FCZA 10-Q 9/30/2008

Section 1: 10-Q (FORM 10-Q)

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

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: September 30, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission File Number: 0-25980

First Citizens Banc Corp

(Exact name of registrant as specified in its charter)

Ohio	34-1558688
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
100 East Water Street, Sandusky, Ohio	44870
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (419) 625-4121

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

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

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

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

Common Stock, no par value
Outstanding at November 7, 2008
7,707,917 common shares

FIRST CITIZENS BANC CORP

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Part I — Financial Information

ITEM 1. Financial Statements

FIRST CITIZENS BANC CORP
Consolidated Balance Sheets (Unaudited)
(In thousands, except share data)

	September 30, 2008	December 31, 2007
ASSETS		
Cash and due from financial institutions	$ 30,964	$ 27,345
Federal funds sold	—	18,408
Securities available for sale	148,518	144,351
Loans, net of allowance of $8,492 and $7,374	785,726	787,386
Other securities	16,223	14,569
Premises and equipment, net	20,706	21,593
Premises and equipment, held for sale	719	719
Accrued interest receivable	6,464	7,142
Goodwill	64,865	66,235
Core deposit and other intangibles	8,148	9,689
Bank owned life insurance	11,245	10,876
Other assets	6,167	10,944
Total assets	$ 1,099,745	$ 1,119,257
LIABILITIES		
Deposits		
Noninterest-bearing	$ 129,567	$ 137,924
Interest-bearing	647,039	701,896
Total deposits	776,606	839,820
Federal Home Loan Bank advances	107,630	64,470
Securities sold under agreements to repurchase	34,451	27,395
U. S. Treasury interest-bearing demand note payable	3,228	2,259
Notes payable	20,500	21,500
Subordinated debentures	29,427	29,427
Accrued expenses and other liabilities	5,605	8,230
Total liabilities	977,447	993,101
SHAREHOLDERS' EQUITY		
Common stock, no par value, 20,000,000 shares authorized, 8,455,881 shares issued	114,365	114,365
Retained earnings	26,236	29,446
Treasury stock, 747,964 shares at cost	(17,235)	(17,235)
Accumulated other comprehensive loss	(1,068)	(420)
Total shareholders' equity	122,298	126,156
Total liabilities and shareholders' equity	$ 1,099,745	$ 1,119,257

See notes to interim consolidated financial statements

FIRST CITIZENS BANC CORP
Consolidated Statements of Income (Unaudited)
(In thousands, except per share data)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Interest and dividend income				
Loans, including fees	$ 13,412	$ 11,159	$ 41,442	$ 32,571
Taxable securities	1,712	1,228	5,041	3,572
Tax-exempt securities	332	162	933	492
Federal funds sold and other	14	7	102	23
Total interest income	15,470	12,556	47,518	36,658
Interest expense				
Deposits	3,291	3,455	12,010	10,051
Federal Home Loan Bank advances	858	1,137	2,423	2,544
Subordinated debentures	418	441	1,323	1,336
Other	369	298	1,218	987
Total interest expense	4,936	5,331	16,974	14,918
Net interest income	10,534	7,225	30,544	21,740
Provision for loan losses	2,331	703	6,513	1,154
Net interest income after provision for loan losses	8,203	6,522	24,031	20,586
Noninterest income				
Computer center data processing fees	196	185	587	573
Service charges	1,235	874	3,559	2,572
Net gain on sale of loans	1	2	7	9
ATM fees	382	227	1,029	618
Trust fees	508	377	1,505	1,131
Bank owned life insurance	119	129	369	403
Other	(12)	24	282	142
Total noninterest income	2,429	1,818	7,338	5,448
Noninterest expense				
Salaries and wages	3,822	2,613	11,095	8,075
Benefits	723	557	2,196	1,911
Net occupancy expense	565	324	1,857	1,048
Equipment expense	579	292	1,693	816
Contracted data processing	239	193	944	574
State franchise tax	194	220	955	657
Professional services	470	319	1,426	1,037
Amortization of intangible assets	359	161	1,099	483
Other operating expenses	2,055	1,579	6,765	4,812
Total noninterest expense	9,006	6,258	28,030	19,413
Income before taxes	1,626	2,082	3,339	6,621
Income tax expense	396	615	691	1,924
Net Income	$ 1,230	$ 1,467	$ 2,648	$ 4,697
Earnings per share, basic	$ 0.16	$ 0.27	$ 0.34	$ 0.87
Earnings per share, diluted	$ 0.16	$ 0.27	$ 0.34	$ 0.87
Weighted average basic common shares	7,707,917	5,389,300	7,707,917	5,424,843
Weighted average diluted common shares	7,707,917	5,389,300	7,707,917	5,424,843

See notes to interim consolidated financial statements

FIRST CITIZENS BANC CORP
Consolidated Comprehensive Income Statements (Unaudited)
(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income	$ 1,230	$ 1,467	$ 2,648	$ 4,697
Unrealized holding gains and (losses) on available for sale securities	(1,260)	1,084	(983)	638
Net unrealized gains (losses)	(1,260)	1,084	(983)	638
Tax effect	427	(370)	335	(217)
Total other comprehensive gain (loss)	(833)	714	(648)	421
Comprehensive income	$ 397	$ 2,181	$ 2,000	$ 5,118

See notes to interim consolidated financial statements

FIRST CITIZENS BANC CORP
Consolidated Statements of Shareholders' Equity (Unaudited)
Form 10-Q
(In thousands, except share data)

	Common Stock				Accumulated Other	Total
	Outstanding Shares	Amount	Retained Earnings	Treasury Stock	Comprehensive Income/(Loss)	Shareholders' Equity
Balance, January 1, 2007	5,471,300	$ 68,430	$ 28,634	$ (15,214)	$ (2,378)	$ 79,472
Net income			4,697			4,697
Change in unrealized gain/(loss) on securities available for sale, net of reclassifications and tax effects					421	421
Cash dividends ($0.85 per share)			(4,619)			(4,619)
Dividends declared ($0.27 per share)			(1,454)			(1,454)
Purchase of treasury stock, at cost	(82,000)			(1,628)		(1,628)
Balance, September 30, 2007	5,389,300	$ 68,430	$ 27,258	$ (16,842)	$ (1,957)	$ 76,889

	Common Stock				Accumulated Other	Total
	Outstanding Shares	Amount	Retained Earnings	Treasury Stock	Comprehensive Income/(Loss)	Shareholders' Equity
Balance, January 1, 2008	7,707,917	$ 114,365	$ 29,446	$ (17,235)	$ (420)	$ 126,156
Net income			2,648			2,648
Change in unrealized gain/(loss) on securities available for sale, net of reclassifications and tax effects					(648)	(648)
Cash dividends ($0.76 per share)			(5,858)			(5,858)
Balance, September 30, 2008	7,707,917	$ 114,365	$ 26,236	$ (17,235)	$ (1,068)	$ 122,298

See notes to interim consolidated financial statements

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FIRST CITIZENS BANC CORP
Condensed Consolidated Statement of Cash Flows (Unaudited)
(In thousands)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net cash from operating activities	$ 12,291	$ 5,808
Cash flows from investing activities		
Maturities and calls of securities, held-to-maturity	—	4
Maturities and calls of securities, available-for-sale	49,303	34,459
Purchases of securities, available-for-sale	(54,378)	(30,053)
Purchases of other securities, Federal Reserve Bank Stock	(1,186)	—
Loans made to customers, net of principal collected	(5,608)	(34,386)
Proceeds from sale of OREO properties	358	362
Change in federal funds sold	18,408	—
Proceeds from sale of property and equipment	128	68
Net purchases of office premises and equipment	(725)	(660)
Net cash from investing activities	6,300	(30,206)
Cash flows from financing activities		
Repayment of FHLB borrowings	(139)	(112)
Change in short-term FHLB advances	38,299	(2,709)
Change in long-term FHLB advances	5,000	50,000
Proceeds from issuance of subordinated debenture	—	5,000
Repayment of subordinated debenture	—	(5,000)
Net change in deposits	(63,214)	(12,901)
Change in securities sold under agreements to repurchase	7,056	(378)
Change in U. S. Treasury interest-bearing demand note payable	969	(434)
Change in Note Payable	(1,000)	(6,000)
Cash received in deposit acquisition	3,915	—
Purchases of treasury stock	—	(1,628)
Dividends paid	(5,858)	(4,618)
Net cash from financing activities	(14,972)	21,220
Net change in cash and due from banks	3,619	(3,178)
Cash and due from banks at beginning of period	27,345	17,860
Cash and due from banks at end of period	$ 30,964	$ 14,682
Cash paid during the period for:		
Interest	$ 17,641	$ 14,918
Income taxes	$ 75	$ 780
Supplemental cash flow information:		
Transfer of loans from portfolio to other real estate owned	$ 1,609	$ 734
Fixed assets transferred to (from) held for sale	$ —	$ (121)

See notes to interim consolidated financial statements

First Citizens Banc Corp
Notes to Interim Consolidated Financial Statements (Unaudited)
Form 10-Q
(Amounts in thousands, except share data)

(1) Consolidated Financial Statements

Nature of Operations and Principles of Consolidation: The consolidated financial statements include the accounts of First Citizens Banc Corp (FCBC) and its wholly-owned subsidiaries: The Citizens Banking Company (Citizens), SCC Resources, Inc. (SCC), First Citizens Insurance Agency, Inc., Water Street Properties, Inc. (Water St.) and Champaign Investment Company (CIC). The above companies together are referred to as the Corporation. Intercompany balances and transactions are eliminated in consolidation.

The consolidated financial statements have been prepared by the Corporation without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the Corporation's financial position as of September 30, 2008 and its results of operations and changes in cash flows for the periods ended September 30, 2008 and 2007 have been made. The accompanying consolidated financial statements have been prepared in accordance with instructions of Form 10-Q, and therefore certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted. The results of operations for the period ended September 30, 2008 are not necessarily indicative of the operating results for the full year. Reference is made to the accounting policies of the Corporation described in the notes to financial statements contained in the Corporation's 2007 annual report. The Corporation has consistently followed these policies in preparing this Form 10-Q.

The Corporation provides financial services through its offices in the Ohio counties of Erie, Crawford, Huron, Ottawa, Richland, Summit, Franklin, Madison, Logan, Champaign, and Miami. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Other financial instruments that potentially represent concentrations of credit risk include deposit accounts in other financial institutions and Federal Funds sold. In 2008, SCC provided item processing for four financial institutions in addition to Citizens. SCC accounted for 1.1% of the Corporation's total revenue through September 30, 2008. First Citizens Insurance Agency Inc. was formed to allow the Corporation to participate in commission revenue generated through its third party insurance agreement. Insurance commission revenue is less than 1.0% of total revenue through September 30, 2008. Water St. revenue was less than 1.0% of total revenue through September 30, 2008. Champaign Investment Company was acquired via the Futura Banc Corporation acquisition and is licensed as a broker and dealer in securities. CIC accounted for less than 1.0% of total revenue through September 30, 2008. The corporation is in the process of dissolving this entity. Management considers the Corporation to operate primarily in one reportable segment, banking. To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, fair values of financial instruments, and status of contingencies are particularly subject to change.

Income Taxes: Income tax expense is based on the effective tax rate expected to be applicable for the entire year. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

New Accounting Pronouncements:

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. See Note 9 for additional detail.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard became effective for the Corporation on January 1, 2008. The Corporation did not elect to apply the standard to any financial assets or liabilities.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. The impact of adoption of EITF 06-4 was immaterial.

Impact of Not Yet Effective Authoritative Accounting Pronouncements

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management is currently evaluating the impact of SFAS No. 161 on the Corporation's disclosures.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 "The Heirarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. This Statement will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411. The adoption of SFAS No. 162 is not expected to impact the Corporation's consolidated financial statements.

On February 20, 2008, the FASB issued Staff Position FAS 140-3 "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions" (FSP FAS 140-3") to resolve questions about the accounting for repurchase financings. This FSP is effective for repurchase financings in which the initial transfer is entered into in fiscal years beginning after November 15, 2008. Management is currently evaluating the impact, if any, of FSP FAS 140-3 on the Corporation's consolidated financial statements.

On April 25, 2008, the FASB issued Staff Position FAS 142-3 "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3), which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142 "Goodwill and Other Intangible Assets." FSP FAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Management is currently evaluating the impact, if any, of FSP FAS 142-3 on the Corporation's consolidated financial statements.

On May 9, 2008, the FASB issued Staff Position APB 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of FSP APB 14-1 is not expected to impact the Corporation's consolidated financial statements.

On June 16, 2008, the FASB issued Staff Position EITF 03-6-1 “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities” (FSP EITF 03-6-1”). The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings per Share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of FSP EITF 03-6-1 is not expected to impact the Corporation’s consolidated financial statements.

(2) Securities

Available for sale securities at September 30, 2008 and December 31, 2007 were as follows:

September 30, 2008	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies	$ 83,945	$ 714	$ (283)
Obligations of states and political subdivisions	33,605	194	(1,069)
Mortgage-backed securities	30,292	272	(61)
Total debt securities	$ 147,842	$ 1,180	$ (1,413)
Equity securities	676	195	—
	$ 148,518	$ 1,375	$ (1,413)

December 31, 2007	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies	$ 95,723	$ 834	$ (13)
Obligations of states and political subdivisions	28,441	139	(30)
Mortgage-backed securities	19,706	73	(59)
Total debt securities	143,870	1,046	(102)
Equity securities	481	—	—
Total	$ 144,351	$ 1,046	$ (102)

First Citizens Banc Corp
Notes to Interim Consolidated Financial Statements (Unaudited)
Form 10-Q
(Amounts in thousands, except share data)

The amortized cost and fair value of securities at September 30, 2008, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Securities not due at a single maturity date, primarily mortgage-backed securities and equity securities are shown separately.

	Fair Value
Available for sale	
Due in one year or less	$ 7,603
Due after one year through five years	43,201
Due after five years through ten years	38,348
Due after ten years	28,398
Mortgage-backed securities	30,292
Equity securities	676
Total securities available for sale	$ 148,518

Proceeds from sales of securities during the quarter ended September 30, 2008 totaled $4. There were no proceeds from sales of securities during the quarter ended September 30, 2007. However, the Corporation had a gain of $183 in the first quarter of 2008 from the redemption of shares received on the Initial Public Offering of VISA.

Securities with a carrying value of approximately $127,316 and $121,198 were pledged as of September 30, 2008 and December 31, 2007, respectively, to secure public deposits, other deposits and liabilities as required by law.

Securities with unrealized losses at September 30, 2008 and December 31, 2007 not recognized in income are as follows.

	12 Months or less		More than 12 months		Total	
September 30, 2008	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of Securities						
U.S. Treasury securities and obligations of U.S. government agencies	$ 25,674	$ 320	$ 123	$ 1	$ 25,797	$ 321
Obligations of states and political subdivisions	16,817	1,017	549	14	17,366	1,031
Mortgage-backed securities	10,464	61	—	—	10,464	61
Total temporarily impaired	$ 52,955	$ 1,398	$ 672	$ 15	$ 53,627	$ 1,413

	12 Months or less		More than 12 months		Total	
December 31, 2007	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of Securities						
U.S. Treasury securities and obligations of U.S. government agencies	$ —	$ —	$ 3,010	$ 13	$ 3,010	$ 13
Obligations of states and political subdivisions	3,712	11	6,026	19	9,738	30
Mortgage-backed securities	—	—	2,285	59	2,285	59
Total temporarily impaired	$ 3,712	$ 11	$ 11,321	$ 91	$ 15,033	$ 102

Unrealized losses on securities have not been recognized into income because the issuers' securities are of high credit quality, management has the intent and ability to hold these securities for the foreseeable future, and the decline in fair value is largely due to market yields increasing across the municipal sector partly due to higher risk premiums associated with municipal insurers. The fair value is expected to recover as the securities approach their maturity date or reset date.

First Citizens Banc Corp
Notes to Interim Consolidated Financial Statements (Unaudited)
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(Amounts in thousands, except share data)

(3) Loans

Loans at September 30, 2008 and December 31, 2007 were as follows:

	September 30, 2008	December 31, 2007
Commercial and agriculture	$ 102,130	$ 96,385
Commercial real estate	315,122	299,005
Real Estate — mortgage	326,674	343,160
Real Estate — construction	31,969	33,480
Consumer	18,286	20,359
Other	177	2,467
Leases	172	185
Total loans	794,530	795,041
Allowance for loan losses	(8,492)	(7,374)
Deferred loan fees	(312)	(281)
Net loans	$ 785,726	$ 787,386

(4) Allowance for Loan Losses

A summary of the activity in the allowance for loan losses for the three and nine months ended September 30, 2008 and 2007 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Balance beginning of period	$ 8,350	$ 8,158	$ 7,374	$ 8,060
Loans charged-off	(2,349)	(2,584)	(6,210)	(3,437)
Recoveries	160	236	815	736
Provision for loan losses	2,331	703	6,513	1,154
Balance September 30,	$ 8,492	$ 6,513	$ 8,492	$ 6,513

First Citizens Banc Corp
Notes to Interim Consolidated Financial Statements (Unaudited)
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(Amounts in thousands, except share data)

Information regarding impaired loans was as follows for the three and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Average investment in impaired loans	$ 13,877	$ 15,959	$ 14,388	$ 16,518
Interest income recognized on impaired loans including interest income recognized on cash basis	164	248	590	850
Interest income recognized on impaired loans on cash basis	164	248	590	850

Information regarding impaired loans at September 30, 2008 and December 31, 2007 was as follows:

	September 30, 2008	December 31, 2007
Balance impaired loans	$ 14,790	$ 12,965
Less portion for which no allowance for loan losses is allocated	(9,052)	(6,193)
Portion of impaired loan balance for which an allowance for credit losses is allocated	$ 5,738	$ 6,772
Portion of allowance for loan losses allocated to impaired loans	$ 1,883	$ 2,057

Nonperforming loans were as follows:

	September 30, 2008	December 31, 2007
Loans past due over 90 days still on accrual	$ 1,738	$ 2,423
Nonaccrual	$ 14,569	$ 9,308

Nonperforming loans and impaired loans are defined differently. Some loans may be included in both categories, whereas other loans may only be included in one category.

First Citizens Banc Corp
Notes to Interim Consolidated Financial Statements (Unaudited)
Form 10-Q
(Amounts in thousands, except share data)

(5) Earnings per Common Share:

Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options, computed using the treasury stock method.

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Basic				
Net Income	$ 1,230	$ 1,467	$ 2,648	$ 4,697
Weighted average common shares outstanding	7,707,917	5,389,300	7,707,917	5,424,843
Basic earnings per common share	$ 0.16	$ 0.27	$ 0.34	$ 0.87
Diluted				
Net Income	$ 1,230	$ 1,467	$ 2,648	$ 4,697
Weighted average common shares outstanding for basic earnings per common share	7,707,917	5,389,300	7,707,917	5,424,843
Add: Dilutive effects of assumed exercises of stock options	—	—	—	—
Average shares and dilutive potential common shares outstanding	7,707,917	5,389,300	7,707,917	5,424,843
Diluted earnings per common share	$ 0.16	$ 0.27	$ 0.34	$ 0.87

Stock options for 29,500 shares of common stock were not considered in computing diluted earnings per common share for September 30, 2008 and 39,000 shares of common stock were not considered in computing diluted earnings per common share for September 30, 2007, because they were anti-dilutive.

First Citizens Banc Corp
Notes to Interim Consolidated Financial Statements (Unaudited)
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(Amounts in thousands, except share data)

(6) Commitments, Contingencies and Off-Balance Sheet Risk

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection are issued to meet customers financing needs. These are agreements to provide credit or to support the credit of others, as long as the conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk of credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of commitment. The contractual amount of financial instruments with off-balance-sheet risk was as follows for September 30, 2008 and December 31, 2007:

	Contract Amount			
	September 30, 2008		December 31, 2007	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitment to extend credit:				
Lines of credit and construction loans	$ 7,904	$ 98,242	$ 9,154	$ 101,105
Overdraft protection	—	12,476	—	11,393
Letters of credit	65	1,299	97	1,485
	$ 7,969	$ 112,017	$ 9,251	$ 113,983

Commitments to make loans are generally made for a period of one year or less. Fixed rate loan commitments above had interest rates ranging from 4.00% to 9.50% at September 30, 2008 and 4.00% to 10.25% at December 31, 2007. Maturities extend up to 30 years.

Citizens is required to maintain certain reserve balances on hand in accordance with the Federal Reserve Board requirements. The average reserve balance maintained in accordance with such requirements was $6,928 on September 30, 2008 and $4,753 on December 31, 2007.

(7) Pension Information

Net periodic pension expense for:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Service cost	$ 123	$ 79	$ 472	$ 448
Interest cost	113	83	432	465
Expected return on plan assets	(151)	(82)	(581)	(462)
Other components	10	7	39	38
Net periodic pension cost	$ 95	$ 87	$ 362	$ 489

The total amount of contributions expected to be paid by the Corporation in 2008 total $0, compared to $312 in 2007. Effective January 1, 2007, no new employees will be added to the retirement plan.

(8) Stock Options

Options to buy stock may be granted to directors, officers and employees under the stock option plan, which provides for issue of up to 225,000 options. Exercise price is the market price at date of grant. The maximum option term is ten years, and options normally vest after three years.

The Corporation did not grant any stock options during the first nine months of 2008 and 2007. Additionally, no stock options became vested during the first nine months of 2008 and 2007.

A summary of the activity in the plan is as follows:

	Nine months ended September 30, 2008		Nine months ended September 30, 2007	
	Total options outstanding		Total options outstanding	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Outstanding at beginning of year	39,000	$ 25.44	39,000	$ 25.44
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	(9,500)	25.54	—	—
Options outstanding, end of period	29,500	25.42	39,000	25.44
Options exercisable, end of period	29,500	25.42		

The following table details stock options outstanding:

		Outstanding Options		
Exercise price		Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$	20.50	19,500	3 yrs. 9 mos.	$ 20.50
$	35.00	10,000	4 yrs. 6.5 mos.	35.00
Outstanding at quarter-end		29,500	4 yrs. 0 mos.	$ 25.42

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. As of September 30, 2008 and December 31, 2007, the aggregate intrinsic value of the stock options was $0.

(9) Fair Value Measurement

FASB Statement No. 157 establishes a fair value hierarchy about the assumptions used to measure fair value. The statement describes three levels of inputs that may be used to measure fair value. Level 1: Quoted prices for identical assets in active markets that are identifiable on the measurement date; Level 2: Significant other observable inputs, such as quoted prices for similar assets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data; Level 3: Significant unobservable inputs that reflect the Corporation's own view about the assumptions that market participants would use in pricing an asset.

Securities: The fair values of securities available for sale are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Impaired loans: The fair value of impaired loans is determined using the fair value of collateral for collateral dependent loans. The Corporation uses appraisals and other available data to estimate the fair value of collateral. (Level 2 inputs).

Assets measured at fair value are summarized below.

		Fair Value Measurements at Reporting Date Using:		
	September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities	$ 148,518	$ —	$ 148,518	$ —
Impaired Loans	$ 14,790	$ —	$ 12,416	$ —

(10) Participation in the Treasury Capital Purchase Program

On October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008 (EESA), which provides the U. S. secretary of the Treasury with broad authority to implement certain actions to help restore stability and liquidity to U.S. markets. One of the provisions resulting from the Act is the Treasury Capital Purchase Program (CPP), which provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. Applications must be submitted by November 14, 2008 and are subject to approval by the Treasury. The CPP provides for a minimum investment of 1 percent of Risk-Weighted Assets, with a maximum investment equal to the lesser of 3 percent of Total Risk-Weighted Assets or $25 billion. The perpetual preferred stock investment will have a dividend rate of 5% per year, until the fifth anniversary of the Treasury investment, and a dividend of 9%, thereafter. The CPP also requires the Treasury to receive warrants for common stock equal to 15 percent of the capital invested by the Treasury. The Company is evaluating whether to apply for participation in the CPP. Participation in the program is not automatic and subject to approval by the Treasury.

First Citizens Banc Corp
Management's Discussion and Analysis of Financial Condition and Results of Operations
Form 10-Q
(Amounts in thousands, except share data)

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion focuses on the consolidated financial condition of First Citizens Banc Corp at September 30, 2008 compared to December 31, 2007 and the consolidated results of operations for the three and nine month periods ending September 30, 2008 compared to the same periods in 2007. This discussion should be read in conjunction with the consolidated financial statements and footnotes included in this Form 10-Q.

The registrant is not aware of any trends, events or uncertainties that will have, or are reasonably likely to have, a material effect on its liquidity, capital resources, or operations except as discussed herein. Also, the registrant is not aware of any current recommendation by regulatory authorities, which would have a material effect on its liquidity, capital resources, or operations if implemented.

When used in this Form 10-Q or future filings by the Corporation with the Securities and Exchange Commission, in press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "believe," or similar expressions are intended to identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Corporation wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, changes in levels of market interest rates, credit risks of lending activities and competitive and regulatory factors, could effect the Corporation's financial performance and could cause the Corporation's actual results for future periods to differ materially from those anticipated or projected. The Corporation does not undertake, and specifically disclaims, any obligation to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Financial Condition

Total assets of the Corporation at September 30, 2008 were $1,099,745 compared to $1,119,257 at December 31, 2007, a decrease of $19,512, or 1.7 percent. The decrease in total assets was mainly attributed to a decrease in federal funds sold, offset by an increase in Federal Home Loan Bank advances and a decrease in total deposit. Other assets decreased primarily due to an FDIC settlement related to the assumption of Miami Valley Bank deposits. Additionally, accrued expenses and other liabilities decreased primarily due to dividends payable. The Board of Directors typically meets prior to the end of the quarter to declare the dividend for the following quarter. The timing of this Board meeting changed and, as a result, the fourth quarter dividend was not declared this quarter.

Net loans have decreased $1,660 or 0.2 percent since December 31, 2007. The commercial real estate and commercial and agricultural loan portfolios increased by $5,745 and $16,117, respectively. The residential real estate, real estate construction, other loan and lease portfolios decreased $16,486, $1,511, $2,290 and $13 respectively, while consumer loans decreased a total of $2,073. The current increase in commercial real estate and commercial and agriculture loans is mainly due to lines of credit being drawn upon and calling efforts by the commercial lending officers. The current decrease in residential real estate and consumer loans is mainly the result of a decline in the housing market. Mortgage loan activity is down and the Corporation is currently selling on the secondary market, the majority of mortgage loans originated.

The Corporation had no loans held for sale at September 30, 2008 or December 31, 2007. At September 30, 2008, the net loan to deposit ratio was 101.2 percent compared to 93.8 percent at December 31, 2007.

For the first nine months of operations in 2008, the provision for the allowance loan loss was $6,513, compared to $1,154 in the nine months of 2007. The larger provision was the result of changes to the following factors. Net charge-offs have increased significantly compared to 2007. Although the charge-offs were primarily due to loans already on the watch list, the fact that charge-offs are larger this year led to an increase in the charge-off experience factor, which in turn led to the need for greater provision for loan loss. Nonperforming loans have increased by $4,576, mostly due to increased loans on nonaccrual status and loans delinquent greater than 90 days. Impaired loans also increased, from $12,965 at December 31, 2007 to $14,790 at September 30, 2008. Each of these factors was considered by management as part of the examination of both the level and mix of the allowance by loan type as well as the overall level of the allowance. Management specifically evaluates loans that are impaired, or graded as doubtful by the internal grading function for estimates of loss. To evaluate the adequacy of the allowance for loan losses to cover probable losses in the portfolio, management considers specific reserve allocations for identified portfolio loans, reserves for historical losses and allocations for economic factors. The composition and overall level of the loan portfolio and charge-off activity are also factors used to determine the amount of the allowance for loan losses.

Management analyzes all commercial and commercial real estate loans, with balances of $350 or larger, on an individual basis and classifies a loan as impaired when an analysis of the borrower's operating results and financial condition indicates that underlying cash flows are not adequate to meet its debt service requirements. Often this is associated with a delay or shortfall in payments of 90 days or more. In addition, loans held for sale and leases are excluded from consideration as impaired. Loans are generally moved to nonaccrual status when 90 days or more past due. Impaired loans or portions thereof, are charged-off when deemed uncollectible.

The September 30, 2008 allowance for loan losses as a percent of total loans was 1.07 percent compared to 0.93 percent at December 31, 2007.

Available for sale securities increased by $4,167 from $144,351 at December 31, 2007 to $148,518 at September 30, 2008. Other securities increased from December 31, 2007, due to Federal Home Loan Bank stock dividends received and the purchase of additional Federal Reserve Bank stock. In addition to securities, the Corporation also utilizes letters of credit from the Federal Home Loan Bank (FHLB) for pledging to public entities. As of September 30, 2008, the Corporation was in compliance with all pledging requirements.

Bank owned life insurance (BOLI) increased $369 from December 31, 2007 due to income earned on the investment. The purchase of BOLI, in 2006, is an alternative to replacing maturing securities, and is being used to help recover costs associated with healthcare, group term life, and 401(k).

Office premises and equipment, net, have decreased $887 from December 31, 2007 to September 30, 2008. The decrease in office premises and equipment is attributed to depreciation of $1,484 and disposals of $128, offset by new purchases of $725.

Total deposits at September 30, 2008 decreased $63,214 from year-end 2007. Noninterest-bearing deposits decreased $8,357 from year-end 2007 while interest-bearing deposits, including savings and time deposits, decreased $54,857 from December 31, 2007. The interest-bearing deposit decrease was due primarily to decreases in savings, NOW and certificates of deposit. The decline in NOW and certificate of deposit accounts was mainly due to management's decision not to pay above market rates for deposits to maintain the Corporation's interest margin. The year to date average balance of total deposits increased $252,534 compared to the average balance of the same period 2007. This increase in average balance was due to the assumption of $56,448 in deposits in October 2007 and $234,252 in deposits acquired in a merger in December 2007.

Total borrowed funds have increased $50,185 from December 31, 2007 to September 30, 2008. At September 30, 2008, the Corporation had $107,630 in outstanding Federal Home Loan Bank advances compared to $64,470 at December 31, 2007. The FHLB borrowings increased as a result of declines in deposits since the end of 2007. In an effort to take advantage of reduced interest rates, the Corporation obtained a long-term FHLB advance in the first quarter of 2008 to replace two maturing advances. The new advance is a $5,000, eighty-four month advance that has a fixed rate of 2.84%, and is callable after thirty-six months. This advance replaced a $3,000 advance that matured on May 29, 2008 with a rate of 5.57% and a $2,000 advance that matured on September 4, 2008 with a rate of 5.36%. The Corporation also had notes outstanding with other financial institutions totaling $20,500 at September 30, 2008 compared to $21,500 at December 31, 2007. Securities sold under agreements to repurchase, which tend to fluctuate due to timing of deposits, have increased $7,056 since the end of 2007 and U.S. Treasury Tax Demand Notes have increased $969.

Shareholders' equity at September 30, 2008 was $122,298, or 11.1 percent of total assets, compared to $126,156 at December 31, 2007, or 11.3 percent of total assets. The decrease in shareholders' equity resulted from earnings of $2,648, less dividends paid of $5,858 and the decrease in the market value of securities available for sale, net of tax, of $648. The Corporation paid cash dividends totaling $.76 per common share during the first nine months of 2008, as compared to $.85 per common share during the same period of 2007. As a result of additional shares issued in the Futura acquisition, total outstanding shares at September 30, 2008 were 7,707,917 compared to 5,389,300 at September 30, 2007.

In the fourth quarter of 2007, the Corporation reaffirmed the stock repurchase program that was instituted in 2006. Under the program, the Corporation is authorized to buy up to 5.0 percent of the total common shares outstanding. Repurchases under the plan could be made from time to time in the open market, based on stock availability, price and the Company's financial performance, including capital levels. Therefore, no assurance can be given as to the level or to the timing of shares that could be repurchased.

In accordance with SFAS 142, management evaluates goodwill for impairment on an annual basis. Goodwill is impaired if the fair value of goodwill is less than the carrying value. Given the uncertainty in the financial markets, management has engaged an independent firm to perform the valuation for 2008. Although past goodwill valuations did not indicate impairment, should the valuation indicate the goodwill is impaired, the impact to the financial statements could be material.

Results of Operations

Nine Months Ended September 30, 2008 and 2007

Net income for the nine months ended September 30, 2008 was $2,648, or $.34 per basic and diluted share compared to $4,697 or $.87 per basic and diluted share for the same period in 2007. This was a decrease of $2,049, or 43.6 percent. The decrease in earnings per share is partly due to the greater number of shares outstanding at the end of the third quarter of 2008 compared to the same period in 2007. The Corporation issued 2,343,617 shares in connection with the acquisition of Futura Banc Corporation. Other reasons for the changes are explained below.

Total interest income for the nine months of 2008 increased by $10,860, or 29.6 percent compared to the same period in 2007. Net interest income, the difference between interest income earned on interest-earning assets and interest expense incurred on interest-bearing liabilities, is the most significant component of the Corporation's earnings. Net interest income is affected by changes in volume, rates and composition of interest-earning assets and interest-bearing liabilities. Average earning assets increased 40.1 percent from the first nine months of 2007 from a combination of organic growth and an acquisition. Average loans for the first nine months of 2008 increased 39.2 percent over the first nine months of 2007, mainly due to the acquisition Futura Banc Corporation. The Corporation's net interest margin for the nine months ended September 30, 2008 and 2007 was 4.20% and 4.23%, respectively.

Noninterest income for the first nine months of 2008 was $7,338, an increase of $1,890 or 34.7 percent compared to the same period in 2007. The change in non-interest income reflects the impact of acquisitions. Non-interest income growth was most significant in the service charges on deposit accounts, which recorded revenues of $3,559 during the first nine months of 2008, an increase of $987 or 38.4 percent from the same period in 2007. The increased revenues were primarily due to higher volumes in deposit accounts from acquisitions. Trust fee income for the first nine months of 2008 was $1,505, up $374 or 33.0 percent over the first nine months of 2007, primarily from an acquisition. Bank owned life insurance contributed $369 to non-interest income in the first nine months of 2008. ATM fee income for the first nine months of 2008 was $1,029, up $411 or 66.5 percent over the first nine months of 2007, primarily from an acquisition. Other non-interest income increased $140 for the first nine months of 2008 compared to the same period of 2007, primarily due to a gain of $183 in the first quarter of 2008, for the redemption of VISA stock. Losses sustained on the sale of OREO properties increased $112 in the first nine months of 2008 compared to the first nine months of 2007.

Noninterest expense for the nine months ended September 30, 2008 was $28,030, an increase of $8,617 or 44.4 percent, from $19,413 reported for the same period in 2007. Salaries and other employee costs were $13,291, up $3,305 or 33.1 percent as compared to the first nine months of 2007 mainly due to an increase of approximately 68 full-time equivalent employees compared to the first nine months of 2007. In addition, approximately $137 of severance cost relating to branch restructuring and loan production office closures were posted in the third quarter of 2008. Employees increased due to the acquisition of Futura Banc Corporation and the assumption of deposits of Miami Valley Bank in the fourth quarter of 2007. The Corporation subsequently purchased one of Miami Valley's branch banking offices, and retained the employees of that branch. Occupancy and equipment costs were $3,550, up $1,686 or 90.5 percent as a result of the acquisitions. Computer processing costs were $944, up $370 or 64.5 percent compared to the first nine months of 2007 as a result of conversion costs associated with acquisitions. State franchise taxes increased $298 compared to the first nine months of 2007 as a result of acquisitions as well. Amortization expense for the three quarters of 2008 increased $616 or 127.5 percent from the same period of 2007 due to the additional intangible assets acquired from the recent merger. Professional services expenses increased $389 or 37.5 percent from the three quarters of 2007 due to increased post merger legal and audit fees associated with lending activities and from consulting fees for employment searches. Finally, other operating expenses were $6,765, up $1,953 or 40.6 percent as compared to the three quarters of 2007, primarily a result of merger, integration and restructuring charges recognized from the acquisition of Futura Banc Corporation.

Income tax expense for the first nine months of 2008 totaled $691 compared to $1,924 for the first nine months of 2007. This was a decrease of $1,233, or 64.1 percent. The decrease in the federal income taxes is a result of the decrease in total income before taxes of $3,282 and a result of a decrease in the effective tax rate. The effective tax rates for the nine-month periods ended September 30, 2008 and September 30, 2007 were 20.7% and 29.1%, respectively. Non-taxable BOLI income and non-taxable security income led to lower taxable income, and therefore to the decrease in the effective tax rate.

Three Months Ended September 30, 2008 and 2007

Net income for the three months ended September 30, 2008 was $1,230, a decrease of $237 or 16.2 percent from $1,467 for the same period in 2007. Basic and diluted earnings per common share was $.16 for the three months ended September 30, 2008 compared to $.27 for the same period in 2007. The decrease in earnings per share is partly due to the greater number of shares outstanding at the end of the second quarter of 2008 compared to the same period in 2007. The Corporation issued 2,343,617 shares in connection with the acquisition of Futura Banc Corporation. Other reasons for the changes are explained below.

Total interest income for the third quarter of 2008 increased $2,914, or 23.2 percent compared to the same period in 2007. Average earning assets for the third quarter of 2008 increased 36.4 percent from the three months ended September 30, 2007, mostly due to an acquisition. The average rate on earning assets on a tax equivalent basis for the third quarter of 2008 was 6.40% and 7.11% for the third quarter of 2007. The decrease in yield in this year's third quarter is due to the change in the interest rate environment in which the Corporation has operated in 2008. Total interest expense for the third quarter of 2008 decreased $395, or 7.4 percent compared to the same period of 2007. Average interest-bearing liabilities for the third quarter of 2008 increased 39.9 percent from the three months ended September 30, 2007 due to an acquisition. The average rate on interest-bearing liabilities for the third quarter of 2008 was 2.34% and was 3.54% for the third quarter of 2007. The decrease in cost in this year's third quarter is due to the change in the interest rate environment.

Noninterest income for the three months ended September 30, 2008 was $2,429, an increase of $611 or 33.6 percent compared to the three months ended September 30, 2007. The change in non-interest income reflects the impact of acquisitions. Non-interest income growth was most significant in the service charges on deposit accounts, which recorded revenues of $1,235 during the third quarter of 2008, an increase of $361 or 41.3 percent from the same period in 2007. The increased revenues were primarily due to higher volumes in deposit accounts from acquisitions. Trust fee income for the third quarter of 2008 was $508, up $131 or 34.7 percent over the third quarter of 2007, primarily from an acquisition. Bank owned life insurance contributed $119 to non-interest income in the third quarter of 2008. ATM fee income for the third quarter of 2008 was $382, up $155 or 68.3 percent over the same period of 2007, primarily from an acquisition. In the third quarter of 2008, losses sustained on the sale of OREO properties increased $35 compared to the third quarter of 2007 and losses on the disposal of fixed assets increased $57 compared to the third quarter of 2007. In the third quarter of 2008, the Corporation closed two Loan Production offices, one in Marion, Ohio and the other in Maryville, Ohio, the closure resulting in writing off leasehold improvements.

Noninterest expense for the third quarter of 2008 was $9,006, an increase of $2,748 or 43.9 percent, from $6,258 reported for the same period in 2007. Salaries and other employee costs were $4,545, up $1,375 or 43.4 percent as compared to the same period in 2007 mainly due to an increase of approximately 68 full-time equivalent employees compared to the third quarter of 2007. Employees increased due to the acquisition of Futura Banc Corporation and the assumption of deposits of Miami Valley Bank in the fourth quarter of 2007. The Corporation subsequently purchased one of Miami Valley's branch banking offices, and retained the employees of that branch. In addition, approximately $137 of severance cost relating to branch restructuring and loan production office closures were posted in the third quarter of 2008. Occupancy and equipment costs were $1,144, up $528 or 85.7 percent as a result of the acquisitions. Computer processing costs were $239, up $46 or 23.8 percent compared to last year's third quarter as a result of higher processing costs associated with acquisitions. Amortization expense in the third quarter increased $198 or 123.0 percent from the same period of 2007 due to the additional intangible assets acquired from the recent merger. Professional services expenses increased $151 or 47.3 percent from the third quarter of 2007 due to increased post merger legal and audit fees associated with lending activities and from consulting fees for employment searches. Finally, other operating expenses were $2,055, up $476 or 30.1 percent as compared to the third quarter of 2007, primarily a result of the acquisition of Futura Banc Corporation.

Income tax expense for the third quarter totaled $396 compared to $615 for the same period in 2007. This was a decrease of $219, or 35.6 percent. The decrease in the federal income taxes is a result of the decrease in total income before taxes of $456 and a result of a decrease in the effective tax rate. The effective tax rates for the three-month periods ended September 30, 2008 and September 30, 2007, were 24.4% and 29.5%, respectively. Non-taxable BOLI income and non-taxable security income led to lower taxable income, and therefore to the decrease in the effective tax rate.

Capital Resources

Shareholders' equity totaled $122,298 at September 30, 2008 compared to $126,156 at December 31, 2007. All of the Corporation's capital ratios exceeded the regulatory minimum guidelines as of September 30, 2008 and December 31, 2007 as identified in the following table:

	Corporation Ratios		For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
	9/30/2008	12/31/2007		
Tier I Risk Based Capital	7.9%	7.3%	4.0%	6.0%
Total Risk Based Capital	11.2%	10.3%	8.0%	10.0%
Leverage Ratio	5.9%	7.7%	4.0%	5.0%

The Corporation paid a cash dividend of $.28 per common share on each of February 1, and May 1, 2008, and a cash dividend of $.20 per common share on August 1, 2008, and $.29 per common share on each of February 1 and May 1, 2007, and a cash dividend of $.27 per common share on August 1, 2007. The decrease in the dividend paid on August 1, 2008 is due to the decrease in earnings the second quarter of 2008, balanced with management's desire to continue the practice of paying a strong dividend. The Corporation anticipates spreading the impact of the second quarter's decreased net earnings of several quarters.

Liquidity

All securities are classified as available for sale. At September 30, 2008, securities with maturities of one year or less, totaled $7,603, or 5.1 percent of the total security portfolio. The available for sale portfolio helps to provide the Corporation with the ability to meet its funding needs. The Consolidated Statements of Cash Flows (unaudited) contained in the consolidated financial statements detail the Corporation's cash flows from operating activities resulting from net earnings.

Cash from operations for the nine months ended September 30, 2008 was $12,291. This includes net income of $2,648 plus net adjustments of $9,643 to reconcile net earnings to net cash provided by operations. Cash from investing activities was $6,300 for the nine months ended September 30, 2008. The use of cash from investing activities is primarily due to loans, securities and the change in federal funds sold. The Corporation had a net decrease in cash of $5,608 during the nine months ended September 30, 2008 due to the net growth of the loan portfolio. Cash received from maturing and called securities totaled $49,303. This increase in cash was offset by the purchase of securities of $54,378. Additionally, cash was increased by the net change in federal funds sold of $18,408. Cash from financing activities in the first nine months of 2008 totaled $(14,972). This decrease in cash is primarily due to the net change in deposits. Cash from operating activities and financing activities was more than cash from investing activities by $3,619. Cash and due from banks increased from $27,345 at December 31, 2007 to $30,964 at September 30, 2008, as a result of the increase in cash during the first nine months of 2008.

Future loan demand of Citizens may be funded by increases in deposit accounts, proceeds from payments on existing loans, the maturity of securities, the issuances of trust preferred obligations, and the sale of securities classified as available for sale. Additional sources of funds may also come from borrowing in the Federal Funds market and/or borrowing from the FHLB. Citizens maintains federal funds borrowing lines at its correspondent banks totaling $30,000. As of September 30, 2008, Citizens had total credit availability with the FHLB of $163,585, of which $107,630 was outstanding.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Corporation's primary market risk exposure is interest-rate risk and, to a lesser extent, liquidity risk. All of the Corporation's transactions are denominated in U.S. dollars with no specific foreign exchange exposure.

Interest-rate risk is the exposure of a banking organization's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value. However, excessive levels of interest-rate risk can pose a significant threat to the Corporation's earnings and capital base. Accordingly, effective risk management that maintains interest-rate risk at prudent levels is essential to the Corporation's safety and soundness.

Evaluating a financial institution's exposure to changes in interest rates includes assessing both the adequacy of the management process used to control interest-rate risk and the organization's quantitative level of exposure. When assessing the interest-rate risk management process, the Corporation seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain interest-rate risk at prudent levels with consistency and continuity. Evaluating the quantitative level of interest rate risk exposure requires the Corporation to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity and, where appropriate, asset quality.

The Federal Reserve Board, together with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, adopted a Joint Agency Policy Statement on interest-rate risk, effective June 26, 1996. The policy statement provides guidance to examiners and bankers on sound practices for managing interest-rate risk, which will form the basis for ongoing evaluation of the adequacy of interest-rate risk management at supervised institutions. The policy statement also outlines fundamental elements of sound management that have been identified in prior Federal Reserve guidance and discusses the importance of these elements in the context of managing interest-rate risk. Specifically, the guidance emphasizes the need for active board of director and senior management oversight and a comprehensive risk-management process that effectively identifies, measures, and controls interest-rate risk. Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest an institution earns on its assets and owes on its liabilities generally are established contractually for a period of time. Since market interest rates change over time, an institution is exposed to lower profit margins (or losses) if it cannot adapt to interest-rate changes. For example, assume that an institution's assets carry intermediate- or long-term fixed rates and that those assets were funded with short-term liabilities. If market interest rates rise by the time the short-term liabilities must be refinanced, the increase in the institution's interest expense on its liabilities may not be sufficiently offset if assets continue to earn at the long-term fixed rates. Accordingly, an institution's profits could decrease on existing assets because the institution will have either lower net interest income or, possibly, net interest expense. Similar risks exist when assets are subject to contractual interest-rate ceilings, or rate sensitive assets are funded by longer-term, fixed-rate liabilities in a decreasing-rate environment.

Several techniques may be used by an institution to minimize interest-rate risk. One approach used by the Corporation is to periodically analyze its assets and liabilities and make future financing and investment decisions based on payment streams, interest rates, contractual maturities, and estimated sensitivity to actual or potential changes in market interest rates. Such activities fall under the broad definition of asset/liability management. The Corporation's primary asset/liability management technique is the measurement of the Corporation's asset/liability gap, that is, the difference between the cash flow amounts of interest sensitive assets and liabilities that will be refinanced (or repriced) during a given period. For example, if the asset amount to be repriced exceeds the corresponding liability amount for a certain day, month, year, or longer period, the institution is in an asset sensitive gap position. In this situation, net interest income would increase if market interest rates rose or decrease if market interest rates fell. If, alternatively, more liabilities than assets will reprice, the institution is in a liability sensitive position. Accordingly, net interest income would decline when rates rose and increase when rates fell. Also, these examples assume that interest rate changes for assets and liabilities are of the same magnitude, whereas actual interest rate changes generally differ in magnitude for assets and liabilities.

Several ways an institution can manage interest-rate risk include selling existing assets or repaying certain liabilities; matching repricing periods for new assets and liabilities, for example, by shortening terms of new loans or securities; and hedging existing assets, liabilities, or anticipated transactions. An institution might also invest in more complex financial instruments intended to hedge or otherwise change interest-rate risk. Interest rate swaps, futures contracts, options on futures, and other such derivative financial instruments often are used for this purpose. Because these instruments are sensitive to interest rate changes, they require management expertise to be effective. Financial institutions are also subject to prepayment risk in falling rate environments. For example, mortgage loans and other financial assets may be prepaid by a debtor so that the debtor may refund its obligations at new, lower rates. The Corporation has not purchased derivative financial instruments in the past and does not intend to purchase such instruments in the near future. Prepayments of assets carrying higher rates reduce the Corporation's interest income and overall asset yields. A large portion of an institution's liabilities may be short-term or due on demand, while most of its assets may be invested in long-term loans or securities. Accordingly, the Corporation seeks to have in place sources of cash to meet short-term demands. These funds can be obtained by increasing deposits, borrowing, or selling assets. FHLB advances and wholesale borrowings may also be used as important sources of liquidity for the Corporation.

The following table provides information about the Corporation's financial instruments that are sensitive to changes in interest rates as of December 31, 2007 and September 30, 2008, based on certain prepayment and account decay assumptions that management believes are reasonable. The Corporation had no derivative financial instruments or trading portfolio as of December 31, 2007 or September 30, 2008. Expected maturity date values for interest-bearing core deposits were calculated based on estimates of the period over which the deposits would be outstanding. The Corporation's borrowings were tabulated by contractual maturity dates and without regard to any conversion or repricing dates.

Net Portfolio Value

	September 30, 2008			December 31, 2007		
Change in Rates	Dollar Amount	Dollar Change	Percent Change	Dollar Amount	Dollar Change	Percent Change
+200bp	97,255	(33,053)	-25%	118,940	(26,162)	-18%
+100bp	116,941	(13,367)	-10%	133,346	(11,756)	-8%
Base	130,308	—	—	145,102	—	—
-100bp	141,359	11,051	8%	152,879	7,777	5%
-200bp	150,624	20,316	16%	155,417	10,315	7%

The change in net portfolio value from December 31, 2007 to September 30, 2008, is primarily a result of two factors. First, the short end of the yield curve has moved down, mainly the time frames two years and shorter. Additionally, both the asset and funding mixes have changed. While the assets shifted more toward investments, the funding mix shifted from deposits to borrowed money. As a result, the Corporation has seen a decrease in the base level of net portfolio value. An upward movement in rates would lead to a faster decrease in the fair value of assets, compared to liabilities, which would lead to a decrease in the net portfolio value. Inversely, a downward change in rates would lead to an increase in the net portfolio value as the fair value of assets would increase faster than the fair value of the liabilities. While this is the same general trend in movements as for December 31, 2007, the relative changes will tend to be larger, given the changes in the mix of the assets and funding that we saw in the third quarter of 2008.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2008 (the "evaluation date"), an evaluation was carried out under the supervision and with the participation of First Citizens Banc Corp's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the evaluation date, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by First Citizens Banc Corp in reports that it files or submits under the Exchange Act (1) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) is accumulated and communicated to the Corporation's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Corporation's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Corporation's fiscal quarter, ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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Part II — Other Information

Item 1. Legal Proceedings

In August, 2006, Champaign National Bank ("Champaign") terminated the employment of Mary L. Boesch ("Boesch"). Boesch filed a lawsuit against Champaign and its parent Futura Banc Corp. ("Futura") in the Common Pleas Court of Summit County, Ohio alleging gender and age discrimination and retaliatory discharge under Ohio law. She requested damages in excess of $25,000, punitive damages and her costs in maintaining the action. The court granted summary judgment in favor of both Champaign and Futura respecting all claims, and Boesch filed an appeal.

On December 17, 2007, First Citizens Banc Corp ("First Citizens") completed its acquisition of Futura, and Champaign was merged into First Citizens' subsidiary The Citizens Banking Company ("Citizens"). As a result, Citizens became a party to the litigation. The court of appeals has since upheld the summary judgment in favor of Futura and upheld the summary judgment upon the claims of discrimination against Champaign. However, the court decided that there were factual issues relevant to the retaliatory discharge claim against Champaign (now Citizens) and reversed the summary judgment on that claim.

Citizens is vigorously defending the action, and it is presently scheduled for a trial to begin on February 24, 2009. While the amounts claimed as damages by Boesch, if she is successful, could be material to First Citizens' results of operations, it is not now possible to predict the outcome of the matter.

Item 1A. Risk Factors

There were no material changes to the risk factors as presented in the Corporation's annual report on Form 10-K for the year ended December 31, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

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Item 6. Exhibits

Exhibit No. 31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
Exhibit No. 31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
Exhibit No. 32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit No. 32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

First Citizens Banc Corp
Signatures
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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.

First Citizens Banc Corp

/s/ James O. Miller	November 10, 2008
James O. Miller President, Chief Executive Officer	Date
/s/ Todd A. Michel	November 10, 2008
Todd A. Michel Senior Vice President, Controller	Date

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Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
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32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Section 302 Certification
For Principal Executive Officer

I, James O. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Citizens Banc Corp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control

over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Signature and Title: /s/ James O. Miller, President, Chief Executive Officer Date: November 10, 2008

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Section 302 Certification
For Principal Accounting Officer

I, Todd A. Michel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Citizens Banc Corp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role

in the registrant's internal control over financial reporting.

Signature and Title: /s/ Todd A. Michel, Senior Vice President, Controller Date: November 10, 2008

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of First Citizens Banc Corp (the "Corporation") on Form 10-Q for the period ending September 30, 2008, as filed with the Securities and Exchange Commission on the date of this certification (the "Report"), I, James O. Miller, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ James O. Miller

James O. Miller
Chief Executive Officer
November 10, 2008

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of First Citizens Banc Corp (the "Corporation") on Form 10-Q for the period ending September 30, 2008, as filed with the Securities and Exchange Commission on the date of this certification (the "Report"), I, Todd A. Michel, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Todd A. Michel

Todd A. Michel
Senior Vice President and Controller
November 10, 2008

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