NATIONAL PENN BANCSHARES INC

FORM 10-Q
(Quarterly Report)

Filed 11/14/00 for the Period Ending 09/30/00

Address	645 HAMILTON STREET, #1100
	ALLENTOWN, PA, 18101
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SIC Code	6021 - National Commercial Banks
Industry	Banks
Sector	Financials
Fiscal Year	12/31

NATIONAL PENN BANCSHARES INC

FORM 10-Q
(Quarterly Report)

Filed 11/14/2000 For Period Ending 9/30/2000

Address	PHILADELPHIA AND READING AVE PO 547
	BOYERTOWN, Pennsylvania 19512
Telephone	1-800-822-3321
CIK	0000700733
Industry	Regional Banks
Sector	Financial
Fiscal Year	12/31

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: ____________________ to ____________________

Commission file number: 000-10957

NATIONAL PENN BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	23-2215075
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Philadelphia and Reading Avenues, Boyertown, PA 19512
(Address of principal executive offices) (Zip Code)

(610) 367-6001
(Registrant's telephone number, including area code)

N/A
(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 X No .

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

Class Outstanding at November 8, 2000

Common Stock (no stated par value) (No.) 17,714,236 Shares

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NATIONAL PENN BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEET
(Dollars in thousands, except per share data)

	Sept. 30 2000 (Unaudited)	Dec. 31 1999 (Note)
ASSETS		
Cash and due from banks	$64,203	$62,953
Interest bearing deposits in banks	5,110	4,039
Federal funds sold	12,000	-
Total cash and cash equivalents	81,313	66,992
Investment securities available for sale	581,434	516,027
Loans, less allowance for loan losses of $37,571 and $34,139 in 2000 and 1999 respectively	1,650,482	1,536,404
Other assets	140,668	123,009
Total Assets	$2,453,897	$2,242,432
LIABILITIES AND SHAREHOLDERS' EQUITY		
Non-interest bearing deposits	$228,670	$210,272
Interest bearing deposits (Includes certificates of deposit in excess of $100,000 or greater: 2000 - $243,069; 1999 - $195,939)	1,531,931	1,382,982
Total Deposits	1,760,601	1,593,254
Securities sold under repurchase agreements and federal funds purchased	308,814	200,148
Short-term borrowings	10,000	12,448
Long-term obligations	149,062	223,077
Guaranteed preferred beneficial interests in Company's subordinated debentures	40,250	40,250
Accrued interest and other liabilities	25,455	25,559
Total Liabilities	2,294,182	2,094,736
Shareholders' equity		
Preferred stock, no stated par value; authorized 1,000,000 shares, none issued	-	-
Common stock, no stated par value; authorized 62,500,000 shares; issued and outstanding 2000 - 17,714,236; 1999 - 17,736,699; net of shares in Treasury: 2000 - 129,236; 1999 - 108,176	134,796	135,526
Retained earnings	33,850	26,739
Accumulated other comprehensive loss	(6,121)	(11,616)
Treasury stock at cost	(2,810)	(2,953)
Total Shareholders' Equity	159,715	147,696
Total Liabilities and Shareholders' Equity	$2,453,897	$2,242,432

The accompanying notes are an integral part of these condensed financial statements.
Note: The Balance Sheet at Dec. 31, 1999 has been derived from the audited financial statements at that date.

NATIONAL PENN BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2000	1999	2000	1999
INTEREST INCOME				
Loans including fees	$38,290	$33,528	$108,618	$97,037
Deposits in banks	59	69	221	176
Federal funds sold	78	10	121	170
Trading account securities	-	-	-	196
Investment securities	9,304	8,281	26,356	23,369
Total interest income	47,731	41,888	135,316	120,948
INTEREST EXPENSE				
Deposits	18,219	13,945	49,471	41,178
Federal funds purchased, borrowed funds and securities sold under repurchase agreements	8,017	7,154	22,737	19,250
Total interest expense	26,236	21,099	72,208	60,428
Net interest income	21,495	20,789	63,108	60,520
Provision for loan losses	1,400	1,415	4,400	4,245
Net interest income after provision for loan losses	20,095	19,374	58,708	56,275
OTHER INCOME				
Trust income	1,219	1,019	3,581	2,912
Service charges on deposit accounts	1,845	1,511	4,891	4,201
Net gains (losses) on sale of investment securities	103	-	263	213
Mortgage banking income	286	259	1,305	689
Trading revenue	-	-	-	(48)
Other	3,352	2,845	9,447	7,867
Total other income	6,805	5,634	19,487	15,834
OTHER EXPENSES				
Salaries, wages and employee benefits	9,517	9,386	29,483	27,937
Net premises and equipment	2,968	2,391	8,175	7,085
Other operating	5,014	4,076	14,017	12,601
Total other expenses	17,499	15,853	51,675	47,623
Income before income taxes	9,401	9,155	26,520	24,486
Applicable income tax expense	1,915	1,945	5,118	4,760
Net income	$7,486	$7,210	$21,402	$19,726
PER SHARE OF COMMON STOCK				
Net income per share - basic	$0.42	$0.41	$1.21	$1.11
Net income per share - diluted	0.42	0.40	1.20	1.09
Dividends paid in cash	0.20	0.19	0.60	0.56

The accompanying notes are an integral part of these condensed financial statements.

NATIONAL PENN BANCSHARES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2000
(Dollars in thousands)

	Common Stock Shares	Common Stock Par Value	Retained earnings	Accumulated other conprehensive loss	Treasury stock	Comprehensive income
Balance at December 31, 1999	17,736,699	$135,526	$26,739	$(11,616)	$(2,953)	
Net income	-	-	21,402	-	-	$21,402
Cash dividends declared	-	-	(14,291)	-	-	
Shares issued under stock-based plans			-	-	-	
Other comprehensive income, net of reclassification adjustment and taxes	-	-	-	5,495	-	5,495
Total comprehensive income	-	-	-	-	-	$ 26,897
Effect of treasury stock transactions	(22,463)	(730)			143	
Balance at September 30, 2000	17,714,236	$ 134,796	$ 33,850	$ (6,121)	$ (2,810)	

	September 30, 2000 Before tax amount	Tax (expense) benefit	Net of tax amount
Unrealized gains on securities			
Unrealized holding gains arising during period	7,149	(2,502)	4,647
Less: reclassification adjustment for gains realized in net income	1,305	(457)	848
Other comprehensive income, net	8,454	(2,959)	5,495

NINE MONTHS ENDED SEPTEMBER 30, 1999
(Dollars in thousands)

	Common Stock Shares	Common Stock Par Value	Retained earnings	Accumulated other conprehensive loss	Treasury stock	Comprehensive income
Balance at December 31, 1998	16,989,622	$114,294	$34,927	$9,553	$ -	
Net income	-	-	19,726	-	-	$19,726
Cash dividends declared	-	-	(10,894)	-	-	
Shares issued under stock-based plans	4,676	693	-	-	-	
Other comprehensive income, net of reclassification adjustment and taxes	-	-	-	(15,307)	-	(15,307)
Total comprehensive income	-	-	-	-	-	$ 4,419
Effect of treasury stock transactions	(67,467)	(533)			(1,404)	
Balance at September 30, 1999	16,926,831	$ 114,454	$ 43,759	$ (5,754)	$ (1,404)	

	September 30, 1999 Before tax amount	Tax (expense) benefit	Net of tax amount
Unrealized gains on securities			
Unrealized holding gains arising during period	(23,762)	8,317	(15,445)
Less: reclassification adjustment for gains realized in net income	213	(75)	138
Other comprehensive income, net	(23,549)	8,242	(15,307)

The accompanying notes are an integral part of these statements.

NATIONAL PENN BANCSHARES, INC. AND SUBSIDIARIES UNAUDITED CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months Ended September 30, 2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$21,402	$19,726
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Provision for loan losses	4,400	4,245
Depreciation and amortization	3,822	3,387
Net (gains) losses on sale of securities and mortgages	263	(143)
Trading-related assets	-	21,589
Mortgage loans originated for resale	(9,580)	(46,658)
Sale of mortgage loans originated for resale	9,580	46,658
Other	(8,672)	(2,234)
Net cash provided by operating activities	21,215	46,570
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in excess of cash equivalents for business acquired	(1,387)	-
Proceeds from sales of investment securities - available for sale	29,058	16,511
Proceeds from maturities of investment securities - available for sale	25,359	43,571
Purchase of investment securities - available for sale	(61,851)	(124,893)
Proceeds from sales of loans	-	-
Net increase in loans	(80,592)	(110,716)
Purchases of premises & equipment	(5,379)	(2,942)
Net cash provided by (used in) investing activities	(94,792)	(178,469)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in:		
Deposits	66,888	47,168
Repurchase agreements, fed funds & short-term borrowings	106,218	42,606
Repayments of long-term borrowings	(74,015)	49,454
(Increase) decrease in treasury stock	143	(1,404)
Issuance of common stock under dividend reinvestment plan	-	160
Effect of treasury stock transactions	(730)	-
Cash dividends	(10,606)	(10,894)
Net cash provided by financing activities	87,898	127,090
Net increase (decrease) in cash and cash equivalents	14,321	(4,809)
Cash and cash equivalents at January 1	66,992	65,801
Cash and cash equivalents at September 30	$81,313	$60,992

The accompanying notes are an integral part of these condensed financial statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary to a fair statement of the results for the interim periods. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

2. The results of operations for the nine-month period ended September 30, 2000 are not necessarily indicative of the results to be expected for the full year.

3. National Penn Bancshares, Inc. completed the acquisition of Panasia Bank on July 11, 2000 at a price of $29.00 per share in cash, with an aggregate purchase price for such shares and related costs totaling approximately $20 million. The acquisition has been accounted for under the purchase method of accounting and, accordingly, the purchase price was allocated to assets acquired and liabilities assumed based on the estimated fair market value as of the date of acquisition. The excess consideration paid over the estimated fair market value of net assets acquired in the amount of $12.2 million has been recorded as goodwill to be amortized on the straight-line basis over 20 years. All financial information presented includes results of Panasia Bank from July 11, 2000 forward. Panasia Bank is a wholly-owned subsidiary of National Penn Bancshares, Inc.

4. National Penn Bancshares, Inc. entered into a definitive agreement on July 23, 2000 to acquire Community Independent Bank, Inc. in a transaction intended to be accounted for under the pooling of interests method of accounting.

5. Per share data are based on the weighted average number of shares outstanding of 17,690,148 and 17,807,914 for 2000 and 1999, respectively, and on the weighted average number of diluted shares outstanding of 17,905,571 and 18,083,347 for 2000 and 1999, respectively, and are computed after giving retroactive effect to a 5% stock dividend paid December 22, 1999.

6. On September 27, 2000, the Company's Board of Directors declared a cash dividend of $.21 per share payable on November 17, 2000, to shareholders of record on October 31, 2000. On October 25, 2000, the Company's Board of Directors declared a 5% stock dividend payable on December 20, 2000, to shareholders of record on December 8, 2000. The financial and per share information has not been adjusted to reflect the 5% stock dividend.

7. In June 2000, SFAS No. 138 Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133, was issued. SFAS No. 138 amends SFAS No. 133 for the following items: normal purchases and normal sales exception, hedging the benchmark interest rate, hedging recognized foreign currency-denominated debt instruments and hedging with intercompany derivatives. SFAS No. 138 is required to be adopted concurrently with SFAS No.
133. The Company is currently reviewing provisions of SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138.

7. The Company identifies a loan as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. The balance of impaired loans was $12,835,000 at September 30, 2000, all of which are non-accrual loans. The allowance for loan loss associated with these impaired loans was $1,160,000 at September 30, 2000. The Company recognizes income on impaired loans under the cash basis when the loans are both current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, the Company will not recognize income on such loans.

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

The following discussion and analysis is intended to assist in understanding and evaluating the major changes in the financial condition and earnings performance of the Company with a primary focus on an analysis of operating results.

FINANCIAL CONDITION

Total assets increased to $2.454 billion, an increase of $211.5 million or 9.4% over the $2.242 billion at December 31, 1999. This increase is reflected primarily in the loan category, which increased $114.1 million, of which $37.9 million was due to the addition of Panasia Bank in July 2000, and the investment category, which increased $65.4 million, of which $39.3 million is related to Panasia.

Total cash and cash equivalents increased $14.3 million or 21.4% at September 30, 2000 when compared to December 31, 1999. The increase is reflected primarily in federal funds sold which increased $12.0 million.

Loans increased to $1.650 billion at September 30, 2000. The increase of $114.1 million or 7.4% compared to December 31, 1999 was primarily the result of the addition of $37.9 million or 2.5% in loans from the acquisition of Panasia and the investment of deposits and securities sold under repurchase agreements. Loans originated for immediate resale during the first nine months of 2000 amounted to $9.6 million. The Company's credit quality is reflected by the annualized ratio of net charge-offs to total loans of .19% through the third quarter of 2000 versus .17% for the year 1999, and the ratio of non-performing assets to total loans of 1.17% at September 30, 2000 and .93% at December 31 1999. Non-performing assets, including non-accruals, loans 90 days past due and still accruing and other real estate owned, were $18.3 million at September 30, 2000 compared to $14.6 million at December 31, 1999. Of these amounts, non-accrual loans represented $12.8 million and $11.1 million at September 30, 2000 and December 31, 1999, respectively. Loans 90 days past due and still accruing interest were $4.2 million and $2.7 million at September 30, 2000 and December 31, 1999, respectively. Other real estate owned was $1.3 million and $.8 million at September 30, 2000 and December 31, 1999, respectively. The increase in non-performing assets is primarily due to one significant credit that is fully collateralized. The Company had no restructured loans at September 30, 2000 or December 31, 1999. The allowance for loan losses to non-performing assets was 204.6% and 234.3% at September 30, 2000 and December 31, 1999, respectively. The Company has no significant exposure to energy and agricultural-related loans.

Investments, the Company's secondary use of funds, increased $65.4 million or 12.7% to $581.4 million at September 30, 2000 when compared to December 31, 1999. The increase is due to the addition of $49.4 million in investments from the acquisition of Panasia and to investment purchases of $61.9 million, primarily in mortgage-backed securities, which was partially offset by investment sales, calls and maturities and the amortization of mortgage-backed securities.

Other assets increased to $140.7 million, an increase of $17.7 million over the $123.0 million at December 31, 1999. The increase is due primarily to the $12.2 million in goodwill from the acquisition of Panasia in July 2000, which is being amortized over a 20 year period.

As the primary source of funds, aggregate deposits of $1.761 billion at September 30, 2000 increased $167.3 million or 10.5% compared to December 31, 1999. The increase in deposits during the first nine months of 2000 was primarily in interest-bearing deposits, which increased $148.9 million while non-interest bearing deposits increased $18.4 million, largely due to the acquisition of $100.4 million in deposits from Panasia in July 2000. Certificates of deposit in excess of $100,000 increased $47.1 million. In addition to deposits, earning assets are funded to some extent through purchased funds and borrowings. These include securities sold under repurchase agreements, federal funds purchased, short-term borrowings, long-term debt obligations, and subordinated debentures. In the aggregate, these funds totaled $508.1 million at September 30, 2000, and $475.9 million at December 31, 1999. The increase of $32.2 million is primarily due to the increase in securities sold under repurchase agreements and federal funds purchased of $108.7 million, which was partially offset due to the repayment of short-term obligations of $2.4 million, and a decrease in long-term obligations of $74.0 million.

Shareholders' equity increased $12.0 million through September 30, 2000 due to an increase in earnings retained which was partially offset by a decrease in the valuation adjustment for securities available for sale. Cash dividends paid during the first nine months of 2000 increased $.6 million or 5.8%

compared to the cash dividends paid during the first nine months of 1999. Earnings retained during the first nine months of 2000 were 50.4% compared to 49.2% during the first nine months of 1999.

RESULTS OF OPERATIONS

Net income for the quarter ended September 30, 2000 was $7.5 million, 3.8% more than the $7.2 million for the third quarter of 1999. For the first nine months, net income reached $21.4 million or 8.5% more than the $19.7 million reported for the first nine months of 1999. The Company's performance has been and will continue to be in part influenced by the strength of the economy and conditions in the real estate market.

Net interest income is the difference between interest income on assets and interest expense on liabilities. Net interest income for the third quarter of 2000 was $21.5 million, 3.4% more than the $20.8 million for the third quarter of 1999. Net interest income increased $2.6 million or 4.3% to $63.1 million during the third quarter of 2000 from $60.5 million in 1999. The increase in interest income for the first nine months is a result of increased loan income of $11.6 million and increased investment income of $2.9 million due to growth in loans outstanding and higher rates on loans that was partially offset by growth in deposits and higher rates on deposits and borrowings. Interest rate risk is a major concern in forecasting earnings potential. From November 16, 1999 to February 1, 2000, the prime rate was 8.50%. From February 2, 2000 to March 21, 2000, the prime rate was 8.75%. On March 22, 2000, the prime rate changed to 9.00%. Interest expense during the first nine months of 2000 increased $11.8 million or 19.5% compared to the prior year's first nine months. The increase in interest expense for the first nine months is a result of increased interest on deposits of $8.3 million and increased interest on federal funds purchased, borrowed funds and securities sold under repurchase agreements of $3.5 million due to an increase in outstandings and higher rates on deposits and borrowings. In addition to the current rate environment, the cost of attracting and holding deposited funds is an ever-increasing expense in the banking industry. These increases are the real costs of deposit accumulation and retention, including FDIC insurance costs and branch overhead expenses. Such costs are necessary for continued growth and to maintain and increase market share of available deposits.

The provision for loan and lease losses is determined by periodic reviews of loan quality, current economic conditions, loss experience and loan growth. Based on these factors, the provision for loan and lease losses increased $155,000 for the nine-month period ended September 30, 2000 compared to the same period in 1999. The allowance for loan and lease losses of $37.6 million at September 30, 2000 and $34.1 million at December 31, 1999 as a percentage of total loans was 2.2% for both time periods. The Company's net charge-offs of $2.4 million and $2.8 million during the first nine months of 2000 and 1999, respectively, continue to be comparable to those of the Company's peers, as reported in the Bank Holding Company Performance Report.

Other income increased $1.2 million or 20.8% during the third quarter of 2000, as a result of increased other income of $507,000, increased service charges on deposit accounts of $334,000, increased trust income of $200,000 million, and increased gains on the sale of investment securities of $103,000. Year to date, other income increased $3.7 million or 23.1% as a result of increased other income of $1.6 million, increased service charges on deposit accounts of 690,000, increased trust income of $669,000 and increased mortgage banking income of $616,000. The increase in other income is due to increased income on bank-owned life insurance and increased income on other services charges and fees. Other expenses increased $1.6 million or 10.4% during the quarter ended September 30, 2000 and increased $4.1 million or 8.5% for the nine-month period. Of this year-to-date increase, salaries, wages and benefits increased $1.5 million or 5.5%, other operating expenses increased $1.4 million or 11.2%, and net premises and equipment increased $1.1 million or 15.4%.

Income before income taxes increased $246,000 or 2.7% in the third quarter of 2000 compared to the same time period in 1999. In comparing the first nine months of 2000 to 1999, income before income taxes increased $2.0 million or 8.3%. Income taxes remained relatively unchanged for the quarter ended September 30, 2000 and increased $358,000 for the nine-month period. The Company's effective tax rate is 19.3% and 19.4% for September 30, 2000 and September 30, 1999, respectively. This is due to the Company's investments in tax advantaged municipal securities and bank owned life insurance.

LIQUIDITY AND INTEREST RATE SENSITIVITY

The primary functions of asset/liability management are to assure adequate liquidity and maintain an appropriate balance between interest-earning assets and interest-bearing liabilities. Liquidity management involves the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. Funding affecting short-term liquidity, including deposits, repurchase agreements, fed funds purchased, and short-term borrowings, increased $273.6 million from year-end 1999. Long-term borrowings decreased $74.0 million during the first nine months of 2000. These changes represent a shift from long-term borrowings to short-term borrowings and a slower growth in deposits compared to loans.

The goal of interest rate sensitivity management is to avoid fluctuating net interest margins, and to enhance consistent growth of net interest income through periods of changing interest rates. Such sensitivity is measured as the difference in the volume of assets and liabilities in the existing portfolio that are subject to repricing in a future time period.

The following table shows separately the interest rate sensitivity of each category of interest-earning assets and interest-bearing liabilities at September 30, 2000:

	Repricing Periods (1)			
	Within Three Months	Three Months Through One Year	One Year Through Five Years	Over Five Years
	(In Thousands)			
Assets				
Interest bearing deposits at banks	$ 4,017	$ - -	$ - -	$ 1,093
Investment securities	39,395	72,350	129,826	339,863
Loans and leases (1)	513,601	242,272	494,355	400,254
Other assets	19,743	- -	- -	197,128
	576,756	314,622	624,181	938,338
Liabilities and equity				
Non-interest bearing deposits	228,670	- -	- -	- -
Interest bearing deposits (2)	305,205	417,841	253,610	555,275
Borrowed funds	189,350	77,500	- -	201,026
Preferred securities	- -	- -	- -	40,250
Other liabilities	- -	- -	- -	24,455
Hedging instruments	70,000	(30,000)	(40,000)	- -
Shareholders' equity	- -	- -	- -	159,715
	793,225	465,341	213,610	981,721
Interest sensitivity gap	(216,469)	(150,719)	410,571	(43,383)
Cumulative interest rate sensitivity gap	($216,469)	($367,188)	($ 43,383)	$ - -

(1) Adjustable rate loans are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due. Fixed rate loans are included in the period in which they are scheduled to be repaid and are adjusted to take into account estimated prepayments based upon assumptions estimating prepayments in the interest rate environment prevailing during the third calendar quarter of 2000. The table assumes prepayments and scheduled principal amortization of fixed-rate loans and mortgage-backed securities and assumes that adjustable rate mortgages will reprice at contractual

repricing intervals. There has been no adjustment for the impact of future commitments and loans in process.

(2) Savings and NOW deposits are scheduled for repricing based on historical deposit decay rate analyses, as well as historical moving averages of run-off for the Company's deposits in these categories. While generally subject to immediate withdrawal, management considers a portion of these accounts to be core deposits having significantly longer effective maturities based upon the Company's historical retention of such deposits in changing interest rate environments. Specifically, 21.3% of these deposits are considered repriceable within three months and 78.7% are considered repriceable in the over five years category.

Interest rate sensitivity is a function of the repricing characteristics of the Company's assets and liabilities. These characteristics include the volume of assets and liabilities repricing, the timing of the repricing, and the relative levels of repricing. Attempting to minimize the interest rate sensitivity gaps is a continual challenge in a changing rate environment. Based on the Company's gap position as reflected in the above table, current accepted theory would indicate that net interest income would increase in a falling rate environment and would decrease in a rising rate environment. An interest rate gap table does not, however, present a complete picture of the impact of interest rate changes on net interest income. First, changes in the general level of interest rates do not affect all categories of assets and liabilities equally or simultaneously. Second, assets and liabilities which can contractually reprice within the same period may not, in fact, reprice at the same time or to the same extent. Third, the table represents a one-day position; variations occur daily as the Company adjusts its interest sensitivity throughout the year. Fourth, assumptions must be made to construct such a table. For example, non-interest bearing deposits are assigned a repricing interval within one year, although history indicates a significant amount of these deposits will not move into interest bearing categories regardless of the general level of interest rates. Finally, the repricing distribution of interest sensitive assets may not be indicative of the liquidity of those assets.

The Company believes interest rate levels have the potential to rise slightly in the remainder of 2000, with no clear indication of sustainable rising or falling rates thereafter. Given this assumption, the Company's asset/liability strategy for 2000 is to achieve a reduced negative gap position (interest-bearing liabilities subject to repricing greater than interest-earning assets subject to repricing) for periods up to a year. The impact of a rising interest rate environment on net interest income is not expected to be significant to the Company's results of operations. Effective monitoring of these interest sensitivity gaps is the priority of the Company's asset/liability management committee.

CAPITAL ADEQUACY

The following table sets forth certain capital performance ratios:

	Sept. 30, 2000	Dec. 31, 1999
CAPITAL PERFORMANCE		
Return on average assets (annualized)	1.23%	1.26%
Return on average equity (annualized)	18.90	17.90
Earnings retained	50.40	51.00

CAPITAL LEVELS

	Tier 1 Capital to Average Assets Ratio		Tier 1 Capital to Risk-Weighted Assets Ratio		Total Capital to Risk-Weighted Assets Ratio	
	Sept. 30, 2000	Dec. 31, 1999	Sept. 30, 2000	Dec. 31, 1999	Sept. 30, 2000	Dec. 31, 1999
The Company	7.83%	8.58%	10.33%	11.43%	11.59%	12.73%
National Penn Bank	7.00%	6.83%	9.14%	9.16%	10.40%	10.42%
Panasia Bank	7.37%	9.33%	21.26%	23.46%	22.54%	24.71%
"Well Capitalized" institution (under banking regulations)	5.00%	5.00%	6.00%	6.00%	10.00%	10.00%

The Company's capital ratios above compare favorably to the minimum required amounts of Tier 1 and total capital to "risk-weighted" assets and the minimum Tier 1 leverage ratio, as defined by banking regulators. At September 30, 2000, the Company was required to have minimum Tier 1 and total capital ratios of 4.0% and 8.0%, respectively, and a minimum Tier 1 leverage ratio of 4.0%. In order for the Company to be considered "well capitalized", as defined by banking regulators, the Company must have Tier 1 and total capital ratios of 6.0% and 10.0%, respectively, and a minimum Tier 1 leverage ratio of 5.0%. The Company currently meets the criteria for a well capitalized institution, and management believes that, under current regulations, the Company will continue to meet its minimum capital requirements in the foreseeable future. At present, the Company has no commitments for significant capital expenditures.

The Company is not under any agreement with regulatory authorities nor is the Company aware of any current recommendations by the regulatory authorities which, if such recommendations were implemented, would have a material effect on liquidity, capital resources or operations of the Company.

FUTURE OUTLOOK

On July 11, 2000, the Company acquired Panasia Bank in a transaction accounted for under the purchase method of accounting. Panasia Bank is headquartered in Ft. Lee, New Jersey. Panasia has approximately $100 million in assets. Panasia Bank is a wholly-owned subsidiary of National Penn Bancshares, Inc.

On July 23, 2000, the Company entered into a definitive agreement to acquire Community Independent Bank, Inc. in a transaction intended to be accounted for as a pooling of interests. Community Independent Bank, Inc. is a one-bank holding company headquartered in Bernville, Pennsylvania, operating four community bank offices in Berks County. Community Independent Bank, Inc. has approximately $110 million in assets. Subject to satisfaction of various conditions, this transaction is expected to close during the first quarter of 2001.

On July 17, 2000, the Company opened a branch in Wyomissing, Berks County. During the remainder of 2000, the Company anticipates opening one more new branch in Philadelphia.

This report contains forward-looking statements concerning earnings, asset quality, and other future events. Actual results could differ materially due to, among other things, the risks and uncertainties discussed herein and in the Company's reports filed from time to time with the Securities and Exchange Commission, including without limitation the Report on From 8-K dated October 25, 2000, which is incorporated herein by reference. The Company cautions readers not to place undue reliance on these statements. The Company undertakes no obligation to publicly release or update any of these statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation in the 1999 annual report on Form 10-K filed with the SEC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

Cash Dividend

On September 27, 2000, the Board of Directors of National Penn Bancshares, Inc. ("National Penn") declared a cash dividend of $.21 per share payable on November 17, 2000, to shareholders of record on October 31, 2000.

Community Independent Bank, Inc. - Pennsylvania Department of Banking

Approval

As has been previously reported, on July 23, 2000, National Penn and Community Independent Bank, Inc. ("Community") entered into an Agreement which provides, among other things, for the merger of Community with and into National Penn, with National Penn surviving the merger.

On November 7, 2000, the Pennsylvania Department of Banking approved the National Penn/Community merger, subject to a favorable vote on the merger by Community's shareholders. A special meeting of Community's shareholders to consider and vote upon the National Penn/Community merger is scheduled for November 30, 2000.

Branch/ATM Changes

During third quarter 2000, National Penn's principal banking subsidiary, National Penn Bank (the "Bank"), closed a branch on Park Road, and opened a branch on Berkshire Boulevard, in Wyomissing (Berks County). The Bank also closed an automated teller machine ("ATM") on Hamilton Boulevard, in Allentown (Lehigh County), and opened a new ATM in West Chester (Chester County).

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

(a) Exhibits.

2.2 - Agreement dated July 23, 2000, between National Penn Bancshares, Inc. and Community Independent Bank, Inc. (Schedules are omitted pursuant to Regulation S-K, Item
601(b)(2); National Penn agrees to furnish a copy of such schedules to the Securities and Exchange Commission upon request.) (Incorporated by reference to Exhibit 2.2 to National Penn's Report on Form 8-K dated July 11, 2000.)

4.1 - Term Loan Agreement dated July 11, 2000, between National Penn Bancshares, Inc. and The Northern Trust Company. (Omitted pursuant to Regulation S-K, Item 601(b)(4)(iii); National Penn agrees to furnish a copy of such agreement to the Securities and Exchange Commission upon request.)

27 - Financial Data Schedule.

(b) Reports on Form 8-K.

During the quarter ended September 30, 2000, National Penn filed the following reports on Form 8-K:

* Report dated July 11, 2000. The Report provided information under Item 5 on the closing of National Penn's acquisition of Panasia Bank and the signing of a definitive agreement for National Penn to acquire Community Independent Bank, Inc. The Report did not contain any financial statements.

* Report dated September 27, 2000. The report provided information under Item 5 on certain changes in National Penn's executive management to take effect on January 1, 2001. The Report did not contain any financial statements.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL PENN BANCSHARES, INC.
(Registrant)

Dated: November 14, 2000 *By /s/ Wayne R. Weidner*

Wayne R. Weidner, President

Dated: November 14, 2000 *By /s/ Gary L. Rhoads*

Gary L. Rhoads, Principal Financial Officer

ARTICLE 9

CIK: 0000700733

NAME: NATIONAL PENN BANCSHARES, INC.

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD END	SEP 30 2000
CASH	64,203
INT BEARING DEPOSITS	5,110
FED FUNDS SOLD	12000
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	581,434
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	581,434
LOANS	1,688,053
ALLOWANCE	37,571
TOTAL ASSETS	2,453,897
DEPOSITS	1,760,601
SHORT TERM	318,814
LIABILITIES OTHER	25,455
LONG TERM	189,312
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	134,796
OTHER SE	24,919
TOTAL LIABILITIES AND EQUITY	2,453,897
INTEREST LOAN	108,618
INTEREST INVEST	26,356
INTEREST OTHER	342
INTEREST TOTAL	135,316
INTEREST DEPOSIT	49,471
INTEREST EXPENSE	72,208
INTEREST INCOME NET	63,108
LOAN LOSSES	4,400
SECURITIES GAINS	263
EXPENSE OTHER	51,675
INCOME PRETAX	26,520
INCOME PRE EXTRAORDINARY	21,402
EXTRAORDINARY	0
CHANGES	0
NET INCOME	21,402
EPS BASIC	1.21
EPS DILUTED	1.20
YIELD ACTUAL	3.95
LOANS NON	12,835
LOANS PAST	4,229
LOANS TROUBLED	0
LOANS PROBLEM	0
ALLOWANCE OPEN	35,523
CHARGE OFFS	4169
RECOVERIES	1817
ALLOWANCE CLOSE	37,571
ALLOWANCE DOMESTIC	32,600
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	4,971

End of Filing