principal Executive Offices)

(570) 346-7667

(Zip Code)

(Registrant's Telephone Number, Including Area Code)

(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.

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YES NO

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).

Yes No

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

Common Stock, \$1.25 par value

15,955,796 shares

(Title of Class)

(Outstanding at October 31, 2008)

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FIRST NATIONAL COMMUNITY BANCORP, INC.

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FIRST NATIONAL COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands)

	September 30, 2008 (UNAUDITED)	December 31, 2007 (AUDITED)
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 19,954	\$ 24,735
Federal funds sold	0	0
Total cash and cash equivalents	19,954	24,735
Interest-bearing balances with financial institutions	0	0
Securities:		
Available-for-sale, at fair value	232,234	295,727
Held-to-maturity, at cost (fair value \$1,718 on September 30, 2008 and \$1,847 on December 31, 2007)	1,786	1,722
Federal Reserve Bank and FHLB stock, at cost	10,732	9,081
Net loans	951,761	899,015
Bank premises and equipment	17,778	16,425
Intangible Assets	9,914	9,847
Other assets	50,375	41,001
Total Assets	\$1,294,534	\$1,297,553
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand – non-interest bearing	\$ 81,552	\$ 79,834
Interest bearing demand	321,197	288,879
Savings	74,258	70,379
Time (\$100,000 and over)	179,133	176,249
Other time	300,040	330,176
Total deposits	956,180	945,517
Borrowed funds	224,722	227,832
Other liabilities	15,384	17,062
Total Liabilities	\$1,196,286	\$1,190,411
Shareholders' equity:		
Common Stock, \$1.25 par value,		
Authorized: 50,000,000 shares		
Issued and outstanding:		
15,955,796 shares at September 30, 2008 and		
15,746,250 shares at December 31, 2007		
	\$ 19,945	\$ 19,683

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Additional Paid-in Capital	58,700	56,490
Retained Earnings	39,910	33,159
Accumulated Other Comprehensive Income (Loss)	(20,307)	(2,190)
Total shareholders' equity	\$ 98,248	\$ 107,142
Total Liabilities and Shareholders' Equity	\$1,294,534	\$1,297,553

Note: The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to financial statements

(1)

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FIRST NATIONAL COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Interest Income:				
Loans	\$ 14,436	\$ 17,595	\$ 44,465	\$ 50,245
Investments	3,696	3,669	11,149	10,567
Federal Funds Sold	7	5	12	24
Total interest income	18,139	21,269	55,626	60,836
Interest Expense:				
Deposits	5,626	8,989	18,525	25,400
Borrowed Funds	2,379	2,296	7,346	6,340
Total interest expense	8,005	11,285	25,871	31,740
Net Interest Income before Loan Loss Provision	10,134	9,984	29,755	29,096
Provision for credit losses	300	300	1,150	900
Net interest income	9,834	9,684	28,605	28,196
Other Income:				
Service charges	812	709	2,332	2,090
Other Income	633	614	1,914	1,805
Gain / (Loss) on sale of:				
Loans	80	62	380	254
Securities	312	851	1,025	879
Other Real Estate	488	0	488	0
Total other income	2,325	2,236	6,139	5,028
Other expenses:				
Salaries & benefits	3,236	2,982	9,459	8,717
Occupancy & equipment	1,009	890	3,013	2,676
Advertising expense	240	210	720	630
Data processing expense	400	460	1,235	1,230
Other	1,526	1,331	4,481	4,135
Total other expenses	6,411	5,873	18,908	17,388
Income before income taxes	5,748	6,047	15,836	15,836
Income tax expense	1,421	1,639	3,809	4,065
NET INCOME	4,327	\$ 4,408	\$ 12,027	\$ 11,771
Basic earnings per share				
Basic earnings per share	\$ 0.27	\$ 0.28	\$ 0.76	\$ 0.75
Diluted earnings per share				
Diluted earnings per share	\$ 0.27	\$ 0.28	\$ 0.74	\$ 0.74
Weighted average number of basic shares				
Weighted average number of basic shares	15,888,360	15,625,619	15,825,238	15,572,171
Weighted average number of diluted shares				
Weighted average number of diluted shares	16,218,396	15,943,649	16,166,444	15,898,293

See notes to financial statements

(2)

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FIRST NATIONAL COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(UNAUDITED)

	September 30, 2008	September 30, 2007
	(Dollars in thousands)	
INCREASE (DECREASE) IN CASH EQUIVALENTS:		
Cash Flows From Operating Activities:		
Interest Received	\$ 54,236	\$ 60,239
Fees & Commissions Received	4,295	3,925
Interest Paid	(28,327)	(31,259)
Income Taxes Paid	(3,151)	(3,742)
Cash Paid to Suppliers & Employees	(17,503)	(17,459)
Net Cash Provided by Operating Activities	\$ 9,550	\$ 11,704
Cash Flows from Investing Activities:		
Securities available for sale:		
Proceeds from Sales prior to maturity	\$65,240	\$ 55,398
Proceeds from Calls prior to maturity	30,817	21,659
Proceeds from Maturities	0	500
Purchases	(58,386)	(111,314)
Net Increase in Loans to Customers	(54,224)	(84,236)
Capital Expenditures	(2,526)	(2,639)
Net Cash Used by Investing Activities	\$(19,079)	\$(120,632)
Cash Flows from Financing Activities:		
Net Increase in Demand Deposits, Money Market Demand, NOW Accounts, and Savings Accounts	\$ 37,914	\$ 24,388
Net Increase/(Decrease) in Certificates of Deposit	(27,251)	40,673
Net Increase/(Decrease) in Borrowed Funds	(3,111)	36,665
Net Decrease in Capital	(56)	0
Net Proceeds from Issuance of Common Stock Through Dividend Reinvestment	2,275	2,639
Net Proceeds from Issuance of Common Stock – Stock Option Plans	197	246
Dividends Paid	(5,220)	(4,608)
Net Cash Provided by Financing Activities	\$ 4,748	\$ 100,003
Net Decrease in Cash and Cash Equivalents	\$ (4,781)	\$ (8,925)
Cash & Cash Equivalents at Beginning of Year	\$ 24,735	\$ 28,743
CASH & CASH EQUIVALENTS AT END OF PERIOD	\$ 19,954	\$ 19,818

(Continued)

(3)

FIRST NATIONAL COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW (CONTINUED)
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(UNAUDITED)

	2008	2007
	(Dollars in thousands)	
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income	\$ 12,027	\$11,771
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization (Accretion), Net	(2,741)	(959)
Equity in trust	(8)	0
Depreciation and Amortization	1,353	1,229
Provision for Probable Credit Losses	1,150	900
Provision for Deferred Taxes	(161)	(112)
Gain on Sale of Loans	(380)	(254)
Gain on Sale of Investment Securities	(1,025)	(879)
Gain on Sale of Other Assets	(488)	0
Increase in Taxes Payable	73	30
Decrease in Interest Receivable	1,351	362
Increase/(Decrease) in Interest Payable	(2,455)	481
Increase in Prepaid Expenses and Other Assets	(1,209)	(1,518)
Increase in Accrued Expenses and Other Liabilities	2,063	653
Total Adjustments	\$(2,477)	\$ (67)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,550	\$11,704

See notes to financial statements

(4)

FIRST NATIONAL COMMUNITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY

For The Nine Months Ended September 30, 2008

(In thousands, except share data)

(UNAUDITED)

	COMP-REHEN-SIVE	COMMON STOCK	ADD'L	ACCUM-			
	INCOME	SHARES	PAID-IN	ULATED OTHER	INCOME/	TOTAL	
		AMOUNT	CAPITAL	COMP-REHEN-SIVE	(LOSS)		
			EARNINGS				
BALANCES, DECEMBER 31, 2007		15,746,250	\$19,683	\$56,490	\$33,159	\$(2,190)	\$107,142
Comprehensive Income:							
Net income for the period	12,027				12,027		12,027
Other comprehensive income, net of tax:							
Unrealized loss on securities available-for-sale, net of deferred income tax benefit of \$10,114	(18,783)						
Reclassification adjustment for gain or loss included in income, net of deferred income taxes of \$359	666						
Total other comprehensive income/(loss), net of tax	(18,117)				(18,117)		(18,117)
Comprehensive Income/(Loss)	(6,090)						
Issuance of Common Stock – Stock Option Plans		26,314	39	158			197
Issuance of Common Stock through Dividend							

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Reinvestment	183,232	223	2,052			2,275
Prior period adjustment				(56)		(56)
Cash dividends paid, \$0.33 per share				(5,220)		(5,220)
BALANCES, SEPTEMBER 30, 2008	15,955,796	\$19,945	\$58,700	\$39,910	\$(20,307)	\$98,248

See notes to financial statements

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FIRST NATIONAL COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The accounting and financial reporting policies of First National Community Bancorp, Inc. and its subsidiary conform to U.S. generally accepted accounting principles and to general practice within the banking industry. The consolidated statements of First National Community Bancorp, Inc. and its subsidiary, First National Community Bank (Bank) including its subsidiary, FNCB Realty, Inc. (collectively, Company) were compiled in accordance with the accounting policies set forth in note 1 of Notes to Consolidated Financial Statements in the Company's 2007 Annual Report to Shareholders. All material intercompany accounts and transactions have been eliminated in consolidation. The accompanying interim financial statements are unaudited. In management's opinion, the consolidated financial statements reflect a fair presentation of the consolidated financial position of the Company and subsidiary, and the results of its operations and its cash flows for the interim periods presented, in conformity with U.S. generally accepted accounting principles. Also in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows at September 30, 2008 and for all periods presented have been made.

These interim financial statements should be read in conjunction with the audited financial statements and footnote disclosures in the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2007.

(2) The balance sheet at December 31, 2007 has been restated for the reclassification of the Allowance for Off-Balance Sheet Reserve from the Allowance for Credit Losses in accordance with the provisions of FIN 45.

(3) Basic earnings per share have been computed by dividing net income (the numerator) by the weighted average number of common shares (the denominator) for the period. Such shares amounted to 15,825,238 and 15,572,171 for the periods ending September 30, 2008 and 2007, respectively.

Diluted earnings per share have been computed by dividing net income (the numerator) by the weighted average number of common shares and options outstanding (the denominator) for the period. Such shares amounted to 16,166,444 and 15,898,293 for the periods ending September 30, 2008 and 2007, respectively.

(4) During the first quarter of calendar 2003, the Company adopted the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, for stock-based employee compensation, effective as of January 1, 2003. Under the prospective method of adoption selected by the Company, stock-based compensation cost will be recognized using the fair value method for all awards granted, modified or settled on or after that effective date.

There were no stock option awards granted during the first nine months of 2008 or 2007.

A summary of the status of the Corporation's stock option plans is presented below:

	Nine months ended September 30, 2008		2007	
	Shares	Price	Shares	Price
Outstanding at the beginning of the period	360,694	\$11.93	349,838	\$10.85
Granted	0		0	

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Exercised	(31,125)	6.31	(31,463)	7.83
Forfeited	(2,061)	19.72	(1,650)	23.13
Outstanding at the end of the period	327,508	12.41	316,725	11.08
Options exercisable at June 30,	327,508	12.41	316,725	11.08
Weighted average fair value of options granted during the period		---		---

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Information pertaining to options outstanding at September 30, 2008 is as follows:

	Options Outstanding			Options Exercisable	
		Weighted			Weighted
		Average	Weighted		Weighted
		Remaining	Average		Average
Range of Exercise Price	Number	Contractual	Exercise	Number	Exercise
	Outstanding	Life	Price	Exercisable	Price
\$5.19-\$23.13	327,508	5.8 years	\$12.41	327,508	\$12.41

(5) In 2008, the Company adopted the provisions of EITF 06-4, "Accounting for Deferred Compensation and Post Retirement Aspects of Endorsement Split Dollar Life Insurance Agreements". As per the new rules, when an employer provides an insurance benefit post-retirement, the employer must recognize a liability during the employees working years which is equal to the present value of the post-retirement benefit. The cost of the benefit applicable to prior periods will require an adjustment to capital. The company provides a split dollar death benefit to seven senior level executives. The \$56,000 charge to capital recognized in 2008 reflects the cost of benefits earned from the plan's inception on May 1, 2002 through December 31, 2007.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The consolidated financial information of First National Community Bancorp, Inc. (the "company") provides a comparison of the performance of the company for the periods ended September 30, 2008 and 2007. The financial information presented should be read in conjunction with the consolidated financial statements and accompanying notes appearing elsewhere in this report.

Background

The company is a Pennsylvania Corporation, incorporated in 1997 and is registered as a financial holding company under the Bank Holding Company Act of 1956, as amended. The company became an active bank holding company on July 1, 1998 when it assumed ownership of First National Community Bank (the "bank"). On November 2, 2000, the Federal Reserve Bank of Philadelphia approved the company's application to change its status to a financial holding company as a complement to the company's strategic objective which includes expansion into financial services activities. The bank is a wholly-owned subsidiary of the company.

The company's primary activity consists of owning and operating the bank, which provides the customary retail and commercial banking services to individuals and businesses. The bank provides practically all of the company's earnings as a result of its banking services. As of September 30, 2008, the company had 20 full-service branch banking offices in its principal market area in Lackawanna, Luzerne, Wayne and Monroe Counties, Pennsylvania. At September 30, 2008, the company had 279 full-time equivalent employees.

The bank was established as a national banking association in 1910 as "The First National Bank of Dunmore." Based upon shareholder approval received at a Special Shareholders' Meeting held October 27, 1987, the bank changed its name to "First National Community Bank" effective March 1, 1988. The bank's operations are conducted from offices located in Lackawanna, Luzerne, Wayne and Monroe Counties, Pennsylvania:

<u>Office</u>	<u>Date Opened</u>
Main	October 1910
Scranton	September 1980
Dickson City	December 1984
Keyser Village	April 2008 (formerly Fashion Mall; July 1988)
Wilkes-Barre	July 1993
Pittston Plaza	April 1995
Kingston	August 1996
Exeter	November 1998
Daleville	April 2000
Plains	June 2000
Back Mountain	October 2000
Clarks Green	October 2001
Hanover Township	January 2002
Nanticoke	April 2002
Hazleton	October 2003
Route 315	February 2004
Honesdale	November 2006
Stroudsburg	May 2007
Honesdale Route 6	October 2007
Marshall's Creek	May 2008

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The bank provides the usual commercial banking services to individuals and businesses, including a wide variety of loan, deposit instruments and investment options. As a result of the bank's partnership with INVEST, our customers are able to access alternative products such as mutual funds, bonds, equities and annuities directly from the INVEST representatives.

During 1996, FNCB Realty Inc. was formed as a wholly owned subsidiary of the Bank to manage, operate and liquidate properties acquired through foreclosure.

Summary:

Net income for the nine months ended September 30, 2008 amounted to \$12,027,000, an increase of \$256,000 or 2% compared to the same period of the previous year. This increase can be attributed to the \$659,000 improvement in net interest income before the provision for credit losses which reflects the benefits derived from balance sheet growth and the repricing of interest-sensitive assets and liabilities. Other income increased \$1,111,000 primarily due to gains on the sale of other real estate of \$488,000, an increase in service charges of \$242,000 and increased gains on security sales of \$146,000 to restructure the portfolio and to provide liquidity to meet loan demand. Other expenses increased \$1,520,000 over the same period of last year due primarily to an increase in Salaries & Benefits of \$742,000, an increase in other operating expenses of \$346,000 and a \$337,000 increase in occupancy and equipment costs related to the company's expansion.

Net income for the three months ended September 30, 2008 amounted to \$4,327,000, a decrease of \$81,000 or 2% compared to the same period of the previous year. This decrease can be attributed to a \$538,000 increase in total other expenses related to the company's expansion. Other income improved \$89,000 over the same three month period of last year, while net interest income before the provision for credit losses increased \$150,000.

RESULTS OF OPERATIONS

Net Interest Income:

The company's primary source of revenue is net interest income which totaled \$29,755,000 and \$29,096,000 (before the provision for credit losses) during the first nine months of 2008 and 2007, respectively. The year to date net interest margin (tax equivalent) decreased three basis points to 3.50% in 2008 compared to 2007 comprised of an eighty-two basis point decrease in the yield earned on earning assets which was offset by a ninety-two basis point decrease in the cost of interest-bearing liabilities. Excluding investment leveraging transactions, the 2008 margin would be 3.65% which is one basis point lower than the comparable 3.66% recorded during the first nine months of last year.

Earning assets increased \$4 million to \$1.217 billion during the first nine months of 2008 and total 94.0% of total assets, a slight increase from the 93.6% at year-end.

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Yield/Cost Analysis

The following tables set forth certain information relating to the company's Statement of Financial Condition and reflect the weighted average yield on assets and weighted average costs of liabilities for the periods indicated. Such yields and costs are derived by dividing the annualized income or expense by the weighted average balance of assets or liabilities, respectively, for the periods shown:

	Nine months ended September 30, 2008		
	Average		Yield/ Cost
	Balance	Interest	
	(Dollars in thousands)		
Assets:			
Interest-earning assets:			
Loans (taxable)	\$874,670	\$42,777	6.45%
Loans (tax-free) (1)	47,610	1,688	7.17
Investment securities (taxable)	198,026	8,467	5.68
Investment securities (tax-free)(1)	84,519	2,682	6.51
Time deposits with banks and federal funds sold	895	12	1.71
Total interest-earning assets	1,205,720	55,626	6.35%
Non-interest earning assets	86,943		
Total Assets	\$1,292,663		
Liabilities and Shareholders' Equity:			
Interest-bearing liabilities:			
Deposits	\$851,363	\$18,525	2.91%
Borrowed funds	236,377	7,346	4.08
Total interest-bearing liabilities	1,087,740	25,871	3.16%
Other liabilities and shareholders' equity			
	204,923		
Total Liabilities and Shareholders' Equity	\$1,292,663		
Net interest income/rate spread		\$29,755	3.19%
Net yield on average interest-earning assets			3.50%
Interest-earning assets as a percentage of interest-bearing liabilities			111%

(1) Yields on tax-exempt loans and investment securities have been computed on a tax equivalent basis.

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	Nine months ended September 30, 2007		Yield/
	Average		Cost
	Balance	Interest	
	(Dollars in thousands)		
Assets:			
Interest-earning assets:			
Loans (taxable)	\$846,426	\$48,910	7.64%
Loans (tax-free) (1)	36,527	1,335	7.30
Investment securities (taxable)	200,637	7,999	5.31
Investment securities (tax-free)(1)	75,517	2,568	6.87
Time deposits with banks and federal funds sold			
	615	24	5.16
Total interest-earning assets	1,159,722	60,836	7.17%
Non-interest earning assets	70,686		
Total Assets	\$1,230,408		
Liabilities and Shareholders' Equity:			
Interest-bearing liabilities:			
Deposits	\$869,671	\$25,400	3.90%
Borrowed funds	166,895	6,340	5.01
Total interest-bearing liabilities	1,036,566	31,740	4.08%
Other liabilities and shareholders' equity			
	193,842		
Total Liabilities and Shareholders' Equity			
	\$1,230,408		
Net interest income/rate spread		\$29,096	3.09%
Net yield on average interest-earning assets			3.53%
Interest-earning assets as a percentage of interest-bearing liabilities			112%

(1) Yields on tax-exempt loans and investment securities have been computed on a tax equivalent basis.

(11)

Rate Volume Analysis

The table below sets forth certain information regarding the changes in the components of net interest income for the periods indicated. For each category of interest earning asset and interest bearing liability, information is provided on changes attributed to: (1) changes in rate (change in rate multiplied by current volume); (2) changes in volume (change in volume multiplied by old rate); (3) the total. The net change attributable to the combined impact of volume and rate has been allocated proportionately to the change due to volume and the change due to rate (in thousands).

Period Ended September 30,

2008 vs 2007
Increase (Decrease)

	Due to Rate	Volume	Total
Loans (taxable)	\$(8,106)	\$1,973	\$(6,133)
Loans (tax-free)	(60)	413	353
Investment securities (taxable)	395	73	468
Investment securities (tax-free)	(192)	306	114
Time deposits with banks and federal funds sold	(23)	11	(12)
Total interest income	\$(7,986)	\$2,776	\$(5,210)
Deposits	\$(6,284)	\$(591)	\$(6,875)
Borrowed funds	(1,633)	2,639	1,006
Total interest expense	\$(7,917)	\$2,048	\$(5,869)
Net change in net interest income	\$ (69)	\$ 728	\$ 659

Period Ended September 30,

2007 vs 2006
Increase (Decrease)

	Due to Rate	Volume	Total
Loans (taxable)	\$1,671	\$7,441	\$9,112
Loans (tax-free)	10	195	205
Investment securities (taxable)	1,117	942	2,059
Investment securities (tax-free)	(131)	256	125
Time deposits with banks and federal funds sold	1	(51)	(50)
Total interest income	\$2,668	\$8,783	\$11,451
Deposits	\$2,972		