Village Bank & Trust Financial Corp.
Form 10QSB
August 14, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d)

OF THE EXCHANGE ACT

For the transition period from ______ to ______

Commission file number: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.

(Exact name of small business issuer as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	**16-1694602** (I.R.S. Employer Identification No.)

1231 Alverser Drive, P.O. Box 330, Midlothian, Virginia 23113
(Address of principal executive offices)

804-897-3900
(Issuer s telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 Noo.

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date:

2,573,485 shares of common stock, $4.00 par value, outstanding as of July 23, 2007.

Village Bank and Trust Financial Corp.

Form 10-QSB

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PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheets
June 30, 2007 (Unaudited) and December 31, 2006

	June 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and due from banks	$ 4,689,789	$ 5,702,401
Federal funds sold	1,092,395	11,496,102
Investment securities available for sale	13,107,308	12,787,644
Loans held for sale	2,712,782	3,149,178
Loans		
Outstandings	289,225,171	241,389,621
Allowance for loan losses	(3,030,339)	(2,552,607)
Deferred fees	(420,376)	(338,596)
	285,774,456	238,498,418
Premises and equipment, net	13,810,637	11,676,854
Accrued interest receivable	2,516,264	2,301,264
Goodwill	689,108	689,108
Other assets	6,727,525	4,916,791
	$ 331,120,264	$ 291,217,760
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	$ 23,162,771	$ 22,381,251
Interest checking	10,259,145	9,414,544
Money market	22,091,145	17,941,940
Savings	3,292,067	4,106,949
Time deposits of $100,000 and over	71,585,152	61,883,307
Other time deposits	155,285,159	137,581,890
	285,675,439	253,309,881
FHLB advances	12,000,000	4,000,000
Long-term debt - trust preferred securities	5,155,000	5,155,000
Other borrowings	690,348	704,265
Accrued interest payable	443,260	429,986
Other liabilities	906,422	1,974,513
Total liabilities	304,870,469	265,573,645
Stockholders' equity		
Preferred stock, $1 par value - 1,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $4 par value - 10,000,000 shares authorized; 2,568,485 shares issued and outstanding at June 30, 2007, 2,562,088 shares issued and outstanding at December 31, 2006	10,273,940	10,248,352
Additional paid-in capital	13,659,780	13,588,888
Accumulated other comprehensive income (loss)	(205,531)	(177,759)
Retained earnings	2,521,606	1,984,634
Total stockholders' equity	26,249,795	25,644,115
	$ 331,120,264	$ 291,217,760

See accompanying notes to consolidated financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2007 and 2006
(Unaudited)

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Interest income				
Loans	$ 5,934,721	$ 4,266,706	$ 11,251,802	$ 8,007,243
Investment securities	203,944	40,341	407,540	75,872
Federal funds sold	63,577	88,774	187,381	255,081
Total interest income	6,202,242	4,395,821	11,846,723	8,338,196
Interest expense				
Deposits	3,102,019	1,743,766	5,889,911	3,334,283
Borrowed funds	149,872	135,389	279,935	265,723
Total interest expense	3,251,891	1,879,155	6,169,846	3,600,006
Net interest income	2,950,351	2,516,666	5,676,877	4,738,190
Provision for loan losses	359,937	145,761	568,279	363,161
Net interest income after provision for loan losses	2,590,414	2,370,905	5,108,598	4,375,029
Noninterest income				
Service charges and fees	187,578	139,369	356,639	262,619
Gain on sale of loans	388,767	424,565	772,556	758,176
Other	108,412	71,109	220,470	191,800
Total noninterest income	684,757	635,043	1,349,665	1,212,595
Noninterest expense				
Salaries and benefits	1,717,284	1,440,562	3,282,767	2,672,486
Occupancy	216,425	154,959	414,832	314,628
Equipment	162,860	118,178	320,288	218,172
Supplies	85,360	81,244	160,595	152,811
Professional and outside services	357,920	280,663	631,133	515,668
Advertising and marketing	87,082	117,896	166,909	181,463
Other operating expense	379,116	295,196	668,146	586,958
Total noninterest expense	3,006,047	2,488,698	5,644,670	4,642,186
Income before income taxes	269,124	517,250	813,593	945,438
Provision for income taxes	91,501	175,865	276,621	321,450
Net income	$ 177,623	$ 341,385	$ 536,972	$ 623,988
Earnings per share, basic	$ 0.07	$ 0.16	$ 0.21	$ 0.31
Earnings per share, diluted	$ 0.07	$ 0.16	$ 0.20	$ 0.30

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp.
Consolidated Statements of Stockholders' Equity
Six Months Ended June 30, 2007 and 2006

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance, December 31, 2006	2,562,088	$ 10,248,352	$ 13,588,888	$1,984,634	$ (177,759)	$ 25,644,115
Issuance of common stock	6,397	25,588	40,446	-	-	66,034
Stock based compensation			30,446			30,446
Net income	-	-	-	536,972	-	536,972
Change in unrealized gain (loss) on securities available for sale	-	-	-	-	(27,772)	(27,772)
Total comprehensive income (loss)	-	-	-	-	-	509,200
Balance, June 30, 2007	2,568,485	$ 10,273,940	$ 13,659,780	$2,521,606	$ (205,531)	$ 26,249,795
Balance, December 31, 2005	1,854,618	$ 7,418,472	$ 9,191,567	$ 585,416	$ (43,562)	$ 17,151,893
Issuance of common stock	707,470	2,829,880	4,374,314	-	-	7,204,194
Net income	-	-	-	623,988	-	623,988
Change in unrealized gain (loss) on securities available for sale	-	-	-	-	(30,298)	(30,298)
Total comprehensive income (loss)	-	-	-	-	-	593,690
Balance, June 30, 2006	2,562,088	$ 10,248,352	$ 13,565,881	$1,209,404	$ (73,860)	$ 24,949,777

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2007 and 2006
(Unaudited)

	2007	2006
Cash Flows from Operating Activities		
Net income	$ 536,972	$ 623,988
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	346,775	200,509
Provision for loan losses	568,279	363,161
Gain on loans sold	(772,556)	(758,176)
Stock compensation expense	30,446	
Loss on securities	-	-
Proceeds from sale of mortgage loans	34,885,872	32,444,802
Origination of mortgage loans for sale	(33,676,920)	(31,782,094)
Amortization of premiums and accretion of discounts on securities, net	(50,991)	(20,494)
Increase in interest receivable	(215,000)	(713,268)
Increase in other assets	(1,789,591)	(1,640,781)
Increase in interest payable	13,274	75,989
Increase (decrease) in other liabilities	(1,068,091)	(228,539)
Net cash used in operating activities	(1,191,531)	(1,434,903)
Cash Flows from Investing Activities		
Purchases of available for sale securities	(11,943,954)	(9,183,855)
Maturities and calls of available for sale securities	11,626,366	1,244,249
Net increase in loans	(47,844,317)	(31,525,619)
Purchases of premises and equipment	(2,480,558)	(369,789)
Net cash used in investing activities	(50,642,463)	(39,835,014)
Cash Flows from Financing Activities		
Issuance of common stock	66,034	7,204,194
Net increase in deposits	32,365,558	14,824,594
Federal Home Loan Bank borrowings	8,000,000	-
Net increase (decrease) in other borrowings	(13,917)	625,760
Net cash provided by financing activities	40,417,675	22,654,548
Net decrease in cash and cash equivalents	(11,416,319)	(18,615,369)
Cash and cash equivalents, beginning of period	17,198,503	25,828,554
Cash and cash equivalents, end of period	$ 5,782,184	$ 7,213,185

See accompanying notes to consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 - Principles of presentation

Village Bank and Trust Financial Corp. (the Company) is the holding company of Village Bank (the Bank). The consolidated financial statements include the accounts of the Company, the Bank and the Bank s three wholly-owned subsidiaries, Village Bank Mortgage Corporation, Village Insurance Agency, Inc., and Village Financial Services Corporation. All material intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the three and six month periods ended June 30, 2007 is not necessarily indicative of the results to be expected for the full year ending December 31, 2007. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company s Annual Report on Form 10-KSB for the year ended December 31, 2006 as filed with the Securities and Exchange Commission.

Note 2 - Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and statements of income for the period. Actual results could differ significantly from those estimates.

Note 3 - Earnings per common share

Basic earnings per common share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. For the three month periods ended June 30, 2007 and 2006, the weighted-average number of common shares totaled 2,565,692 and 2,071,159, respectively. For the six month periods ended June 30, 2007 and 2006, the weighted-average number of common shares totaled 2,563,900 and 1,971,239, respectively. Diluted earnings per share reflects the potential dilution of securities that could share in the net income of the Company. Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. For the three month periods ended June 30, 2007 and 2006, the weighted-average number of common shares on a fully diluted basis totaled 2,713,512 and 2,163,716, respectively. For the six month periods ended June 30, 2007 and 2006, the weighted-average number of common shares on a fully diluted basis totaled 2,701,743 and 2,066,713, respectively. There were no options to acquire common stock that were anti-dilutive for the three and six month periods ended June 30, 2007 and 2006.

Note 4 Stock warrant and incentive plans

On March 21, 2000, the Company approved the Organizational Investors Warrant Plan which made available 140,000 warrants for grant to the Company s initial (organizational) investors for certain risks associated with the establishment of the Bank. The warrants have an exercise price of $10 per share (which approximated the fair value per share of common stock at issuance date) and expire in April 2008. At June 30, 2007, 140,000 warrants had been issued and none had been exercised.

Also on March 21, 2000, the Company established the Incentive Plan, a stock incentive plan, which authorizes the issuance of up to 455,000 shares of common stock (increased from 255,000 shares by amendment to the Incentive Plan approved by the Company s shareholders at its 2006 annual meeting on May 23, 2006) to assist the Company in recruiting and retaining key personnel.

Prior to January 1, 2006, the Company applied Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees (APB 25), in accounting for stock based compensation granted to employees and directors pursuant to the stock incentive plan. Under APB 25, compensation expense was determined based upon the fair value of the awards at the grant date consistent with the method under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), and the impact of this expense on net income and earnings per share was disclosed in the notes to financial statements. Effective January 1, 2006, the Company adopted SFAS No. 123 (Revised 2004), Share-Based Payment, issued in December 2004, a revision of SFAS 123, and superseding APB 25, and its related implementation guidance. SFAS 123 (Revised 2004) requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award rather than disclosed in the financial statements.

The aggregate intrinsic value of the options outstanding was $1,003,000 and $737,000 at December 31, 2006 and 2005, respectively, and $1,815,000 and $713,000 at June 30, 2007 and 2006, respectively.

The following table summarizes stock options outstanding under the stock incentive plan at the indicated dates:

	Six Months Ended June 30, 2007			2006		
	Options	Weighted Average Exercise Price	Fair Value Per Share	Options	Weighted Average Exercise Price	Fair Value Per Share
Options outstanding at beginning of period	251,910	$ 10.22	$ 4.67	241,660	$ 9.80	$ 4.47
Granted	-	-	-	16,500	12.50	7.35
Forfeited	-	-	-	(250)	11.77	5.29
Exercised	(500)	11.77	5.29	(6,000)	8.20	3.93
Options outstanding at end of period	251,410	$ 10.22	$ 4.67	251,910	$ 10.02	$ 4.67
Options exercisable at end of period	234,910			235,410		

During the first quarter of 2007, we granted to certain officers 5,725 restricted shares of common stock and 5,725 performance shares of common stock with a weighted average fair market value of $15.95 at the date of grant. During the second quarter an additional 175 restricted shares of common stock and 175 performance shares of common stock were granted with a weighted average fair market value of $16.75 at the date of grant. These restricted stock awards have three-year graded vesting, and the performance shares cliff vest at the end of the three years. The number of performance shares that ultimately vest is dependent upon achieving specific performance targets. Prior to vesting, these shares are subject to forfeiture to us without consideration upon termination of employment under certain circumstances. The total number of shares underlying non-vested restricted stock and performance share awards was 11,200 at June 30, 2007.

Stock-based compensation expense was $30,446 for the six months ended June 30, 2007. Unamortized stock-based compensation as of June 30, 2007 was $73,100 for stock options and $178,900 for restricted stock and performance shares.

Note 5 Trust preferred securities

During the first quarter of 2005, Southern Community Financial Capital Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable securities. On February 24, 2005, $5.2 million of Trust Preferred Capital Notes were issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate of interest (three-month LIBOR plus 2.15%) which adjusts, and is payable, quarterly. The interest rate at June 30, 2007 was 7.50%. The securities may be redeemed at par beginning on March 15, 2010 and each quarter after such date until the securities mature on March 15, 2035. The principal asset of the Trust is $5.2 million of the Company s junior subordinated debt securities with like maturities and like interest rates to the Trust Preferred Capital Notes.

The Trust Preferred Capital Notes may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. The portion of the Trust Preferred Capital Notes not considered as Tier 1 capital may be included in Tier 2 capital.

The obligations of the Company with respect to the issuance of the Trust Preferred Capital Notes constitute a full and unconditional guarantee by the Company of the Trust s obligations with respect to the Trust Preferred Capital Notes. Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Trust Preferred Capital Notes and require a deferral of common dividends.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward-Looking Statements

Certain information contained in this discussion may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are generally identified by phrases such as we expect, we believe or words of similar import. Such forward-looking statements involve known and unknown risks including, but not limited to, the following factors:

- interest rate fluctuations;
- risk inherent in making loans such as repayment risks and fluctuating collateral values;
- economic conditions in the Richmond metropolitan area;
- the ability to continue to attract low cost core deposits to fund asset growth;
- changes in general economic and business conditions;
- changes in laws and regulations applicable to us;
- competition within and from outside the banking industry;
- the ability to successfully manage the Company s growth or implement its growth strategies if it is unable to identify attractive markets, locations or opportunities to expand in the future;
- maintaining capital levels adequate to support the Company s growth;
- reliance on the Company s management team, including its ability to attract and retain key personnel;
- new products and services in the banking industry;
- problems with our technology, and
- changing trends in customer profiles and behavior.

Although we believe that our expectations with respect to the forward-looking statements are based upon reliable assumptions within the bounds of our knowledge of our business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

General

The Company was organized under the laws of the Commonwealth of Virginia as a bank holding company whose activities consist of investment in its wholly-owned subsidiary, the Bank. The Bank is engaged in commercial and retail banking. We opened to the public on December 13, 1999. We place special emphasis on serving the financial needs of individuals, small and medium sized businesses, entrepreneurs, and professional concerns.

The Bank has three subsidiaries: Village Bank Mortgage Company, Village Insurance Agency, Inc., and Village Financial Services Corporation. Through our combined companies, we offer a wide range of banking and related financial services, including checking, savings, certificates of deposit and other depository services, and commercial, real estate and consumer loans. We are a community-oriented and locally owned and managed financial institution focusing on providing a high level of responsive and personalized services to our customers, delivered in the context of a strong direct relationship with the customer. We conduct our operations from our main office/corporate headquarters location and nine branch offices.

Net interest income is our primary source of earnings and represents the difference between interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. The level of net interest income is affected primarily by variations in the volume and mix of those assets and liabilities, as well as changes in interest rates when compared to previous periods of operation. In addition, revenues are generated from fees charged on deposit accounts and gains from sale of mortgage loans to third-party investors.

Our total assets increased to $331,120,000 at June 30, 2007 from $291,218,000 at December 31, 2006, an increase of $39,902,000, or 13.7%. The increase in assets resulted primarily from increases in net loans of $47,276,000. The net increase in assets was funded by increases in deposits of $32,366,000 and advances from the Federal Home Loan Bank of Atlanta of $8,000,000, and a decrease in liquid assets of $11,416,000.

The following presents management s discussion and analysis of the financial condition of the Company at June 30, 2007 and December 31, 2006, and results of operations for the Company for the three and six month periods ended June 30, 2007 and 2006. This discussion should be read in conjunction with the Company s Annual Report on Form 10-KSB for the year ended December 31, 2006 as filed with the Securities and Exchange Commission as well as the second quarter 2007 financial statements and notes thereto appearing elsewhere in this report.

Results of operations

Net income totaled $178,000, or $0.07 per share on a fully diluted basis, in the second quarter of 2007 compared to net income of $341,000, or $0.16 per share on a fully diluted basis, in the second quarter of 2006. For the six months ended June 30, 2007, net income totaled $537,000, or $0.20 per share on a fully diluted basis, compared to net income of $624,000, or $0.30 per share on a fully diluted basis, for the same period in 2006.This represents a decrease in net income of $163,000, or 48%, and $167,000, or 14%, for the three and six month periods, respectively.

The decline in earnings for the three and six month periods ended June 30, 2007 compared to the same periods in 2006 is a result of the growth in branches and loans of the Company s wholly-owned subsidiary, Village Bank. The Bank also experienced several extraordinary expenses in June 2007 including a litigation settlement and the expenses associated with moving the retail operations from our headquarters to an independent location. This growth is demonstrated in the following schedule (dollars in thousands):

	June 30, 2007	2006	Increase Amount	Percent
Total assets				
At period end	$ 331,120	$ 238,071	$ 93,049	39%
Average for the quarter	321,748	227,285	94,463	42%
Loans, net of deferred fees				
At period end	288,805	203,799	85,006	42%
Average for the quarter	275,877	197,679	78,198	40%
Deposits				
At period end	285,675	201,577	84,098	42%
Average for the quarter	282,437	199,640	82,797	41%
Number of offices	9	7	2	29%

The Bank s growth, which included the addition of two new branches since June 30, 2006, resulted in increases in noninterest expense of $517,000 when comparing the second quarter of 2006 to the second quarter of 2007, and $1,003,000 when comparing the first six months of 2006 to the first six months of 2007. For the second quarter of 2007 compared to the second quarter of 2006, the largest increases in noninterest expense occurred in salaries and benefits of $277,000, occupancy costs of $61,000, equipment costs of $45,000 and data processing costs of $18,000. For the six months ended June 30, 2007 compared to the same period in 2006, the largest increases in noninterest expense occurred in salaries and benefits of $610,000, occupancy costs of $100,000, equipment costs of $102,000 and data processing costs of $65,000. The 2007 periods were also negatively affected by a litigation settlement in the amount of $82,000.

Coupled with additional expenses associated with the opening and staffing of the new branches, we had unexpected strong loan growth during the first six months of 2007 of $47 million, which resulted in the highest quarterly provision for loan losses in the Bank s history. The amount of the provision for loan losses is determined by many factors, but is primarily determined by the amount of loans outstanding. The provisions for loan losses for the three and six month periods ended June 30, 2007 amounted to $360,000 and $568,000, respectively, which was $214,000 and $205,000, respectively, higher than the provisions for the same periods in 2006.

Net interest income

Net interest income is our primary source of earnings and represents the difference between interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. The level of net interest income is affected primarily by variations in the volume and mix of those assets and liabilities, as well as changes in interest rates when compared to previous periods of operation.

Net interest income for the six months ended June 30, 2007 and 2006 was $5,677,000 and $4,738,000, respectively. This increase of $939,000, or 20%, in net interest income was due to growth in loans, offset by a decline in the net interest margin. Loans net of deferred fees increased by $85,006,000, or 42%, from $203,799,000 at June 30, 2006 to $288,805,000 at June 30, 2007. Loans net of deferred fees averaged $262,562,000 for the first six months of 2007 as compared to $189,471,000 for the first six months of 2006, an increase of $73,091,000, or 39%. However, our net interest margin (net interest income expressed as a percentage of

average earning assets) for the six months ended June 30, 2007 declined to 4.00% from 4.65% for the same period in 2006. The declining net interest margin is a result of increasing cost of funds as rates on liabilities reprice upwards. While we believe that our net interest margin will not decline significantly during the remainder of 2007 as interest rates have stabilized, we can provide no assurance that it will not.

Average interest-earning assets for the first six months of 2007 increased by $80,552,000, or 39%, compared to the first six months of 2006. The increase in interest-earning assets was due primarily to the growth of our loan portfolio. The average yield on interest-earning assets increased to 8.35% for the first six months of 2007 compared to 8.18% for the first six months of 2006. The increase in the average yields from 2006 to 2007 was due primarily to an improvement in the yield on loans.

Our average interest-bearing liabilities increased by $75,746,000, or 41%, for the first six months of 2007 compared to the first six months of 2006. The growth in interest-bearing liabilities was primarily due to growth in deposits. The average cost of interest-bearing liabilities increased to 4.79% for the first six months of 2007 from 3.95% for the first six months of 2006. The principal reason for the increase in liability costs was increasing interest rates as liabilities reprice. The increasing interest rates were a result of increases in short term interest rates by the Federal Reserve. See our discussion of interest rate sensitivity below for more information.

The following table illustrates average balances of total interest-earning assets and total interest-bearing liabilities for the periods indicated, showing the average distribution of assets, liabilities, shareholders' equity and related income, expense and corresponding weighted-average yields and rates. The average balances used in these tables and other statistical data were calculated using daily average balances. We had no tax exempt assets for the periods presented.

Average Balance Sheets
(In thousands)

	Six Months Ended June 30, 2007			Six Months Ended June 30, 2006		
	Average Balance	Interest Income/ Expense	Annualized Yield Rate	Average Balance	Interest Income/ Expense	Annualized Yield Rate
Loans net of deferred fees	$ 262,562	$ 11,181	8.59%	$189,471	$ 7,950	8.46%
Investment securities	14,180	408	5.80%	3,182	76	4.82%
Loans held for sale	2,212	71	6.47%	1,777	57	6.47%
Federal funds and other	7,182	187	5.25%	11,154	255	4.61%
Total interest earning assets	286,136	11,847	8.35%	205,584	8,338	8.18%
Allowance for loan losses	(2,720)			(2,044)		
Cash and due from banks	4,869					