
From: Tom Bisko [tbisko@qnb.com]
Sent: Friday, October 29, 2004 2:25 PM
To: Director - FASB
Subject: FASB 03-01.doc

Letter of Comment No: 147
File Reference: EITF03-1A

Mr. Lawrence Smith
Director and Chairman of the Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856

Re: Proposed FASB Staff Position, EITF Issue 03-01-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-01, "The Meaning of Other-Than-Temporarily Impairment and Its Application to Certain Investments"

Dear Mr. Smith,

QNB Corp. appreciates the opportunity to comment on the proposed Staff Position, issued September 15, 2004 by the Financial Accounting Standards Board (FSP 03-1-a). QNB Corp. is a bank holding company headquartered in Quakertown, Pennsylvania. The Quakertown National Bank, a wholly owned subsidiary of QNB Corp. has been serving the residents and businesses of Upper Bucks, Northern Montgomery and Southern Lehigh Counties since 1877. The bank holds approximately \$590 million in assets and provides a full range of commercial banking, retail banking and trust and investment management services.

Our primary concern with the current proposal relates to the treatment of unrealized losses which result from changes in market rates of interest. As a financial institution, our loans and investments are funded with deposits and borrowings. As rates rise, the decline in the value of our assets will typically be offset to some degree by an increase in the value of the deposits and borrowings. We do not believe that readers of financial statements will get a true financial picture if the liability side of the balance sheet is completely ignored. We also believe that our income statement may become less meaningful if the proposal is adopted. At a minimum, we believe the proposal would produce much greater volatility in earnings and dramatically increase the degree of difficulty for a reader to compare the quality of reported earnings from period to period and from institution to institution. Since the proposal deals with investment securities only and not loans, a bank with a large volume of high credit quality investments could

be negatively impacted by this proposal while a bank with a high concentration of fixed rate loans would not be impacted. In summary, we sincerely ask you to remove the interest rate changes from your final position on this issue.

Once again, thank you for the opportunity to comment on this very critical issue.

Sincerely,

Thomas J. Bisko
President/CEO
QNB Corp.
215-536-9476

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