COMMERCIAL NATIONAL FINANCIAL CORP /PA
Form 10-K/A
May 21, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K/A

Amendment No. 1

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003

o **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 0-18676

COMMERCIAL NATIONAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	25-1623213
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

900 LIGONIER STREET	15650
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (724) 539-3501

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

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

Common Stock, $2 Par Value

(*Title of Class*)

Indicate by checkmark 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 checkmark 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 the Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

The aggregate market value of registrant's common stock held by non-affiliates computed by reference to the price at which the common

stock was last sold, as of June 30, 2003, the last business day

of the registrant's most recently completed second fiscal quarter.
$65,648,860

Number of shares of common stock outstanding at March 24, 2004 3,430,376

EXPLANATORY NOTE

The purpose of this Amendment No. 1 to the Annual Report on Form 10-K of Commercial National Financial Corporation (the "Corporation") for the year ended December 31, 2003 (the "Original Form 10-K") is to restate the Corporation's accompanying consolidated financial statements for the year ended December 31, 2003, and to revise related disclosures in the Original Form 10-K. This restatement is described in detail in Note 20 to the consolidated financial statements. Except for Items 6, 7 and 8 of Part II, and Item 15(a) of Part IV, no other information included in the Original Form 10-K is amended by this Form 10-K/A.

Commercial National Financial Corporation

Form 10-K/A

INDEX

Part I **PAGE**

On Form 8-K

PART I

Item 1. Business

Description of Business

Commercial National Financial Corporation (the “Corporation”) is a Pennsylvania corporation and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and as a financial holding company under the Gramm Leach Bliley Act of 1999 (“GLB”). Through its subsidiaries the Corporation is engaged in banking, trust and insurance agency operations.

The Bank Subsidiary

The Corporation is owner of 100% of the outstanding shares of common stock of Commercial Bank of Pennsylvania (the “Bank”). The Bank has been providing banking services since 1934. At the present time, two (2) banking offices are in operation in Latrobe, Pennsylvania, two (2) in Unity Township, Pennsylvania and one (1) each in Ligonier, West Newton, Greensburg, Norwin and Hempfield Township, Pennsylvania. All of these offices are within the boundaries of Westmoreland County, Pennsylvania. In addition, the building that houses the Bank’s downtown Latrobe banking office is the location of the Corporation's and the Bank's executive and administrative offices. The institution's operations center is located at the Latrobe Plaza in downtown Latrobe. This operations center also houses an in-house data processing system.

Each of the banking offices, except for downtown Latrobe and Greensburg, is equipped with 24 hour a day automatic teller machines (ATM). Bank ATM units are also located on the campuses of Saint Vincent College in Unity Township and the University of Pittsburgh at Greensburg, the terminal of the Westmoreland County Airport in Unity Township, the reception lobby of the Latrobe Area Hospital in Latrobe, and an in-store machine in the Norvelt Open Pantry. A separate freestanding drive-up teller staffed banking facility is attached to the Lincoln Road office in downtown Latrobe. This facility also provides ATM service.

The Bank offers the full range of banking services normally associated with a general commercial banking business. Services include extending credit, providing deposit services, marketing non-deposit investments and offering financial counseling. The ATM system described above is a part of the Cirrus, Honor, Plus and Star networks, which provides the Bank's customers access to an extensive regional and national network. The Bank also has implemented a comprehensive electronic Online Banking system. By using a personal computer with internet access, customers can access their Commercial Bank accounts, perform common banking tasks and pay bills 24 hours a day, seven days a week, 365 days a year.

The Financial Services Subsidiaries

In December 2002, the Corporation completed the acquisition of two insurance agencies, Gooder Agency, Inc., (“Gooder Agency”) and Gooder & Mary, Inc., which owned a 50% interest in Commercial National Insurance Services, thus giving the Corporation full ownership of Commercial National Insurance Services, which is now operated as part of Gooder Agency. Gooder Agency was acquired as a wholly owned subsidiary of Commercial National Investment Corporation, which has changed its name to Commercial National Insurance Services, Inc (“CNIS”).

Gooder Agency, located in Ligonier, Pennsylvania, is a full service provider of insurance products for individuals and businesses. Gooder Agency represents fifteen national, regional and mutual insurance companies that allows it to provide new and existing customers with products and programs needed at competitive prices.

On October 1, 2003, the Corporation formed a trust company subsidiary and the Bank transferred its trust operations to such subsidiary. This subsidiary, Highview Trust Company (“HTC”), enables the Corporation to offer more investment products to its customers. HTC provides a full range of trust services to its customers.

Competition

All aspects of the Corporation’s business are highly competitive. The Corporation’s subsidiaries compete with major financial institutions, several national and state banks, thrift institutions, credit unions, mortgage brokers, finance companies, insurance companies, investment companies and mutual funds.

Customers are generally influenced by convenience of location, quality of service, price of services and availability of products. The Corporation believes that its subsidiaries effectively compete with other financial service providers within its market area.

Supervision and Regulation

Introduction

The Corporation, the Bank and its non-banking subsidiaries are subject to extensive regulation by federal and state agencies. The primary focus of these regulations is for the protection of depositors, federal deposit insurance funds and the banking system, not for the protection of security holders. Set forth below is a brief description of certain laws which relate to the regulation of the Corporation and its subsidiaries. The description is not meant to be complete and is qualified by reference to applicable laws and regulations.

Regulatory Agencies

Holding Company. The Corporation, as a bank holding company and as a financial holding company is subject to regulation by the Federal Reserve Board (FRB), the Securities and Exchange Commission, and the Federal Deposit Insurance Corporation (FDIC). The nature of the supervision extends to such areas as safety and soundness, truth-in-lending, truth-in-savings, rate restrictions, consumer protection, permissible loan and securities activities, merger and acquisition limitations, reserve requirements, dividend payments and regulations concerning activities by corporate officers and directors. No regulatory restrictions or actions are currently pending against the Corporation.

Subsidiary Bank. The Bank is subject to regulation and examination primarily by the FDIC and Pennsylvania Department of Banking (the “PDB”) and t

Financial Services Subsidiaries. CNIS, a non-banking subsidiary of the Corporation, is a licensed insurance agency and is subject to Pennsylvania laws and

Holding Company Activities

GLB permits bank holding companies with subsidiary banks meeting certain capital and management requirements to elect to become "financial

Although it preserved the FRB as the umbrella supervisor of financial holding companies, GLB adopted an administrative approach to regulation

In 2002, the Sarbanes Oxley Act of 2002 (SOX) became law. The goals of this law are to protect investors in publicly traded companies by impro

Capital Requirements

Bank holding companies are required to be in compliance with the FRB’s risk-based capital standards. These standards require that (1) at least 50% of total capital must be “Tier 1 capital”. This consists primarily of common and certain other “core” equity capital; (2) assets and off-balance sheet items must be weighted according to risk; (3) the total capital to risk-weighted asset ratio must be at least 8%; and (4) a minimum 4% leverage ratio of Tier 1 capital to average assets must be maintained. The PDB requires state chartered banks to maintain a 6% leverage capital and 10% risk based capital, defined substantially the same as the federal regulations. The Bank is subject to almost identical capital requirements adopted by the FDIC.

Effects of Governmental Policies

In addition to regulatory requirements, the Corporation and its subsidiary Bank are affected by the national economy and the influence on that economy exerted by governmental bodies through monetary and fiscal policies and their efforts to implement such policies. In particular, the impact of the open market operations on interest rates, the establishment of reserve requirements and the setting of the discount rate will continue to affect business volumes and earnings. The exact nature or the full extent of this impact is almost impossible to predict; however, management continues to monitor these activities on a regular basis and seeks to modify its policies and procedures accordingly.

Employees

As of December 31, 2003, the Corporation, the Bank and other subsidiaries of the Corporation had a total of 151 full-time-equivalent employees.

Executive Officers of the Corporation

The following table shows the names and ages of the current executive officers and the present and previous positions held by them for at least the past five years.

Name	Age	Present and Previous Positions
Gregg E. Hunter	45	Vice chairman, president and chief executive officer (February 2004 - present), Vice chairman and chief financial officer (December 1995 to January 2004)
Ryan M. Glista	36	Senior vice president and chief financial officer (February 2004 - present), Vice president/comptroller (December 1997 to January 2004), assistant vice president/ controller (December 1995 to November 1997)
Wendy S. Schmucker	35	Secretary/treasurer and senior vice president, division manager corporate administration (February 2004 – present) Secretary/treasurer and vice president, manager corporate administration (November 1997 to January 2004)
Susan R. Skoloda	29	Vice president, corporate controls and community relations officer (March 2004 to present); assistant vice president (April 2001 to February 2004); assistant secretary/treasurer (April 1998 to present)

Item 2. Properties

All of the Corporation's facilities are owned with the exception of the Lincoln Road banking office and adjacent drive-up facility, the Norwin Hills banking office and the facility that houses Gooder Agency, which are leased. The lease agreement for the Gooder Agency property gives the Corporation a right of first refusal to purchase the property in the event it is available for sale. All of the properties are used in their entirety for banking and insurance agency purposes. In each case, the properties have been maintained in good repair, are well suited for their present use and appear to be adequate for the immediate needs of the Corporation and its subsidiaries. The locations of the Corporation's real properties can be found in the Annual Report to Shareholders.

Item 3. Legal Proceedings

Other than proceedings that occur in the normal conduct of business, there are no legal proceedings to which either the Corporation or the subsidiaries is a party that will have any material effect on the financial position of the Corporation or its subsidiaries.

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

No matters were submitted to a vote of the Corporation's security holders during the last quarter of its fiscal year ended December 31, 2003.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information appearing in the Annual Report to Shareholders for the fiscal year ended December 31, 2003 (the Annual Report) in the section titled "Common Stock Information" is incorporated herein by reference in response to this item. As of March 24, 2004 there were 512 shareholders of record of the Corporation's common stock. The number of beneficial shareholders is approximately 864.

We have historically paid quarterly dividends on our common stock and currently intend to continue to do so in the foreseeable future. Our ability to pay dividends depends on a number of factors, however, including restrictions on the ability of the Corporation to pay dividends under federal laws and regulations, and as a result there can be no assurance that dividends will be paid in the future

Item 6. Selected Financial Data

The following financial information is not covered by the auditor's report and must be read in conjunction with the consolidated financial statements and related notes along with management's discussion and analysis of financial condition and results of operations.

	Years Ended December 31, (Dollars in Thousands, Except per Share Data)				
	2003	2002	2001	2000	1999
Total interest income	$ 19,795	$ 22,943	$ 24,399	$ 26,056	$ 24,303
Total interest expense	6,525	7,575	9,716	11,705	10,013
Net interest income	13,270	15,368	14,683	14,351	14,290
Provision for loan losses	39	298	540	1,176	3,290
Net interest income after provision for loan losses	13,231	15,070	14,143	13,175	11,000
Other operating income	3,989	3,333	2,555	2,305	1,936
Other operating expenses	12,822	11,186	10,094	9,429	9,245
Income before income taxes	4,398	7,217	6,604	6,051	3,691
Income tax expense	837	1,873	1,699	1,419	487
Net income	$ 3,561	$ 5,344	$ 4,905	$ 4,632	$ 3,204
Per Share Data					
Net income	$ 1.03	$ 1.56	$ 1.43	$ 1.32	$ ..90
Dividends declared	$ 1.00	$ 1.00	$ .76	$ .68	$ ..60
Average shares outstanding	3,441,556	3,425,858	3,432,389	3,511,603	3,578,894
At End of Period					
Total assets	$ 385,028	$ 380,338	$ 343,029	$ 329,865	$ 355,298
Securities	168,685	148,344	119,396	104,703	124,743

Loans and leases, net of unearned						
income	187,382	169,030	202,335	207,022	204,839	
Allowance for loan losses	2,462	2,707	2,814	2,737	1,919	
Deposits	259,216	270,025	254,986	266,611	272,947	
Long-term borrowings	55,000	55,000	35,000	10,000	25,000	
Shareholders' equity	49,537	51,205	45,970	43,137	39,404	
Key Ratios						
Return on average assets	..95%	1.46%	1.43%	1.32%	.95%	
Return on average equity	6.99	11.02	10.90	11.21	7.50	
Net loans-to-deposit ratio	71.34	61.59	78.25	78.00	74.34	
Dividend payout ratio (dividends						
declared divided by net income)	96.63	64.07	53.16	51.46	66.98	
Equity-to-assets ratio (average						
equity divided by average total assets)	13.63	13.27	13.12	11.82	12.68	

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Safe Harbor Statement

Forward-looking statements (statements which are not historical facts) in this Annual Report on Form 10-K are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "to," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," or "continue" or the negative or other variations there terminology are intended to identify forward-looking statements. These statements are based on information currently available to Commercial National Financial Corporation (the Corporation), and the Corporation assumes no obligation to update these statements as circumstances change. Investors are cautioned that all forward-looking statements involve risk and uncertainties, including changes in general economic and financial market conditions, unforeseen credit problems, and the Corporation's ability to execute its business plans. The actual results of future events could differ materially from those stated in any forward-looking statements herein.

Critical Accounting Policies

Disclosure of the Corporation's significant accounting policies is included in Note 1 to the consolidated financial statements. Certain of these policies are particularly sensitive requiring significant judgments, estimates and assumptions to be made by management. Additional information is contained in management's discussion and analysis for the most sensitive of these issues, including the provision and allowance for loan losses.

In determining the allowance for loan losses, management makes significant estimates. Consideration is given to a variety of factors in establishing this estimate. In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, its borrowers' perceived financial and managerial strengths, the adequacy of the underlying collateral, if collateral dependent, or present value of future cash flows and other relevant factors.

Overview

As discussed in Note 20 to the Notes to Consolidated Financial Statements, "Restatement", the consolidated financial statements for the year ended December 31, 2003 have been restated to reflect a writedown of goodwill associated with the Corporation's acquisition of Gooder Agency, Inc. (Gooder), its insurance agency subsidiary, in the amount of $375,000. Amounts affected by this restatement included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" have been appropriately revised.

The purpose of this discussion and the accompanying financial data is to provide aid in understanding and evaluating the financial condition and results of operations of the Corporation for the years ended December 31, 2003, 2002 and 2001. This information should be read in conjunction with the consolidated financial statements and related footnotes for the years under review

The Corporation is a financial holding company with wholly-owned subsidiaries, Commercial Bank of Pennsylvania (the Bank), Commercial National Insurance Services, Inc. (CNIS) and Highview Trust Company (HTC).

All material intercompany transactions have been eliminated in consolidation.

The Corporation reported net income of $3.6 million or $1.03 per share for the year ended 2003 compared to $5.3 million or $1.56 per share for the year ended 2002. The Corporation's return on average assets for 2003 and 2002 were .95% and 1.46%, respectively. Return on average equity for the same two periods were 6.99% and 11.02%, respectively.

The decrease in net income was due to higher net operating expense and a decline in net interest income. A more detailed discussion of the net interest income decline is included below under the heading Net Interest Income.

The Corporation's largest segment of operating results is dependent upon net interest income. Net interest income is calculated by what is earned on interest-earning assets less interest paid on interest-bearing liabilities. For the years ended 2003 and 2002, net interest income was $13.3 and $15.4 million, respectively. The related tax-equivalent net interest margin for these two years was 4.19% and 4.81%, respectively. The decline in the margin is mostly due to the decrease in yield earned on interest-earning assets. Other factors that can affect the Corporation's operating results are activity in the loan loss provision and components of non-interest income and non-interest expense.

The year 2003 marked some changes with the Corporation's subsidiaries. In July, the Corporation's banking subsidiary changed from a national to a state banking charter. This change will allow the Bank to compete on a more equal basis with most of its local competition and reduce semi-annual regulatory assessments. In October, the Corporation formed HTC as a state-chartered trust company subsidiary, and then transferred the Bank's trust operations to HTC. The creation of this new subsidiary was intended to enable each of the Corporation's subsidiaries to offer customers a more concentrated focus in its particular financial services sector (banking, insurance and trust).

With its recent changes in management, the Corporation now intends to focus on Bank operations and growing the Corporation through traditional loans and deposits supplemented by offering trust products to customers in its marketplace. Management anticipates continued pressure on net interest income. Loans and deposits will continue to be competitively priced by the Corporation with the intention of acquiring profitable market share. Operating expenses will be scrutinized more closely for the purpose of offsetting a potential decline in net interest income.

Total assets of the Corporation were $385.0 million on December 31, 2003 compared to $380.3 million on December 31, 2002. Increases in investments and loans offset the decrease in cash and interest bearing deposit accounts (IBDs). The decline in IBDs provided the necessary funding for investment and loan growth.

Financial Condition

The Corporation's total assets at December 31, 2003 increased $4.7 million, or 1.23% since the end of 2002. The increases were primarily in securities and loans. These increases were offset by decreases in cash and IBDs.

The loan portfolio is comprised mostly of residential and commercial real-estate secured loans. These loans consist of residential mortgages, commercial mortgages and home equity term and lines of credit. Additionally, the loan portfolio includes commercial, tax-free and other consumer loans.

The total loan portfolio increased $18.4 million in 2003 over the total of $169.0 million at the end of 2002. This increase was due largely to a residential loan promotion that commenced during the fourth quarter of 2002. This promotion resulted in an increase of $20.2 million in residential mortgage loans. Total commercial and commercial mortgage loans decreased $1.5 million due to the lingering effects of the sluggish economy in the Corporation's market area.

Total investment securities increased $20.3 million during 2003. All of the Corporation's securities are held as available for sale. These securities consist of mortgage-backed securities, tax-free municipal bonds, U.S. government agency securities, Federal Home Loan Bank stock and individual bank stocks. Depending upon market fluctuations or other circumstances that may arise, such as changes in prepayment rates, the Corporation may sell securities for asset/liability management and liquidity purposes.

At December 31, 2003, total deposits decreased $10.8 million from December 31, 2002 to $259.2 million. This decrease is partly due to the Corporation's reluctance to match competitor pricing of money market and certificate of deposit accounts. In an effort to mitigate this decline in deposits, the Corporation elected, in October 2003 to offer competitive certificate of deposit rates to attract more deposits. To that end, the Corporation experienced deposit growth of $1.9 million in the fourth quarter of 2003.

Total short-term borrowings increased $17.5 million in 2003. The additional short-term borrowings consisted of $15.0 million in a 30 day advance from the Federal Home Loan Bank (FHLB) and $2.5 million in federal funds purchased. These borrowings funded purchases of securities during the fourth quarter of 2003. The Corporation’s intent is to reduce its short-term borrowings over time with monthly cash flow from securities and loan payments.

Long-term borrowings were $55.0 million at year-end 2003 and unchanged from year-end 2002. These borrowings include fixed and convertible rate advances from the FHLB. For more detail on these borrowings, see Note 11 to the Notes to Consolidated Financial Statements.

Shareholders’ equity was $49.5 million on December 31, 2003 compared to $51.2 million on December 31, 2002, a decrease of $1.7 million. The change in shareholders’ equity consists of net income of $3.6 million being offset by unrealized losses in securities of $1.1 million, dividends declared of $3.4 million and treasury stock purchases of $0.7 million. Book value per common share at year-end 2003 decreased by 2.6% to $14.44 from $14.82 at year-end 2002.

Results of Operations

Net income decreased $1.8 million, or 33%, to $3.6 million for the year ended December 31, 2003 from $5.3 million for the year ended December 31, 2002. The decrease reflects a decline in net interest income of $2.1 million and higher operating expenses of $1.3 million and a writedown of $375,000 to reflect impairment in the goodwill of its insurance agency subsidiary. Partially offsetting these factors was an increase in other operating income of $656,000.

Net income increased $439,000, or 9%, to $5.3 million for the year ended December 31, 2002 from $4.9 million for the year ended December 31, 2001. The increase in net income for 2002 was due to higher other operating income, which included a gain of $470,000 on the sale of the Bank’s Murrysville community office in September 2002.

Net Interest Income

In 2003, interest income was $19.8 million compared to $22.9 million in 2002, a decrease of $3.1 million. Part of this decrease was due to the Corporation’s inability to increase interest income from loans even though total loans grew by more than 10% in 2003. This was the direct result of lower interest rates at which the new loans were added to the balance sheet.

The low loan interest rate environment also impacted investment income as nationwide refinancing activity produced heavy prepayments on the Corporation’s mortgage backed securities portfolio. The Corporation reinvested the proceeds of these prepayments into lower yielding investments, which included federal funds sold and municipal and mortgage-backed securities.

For 2003, total deposits declined by $10.8 million to $259.2 million from $270.0 million at the end of 2002. This decline, combined with lower interest rates, resulted in a $1.0 million decrease in interest expense for 2003.

As a result of these factors, net interest income in 2003 was $13.3 million compared to $15.4 million in 2002, a decrease of $2.1 million.

In 2002, net interest income was $15.4 million compared to $14.7 million in 2001. The increase was attributable to a $2.1 million decrease in interest expense, which more than offset a $1.4 million decrease in interest income. This was due to the Corporation’s ability to reprice liabilities at a faster rate than assets.

The following table displays the Corporation’s average balance sheet, annual interest earned and paid, and annual yields on interest earning assets and interest-bearing liabilities for 2003, 2002 and 2001.

COMMERCIAL NATIONAL FINANCIAL CORPORATION
Financial Comparisons
Consolidated Average Balance Sheet, Interest Income/Expense and Rates
(Dollars in Thousands)

	2003			2002			2001		
	Average Balance	Interest Income Expense	Yield or Rate(a)	Average Balance	Interest Income/ Expense	Yield or Rate(a)	Average Balance	Interest Income/ Expense	Yield o Rate (a)
Interest-earning assets									
Loans (b)(c) net of									

unearned income	$ 183,628	$ 11,390	6.36%	$ 187,428	$ 13,533	7.38%	$ 206,681	$ 16,665	8.23%
Taxable securities	108,162	6,835	6.32	111,966	8,130	7.26	80,777	6,161	7.63
Non-taxable securities	34,611	1,400	6.13	21,063	1,058	7.61	18,077	924	7.75
Interest-bearing deposits									
With banks	2,172	41	1.89	5,278	49	0.93	9,592	364	3.79
Federal funds sold	12,330	129	1.05	11,147	173	1.55	6,613	285	4.31
Total earning assets	340,903	19,795	6.10	336,882	22,943	7.06	321,740	24,399	7.84
Non-interest-earning assets									
Cash	7,879			8,007			7,695		
Allowance for loan losses	(2,685)			(2,879)			(2,671)		
Other assets	27,399			23,394			16,044		
Total non-interest-earning assets	32,593			28,522			21,068		
Total assets	$ 373,496			$ 365,404			$ 342,808		
Liabilities and Shareholders' Equity									
Interest-bearing deposits									
NOW accounts	$ 24,151	35	0.14	$ 22,952	99	0.43	$ 20,480	140	0.68
Money market accounts	43,948	327	0.74	46,793	717	1.53	38,500	1,154	3.00
Savings deposits	56,200	412	0.73	55,369	801	1.45	46,003	1,101	2.39
Time deposits	86,059	2,789	3.24	89,490	3,381	3.78	108,841	5,670	5.21
Short-term borrowings	3,976	49	1.23	1,496	30	1.98	2,917	95	3.27
Long-term borrowings	55,000	2,913	5.29	48,602	2,547	5.24	30,384	1,556	5.12
Total interest-bearing liabilities	269,334	6,525	2.42	264,702	7,575	2.86	247,125	9,716	3.93
Non-interest-bearing deposits	49,584			48,579			47,412		
Other liabilities	3,656			3,647			3,283		
Shareholders' equity	50,922			48,476			44,988		
Total non-interest bearing funding sources	104,162			100,702			95,683		
Total liabilities and shareholders' equity	$ 373,496			$ 365,404 $342,807,943			$ 342,808		
Net interest income and net yield on interest earning assets		$ 13,270	4.19%		$ 15,368	4.81%		$ 14,683 $14,350,887	4.82%

(a) Yields on interest earning assets have been computed on a tax-equivalent basis using the 34% federal income tax statutory rate.
(b) Income on non-accrual loans is accounted for on the cash basis, and the loan balances are included in interest earning assets.
(c) Loan income includes net loan fees/costs.

The following table illustrates the impact and interaction of rate and volume changes for the years under review:

Analysis of Year-to-Year Changes in Net Interest Income
(Dollars in Thousands)

	2003 Change from 2002			2002 Change from 2001				
	Total Change	Change Due To Volume	Change Due To Rate	Total Change	Change Due To Volume	To Rate Rate	Change Due to Volume	to
Interest-earning assets								
Loans net of unearned income	$ (2,143)	$ (274)	$ (1,869)	$ (3,132)	$ (1,552)	$ (1,580)		
Securities								
Taxable	&nb							