CNB FLORIDA BANCSHARES INC
Form 10-Q
November 15, 2001

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

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (no fee required) For the quarterly period ended September 30, 2001

OR

___ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (no fee required) For the transition period from ________ to ________

Commission File No. 0-25988

CNB Florida Bancshares, Inc.
(Exact Name of Registrant as Specified in Its Charter)

FLORIDA	59-2958616
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9715 Gate Parkway North Jacksonville, Florida	32246
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (904) 997-8484

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

The number of shares of the registrant's common stock outstanding as of October 31, 2001 was 6,082,377 shares, $0.01 par value per share.

CNB FLORIDA BANCSHARES, INC.
FINANCIAL REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

CNB FLORIDA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
(Unaudited)

	September 30, 2001	D
ASSETS	(thousan	
Cash and cash equivalents:		
Cash and due from banks	$ 19,835	
Interest bearing deposits in other banks	554	

Total cash and cash equivalents		20,389
Investment securities available for sale		33,230
Investment securities held to maturity		5,457
Loans:		
Commercial, financial and agricultural		266,233
Real estate - mortgage		158,626
Real estate - construction		43,404
Installment and consumer		40,623
Total loans, net of unearned income		508,886
Less: Allowance for loan losses		(4,850)
Net loans		504,036
Premises and equipment, net		26,307
Intangible assets		6,671
Other assets		5,702
TOTAL ASSETS	$	601,792

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES		
Deposits:		
Non-interest bearing demand	$	69,539
Savings, NOW and money market		189,443
Time (under $100,000)		155,582
Time ($100,000 and over)		108,190
Total deposits		522,754
Securities sold under repurchase agreements and federal funds purchased		15,757
Short term borrowings		12,000
Other liabilities		5,039
Total liabilities		555,550
SHAREHOLDERS' EQUITY		
Preferred stock; $.01 par value; 500,000 shares authorized; no shares issued or outstanding		-
Common stock; $.01 par value, 10,000,000 shares authorized; 6,085,077 and 6,099,376 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively		61
Additional paid-in capital		30,456
Retained earnings		15,189
Accumulated other comprehensive income, net of tax		536
Total shareholders' equity		46,242
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	601,792

CNB FLORIDA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Nine Months Ended Se
	2001
	(thousand
Interest Income	
Interest and fees on loans	$ 28,349
Interest on investment securities available for sale	1,439
Interest on investment securities held to maturity	305
Interest on federal funds sold	94
Interest on interest bearing deposits	8
Total interest income	30,195
Interest Expense	
Interest on deposits	13,438
Interest on repurchase agreements and federal funds purchased	480
Interest on short-term borrowings	1,142
Total interest expense	15,060
Net interest income	15,135
Provision for Loan Losses	1,450
Net interest income after provision for loan losses	13,685
Non-interest Income	
Service charges	1,867
Secondary marketing mortgage loan sales	1,237
Other fees and charges	724
Total non-interest income	3,828
Non-interest Expense	
Salaries and employee benefits	7,507
Occupancy and equipment expenses	2,221
Other operating expenses	4,590
Total non-interest expense	14,318
Income before income taxes	3,195
Income taxes	1,118
NET INCOME	$ 2,077
Earnings Per Share (Note 3):	
Basic earnings per share	$ 0.34
Weighted average shares outstanding	6,096,582
Diluted earnings per share	$ 0.33
Diluted weighted average shares outstanding	6,212,878

CNB FLORIDA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Three Months Ended Se
	2001
	(thousan
Interest Income	
Interest and fees on loans	$ 9,902
Interest on investment securities available for sale	460
Interest on investment securities held to maturity	90
Interest on federal funds sold	66
Interest on interest bearing deposits	6
Total interest income	10,524
Interest Expense	
Interest on deposits	4,795
Interest on repurchase agreements and federal funds purchased	121
Interest on short-term borrowings	276
Total interest expense	5,192
Net interest income	5,332
Provision for Loan Losses	550
Net interest income after provision for loan losses	4,782
Non-interest Income	
Service charges	649
Secondary market mortgage loan sales	491
Other fees and charges	232
Total non-interest income	1,372
Non-interest Expense	
Salaries and employee benefits	2,530
Occupancy and equipment expenses	825
Other operating expenses	1,842
Total non-interest expense	5,197
Income before income taxes	957
Income taxes	333
NET INCOME	$ 624

Earnings Per Share (Note 3):		
Basic earnings per share	$ 0.10	$
Weighted average shares outstanding	6,097,248	
Diluted earnings per share	$ 0.10	$
Diluted weighted average shares outstanding	6,210,072	

CNB FLORIDA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Nine Months Ended Septem	
	2001	
	(thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,077	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,408	
Provision for loan loss	1,450	
Investment securities (accretion) amortization, net	(5)	
Non-cash compensation	17	
Changes in assets and liabilities:		
Other assets	(664)	
Other liabilities	910	
Net cash provided by operating activities	5,193	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities available for sale	(30,876)	
Proceeds from maturities of securities available for sale	21,798	
Proceeds from maturities of securities held to maturity	3	
Proceeds from called securities available for sale	10,000	
Proceeds from called securities held to maturity	1,998	
Net increase in loans	(116,099)	
Purchases of premises and equipment, net	(3,065)	
Branches acquired from Republic Bank	42,279	
Net cash used in investing activities	(73,962)	

CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	92,702	
Decrease in securities sold under repurchase agreements and federal funds purchased	(5,385)	
Decrease in short term borrowings	(18,000)	
Cash dividends paid	(915)	
Repurchase of common stock	(152)	
Exercise of options	10	
Net cash provided by financing activities	68,260	
Increase (decrease) in cash and cash equivalents	(509)	
Cash and cash equivalents at beginning of period	20,898	
Cash and cash equivalents at end of period	$ 20,389	$
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 14,041	$
Taxes paid	$ 1,479	$

CNB FLORIDA BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001
(Unaudited)

Note 1. Basis of Presentation
The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q which do not require all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management, such financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. Management's discussion and analysis should be read in conjunction with the consolidated financial statements.

Note 2. Consolidation
The consolidated financial statements include the accounts of CNB Florida Bancshares, Inc. and its wholly owned subsidiary, CNB National Bank. All significant intercompany accounts and transactions have been eliminated.

Note 3. Earnings Per Share
Basic earnings per share is calculated based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated based on the weighted average number of shares of common stock outstanding and common stock equivalents, consisting of outstanding stock options. Common stock equivalents are determined using the treasury method for

diluted shares outstanding. The difference between diluted and basic shares outstanding is common stock equivalents from stock options and restricted stock outstanding during the periods ended September 30, 2001 and 2000.

Note 4. Branch Acquisitions
On May 11, 2001, the Bank purchased the Lake City and Live Oak branches of Republic Bank. The Bank acquired loans and deposits of approximately $12 million and $64 million, respectively. The Bank also recorded a core deposit intangible of $6 million, which is being amortized over its estimated life of 10 years.

Note 5. Comprehensive Income
Comprehensive income is defined as the total of net income and all other changes in equity. The following table details the Company's comprehensive income for the three and nine month periods ending September 30, 2001 and 2000.

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nin Ended S 2001
Net Income	$ 624	$ 632	$ 2,077
Other Comprehensive Income (Loss), Net of Tax			
Unrealized Gains (Losses) on Securities:			
Unrealized Gains (Losses) on Securities Arising During the Period	151	246	566
Less: Reclassification Adjustment	-	(2)	(3
Total Unrealized Gains (Losses), Net of Tax Recognized in Other Comprehensive Income	151	248	569
Comprehensive Income, Net of Tax	$ 775	$ 880	$ 2,646

7

Note 6. Recent Accounting Pronouncements
In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, Business Combinations ("SFAS 141"). SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company will apply the provisions of SFAS 141 to future acquisitions.

In July 2001, the FASB also issued SFAS No. 142, Goodwill and Other Intangibles ("SFAS 142"). SFAS 142 requires, among other things, the discontinuance of goodwill amortization and includes provisions for reassessment of the useful lives of existing intangibles and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires the Company to complete a two-step transitional goodwill impairment test. The first step of the impairment test must be completed six months from the date of adoption and the second step must be completed as soon as possible, but no later than the end of the year of initial application. The Company will be adopting the provisions of SFAS 142 on January 1, 2002. Therefore, the Company is currently assessing but has not yet determined the impact of SFAS 142 on its financial position and results of operations. For the nine months ended September 30, 2001, the Company recorded goodwill amortization expense of $52,000.

In July 2001, the SEC released Staff Accounting Bulletin ("SAB") No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues. SAB No. 102 expresses the SEC staff's views on the development, documentation and application of a systematic methodology in determining a GAAP allowance for loan losses. The SAB stresses that the methodology for computing the allowance be both disciplined and consistent, and emphasizes that the documentation supporting the allowance and provision must be sufficient. SAB No. 102 provides guidance that is consistent with the Federal Financial Institutions Examination Council's ("FFIEC"), Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions, which was also issued in July 2001. SAB No. 102 is applicable to all registrants with material loan portfolios while the parallel guidance of the FFIEC is applicable only to banks and savings institutions. The adoption of this bulletin did not have a material impact on reported results of operations of the Company.

Note 7. Subsequent Event

On October 1, 2001, the Company modified its existing line of credit agreement with a bank. The existing $10 million line of credit was modified through the following structures:

- $3 million revolving line of credit maturing on June 30, 2002. Interest is variable at 3-month Libor plus 145 basis points.
- $10 million term loan maturing October 3, 2006. Interest is variable at 3-month Libor plus 170 basis points. Quarterly principal payments begin in 2003 based on a 7-year amortization schedule.

In addition, the Company entered into a $10 million pay-fixed interest rate swap with the same bank. The fixed rate under the interest rate swap is 6.45% and the variable rate is based on 3-month Libor plus 170 basis points. The swap matures October 3, 2006 and has been designated as a cash flow hedge of the variable interest payments on the $10 million term loan noted above.

CNB FLORIDA BANCSHARES, INC. AND SUBSIDIARY
Selected Financial Data

	Nine Months Ended September 30, 2001	2000
Dollars in thousands except per share information.		
SUMMARY OF OPERATIONS:		
Total interest income	$ 30,195	$ 22,881
Total interest expense	(15,060)	(10,118)
Net interest income	15,135	12,763
Provision for loan losses	(1,450)	(950)
Net interest income after provision for loan losses	13,685	11,813
Non-interest income	3,828	2,399
Non-interest expense	(14,318)	(11,346)

Income before taxes	3,195	2,866
Income taxes	(1,118)	(990)
Net income	$ 2,077	$ 1,876
PER COMMON SHARE:		
Basic earnings	$ 0.34	$ 0.31
Diluted earnings	0.33	0.31
Book value	7.61	7.23
Dividends	0.15	0.15
Actual shares outstanding	6,085,077	6,091,300
Weighted average shares outstanding	6,096,582	6,099,278
Diluted weighted average shares outstanding	6,212,878	6,141,743
KEY RATIOS:		
Return on average assets	0.52%	0.65%
Return on average shareholders' equity	6.10	5.77
Dividend payout	44.11	48.39
Efficiency ratio	75.50	74.83
Total risk-based capital ratio	8.94	13.51
Average shareholders' equity to average assets	8.47	11.18
Tier 1 leverage	6.66	10.48
FINANCIAL CONDITION AT PERIOD-END:		
Assets	$ 601,792	$ 433,540
Loans	508,886	346,457
Deposits	522,754	339,497
Shareholders' equity	46,242	44,042

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following analysis reviews important factors affecting the financial condition and results of operations of CNB Florida Bancshares, Inc. for the nine months ended September 30, 2001 and 2000. This financial information should be read in conjunction with the unaudited consolidated financial statements of CNB Florida Bancshares, Inc. ("the Company") and its wholly owned subsidiary, CNB National Bank ("the Bank"), included in "Item 1. Financial Statements" above and the audited consolidated financial statements included in Form 10-K for the year ended December 31, 2000. The analysis contains forward-looking statements with respect to financial and business matters, which are subject to risks and uncertainties, that may change over a period of time. These risks and uncertainties include but are not limited to changes in interest rates, variances in actual versus projected growth in assets, loan losses, the ability to control expenses, costs of opening new branches and entering the First Coast and Gainesville markets, competitive factors and general economic conditions, changes in government regulation, the ability to attract and retain qualified personnel and the ability to attract new loan and deposit relationships. Actual results could be significantly different from the forward-looking statements contained herein. The Company has no foreign operations; accordingly, there are no assets or liabilities attributable to foreign operations.

RESULTS OF OPERATIONS

The Company's net income for the nine month period ended September 30, 2001 was $2.1 million, or $0.33 per diluted share, compared to $1.9 million, or $0.31 per diluted share, for the nine month period in 2000. Net income for the three month period ended September 30, 2001 was $624,000, or $0.10 per diluted share, compared to $632,000, or $0.10 per diluted share, for the comparable period in 2000. Total assets increased to $601.8 million at September 30, 2001 compared to $433.5 million at September 30, 2000, an increase of 39%. Included in the results for a portion of the first nine months of 2001 is the impact of the acquisition of the Lake City and Live Oak branches of Republic Bank in May 2001. In connection with the purchase, the Company acquired loans and deposits of approximately $12 million and $64 million, respectively.

Net Interest Income

Net interest income is the single largest source of revenue for the Bank and consists of interest and fee income generated by earning assets, less interest expense paid on interest bearing liabilities. Net interest income was $15.1 million for the nine month period ending September 30, 2001, compared to $12.8 million for the comparable period in 2000, an increase of 19%. Interest income for the three and nine month periods ended September 30, 2001, increased $2.2 million, or 27%, and $7.3 million, or 32%, respectively, over the comparable prior year periods. Loan growth was the primary contributor to the increase in interest income. Interest expense rose $1.3 million, or 32% and $4.9 million, or 49% for the three and nine months ending September 30, 2001, respectively, from the comparable 2000 periods. The increased interest expense reflects deposit growth, including those accounts acquired from Republic Bank, and partially mitigated the positive impact of loan growth on net interest income.

Average loans increased $144.6 million or 48% and represented 91% of total average earning assets for the nine months ended September 30, 2001 versus 86% for 2000. The Company's loan to deposit ratio at September 30, 2001 was 97% compared to 104% at December 31, 2000.

The Company's net interest margin decreased to 4.13% in 2001, compared to 4.85% in 2000. The decline in the margin is reflective of a drop in interest rates of 400 basis points during the first nine months of 2001 coupled with an increase in average time deposit rates.

Table 1: "Average Balances - Yields and Rates" provides the Company's average volume of interest earning assets and interest bearing liabilities for the nine months ended September 30, 2001 and 2000. Table 1a presents an analysis of changes in interest income and expense.

Table 1: Average Balances - Yields and Rates
(Unaudited)

	Nine Months Ended September 30, 2001	Nine Sept

	Average Balance	Interest Income or Expense	Average Rate	Average Balance	Inter Incom Expe
			(dollars in thousands)		
ASSETS:					
Federal funds sold	$ 3,178	$ 94	3.96%	$ 3,951	$
Investment securities available for sale	32,248	1,439	5.97	33,522	1
Investment securities held to maturity	6,659	305	6.12	10,212	
Loans (1)	447,375	28,349	8.47	302,824	20
Interest bearing deposits	346	8	3.09	1,148	
TOTAL EARNING ASSETS	489,806	30,195	8.24	351,657	22
All other assets	47,910			36,749	
TOTAL ASSETS	$ 537,716			$ 388,406	
LIABILITIES AND SHAREHOLDERS' EQUITY:					
NOW and money markets	$ 140,193	$ 3,018	2.88%	$ 108,650	$ 2
Savings	18,218	158	1.16	17,346	
Time deposits	224,638	10,262	6.11	146,272	6
Repurchase agreements and federal funds purchased	14,725	480	4.36	8,830	
Short term borrowings	27,344	1,142	5.58	11,277	
TOTAL INTEREST BEARING LIABILITIES	425,118	15,060	4.74	292,375	10
Demand deposits	60,654			48,759	
Other liabilities	6,400			3,841	
Shareholders' equity	45,544			43,431	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 537,716			$ 388,406	
INTEREST SPREAD (2)			3.50%		
NET INTEREST INCOME		$ 15,135			$ 12
NET INTEREST MARGIN (3)			4.13%		

Table 1a: Analysis of Changes in Interest Income and Expense
(Unaudited)

	NET CHANGE SEPTEMBER 30, 2000-2001 ATTRIBUTABLE TO:			NET CHANGE SEP 1999-2000 ATTR	
	Volume (1)	Rate (2)	Net Change	Volume (1)	R
			(thousands)		
INTEREST INCOME:					
Federal funds sold	$ (35)	$ (48)	$ (83)	$ (389)	$
Investment securities available for sale	(62)	(92)	(154)	(630)	
Investment securities held to maturity	(155)	16	(139)	65	
Loans	9,810	(2,071)	7,739	6,409	
Interest bearing deposits	(40)	(9)	(49)	(366)	
Total	9,518	(2,204)	7,314	5,089	
INTEREST EXPENSE:					
NOW and money markets	781	(461)	320	475	
Savings	8	(30)	(22)	(1)	
Time deposits	3,363	605	3,968	580	
Repurchase agreements and federal funds purchased	192	(90)	102	103	
Short term borrowings	811	(237)	574	-	
Total	5,155	(213)	4,942	1,157	
Net interest income	$ 4,363	$ (1,991)	$ 2,372	$ 3,932	$

Non-Interest Income

Non-interest income for the nine months ended September 30, 2001 was $3.8 million, an increase of $1.4 million, or 60% as compared to the same period in 2000. For the three months ended September 30, 2001, non-interest income increased $524,000 or 62% to $1.4 million as compared to $848,000 for the same period in 2000. Service charges on deposit accounts increased to $233,000 for the nine month period and $74,000 for the three month period ending September 30, 2001 as compared to the same periods in 2000. Other fee income, which includes credit card fees, credit life insurance income, safe deposit box fees, fees from mortgage loans sold to secondary markets, net gains and losses from sale of securities and other miscellaneous fees, increased $450,000 in the third quarter of 2001 compared to the third quarter of 2000 and increased $1.2 million for the first nine months of 2001 versus the comparable period in 2000. The increase in other fee income was primarily attributed to growth in mortgage loan originations sold to secondary loan markets and higher service charge income.

Non-interest income, annualized, as a percentage of average assets was 0.95% for the nine months ended September 30, 2001, compared to 0.83% for the comparable period in 2000.

Non-Interest Expense

Non-interest expense increased in the third quarter of 2001 compared to the same period in 2000 by $1.3 million or 34%, and $3.0 million, or 26% for the 2001 nine month period versus the comparable period in 2000. Non-interest expense, annualized, as a percentage of average assets for the nine month period ending September 30, 2001 and 2000 was 3.56% and 3.90%, respectively.

Salaries and employee benefits increased $1.2 million or 18% to $7.5 million for the 2001 nine month period, compared to $6.3 million for the same period in 2000. This increase reflects the opening of two new branches in our First Coast market, in addition to the purchase of the Lake City and Live Oak branches of Republic Bank.

Occupancy expense, including premises, furniture, fixtures and equipment, increased $267,000, or 48% and $645,000, or 41%, respectively in 2001, over the comparable three and nine month periods in 2000. The increase is primarily attributable to the increased costs resulting from branch openings in Jacksonville and St. Augustine, the relocation during 2000 into new facilities in Jacksonville and Gainesville and the expansion of our Lake City Operations Center. The Bank also acquired two branches from Republic Bank in May 2001 and, in connection with that transaction, closed an existing branch in Live Oak.

Other operating expenses increased $1.2 million, or 34%, for the first nine months of 2001 compared to the same period in 2000. The following table details the areas of significance in other operating expenses.

Table 2: Other Operating Expenses

	Nine Months Ended September 30, 2001	2000
	(thousands)	
Data processing	$ 810	$ 486
Advertising and promotion	437	474
Telephone	430	436
Postage and delivery	495	405
Legal and professional	324	335
Supplies	427	304
Amortization of intangible assets	339	135
Loan expenses	191	127
Regulatory fees	167	110
Administrative	155	141
Insurance and bonding	80	60
Education expense	78	32
Dues and subscriptions	66	51
Directors fees	56	60
Other general operating	50	90
Other	485	187
Total other operating expenses	$4,590	$3,433

Income Taxes

The Company's income tax expense in interim reporting periods is determined by estimating the combined federal and state effective tax rate for the year and applying such rate to interim pre-tax income. The Company's estimated effective tax rate for the corresponding quarter and current year is approximately 35%.

LIQUIDITY AND INTEREST RATE SENSITIVITY

Liquidity is defined as the ability of the Company to meet anticipated demands for funds under credit commitments and deposit withdrawals at a reasonable cost on a timely basis. Management measures the Company's liquidity position by giving consideration to both on- and off-balance sheet sources of and demands for funds on a daily and weekly basis. These funds can be obtained by converting assets to cash or by attracting new deposits. Average liquid assets (cash and amounts due from banks, interest bearing deposits in other banks, federal funds sold and investment securities available for sale) totaled $55.1 million and represented 12% of average total deposits during the nine months of 2001, compared to $54.8 million and 17% for 2000. Average loans were 101% and 94% of average deposits for the nine month period ended September 30, 2001 and 2000, respectively.

In addition to core deposit growth, sources of funds available to meet liquidity demands include cash received through ordinary business activities such as the collection of interest and fees, federal funds sold, loan and investment maturities and lines for the purchase of federal funds by the Company from its principal correspondent banks. In addition, the Company has a 364-day $10 million line of credit with one of its correspondent banks, which was modified subsequent to September 30, 2001 (see Note 7). The Company is also a member of the FHLB and has access to short-term and long- term funds. Outstanding borrowings at September 30, 2001 and 2000 with the FHLB and other financial institutions were $12.0 million and $3.1 million, respectively.

Interest rate sensitivity refers to the responsiveness of interest-earning assets and interest-bearing liabilities to changes in market interest rates. The rate sensitive position, or gap, is the difference in the volume of rate-sensitive assets and liabilities, at a given time interval, including both floating rate instruments and instruments which are approaching maturity. Management generally attempts to maintain a balance between rate-sensitive assets and liabilities as the exposure period is lengthened to minimize the overall interest rate risk to the Company.

The Company's gap and liquidity positions are reviewed on a regular basis by management to determine whether or not changes in policies and procedures are necessary to achieve financial goals. Included in the review is an internal analysis of the possible impact of changes in interest rates on net interest income.

In Table 3, "Rate Sensitivity Analysis", rate sensitive assets and liabilities are shown, separating fixed and variable interest rates. The estimated fair value of each instrument category is also shown in the table. While these fair values are based on management's judgment of the most appropriate factors, there is no assurance that, were the Company to have disposed of such instruments at September 30, 2001, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances.

Table 3: Rate Sensitivity Analysis
September 30, 2001
(dollars in thousands)

	1 Year	2 Years	3 Years	4 Years	5 Years	Beyon
INTEREST-EARNING ASSETS:						
Investment securities (1)						
Fixed rate investments	$ 4,541	$ -	$ 18,137	$ 4,100	$ 5,457	$ 6
Average interest rate	3.81%		5.63%	5.36%	6.15%	5.3
Variable rate investments	-	-	-	-	-	1,0
Average interest rate						6.4
Loans						
Fixed rate loans	57,265	34,882	35,835	31,405	30,614	66,9
Average interest rate	8.53%	8.85%	8.69%	8.79%	8.56%	7.9
Variable rate loans	76,521	28,368	25,005	16,966	13,850	91,2
Average interest rate	6.67%	6.43%	6.81%	6.94%	6.85%	7.8
Other earning assets (2)	4,395	-	-	-	-	
Average interest rate	5.84%					
Total interest-earning assets	$ 142,722	$ 63,250	$ 78,977	$ 52,471	$ 49,921	$ 159,9
Average interest rate	7.30%	7.76%	7.39%	7.92%	7.82%	7.8
INTEREST-BEARING LIABILITIES:						
Savings	$ -	$ -	$ -	$ -	$ -	$ 19,8
Average interest rate						1.0
NOW	35,488	-	-	-	-	67,3
Average interest rate	3.24%					0.76
Money market (3)	62,565	-	-	-	-	4,2
Average interest rate	3.82%					2.0
CD's under $100,000	135,858	11,692	3,667	4,365	-	
Average interest rate	5.21%	5.21%	4.91%	4.84%		
CD's $100,000 and over	97,524	6,657	1,938	1,955	116	
Average interest rate	5.60%	5.61%	4.80%	4.74%	6.55%	
Securities sold under repurchase agreements and federal funds purchased	15,757	-	-	-	-	
Average interest rate	2.37%					
Short term borrowings	12,000	-	-	-	-	
Average interest rate	4.02%					
Total interest-bearing liabilities	$ 359,192	$ 18,349	$ 5,605	$ 6,320	$ 116	$ 91,3
Average interest rate	4.71%	5.36%	4.87%	4.81%	6.55%	0.8

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Core deposits, which represent all deposits other than time deposits in excess of $100,000, were 79% of total deposits at September 30, 2001 and 81% at December 31, 2000. The Bank closely monitors its reliance on time deposits in excess of $100,000, which are generally considered less stable and less reliable than core deposits. Table 4, below, sets forth the amounts of time deposits with balances of $100,000 or more that mature within indicated periods. The Bank does not nor has it ever solicited brokered deposits.

Table 4: Maturity of Time Deposits of $100,000 or More
September 30, 2001
(dollars in thousands)

	Amount
Three months or less	$ 28,416
Three through six months	28,340
Six through twelve months	40,768
Over twelve months	10,666
Total	$108,190

EARNING ASSETS

Loans

During the nine month period ending September 30, 2001, average loans were $447.4 million and were 101% of average deposits, compared to $302.8 million and 94% for 2000. Total loans have increased by $128.1 million, or 34%, since December 31, 2000. Loan growth has occurred in all of the portfolios, with the most significant increase in commercial, financial and agricultural loans and real estate- mortgage loans. Average loans as a percent of average earning assets increased to 91% for the nine months ending September 30, 2001, compared to 86% for the comparable period in 2000. The following table reflects the composition of the Company's loan portfolio as of September 30, 2001 compared to December 31, 2000.

Table 5: Loan Portfolio Composition

	September 30, 2001	December 31, 2000
	(thousands)	
Commercial, financial and agricultural	$ 266,233	$ 192,540
Real estate - mortgage	158,626	120,663
Real estate - construction	43,404	33,648
Installment and consumer	40,623	33,970
Total loans, net of unearned income	508,886	380,821
Less: allowance for loan losses	(4,850)	(3,670)
Net loans	$ 504,036	$ 377,151

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Loan Quality

The allowance for loan losses represents a reserve for potential losses in the loan portfolio. On an ongoing basis, management attempts to maintain the allowance for loan losses at levels sufficient to provide for losses inherent in the loan portfolio. The allowance for loan losses is established through a provision charged to expense. In determining the adequacy of the reserve for loan losses, management considers those levels maintained by other peer banks, conditions of the individual borrowers, the Company's historical loan loss experience and the general economic environment, as well as

the overall portfolio composition. Loans are charged against the allowance when it is recognized that collection of the principal is unlikely. The allowance for loan losses on September 30, 2001 was 0.95% of total loans, compared to 0.96% on December 31, 2000. Table 6: "Allocation of Allowance for Loan Losses", set forth below, indicates the specific reserves allocated by loan type.

Table 6: Allocation of Allowance for Loan Losses

	September 30, 2001		December, 31 2000	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(dollars in thousands)			
Commercial, financial and agricultural	$ 3,297	52%	$ 2,607	50%
Real estate - mortgage	421	31%	293	32%
Real estate - construction	22	9%	15	9%
Consumer	948	8%	734	9%
Unallocated	162	-	21	-
Total	$ 4,850	100%	$ 3,670	100%

Total non-performing assets increased by $708,000 or 48% to $2.2 million on September 30, 2001, compared to $1.5 million on December 31, 2000. Non-performing assets as a percentage of total assets increased to 0.36% on September 30, 2001 from 0.32% on December 31, 2000. Non-accrual loans have increased $1.2 million since December 31, 2000. This increase is primarily due to four commercial real estate loans filing bankruptcy or going to foreclosure.

Table 7: Non-Performing Assets

	September 30, 2001	December 31, 2000
	(dollars in thousands)	
Non-accrual loans	$ 1,781	$ 579
Past due loans 90 days or		

more and still accruing	241	840
Other real estate owned		
and repossessions	161	56
Total non-performing assets	$ 2,183	$ 1,475
Percent of total assets	0.36%	0.32%

The determination of the reserve level rests upon management's judgment about factors affecting loan quality and assumptions about the economy. Management considers the period-end allowance appropriate and adequate to cover inherent losses in the loan portfolio; however, management's judgment is based upon a number of assumptions about future events, which are believed to be reasonable, but which may or may not prove to be valid. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required. Table 8: "Activity in Allowance for Loan Losses", below, indicates activity in the allowance for loan losses for the nine month period ending September 30, 2001 and 2000.

Table 8: Activity in Allowance for Loan Losses

	September 30, 2001	September 30, 2000
	(dollars in thousands)	
Balance at beginning of year	$ 3,670	$ 2,671
Allowance acquired by acquisition	110	-
Loans charged-off:		
Commercial, financial and agricultural	272	64
Real estate, mortgage	46	40
Real estate, construction	-	-
Consumer	288	239
Total loans charged-off	(606)	(343)
Recoveries on loans previously charged-off:		
Commercial, financial and agricultural	107	25
Real estate, mortgage	21	-
Real estate, construction	-	-
Consumer	98	122
Total loan recoveries	226	147
Net loans charged-off	(380)	(196)
Provision for loan losses charged to expense	1,450	950
Ending balance	$ 4,850	$ 3,425
Total loans outstanding	$ 508,886	$ 346,457
Average loans outstanding	$ 447,375	$ 302,824

Allowance for loan losses to loans outstanding	0.95%	0.99%
Net charge-offs to average loans outstanding, annualized	0.11%	0.09%

Investment Portfolio

The Company uses its securities portfolio to assist in maintaining proper interest rate sensitivity in the balance sheet, to provide securities to pledge as collateral for public funds and repurchase agreements, and to provide an alternative investment for available funds. The total recorded value of securities was $38.7 million at September 30, 2001, a decrease of 5% from $40.7 million at the end of 2000.

Securities are classified as either held-to-maturity or available-for-sale which are recorded at amortized cost and fair market value, respectively. Securities available-for-sale, which made up 86% of the total investment portfolio as of September 30, 2001 had a value of $33.2 million. Securities in the available-for-sale portfolio are recorded at fair value on the balance sheet and unrealized gains and losses associated with these securities are recorded, net of tax, as a separate component of shareholders' equity. At September 30, 2001, shareholders' equity recorded a net unrealized gain of $536,000, compared to a $33,000 net unrealized loss at December 31, 2000.

The Company invests primarily in direct obligations of the United States, obligations guaranteed as to the principal and interest by the United States and obligations of agencies of the United States. In addition, the Company enters into federal funds transactions with its principal correspondent banks. The Federal Reserve Bank and Federal Home Loan Bank also require equity investments to be maintained by the Company.

The following tables set forth the maturity distribution and the weighted average yields of the Company's investment portfolio.

18

Table 9: Maturity Distribution of Investment Securities (1)
September 30, 2001

(dollars in thousands)	Held to Maturity		Available f
	Amortized Cost	Estimated Market Value	Amortized Cost
U.S. Treasury:			
One year or less	$ -	$ -	$ 1,500
Total U.S. Treasury	-	-	1,500
U.S. Government Agencies and Corporations:			
One year or less	-	-	2,951
Over one through five years	5,457	5,454	22,000
Total U.S. Government Agencies and Corporations	5,457	5,454	24,951
Obligations of State and Political Subdivisions:			

One year or less	-	-	90
Over one through five years	-	-	237
Over ten years	-	-	608
Total Obligations of State and Political Subdivisions	-	-	935
Mortgage-Backed Securities (2):			
Over five through ten years	-	-	230
Over ten years	-	-	917
Total Mortgage-Backed Securities	-	-	1,147
Other Securities:			
Over ten years (3)	-	-	3,840
Total Other Securities	-	-	3,840
Total Securities	$ 5,457	$ 5,454	$ 32,373

Table 10: Weighted Average Yield by Range of Maturities

	September 30, 2001	December 31, 2000	Septe
One Year or Less	2.56%	6.49%	
Over One through Five Years	5.39%	6.00%	
Over Five through Ten Years	6.06%	6.18%	
Over Ten Years (1)	6.34%	6.45%	

Other Earning Assets

Temporary investment needs are created in the day-to-day liquidity movement of the Bank and are satisfied by selling excess funds overnight (Fed Funds Sold) to larger, well capitalized banking institutions. If these funds become excessive, management determines what portion, if any, of the liquidity may be rolled into longer term investments as securities.

FUNDING SOURCES

Deposits

The Bank does not rely on purchased or brokered deposits as a source of funds. Instead, competing for deposits within its market area serves as the Bank's fundamental tool in providing a source of funds to be invested primarily in loans. The following table sets forth certain deposit categories for the periods ended September 30, 2001 and December 31, 2000.

Table 11: Total Deposits

	September 30, 2001	December 31, 2000

	(thousands)	
Non-interest bearing:		
Demand checking	$ 69,539	$ 52,082
Interest bearing:		
NOW checking	102,830	74,589
Money market checking	66,777	38,797
Savings	19,836	16,479
Certificates of deposit	263,772	185,739
Total deposits	$ 522,754	$ 367,686

CAPITAL RESOURCES

Shareholders' equity at September 30, 2001 was $46.2 million, as compared to $44.6 million at December 31, 2000. At September 30, 2001, the Company's common stock had a book value of $7.61 per share compared to $7.32 per share at December 31, 2000.

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines, the Company must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgements by the regulators about component risk weightings and other factors.

Quantitative measures as defined by regulation and established to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. If such minimum amounts and ratios are met, the Bank is considered "adequately capitalized." If a bank exceeds the requirements of "adequately capitalized" and meets even more stringent minimum standards, it is considered to be "well capitalized." As of September 30, 2001, the Bank met all capital adequacy requirements to which it is subject.

Selected capital ratios at September 30, 2001 compared to September 31, 2000 and regulatory requirements are as follows:

20

Table 12: Capital Ratios

	September 30, 2001	September 30, 2000	Well Capitalized Requirements	Regu Min
Risk Based Capital Ratios:				
Tier 1 Capital Ratio				
Consolidated	8.0%	12.5%	6.0%	4
Bank	9.3%	9.9%	6.0%	4
Total Capital to Risk-Weighted Assets				

Consolidated	8.9%	13.5%	10.0%	8
Bank	10.3%	10.9%	10.0%	8
Tier 1 Leverage Ratio				
Consolidated	6.7%	10.5%	5.0%	4
Bank	7.8%	8.5%	5.0%	4

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

On January 28, 1997, the Securities and Exchange Commission adopted amendments to Regulation S-K, Regulation S-X, and various forms (Securities Act Release No. 7386) to clarify and expand existing requirements for disclosures about derivatives and market risks inherent in derivatives and other financial instruments. No derivative financial instruments were held by the Company at September 30, 2001 (the Company entered into an interest rate swap on October 3, 2001, as more fully described in Note 7 of Item 1.), but other financial instruments, which include investments, loans , deposit liabilities and borrowings are included in the Company's balance sheet. The release requires quantitative and qualitative disclosures about market risk. See section titled "Liquidity and Interest Rate Sensitivity" for further discussion on the Company's management of interest rate risk.

Financial instruments that have market risk are included in Table 3: "Rate Sensitivity Analysis". These instruments are shown, separated by fixed and variable interest rates. The estimated fair value of each instrument category is also shown in the table. While these estimates of fair values are based on management's judgement of the most appropriate factors, there is no assurance that, were the Company to have disposed of such instruments at September 30, 2001, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at September 30, 2001 would not necessarily be considered to apply at subsequent dates.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings - There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

Item 2. Changes in Securities - Not applicable.

Item 3. Defaults Upon Senior Securities - Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders - Not applicable.

Item 5. Other Information - Not applicable.

Item 6. Exhibits and Reports on Form 8-K -

(a) Exhibits:

None.

(b) Form 8-K:

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CNB Florida Bancshares, Inc.

(Registrant)

By: /s/ G. Thomas Frankland

G. Thomas Frankland
Executive Vice President
and Chief Financial Officer

Date: November 9, 2001