Heritage Commerce Corp Reports Financial Results for Second Quarter 2009

San Jose, CA – July 23, 2009 — Heritage Commerce Corp (Nasdaq: HTBK), parent company of Heritage Bank of Commerce, today reported a second quarter 2009 net loss available to common shareholders of \$6.0 million, or \$(0.51) per diluted common share, which included a \$10.7 million provision for loan losses and \$591,000 in dividends and discount accretion on preferred stock. In the second quarter a year ago, the net loss available to common shareholders was \$3.1 million, or \$(0.26) per diluted common share, which included a \$7.8 million provision for loan losses and no preferred dividends.

For the first half of 2009, the Company reported a net loss available to common shareholders of 10.5 million, or 0.89 per diluted common share, which included a 21.1 million provision for loan losses and 1.2 million in dividends and discount accretion on preferred stock. For the first half of 2008, the net loss available to common shareholders was 1.4 million, or 0.11 per diluted common share, which included a 9.5 million provision for loan losses and no preferred dividends.

Second Quarter Developments

- The net interest margin increased 20 basis points to 3.55% in the second quarter of 2009 from 3.35% in the first quarter of 2009.
- ◆ The leverage ratio was 9.8% at June 30, 2009.
- ◆ Total assets were \$1.44 billion, a decrease of 3% from a year ago and a decrease of 2% over the past quarter.
- \$20.5 million of SBA loans were transferred to loans held-for-sale at June 30, 2009 in anticipation of loan sales.
- Loans, excluding loans held-for-sale, decreased 4% to \$1.16 billion from \$1.21 billion a year ago and March 31, 2009, with land and construction loans down \$13.4 million to \$230.8 million from March 31, 2009.
- Deposits remained flat at \$1.16 billion at June 30, 2009, compared to \$1.17 billion at the end of the prior quarter.
- Nonperforming assets increased \$4.9 million to \$61.7 million, or 4.30% of total assets, from \$56.9 million, or 3.89% of total assets at March 31, 2009.
- The allowance for loan losses increased to \$31.4 million, or 2.70% of total loans, compared to \$20.9 million, or 1.73%, a year ago, and \$23.9 million, or 1.97%, at March 31, 2009.

"While nonperforming assets increased in the quarter, the rate of increase slowed from earlier this year. The substantial provision for loan losses resulted in a loss for the second quarter," said Walter Kaczmarek, President and Chief Executive Officer. "However, we are seeing increased sales activity in our residential housing portfolio, which is reflected in paydowns on our land and construction loans. With low mortgage rates, the tax incentives for home buyers and rising affordability, we are seeing buyers entering the market." According to the California Association of Realtors, the unsold inventory of single-family homes in May fell to a 4.2 months supply -- less than half the 8.7 month supply a year ago.

"We continue to focus on preserving capital, credit quality and improving the net interest margin in what continues to be a very challenging economic environment," Mr. Kaczmarek continued. "We are proceeding cautiously in the execution of our business plan. We have filed a shelf registration statement with the SEC to provide more options and flexibility to raise capital in the future in the event strategic opportunities and/or favorable market conditions present themselves."

Balance Sheet, Capital Management and Credit Quality

At June 30, 2009, the Company's assets totaled \$1.44 billion, compared to \$1.49 billion a year ago and \$1.46 billion at March 31, 2009. The Company transferred \$20.5 million of SBA loans to loans held-for-sale in the second quarter of 2009. The Company plans to sell these SBA loans, as well as at least a portion of new SBA loans, to enhance its liquidity position and improve noninterest income in future periods. Loans, excluding loans held-for-sale, totaled \$1.16 billion at June 30, 2009, compared to \$1.21 billion at June 30, 2008 and \$1.21 billion at March 31, 2009. Deposits remained essentially flat at \$1.16 billion at June 30, 2009, compared to June 30, 2008 and March 31, 2009. Commercial loans account for 39% of the total loan portfolio and commercial real estate loans, of which more than half are owner occupied, account for 36% of the portfolio. Land and construction loans decreased \$13.4 million from March 31, 2009 and account for 20% of the portfolio, and consumer and home equity loans account for the remaining 5% of the total.

The securities portfolio of \$101.8 million at June 30, 2009 consisted primarily of U.S. government sponsored entities' debt securities, short-term U.S. Treasury securities, mortgage-backed securities, collateralized mortgage obligations, and municipal bonds.

Nonperforming assets totaled \$61.7 million, or 4.30% of total assets at June 30, 2009, compared to \$14.3 million, or 0.96% of total assets a year ago, and \$56.9 million, or 3.89% of total assets at March 31, 2009. The majority of nonperforming assets are in the construction and land development portfolio, accounting for 63% of nonperforming assets, with commercial and industrial loans accounting for 18%, commercial real estate loans accounting for 4%, SBA loans at 10% and other real estate owned ("OREO") at 5%.

Total OREO was \$3.1 million, comprised of six properties, at June 30, 2009, up from \$802,000, comprised of two properties, at March 31, 2009. In the second quarter of 2009, five properties moved from nonaccrual status into OREO and one property was sold. The increase in OREO during the quarter was primarily from a small commercial building in Santa Clara County, and a land parcel in Contra Costa County.

The allowance for loan losses at June 30, 2009 was \$31.4 million, or 2.70% of total loans, and represented 53.51% of nonperforming loans. The allowance for loan losses a year ago was \$20.9 million, or 1.73% of total loans and 152.14% of nonperforming loans. The allowance for loan losses at March 31, 2009, was \$23.9 million, or 1.97% of total loans and 42.63% of nonperforming loans.

Shareholders' equity was \$174.6 million, or \$11.55 book value per common share, at June 30, 2009, compared to \$141.7 million, or \$12.01 book value per common share, a year ago. The increase in shareholders' equity was due to the issuance of \$40 million in preferred stock to the U.S. Treasury as a participant in

its Capital Purchase Program during the fourth quarter of 2008. Shareholders' equity was \$180.3 million, or \$12.04 book value per common share, at March 31, 2009. The Company's consolidated leverage ratio at June 30, 2009, was 9.80%, compared to 8.36% at June 30, 2008, and 10.41% at March 31, 2009.

Operating Results

Net interest income decreased 10% to \$11.7 million for the second quarter of 2009, compared to \$13.0 million for the second quarter of 2008, but increased 5% from \$11.2 million for the first quarter of 2009. The net interest margin was 3.55% for the second quarter of 2009, compared to 4.00% for the second quarter a year ago and 3.35% for the first quarter of 2009. The 20 basis point increase in the net interest margin for the second quarter of 2009 compared to the first quarter of 2009. The decrease in the net interest margin from the second quarter of 2008 was primarily due to lower cost of funds. The decrease in the net interest margin from the second quarter of 2008 was primarily the result of the 275 basis point decline in short-term interest rates from March 18, 2008 through December 16, 2008.

Noninterest income was \$1.6 million for the second quarter of 2009, compared to \$1.8 million for the second quarter of 2008 and \$1.6 million for the first quarter of 2009. In the first six months of 2009, noninterest income was \$3.2 million, compared to \$3.3 million in the first six months a year ago.

Noninterest expense was \$12.1 million for the second quarter of 2009, compared to \$11.0 million in the second quarter of 2008 and \$11.4 million in the first quarter of 2009. In the first six months of 2009, noninterest expense was \$23.4 million, compared to \$21.6 million in the first six months a year ago. Regulatory assessments were \$1.2 million in the second quarter of 2009, including a \$657,000 charge for the FDIC special assessment levied on all FDIC insured banks, compared to \$196,000 in the second quarter of 2008, and \$739,000 in the first quarter of 2009. Professional fees were \$1.2 million in the second quarter of 2008, and \$739,000 in the first quarter of 2009. Professional fees were \$1.2 million in the second quarter of 2008, and \$913,000 in the first quarter of 2009. The increase in professional fees was primarily due to legal fees related to problem loans and the branch acquisition transaction that was terminated in the second quarter of 2009. Other noninterest expense increased primarily due to problem loan expense. Problem loan expense was \$298,000 in the second quarter of 2009, compared to \$5,000 in the second quarter of 2008, and \$6,000 in the first quarter of 2009.

The income tax benefit for the quarter ended June 30, 2009 was \$4.1 million, as compared to \$955,000 in the second quarter a year ago, and \$5.1 million in the first quarter of 2009. In the first six months of 2009, the income tax benefit was \$9.2 million, compared to \$271,000 in the first six months a year ago. The negative effective income tax rates are due to the loss before income taxes. The difference in the effective tax rate compared to the combined federal and state statutory tax rate of 42% is primarily the result of the Company's investment in life insurance policies whose earnings are not subject to taxes, tax credits related to investments in low income housing limited partnerships, and interest income from tax-free municipal securities.

The efficiency ratio was 90.90% in the second quarter of 2009, compared to 74.51% in the second quarter of 2008 and 88.94% in the first quarter of 2009. The efficiency ratio for the first six months of 2009 increased to 89.94% from 73.45% a year ago. The efficiency ratio increased in 2009 primarily due to compression of the net interest margin and an increase in noninterest expense, as discussed above.

Investor Conference

Heritage Commerce Corp is scheduled to present at the Keefe, Bruyette & Woods 10th Annual Community Bank Investor Conference in New York. Walter T. Kaczmarek, President and Chief Executive Officer, and Lawrence D. McGovern, Chief Financial Officer, are scheduled to present on Tuesday, July 28th at 11:00 a.m. EDT. The presentation will be archived for 60 days after the conference, and can be viewed at http://www.kbw.com/news/conferences.html.

Heritage Commerce Corp, a bank holding company established in February 1998, is the parent company of Heritage Bank of Commerce, established in 1994 and headquartered in San Jose with full-service branches in Los Gatos, Fremont, Danville, Pleasanton, Walnut Creek, Morgan Hill, Gilroy, Mountain View, and Los Altos. Heritage Bank of Commerce is an SBA Preferred Lender with Loan Production Offices in Sacramento, Oakland and Santa Rosa, California. For more information, please visit www.heritagecommercecorp.com.

Forward Looking Statement Disclaimer

Forward-looking statements are based on management's knowledge and belief as of today and include information concerning the Company's possible or assumed future financial condition, and its results of operations, business and earnings outlook. These forward-looking statements are subject to risks and uncertainties. A number of factors, some of which are beyond the Company's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors include (1) difficult and adverse conditions in the global and domestic capital and credit markets, (2) continued volatility and further deterioration of the capital and credit markets, (3) significant changes in banking laws or regulations, including, without limitation, as a result of the Emergency Economic Stabilization Act, the American Reinvestment and Recovery Act, and possible amendments to the Troubled Asset Relief Program (TARP), including the Capital Purchase Program and related executive compensation requirements, (4) continued uncertainty about the impact of TARP and other recent federal programs on the financial markets including levels of volatility and credit availability, (5) a more adverse than expected decline or continued weakness in general business and economic conditions, either nationally, regionally or locally in areas where the Company conducts its business, which may rate risks, (7) changes in market liquidity which may reduce interest margins and impact funding sources, (8) increased competition in the Company's markets, (9) changes in the financial performance and/or condition of the Company's borrowers, (10) current and further deterioration in the housing and commercial real estate markets particularly in California, and (11) increases in Federal Deposit Insurance Corporation premiums due to market developments and regulatory changes. For a discussion of factors which could cause results to differ, please see the Company's reports on *Forms 10-K* and *10-Q* as

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Oher 241 220 460 10% 44% 641 682 32% Tod Nomineres Income 1,00 1,021 1,792 1% 1.1% 3,224 3,306 23% Numineres Expense: 5,643 6,648 5,970 -13% 5% 2,142 1,644 30% Portessional less 1,229 913 890 33% 2,25% 2,142 1,644 30% Occupmes and Equipment 972 916 1,044 6% 7.7% 5,532 5,544 0% Other 3,016 2,338 2,968 7% 5,532 5,544 0% Nomineres Expense 12,080 11,422 10,998 6% 10% 2,344 2,1578 0% Nomer Loss 0,6409 10,642 5,652 5,6433 5,6433 5,6435 16% 10% 8,0439 10,21% 0,238% 0,318 0,1356 0,1379 7,375 NA Not Incomer Case Araling Expene (Ben	-		415	412	418	1%	-1%	827	81	5 1%
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $	Service Charges and Other Fees on Deposit Accounts		537	571	537	-6%	0%	1,108	952	2 16%
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Shafirs and Employce Benefits 5.643 6.458 5.970 -1.3% -5% 12.01 12.029 19% Prodessional Fees 1.229 913 980 35% 2.2142 1.644 30% Occupancy and Equipment 772 916 1.044 6% 7% 1.888 2.163 1.89 Other 3016 2.238 2.888 2.9% 7% 5.353 6.9% 9% Total Nominterest Expense 10.060 6.4338 5.5% 10.9% 6.135% 6.135% 6.135% 9% 9% 10.06 2.2442 2.1578 9% Income fLocs) Before Income Taxes 0.9007 (4.038) 5.083 36% 10.9% 6.1459 97.9% 7% 8.0306 6.1,279 77.8% Norderastom Resettement 5 (5.921) 5 5.0383 5 0.203 34% 0.160 1.0,205 6.1,279 6.52% Prodessional Decode Conson Predered Stock 5 0.021) 5 0.233 5 0.233 34% 0.101 70% 0.011 70%	Total Noninterest Income	_	1,601	1,623	1,792	-1%	-11%	3,224	3,30	-2%
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Occupancy and Equipment 972 916 1.044 6% 7% 1.888 2.1.63 1.3% Other 3.016 2.336 2.9% 7% 5.332 5.334 0% Othal Noninterest Expense 11.260 11.136 10.098 6% 10% 2.342 2.15.7 9% Income Cass) Before Income Taxes (9.494) 0.9007 (4.08) 5% 135% (18.50) (16.50) (12.19) Income Cass Defore Income Taxes (9.411) (5.052) (5.055) -1% N/A (1.016) (1.27) N/A Net Income Class) Available to Common Shareholders § (5.972) (4.549) (3.083) 30% (0.11) 70% Common Shareholders § (0.51) \$ (0.38) \$ 0.210 4% § (0.101) 70% Common Shareholders \$ (0.51) \$ (0.38) \$ 0.210 4% % 0.1011 70% Common Shareholders \$ <	Professional Fees		1,229	913	980	35%	25%	2,142	1,64	4 30%
Other 3.016 2.336 2.808 29% 7% 5.352 5.354 0% Total Nominterest Expense 11.020 11.020 10.998 6% 10% 2.3442 21.1278 9% Income (Loss Bioter Income Trates (9.494) (9.007) (4.038) 5% 11.850 (2.71) 3282% Not Income (Loss) S (5.811) 5 (3.083) 36% 7% 5 (0.379) 577% Not Income (Loss) Notalization of Preferred Stock (5.972) \$<(4.540)	Regulatory Assessments		1,220	739	196	65%	522%	1,959	38	3 405%
Total Noninterest Expense 12.080 11.362 10.998 6% 10% 23.442 21.578 9% Income (Loss) Before Income Taxes 09.494 (9.007) (4.038) 5% 135% (15.501) (16.50) 1021% Income (Loss) Before Income Taxes (9.4113) (5.025) 9.553 -19% 331% (9.165) 2 (211) 322% Net Income (Loss) S (5.972) S (4.540) S (3.085) 32% 94% S (1.079) 662% PER COMMON SHARE DATA (mandifed) Basic Earnings (Loss) Per Share S (0.51) S (0.38) S (0.26) 34% 96% S (0.89) S (0.11) 709% Common Shares Outstanding at Period-End 11.820.509 11.800.617 0% W 11.820.599 11.806.67 0% Common Share \$ 7.56 \$ 8.04 \$ 7.96 -5% \$ 7.56 \$ 7.96 -5% \$	Occupancy and Equipment		972	916	1,044	6%	-7%	1,888	2,16	3 -13%
Income (Loss) Before Income Taxes 0,4041 (0,007) (4,038) 5% 135% (18,501) (1,650) 1021% Income Tax Expense (Benefit) (4,113) (5,052) (055) 19% 331% (0,165) (271) 3328% Dividends and Discount Accretion on Preferred Stock (591) (585) - 1% N/A (1,176) - N/A Net Income (Loss) Available to Common Shareholders \$ (572) \$ (4,540) \$ (3,083) 32% 94% \$ (0,512) \$ (1,379) 662% PER COMMON SHARE DATA (unadited) Basic Earnings (Loss) Per Share \$ (0,51) \$ (0,38) \$ (0,26) 34% 96% \$ (0,59) \$ (0,11) 709% Didued Earnings (Loss) Per Share \$ (0,51) \$ (0,38) \$ (0,26) 34% 96% \$ (0,59) \$ (0,11) 709% Didued Earnings (Loss) Per Share \$ (0,51) \$ (0,23) \$ (2,04) \$ 11,80,509 11,80,167 0% 11,820,509 11,80,167 0% 11,820,509 11,80,167 0% 11,820,509 11,80,167 0% 11,820,809 11,80,170 % 14,856 11,655 </td <td>Other</td> <td></td> <td>3,016</td> <td>2,336</td> <td>2,808</td> <td>29%</td> <td>7%</td> <td>5,352</td> <td>5,354</td> <td>4 0%</td>	Other		3,016	2,336	2,808	29%	7%	5,352	5,354	4 0%
Income Tax Expense (Benefit) (4,113) (5,052) (955) -19% 331% (0,165) (271) 3282% Net Income (Loss) \$ (5,391) \$ (3,083) 36% 75% \$ 9,036) \$ (1,379) 577% Note Income (Loss) Available to Common Shareholders \$ (5,572) \$ (4,454) \$ (3,083) 32% 94% \$ (1,179) - Not Basic Earnings (Loss) Per Share \$ (0,51) \$ (0,38) \$ (0,26) 34% 96% \$ (0,89) \$ (0,11) 70% Common Shares Outstanding at Period-End 11,820,509 <	Total Noninterest Expense		12,080	11,362	10,998	6%	10%	23,442	21,57	<u> </u>
Net Income (Loss) \$ (5,381) \$ (3,955) \$ (3,083) 36% 75% \$ (0,330) \$ (0,377) \$ 77% Dividends and Discount Accretion on Preferred Stock (591) (585) 1% N/A (1,176) N/A Net Income (Loss) Available to Common Shareholders \$ (5972) \$ (4,540) \$ (3,083) 32% 94% \$ (10,512) \$ (1,379) 662% PER COMMON SILAE DATA (mandited) (mandited) (0,38) \$ (0,26) 34% 96% \$ (0,89) \$ (0,11) 70% Divide Larrings (Loss) Per Share \$ (0,51) \$ (0,38) \$ (0,26) 34% 96% \$ (0,89) \$ (0,11) 70% Common Share Outstanding at Period-End 11,820,509 11,800,617 0% 0% \$ 1,802,509 11,803,60 11,803,60 11,803,60 11,803,60 11,803,60 11,803,60 11,803,60 11,803,60 11,803,60 11,803,60 -10.27% -1.81% -10.67% -1.81% -1.02% -0.27% -1.81% -1.06% -10.23% -1.23% -0.27% -1	Income (Loss) Before Income Taxes		(9,494)	(9,007)	(4,038)	5%	135%	(18,501)	(1,650) 1021%
Dividends and Discount Accretion on Prefered Stock (591) (585) - 1% N/A (1,176) - N/A Net Income (Loss) Available to Common Shareholders \$ (5,972) \$ (4,540) \$ (3,083) 32% 94% \$ (10,512) \$ (1,379) 662% PER COMMON SHARE DATA (mandite) Basic Earnings (Loss) Per Share \$ (0,51) \$ (0,38) \$ (0,26) 34% 96% \$ (0,89) \$ (0,11) 709% Diluted Earnings (Loss) Per Share \$ (0,51) \$ (0,38) \$ (0,26) 34% 96% \$ (0,89) \$ (0,11) 709% Common Shares Outstanding at Period-End 11,820,509 11,820,6107 0% 11,820,509 11,806,167 0% 5 12.04 \$ 12.01 44% 5 11.55 \$ 1.204 4.9% \$ 11.53 \$ 1.204 4.9% \$ 11.83,56 \$ 1.204 4.9% \$ 11.83,56 \$ 1.204 4.9% \$ 1.833,59 \$ 1.204 4.9% \$ 1.833,59 \$ 1.204 4.9% \$ 1.833,59 \$ 1.204 4.9% \$ 1.833,59 \$ 1.407% \$ 1.833,59 \$ 1.206,56	Income Tax Expense (Benefit)		(4,113)	(5,052)	(955)	-19%	331%	(9,165)	(271) 3282%
Net Income (Loss) Available to Common Shareholders \$ (5.92) \$ (4,540) \$ (3,083) 32% 94% \$ (10,512) \$ (1,379) 662% PER COMMON SHARE DATA (mandified) Basic Earnings (Loss) Per Share \$ (0.51) \$ (0.38) \$ (0.26) 34% 96% \$ (0.89) \$ (0.11) 709% Olited Earnings (Loss) Per Share \$ (0.51) \$ (0.38) \$ (0.26) 34% 96% \$ (0.89) \$ (0.11) 709% Common Shares Outstanding at Period-End 11,820,509 11,820,509 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,820,509 11,806,167 0% 11,806,167 0% 10,900,163,1	Net Income (Loss)	\$	(5,381)	\$ (3,955)	\$ (3,083)	36%	75%	\$ (9,336)	\$ (1,379) 577%
PER COMMON SHARE DATA (manufited) Basic Earnings (Loss) Per Share \$ (0.51) \$ (0.38) \$ (0.26) 34% 96% \$ (0.89) \$ (0.11) 709% Diluted Earnings (Loss) Per Share \$ (0.51) \$ (0.38) \$ (0.26) 34% 96% \$ (0.89) \$ (0.11) 709% Common Shares Outstanding at Period-End 11.820.509 11.800.6167 0% 0% \$ 11.525 \$ 12.01 -4% -4% \$ 11.525 \$ 12.01 -4% Targible Book Value Per Share \$ 7.56 \$ 8.04 \$ 7.96 -6% -5% \$ 7.56 \$ 7.96 -5% Annualized Return on Average Equity -11.90% -8.65% -8.34% -38% -43% -10.27% -1.81% -467% Annualized Return on Average Targible Equity -16.08% -11.62% -12.30% -38% -31% -1.28% -0.20% 5-60% Annualized Return on Average Targible Assets -1.48% -1.08% -0.85% -37% -74% -1.28% -0.20% 5-60% Net Interst Margin	Dividends and Discount Accretion on Preferred Stock		(591)	(585)		1%	N/A	(1,176)		- N/A
funditedBasic Barlings (Losp) Per Share\$0.0151\$0.0263.4%9.6%\$0.089\$0.0107.0%Ditude Earnings (Losp) Per Share1.820.0091.820.0091.800.1070.0%0.0%1.820.0091.820.0090.0%1.820.009 </td <td>Net Income (Loss) Available to Common Shareholders</td> <td>\$</td> <td>(5,972)</td> <td>\$ (4,540)</td> <td>\$ (3,083)</td> <td>32%</td> <td>94%</td> <td>\$ (10,512)</td> <td>\$ (1,379</td> <td>) 662%</td>	Net Income (Loss) Available to Common Shareholders	\$	(5,972)	\$ (4,540)	\$ (3,083)	32%	94%	\$ (10,512)	\$ (1,379) 662%
Diluted Family S (0.51) S (0.28) S (0.26) 34% 96% S (0.89) S (0.11) Common Shares Outstanding at Period-End 11,820,509 11,820,509 11,820,507 10% 0% 0% 0% 0.89,50 11,820,509 11,806,167 0% 0% 0 18,20,509 11,806,167 0% Book Value Per Share S 1.15 S 12.01 4% 4% S 11.55 S 12.01 4% Angible Book Value Per Share S 7.66 8.04 S 12.01 4.66 5% 5 12.01 4.66 Comaduted S 7.66 8.04 S 1.02% -1.81% 4.67% Annualized Return on Average Tangible Equity -16.08% -11.62% -0.85% -37% 74% -1.28% -0.02% 540% Annualized Return on Average Assets -1.53% -1.12% -0.85% -37% 74% -1.28% -0.20% 540% Annualized Return on Average Assets -1.53% -1.12% -0.85% -37%										
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Book Value Per Share \$ 11.55 \$ 12.01 4% 4% 5 11.55 \$ 12.01 4% Tangible Book Value Per Share \$ 7.56 \$ 8.04 \$ 7.96 -6% -5% \$ \$ 7.96 -5% \$ 5.05 5 5.05 5 5.05 5 7.96 5% 5 5.05 5 7.96 5% 5.05 5.75 \$ \$ 7.96 5.9 5.05 5.75 \$ 7.96 5.05% 5.756 \$ 7.96 5.181% 4.05% 4.05% -31% -10.27% -1.81% 4.07% 4.00% 4.05% -31% -1.12% -2.63% 4.26% 4.06% 4.01% 4.11.5% 4.02% -2.63% 4.26% 4.06% 4.01% 4.11.5% 4.02%<	Diluted Earnings (Loss) Per Share	\$	(0.51)	\$ (0.38)	\$ (0.26)	34%	96%	\$ (0.89)	\$ (0.11) 709%
Tagible Book Value Per Share \$ 7.56 \$ 7.56 \$ 7.66 -5.76 \$ 7.96 5.76 7.96 5.76 7.96 5.76 7.96 5.76 7.96 5.76 7.96 7.976	Common Shares Outstanding at Period-End		11,820,509	11,820,509	11,806,167	0%	0%	11,820,509	11,806,16	7 0%
KEY FIXANCLA RATIOS (unaudited) Annualized Return on Average Equity -11.90% -8.65% -8.34% -38% -43% -10.27% -1.81% 4.67% Annualized Return on Average Equity -16.08% -11.62% -12.30% -38% -31% -12.38% -2.63% -426% Annualized Return on Average Tangible Equity -16.08% -11.62% -12.30% -38% -31% -12.8% -0.20% -540% Annualized Return on Average Tangible Assets -1.48% -1.08% -0.85% -37% -74% -1.28% -0.20% -540% Annualized Return on Average Tangible Assets -1.53% -1.12% -0.88% -37% -74% -1.28% -0.20% -560% Net Interest Margin 3.55% 3.35% 4.00% 6% -11% 3.45% 4.15% 2% Average Tangible Assets 9.090% 88.94% 74.51% 2% 22% 89.94% 73.45% 2% Average Tangible Assets 1.409.973 \$ 1.445.366 -2% 0% \$ 1.415.295 4% Average Tangible Assets \$	Book Value Per Share	\$	11.55	\$ 12.04	\$ 12.01	-4%	-4%	\$ 11.55	\$ 12.0	1 -4%
(unaudited)Annualized Return on Average Equity-11.00%-8.65%-8.34%-38%-43%-10.27%-1.8.1%-4.67%Annualized Return on Average Tangible Equity-16.08%-11.62%-12.30%-38%-31%-13.83%-2.63%-426%Annualized Return on Average Assets-14.8%-11.8%-0.88%-37%-74%-12.28%-0.20%-540%Annualized Return on Average Assets-1.53%-1.12%-0.88%-37%-14.1%-12.28%-0.20%-540%Annualized Return on Average Tangible Assets-1.53%-1.12%-0.88%-74.5%20%22%89.94%-74.5%-20%Net Interest Margin-1.53%-1.12%-1.12%-0.20%-1.12%-1.12%-1.12%-1.12%-1.22%	Tangible Book Value Per Share	\$	7.56	\$ 8.04	\$ 7.96	-6%	-5%	\$ 7.56	\$ 7.9	5 -5%
Annualized Return on Average Equity-11.90% -8.65% -8.34% -38% -43% -10.27% -1.81% -467% Annualized Return on Average Tangible Equity -16.08% -11.62% -12.30% -38% -31% -13.83% -2.63% -426% Annualized Return on Average Assets -1.48% -1.08% -0.85% -37% -74% -1.28% -0.20% -540% Annualized Return on Average Tangible Assets -1.53% -1.12% -0.88% -37% -74% -1.28% -0.20% -560% Net Interest Margin 3.55% 3.35% 4.00% 6% -11% 3.45% 4.15% -17% Efficiency Ratio 9.90% 88.94% 74.51% 2% 22% 89.94% 73.45% 22% Average Assets $1.457.162$ $$$ $1.484.54\%$ $$$ $1.456.396$ -2% 0% $$$ $1.470.782$ $$$ $1.415.295$ Average Tangible Assets $$$ $1.457.162$ $$$ $1.484.54\%$ $$$ $1.456.396$ -2% 0% $$$ $1.415.295$ 4% Average Tangible Assets $$$ $1.409.973$ $$$ $1.430.973$ $$$ $1.430.973$ $$$ $1.430.973$ $$$ $1.470.782$ $$$ $$$ $1.415.295$ Average Tangible Assets $$$ $1.250.64\%$ $$$ $1.420.973$ $$$ $1.430.973$ $$$ $1.409.73$ $$$ $1.409.73$ $$$ $1.409.73$ $$$ $1.409.73$ $$$ $1.430.976$ $$$ <td></td>										
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Annualized Return on Average Assets -1.48% -1.08% -0.85% -37% -74% -1.28% -0.20% -560% Annualized Return on Average Tangible Assets -1.53% -1.12% -0.88% -37% -74% -1.28% -0.20% -560% Net Interest Margin 3.55% 3.35% 4.00% 6% -11% 3.45% 4.15% -17% Efficiency Ratio 90.90% 88.94% 74.51% 2% 22% 89.94% 73.45% 22% Average Assets 90.90% 88.94% 74.51% 2% 2% 1470,782 \$ 1415,295 Average Assets 1,449,773 \$ 1,448,544 \$ 1,456,396 -2% 0% \$ 1,415,295 4% Average Earning Assets 1,409,973 \$ 1,448,536 -2% 0% \$ 1,426,131 \$ 1,261,938 6% Average Earning Assets 1,320,604 \$ 1,331,921 \$ 1,408,536 -2% N/A \$ 1,22,940 9% Average Iarning Assets 1,20,254 \$ 1,236,531										
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Efficiency Ratio90.90%88.94%74.51%2%22%89.94%73.45%22%AVERAGE BALANCES (in \$000's, unaudited)Average Assets\$ 1,457,162\$ 1,484,54\$ 1,456,366-2%0%\$ 1,470,782\$ 1,415,2954%Average Assets\$ 1,409,973\$ 1,437,162\$ 1,437,162\$ 1,408,536-2%0%\$ 1,423,513\$ 1,452,954%Average Tangible Assets\$ 1,409,973\$ 1,320,604\$ 1,320,604\$ 1,320,604\$ 1,304,987-2%1%\$ 1,423,513\$ 1,367,3194%Average Earning Assets\$ 1,320,604\$ 1,320,604\$ 1,351,921\$ 1,304,987-2%1%\$ 1,361,622\$ 1,261,9386%Average Loans Held-for-Sale\$ 225\$ 2.52\$ 2.53,618\$ 1,100,274-2%3%\$ 1,221,216\$ 1,22,9409%Average Deposits\$ 1,206,254\$ 1,236,361\$ 1,100,274-2%3%\$ 1,122,9409%Average Deposits\$ 1,100,274\$ 2.53,481\$ 2.60,3611%-2%\$ 2.54,250\$ 2.54,7670%Average Demand Deposits - Noninterest Bearing\$ 2.55,111\$ 2.53,481\$ 2.60,3611%-2%\$ 2.54,250\$ 2.54,7670%Average Interest Bearing Deposits\$ 992,010\$ 91,007,15\$ 909,499-2%-2%\$ 902,598\$ 8.81,5162%Average Interest Bearing Liabilities\$ 992,010\$ 1,81,626\$ 1,018,685-2%-3%\$ 1,004,134\$ 979,5913% </td <td></td>										
(in \$000's, unaudited) \$ 1,457,162 \$ 1,484,544 \$ 1,456,396 -2% 0% \$ 1,470,782 \$ 1,415,295 4% Average Assets \$ 1,409,973 \$ 1,437,195 \$ 1,408,536 -2% 0% \$ 1,423,513 \$ 1,367,319 4% Average Tangible Assets \$ 1,320,604 \$ 1,320,604 \$ 1,304,987 -2% 1% \$ 1,423,513 \$ 1,261,938 6% Average Earning Assets \$ 1,320,604 \$ 1,320,604 \$ 1,304,987 -2% 1% \$ 1,261,938 6% Average Loans Held-for-Sale \$ 225 \$ 1,262,541 \$ 1,206,254 \$ 1,206,254 \$ 1,170,274 -2% N/A N/A \$ 1,122,940 9% Average Deposits \$ 1,150,220 \$ 1,163,552 \$ 1,169,860 -1% -2% \$ 1,156,848 \$ 1,136,283 2% Average Deposits - Noninterest Bearing \$ 255,011 \$ 253,481 \$ 260,361 1% -2% \$ 254,250 \$ 254,767 0% Average Interest Bearing Liabilities \$ 992,010 \$ 910,071 \$ 909,499 -2% -2% \$ 881,516 2% 2% 3% 3% 979,591 <td>-</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	-									
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Average Loans Held-for-Sale \$ 225 \$ \$ 1,225 \$ \$ - N/A N/A \$ \$ 113 \$ > - N/A Average Total Loans \$ 1,206,254 \$ \$ 1,236,361 \$ \$ 1,170,274 -2% 3% \$ \$ 1,221,216 \$ \$ 1,122,940 9% Average Deposits \$ 1,150,220 \$ \$ 1,163,552 \$ \$ 1,169,860 -1% -2% \$ \$ 1,156,848 \$ \$ 1,136,283 2% Average Demand Deposits - Noninterest Bearing \$ 255,011 \$ \$ 253,481 \$ \$ 260,361 1% -2% \$ \$ 254,250 \$ \$ 254,767 0% Average Interest Bearing Deposits \$ 895,209 \$ \$ 910,071 \$ \$ 909,499 -2% -2% \$ \$ 002,598 \$ \$ 881,516 2% Average Interest Bearing Liabilities \$ 992,010 \$ 1,016,395 \$ 1,018,685 -2% -3% \$ \$ 1,004,134 \$ \$ 979,591 3% Average Equity \$ 181,396 \$ 185,424 \$ 148,660 -2% 22% \$ \$ 183,401 \$ \$ 153,544 153,544	Average Tangible Assets	\$	1,409,973	\$ 1,437,195	\$ 1,408,536	-2%	0%	\$ 1,423,513	\$ 1,367,31	9 4%
Average Total Loans \$ 1,206,254 \$ 1,236,361 \$ 1,170,274 -2% 3% \$ 1,221,216 \$ 1,122,940 9% Average Deposits \$ 1,150,220 \$ 1,163,552 \$ 1,169,860 -1% -2% \$ 1,156,848 \$ 1,136,283 2% Average Demand Deposits - Noninterest Bearing \$ 255,011 \$ 253,481 \$ 260,361 1% -2% \$ 254,250 \$ 254,767 0% Average Interest Bearing Deposits \$ 895,209 \$ 910,071 \$ 909,499 -2% -2% \$ 902,598 \$ 881,516 2% Average Interest Bearing Liabilities \$ 992,010 \$ 1,016,395 \$ 1,018,685 -2% -2% \$ 1,004,134 \$ 979,591 3% Average Equity \$ 181,396 \$ 185,424 \$ 148,660 -2% 22% \$ 183,401 \$ 153,544 979,591 3%	Average Earning Assets	\$	1,320,604	\$ 1,351,921	\$ 1,304,987	-2%	1%	\$ 1,336,162	\$ 1,261,93	8 6%
Average Deposits \$ 1,150,220 \$ 1,163,552 \$ 1,169,860 -1% -2% \$ 1,156,848 \$ 1,136,283 2% Average Demand Deposits - Noninterest Bearing \$ 255,011 \$ 255,011 \$ 255,041 \$ 260,361 1% -2% \$ 254,250 \$ 254,767 0% Average Interest Bearing Deposits \$ 895,209 \$ 910,071 \$ 909,499 -2% -2% \$ 902,598 \$ 881,516 2% Average Interest Bearing Liabilities \$ 992,010 \$ 1,016,395 \$ 1,018,685 -2% -3% \$ 1,004,134 \$ 979,591 3% Average Equity \$ 181,396 \$ 185,424 \$ 148,660 -2% 2% \$ 183,401 \$ 153,544 19%	Average Loans Held-for-Sale	\$	225	\$ -	\$ -	N/A	N/A	\$ 113	\$	- N/A
Average Demand Deposits - Noninterest Bearing \$ 255,011 \$ 253,481 \$ 260,361 1% -2% \$ 254,250 \$ 254,767 0% Average Interest Bearing Deposits \$ 895,209 \$ 910,071 \$ 909,499 -2% -2% \$ 902,598 \$ 881,516 2% Average Interest Bearing Liabilities \$ 992,010 \$ 1,016,395 \$ 1,018,685 -2% -2% \$ 1,004,134 \$ 979,591 3% Average Equity \$ 181,396 \$ 185,424 \$ 148,660 -2% 22% \$ 183,401 \$ 153,544 19%	Average Total Loans	\$	1,206,254	\$ 1,236,361	\$ 1,170,274	-2%	3%	\$ 1,221,216	\$ 1,122,940) 9%
Average Interest Bearing Deposits \$ 895,209 \$ 910,071 \$ 909,499 -2% -2% \$ 902,598 \$ 881,516 2% Average Interest Bearing Liabilities \$ 992,010 \$ 1,016,395 \$ 1,018,685 -2% -3% \$ 1,004,134 \$ 979,591 3% Average Equity \$ 181,396 \$ 185,424 \$ 148,660 -2% 2% \$ 183,401 \$ 153,544 19%	Average Deposits	\$	1,150,220	\$ 1,163,552	\$ 1,169,860	-1%	-2%	\$ 1,156,848	\$ 1,136,283	3 2%
Average Interest Bearing Liabilities \$ 992,010 \$ 1,016,395 \$ 1,018,685 -2% -3% \$ 1,004,134 \$ 979,591 3% Average Equity \$ 181,396 \$ 185,424 \$ 148,660 -2% 22% \$ 183,401 \$ 153,544 19%	Average Demand Deposits - Noninterest Bearing	\$	255,011	\$ 253,481	\$ 260,361	1%	-2%	\$ 254,250	\$ 254,76	7 0%
Average Equity \$ 181,396 \$ 185,424 \$ 148,660 -2% 22% \$ 183,401 \$ 153,544 19%	Average Interest Bearing Deposits	\$	895,209	\$ 910,071	\$ 909,499	-2%	-2%	\$ 902,598	\$ 881,51	5 2%
	Average Interest Bearing Liabilities	\$	992,010	\$ 1,016,395	\$ 1,018,685	-2%	-3%	\$ 1,004,134	\$ 979,59	1 3%
AverageTangible Equity \$ 134,207 \$ 138,075 \$ 100,800 -3% 33% \$ 136,132 \$ 105,568 29%	Average Equity	\$	181,396	\$ 185,424	\$ 148,660	-2%	22%	\$ 183,401	\$ 153,54	4 19%
	AverageTangible Equity	\$	134,207	\$ 138,075	\$ 100,800	-3%	33%	\$ 136,132	\$ 105,56	8 29%

				Percent Change From:				
CONSOLIDATED BALANCE SHEETS (in \$000's, unaudited)		June 30, 2009	March 31, 2009		June 30, 2008		March 31, 2009	June 30, 2008
ASSETS			_					
Cash and Due from Banks	\$	31,315	\$	30,720	\$	42,642	2%	-27%
Federal Funds Sold		150		100		150	50%	0%
Securities Available-for-Sale, at Fair Value		101,837		97,340		116,594	5%	-13%
Loans Held-for-Sale		20,506		-		-	N/A	N/A
Loans:								
Commercial Loans		457,981		500,616		509,887	-9%	-10%
Real Estate-Mortgage		412,430		406,182		403,526	2%	2%
Real Estate-Land and Construction		230,798		244,181		243,731	-5%	-5%
Home Equity		55,372		54,011		45,991	3%	20%
Consumer Loans		3,596		4,025		4,686	-11%	-23%
Loans		1,160,177	-	1,209,015		1,207,821	-4%	-4%
Deferred Loan Costs, net		1,489		1,556		1,301	-4%	14%
Total Loans, Net of Deferred Costs		1,161,666		1,210,571		1,209,122	-4%	-4%
Allowance for Loan Losses		(31,398)		(23,900)		(20,865)	31%	50%
Net Loans		1,130,268		1,186,671		1,188,257	-5%	-5%
Company Owned Life Insurance		41,476		41,061		39,819	1%	4%
Premises & Equipment, net		9,312		9,383		9,052	-1%	3%
Goodwill		43,181		43,181		43,181	0%	0%
Intangible Assets		3,910		4,071		4,584	-4%	-15%
Accrued Interest Receivable and Other Assets		55,069		48,216		42,708	14%	29%
Total Assets	¢	1,437,024	\$	1,460,743	\$	1,486,987	-2%	-3%
LIABILITIES & SHAREHOLDERS' EQUITY Liabilities: Deposits								
Demand Deposits-Noninterest Bearing	\$	258,464	\$	254,823	\$	262,813	1%	-2%
Demand Deposits-Interest Bearing		134,318		133,183		145,151	1%	-7%
Savings and Money Market		331,444		358,848		435,754	-8%	-24%
Time Deposits, Under \$100		43,772		46,078		33,911	-5%	29%
Time Deposits, \$100 and Over		170,858		177,308		173,766	-4%	-2%
Brokered Deposits		224,691		195,763		108,623	15%	107%
Total Deposits		1,163,547		1,166,003		1,160,018	0%	0%
Securities Sold under Agreement to Repurchase		30,000		30,000		35,000	0%	-14%
Note payable		-		-		12,000	N/A	-100%
Other Short-term Borrowing		15,000		32,000		86,000	-53%	-83%
Notes Payable To Subsidiary Grantor Trusts		23,702		23,702		23,702	0%	0%
Accrued Interest Payable and Other Liabilities		30,193		28,757		28,518	5%	6%
Total Liabilities		1,262,442		1,280,462		1,345,238	-1%	-6%
Shareholders' Equity:								
Preferred Stock, net		38,070		37,985		-	0%	N/A
Common Stock		79,524		79,153		75,941	0%	5%
Accumulated Other Comprehensive Income (Loss)		(68)		115		(930)	-159%	-93%
Retained Earnings		57,056		63,028		66,738	-9%	-15%
Total Shareholders' Equity		174,582		180,281		141,749	-3%	23%
Total Liabilities & Shareholders' Equity	\$	1,437,024	\$	1,460,743	\$	1,486,987	-2%	-3%

	_		Percent Change From:					
CREDIT QUALITY DATA (in \$000's, unaudited)		June 30, 2009		March 31, 2009		June 30, 2008	March 31, 2009	June 30, 2008
Nonaccrual Loans	\$	57,889	\$	54,291	\$	12,226	7%	373%
Loans Over 90 Days Past Due and Still Accruing		786		1,774		1,488	-56%	-47%
Total Nonperforming Loans		58,675		56,065		13,714	5%	328%
Other Real Estate Owned		3,062		802		580	282%	428%
Total Nonperforming Assets	\$	61,737	\$	56,867	\$	14,294	9%	332%
Net Charge-offs (Recoveries)	\$	3,206	\$	11,527	\$	370	-72%	766%
Allowance for Loan Losses to Total Loans		2.70%		1.97%		1.73%	37%	56%
Allowance for Loan Losses to Nonperforming Loans		53.51%		42.63%		152.14%	26%	-65%
Nonperforming Assets to Total Assets		4.30%		3.89%		0.96%	11%	348%
Nonperforming Loans to Total Loans		5.05%		4.63%		1.13%	9%	347%
OTHER PERIOD-END STATISTICS (unaudited)								
Shareholders' Equity / Total Assets		12.15%		12.34%		9.53%	-2%	27%
Loan to Deposit Ratio		99.84%		103.82%		104.23%	-4%	-4%
Noninterest Bearing Deposits / Total Deposits		22.21%		21.85%		22.66%	2%	-2%
Leverage Ratio		9.80%		10.41%		8.36%	-6%	17%

	For the Three Months Ended June 30, 2009					For the Three Months Ended June 30, 2008					
NET INTEREST INCOME AND NET INTEREST MARGIN (in \$000's, unaudited)		Average Balance	Interest Income/ Expense	Average Yield/ Rate		Average Balance		Interest Income/ Expense	Average Yield/ Rate		
Assets:											
Loans, gross	\$	1,206,479 \$	14,862	4.94%	\$	1,170,274	\$	17,250	5.93%		
Securities		107,158	958	3.59%		131,428		1,433	4.39%		
Interest bearing deposits in other financial institutions		6,828	4	0.23%		470		2	1.71%		
Federal funds sold		139	-	0.00%		2,815		14	2.00%		
Total interest earning assets		1,320,604	15,824	4.81%		1,304,987		18,699	5.76%		
Cash and due from banks		23,090				35,476					
Premises and equipment, net		9,380				9,144					
Goodwill and other intangible assets		47,189				47,860					
Other assets		56,899				58,929					
Total assets	\$	1,457,162			\$	1,456,396					
Liabilities and shareholders' equity: Deposits:											
Demand, interest bearing	\$	134,141	79	0.24%	\$	155,130		367	0.95%		
Savings and money market		346,847	662	0.77%		467,428		1,862	1.60%		
Time deposits, under \$100		44,612	259	2.33%		34,507		271	3.16%		
Time deposits, \$100 and over		169,954	718	1.69%		174,534		1,363	3.14%		
Brokered time deposits		199,655	1,676	3.37%		77,900		793	4.09%		
Notes payable to subsidiary grantor trusts		23,702	487	8.24%		23,702		526	8.93%		
Securities sold under agreement to repurchase		30,000	227	3.03%		35,890		255	2.86%		
Note payable		-	-	N/A		10,407		75	2.90%		
Other short-term borrowings		43,099	27	0.25%		39,187		219	2.25%		
Total interest bearing liabilities		992,010	4,135	1.67%		1,018,685	_	5,731	2.26%		
Demand, noninterest bearing		255,011				260,361					
Other liabilities		28,745				28,690					
Total liabilities		1,275,766			_	1,307,736					
Shareholders' equity		181,396				148,660					
Total liabilities and shareholders' equity	\$	1,457,162			\$	1,456,396					
Net interest income / margin		\$	11,689	3.55%			\$	12,968	4.00%		

		e Six Months Endec June 30, 2009	1	For the Six Months Ended June 30, 2008			
NET INTEREST INCOME AND NET INTEREST MARGIN (in \$000's, unaudited)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	
Assets:							
Loans, gross	\$ 1,221,329 \$	29,892	4.94%	\$ 1,122,940	\$ 35,605	6.38%	
Securities	108,655	1,957	3.63%	134,619	2,934	4.38%	
Interest bearing deposits in other financial institutions	6,021	8	0.27%	768	9	2.36%	
Federal funds sold	 157	-	0.00%	3,611	46	2.56%	
Total interest earning assets	1,336,162	31,857	4.81%	1,261,938	38,594	6.15%	
Cash and due from banks	23,786			37,017			
Premises and equipment, net	9,424			9,208			
Goodwill and other intangible assets	47,269			47,976			
Other assets	54,141			59,156			
Total assets	\$ 1,470,782			\$ 1,415,295			
Liabilities and shareholders' equity:							
Deposits:							
Demand, interest bearing	\$ 135,223	178	0.27%	\$ 151,800	968	1.28%	
Savings and money market	346,851	1,454	0.85%	472,009	4,751	2.02%	
Time deposits, under \$100	45,356	555	2.47%	34,566	591	3.44%	
Time deposits, \$100 and over	173,377	1,592	1.85%	160,633	2,753	3.45%	
Brokered time deposits	201,791	3,645	3.64%	62,508	1,311	4.22%	
Notes payable to subsidiary grantor trusts	23,702	987	8.40%	23,702	1,083	9.19%	
Securities sold under agreement to repurchase	31,354	469	3.02%	29,027	410	2.84%	
Note payable	5,110	82	3.24%	5,780	84	2.92%	
Other short-term borrowings	 41,370	54	0.26%	39,566	571	2.90%	
Total interest bearing liabilities	1,004,134	9,016	1.81%	979,591	12,522	2.57%	
Demand, noninterest bearing	254,250			254,767			
Other liabilities	28,997			27,393			
Total liabilities	1,287,381		•	1,261,751			
Shareholders' equity	183,401			153,544			
Total liabilities and shareholders' equity	\$ 1,470,782			\$ 1,415,295			
Net interest income / margin	\$	22,841	3.45%		\$ 26,072	4.15%	