UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
August 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended June 30, 2012.

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: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-1886144**
(State or other jurisdiction of incorporation of organization)	**(IRS Employer Identification No.)**

14 North Main Street, Souderton, Pennsylvania 18964

(Address of principal executive offices)(Zip Code)

Registrant s telephone number, including area code: (215) 721-2400

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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x 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 the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ 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.

Common Stock, $5 par value	16,759,893
(Title of Class)	**(Number of shares outstanding at July 31, 2012)**

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	(UNAUDITED) At June 30, 2012	(SEE NOTE) At December 31, 2011
ASSETS		
Cash and due from banks	**$ 46,571**	$ 39,857
Interest-earning deposits with other banks	**59,373**	67,520
Investment securities held-to-maturity (fair value $46,296 and $45,639 at June 30, 2012 and December 31, 2011, respectively)	**45,538**	45,804
Investment securities available-for-sale	**393,554**	425,361
Loans held for sale	**1,333**	3,157
Loans and leases	**1,465,449**	1,446,406
Less: Reserve for loan and lease losses	**(30,502)**	(29,870)
Net loans and leases	**1,434,947**	1,416,536
Premises and equipment, net	**34,271**	34,303
Goodwill	**56,238**	53,169
Other intangibles, net of accumulated amortization and fair value adjustments of $12,542 and $11,646 at June 30, 2012 and December 31, 2011, respectively	**6,000**	4,870
Bank owned life insurance	**60,581**	61,387
Accrued interest receivable and other assets	**50,321**	54,875
Total assets	**$ 2,188,727**	$ 2,206,839
LIABILITIES		
Demand deposits, noninterest-bearing	**$ 334,828**	$ 304,006
Demand deposits, interest-bearing	**543,987**	547,034
Savings deposits	**508,230**	489,692
Time deposits	**356,877**	408,500
Total deposits	**1,743,922**	1,749,232
Securities sold under agreements to repurchase	**100,134**	109,740
Accrued interest payable and other liabilities	**45,611**	47,394
Long-term debt		5,000
Subordinated notes	**1,125**	1,875
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Company (Trust Preferred Securities)	**20,619**	20,619
Total liabilities	**1,911,411**	1,933,860
SHAREHOLDERS EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at June 30, 2012 and December 31, 2011; 18,266,404 shares issued at June 30, 2012 and December 31, 2011; 16,759,893 and 16,702,376 shares outstanding at June 30, 2012 and December 31, 2011, respectively	**91,332**	91,332

Additional paid-in capital	**58,404**	58,495
Retained earnings	**160,633**	157,566
Accumulated other comprehensive loss, net of taxes	**(5,895)**	(6,101)
Treasury stock, at cost; 1,506,511 shares and 1,564,028 shares at June 30, 2012 and December 31, 2011, respectively	**(27,158)**	(28,313)
Total shareholders equity	**277,316**	272,979
Total liabilities and shareholders equity	**$ 2,188,727**	$ 2,206,839

Note: The consolidated balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
	(Dollars in thousands, except per share data)			
Interest income				
Interest and fees on loans and leases:				
Taxable	**$ 16,413**	$ 17,191	**$ 32,750**	$ 34,375
Exempt from federal income taxes	**1,229**	1,223	**2,422**	2,377
Total interest and fees on loans and leases	**17,642**	18,414	**35,172**	36,752
Interest and dividends on investment securities:				
Taxable	**1,481**	2,166	**3,234**	4,412
Exempt from federal income taxes	**1,097**	1,112	**2,207**	2,231
Other interest income	**38**	12	**76**	15
Total interest income	**20,258**	21,704	**40,689**	43,410
Interest expense				
Interest on deposits	**1,654**	2,290	**3,507**	4,756
Interest on short-term borrowings	**156**	80	**262**	160
Interest on long-term borrowings	**301**	353	**609**	704
Total interest expense	**2,111**	2,723	**4,378**	5,620
Net interest income	**18,147**	18,981	**36,311**	37,790
Provision for loan and lease losses	**1,343**	5,556	**5,443**	10,690
Net interest income after provision for loan and lease losses	**16,804**	13,425	**30,868**	27,100
Noninterest income				
Trust fee income	**1,625**	1,625	**3,250**	3,250
Service charges on deposit accounts	**1,079**	1,356	**2,179**	2,692
Investment advisory commission and fee income	**1,350**	1,194	**2,606**	2,356
Insurance commission and fee income	**2,057**	2,072	**4,324**	4,272
Other service fee income	**1,368**	1,437	**2,890**	2,792
Bank owned life insurance income	**336**	268	**1,842**	612
Other-than-temporary impairment on equity securities	**(6)**	(3)	**(9)**	(10)
Net gain on sales of securities	**24**	569	**282**	569
Net gain on mortgage banking activities	**1,074**	328	**2,346**	303
Net loss on dispositions of fixed assets	**(10)**	(9)	**(9)**	(9)
Net loss on sales and write-downs of other real estate owned	**(1,071)**	(265)	**(1,102)**	(617)
Other	**174**	124	**422**	245
Total noninterest income	**8,000**	8,696	**19,021**	16,455
Noninterest expense				

Salaries and benefits	**10,733**	9,634	**22,296**	18,617
Net occupancy	**1,402**	1,361	**2,796**	2,911
Equipment	**1,111**	965	**2,145**	1,942
Marketing and advertising	**584**	393	**903**	982
Deposit insurance premiums	**429**	427	**873**	1,140
Other	**4,377**	3,626	**8,499**	7,560
Total noninterest expense	**18,636**	16,406	**37,512**	33,152
Income before income taxes	**6,168**	5,715	**12,377**	10,403
Applicable income taxes	**1,405**	1,199	**2,351**	2,025
Net income	**$ 4,763**	$ 4,516	**$ 10,026**	$ 8,378
Net income per share:				
Basic	**$ .28**	$ .27	**$ .60**	$ .50
Diluted	**.28**	.27	**.60**	.50
Dividends declared	**.20**	.20	**.40**	.40

Note: Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,					
	2012			2011		
(Dollars in thousands)	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Net income	**$ 6,168**	**$ 1,405**	**$ 4,763**	$ 5,715	$ 1,199	$ 4,516
Other comprehensive income:						
Net unrealized gains on available-for-sale investment securities:						
Net unrealized holding gains arising during the period	**1,417**	**496**	**921**	5,161	1,806	3,355
Less: reclassification adjustment for net gains on sales realized in net income	**(24)**	**(9)**	**(15)**	(569)	(199)	(370)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income	**6**	**2**	**4**	3	1	2
Total net unrealized gains on available-for-sale investment securities	**1,399**	**489**	**910**	4,595	1,608	2,987
Net change in fair value of derivatives used for cash flow hedges	**(563)**	**(197)**	**(366)**	(601)	(210)	(391)
Defined benefit pension plans:						
Less: amortization of net loss included in net periodic pension costs	**292**	**102**	**190**	176	61	115
Less: accretion of prior service cost included in net periodic pension costs	**(64)**	**(22)**	**(42)**	(63)	(21)	(42)
Total defined benefit pension plans	**228**	**80**	**148**	113	40	73
Other comprehensive income	**1,064**	**372**	**692**	4,107	1,438	2,669
Total comprehensive income	**$ 7,232**	**$ 1,777**	**$ 5,455**	$ 9,822	$ 2,637	$ 7,185

	Six Months Ended June 30,					
	2012			2011		
(Dollars in thousands)	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount	Before Tax Amount	Tax Expense (Benefit)	Net of Tax Amount
Net income	**$ 12,377**	**$ 2,351**	**$ 10,026**	$ 10,403	$ 2,025	$ 8,378
Other comprehensive income:						
Net unrealized gains on available-for-sale investment securities:						
Net unrealized holding gains arising during the period	**517**	**181**	**336**	6,318	2,211	4,107
Less: reclassification adjustment for net gains on sales realized in net income	**(282)**	**(99)**	**(183)**	(569)	(199)	(370)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income	**9**	**3**	**6**	10	3	7
Total net unrealized gains on available-for-sale investment securities	**244**	**85**	**159**	5,759	2,015	3,744
Net change in fair value of derivatives used for cash flow hedges	**(389)**	**(136)**	**(253)**	(372)	(130)	(242)
Defined benefit pension plans:						

Less: amortization of net loss included in net periodic pension costs	**589**	**206**	**383**	381	133	248
Less: accretion of prior service cost included in net periodic pension costs	**(128)**	**(45)**	**(83)**	(127)	(44)	(83)
Total defined benefit pension plans	**461**	**161**	**300**	254	89	165
Other comprehensive income	**316**	**110**	**206**	5,641	1,974	3,667
Total comprehensive income	**$ 12,693**	**$ 2,461**	**$ 10,232**	**$** 16,044	$ 3,999	$ 12,045

Note: Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
For the Six Months Ended June 30, 2012							
Balance at December 31, 2011	**16,702,376**	**$ (6,101)**	**$ 91,332**	**$ 58,495**	**$ 157,566**	**$ (28,313)**	**$ 272,979**
Net income					**10,026**		**10,026**
Other comprehensive income, net of taxes		**206**					**206**
Cash dividends declared ($0.40 per share)					**(6,706)**		**(6,706)**
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**90,339**				**(65)**	**1,526**	**1,461**
Cancelled stock options and awards	**(13,125)**			**300**	**(54)**	**(213)**	**33**
Tax expense on stock based compensation				**(84)**			**(84)**
Purchases of treasury stock	**(90,854)**					**(1,446)**	**(1,446)**
Restricted stock awards granted	**71,157**			**(1,154)**	**(134)**	**1,288**	
Vesting of restricted stock awards				**847**			**847**
Balance at June 30, 2012	**16,759,893**	**$ (5,895)**	**$ 91,332**	**$ 58,404**	**$ 160,633**	**$ (27,158)**	**$ 277,316**

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
For the Six Months Ended June 30, 2011							
Balance at December 31, 2010	16,648,303	$ (6,766)	$ 91,332	$ 59,080	$ 151,978	$ (29,400)	$ 266,224
Net income					8,378		8,378
Other comprehensive income, net of taxes		3,667					3,667
Cash dividends declared ($0.40 per share)					(6,688)		(6,688)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	73,345			62	13	1,215	1,290
Purchases of treasury stock	(3,005)					(52)	(52)
Restricted stock awards granted	58,736			(1,019)	47	972	
Vesting of restricted stock awards				203			203
Balance at June 30, 2011	16,777,379	$ (3,099)	$ 91,332	$ 58,326	$ 153,728	$ (27,265)	$ 273,022

Note: Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	**$ 10,026**	$ 8,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**5,443**	10,690
Depreciation of premises and equipment	**1,369**	1,287
Other-than-temporary impairment on equity securities	**9**	10
Net gain on sales of investment securities	**(282)**	(569)
Net gain on mortgage banking activities	**(2,346)**	(303)
Net loss on dispositions of fixed assets	**9**	9
Net loss on sales and write-downs of other real estate owned	**1,102**	617
Bank owned life insurance income	**(1,842)**	(612)
Other adjustments to reconcile net income to cash provided by operating activities	**3,145**	1,829
Originations of loans held for sale	**(122,521)**	(71,240)
Proceeds from the sale of loans held for sale	**125,854**	74,087
Decrease (increase) in accrued interest receivable and other assets	**400**	(1,595)
Decrease in accrued interest payable and other liabilities	**(1,557)**	(730)
Net cash provided by operating activities	**18,809**	21,858
Cash flows from investing activities:		
Net cash paid due to acquisitions	**(3,225)**	
Net capital expenditures	**(1,337)**	(857)
Proceeds from maturities of securities held-to-maturity		15
Proceeds from maturities and calls of securities available-for-sale	**81,001**	105,018
Proceeds from sales of securities available-for-sale	**57,162**	5,928
Purchases of investment securities available-for-sale	**(106,536)**	(55,827)
Net (increase) decrease in loans and leases	**(23,854)**	19,079
Net decrease in interest-bearing deposits	**8,147**	10,782
Proceeds from bank owned life insurance	**2,415**	
Proceeds from sales of other real estate owned	**1,482**	1,390
Net cash provided by investing activities	**15,255**	85,528
Cash flows from financing activities:		
Net decrease in deposits	**(5,310)**	(64,976)
Net decrease in short-term borrowings	**(14,606)**	(15,801)
Repayment of subordinated debt	**(750)**	(375)
Purchases of treasury stock	**(1,446)**	(52)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**1,461**	1,290
Cash dividends paid	**(6,699)**	(6,663)
Net cash used in financing activities	**(27,350)**	(86,577)
Net increase in cash and due from banks	**6,714**	20,809

Cash and due from banks at beginning of year		**39,857**		11,624
Cash and due from banks at end of period	**$**	**46,571**	$	32,433
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	**$**	**4,759**	$	5,923
Income taxes, net of refunds received		**1,282**		3,606
Non cash transactions:				
Noncash transfer of loans to other real estate owned	**$**		$	4,413
Contingency consideration recorded as goodwill	**$**	842	$	

Note: Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

Notes to the Unaudited Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation) and its wholly owned subsidiaries; the Corporation s primary subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the six-month period ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the registrant s Annual Report on Form 10-K for the year ended December 31, 2011, which was filed with the SEC on March 2, 2012.

Use of Estimates

The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include fair value measurement of investment securities available for sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation expense.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) regarding the presentation of comprehensive income and to increase the prominence of items reported in other comprehensive income and facilitate the convergence of U.S. GAAP and International Financial Reporting Standards (IFRS). The guidance requires entities to report the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. This update is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, or March 31, 2012 for the Corporation, and is to be applied retrospectively. In December 2011, the FASB issued an ASU deferring the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income. The Corporation adopted the two separate but consecutive financial statements approach for the three months ended March 31, 2012 and retrospectively for the three months ended March 31, 2011 by including consolidated statements of comprehensive income after the consolidated statements of income in this report. The standard did not have any material impact on the Corporation s financial statements.

In May 2011, the FASB issued an ASU regarding fair value measurements which establishes a global standard in U.S. GAAP and IFRS for applying fair value measurements and disclosures. Consequently, the amendments in this update change the wording to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The amendments do not require additional fair value measurements and most of the amendments are not intended to result in a change of the application of fair value measurement requirements. Additional disclosures required include: 1) for fair value measurements categorized within Level 3 of the fair value hierarchy: a) the valuation processes used by the reporting entity; and b) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs,

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if any; and 2) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed. This amendment is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, or March 31, 2012 for the Corporation, and is to be applied prospectively. The application of the provisions of this standard did not have a material impact on the Corporation s financial statements although it resulted in expanded disclosures effective March 31, 2012, which are included in Note 11, Fair Value Disclosures.

Note 2. Acquisition

On May 31, 2012, the Corporation and its insurance subsidiary, Univest Insurance, Inc., completed the acquisition of the Javers Group, a full-service employee benefits agency that specializes in comprehensive human resource management, payroll and administrative services to businesses with 50 to 1,000 employees. The acquisition expands the Corporation s insurance and employee benefits business and further diversifies its solutions to include human resource consulting services and technology.

The Corporation paid $3.2 million in cash at closing with additional contingent consideration to be paid in annual installments over the three-year period ended June 30, 2015 based on the achievement of certain levels of revenue. As of the acquisition date, the Corporation recorded the estimated fair value of the contingent consideration of $842 thousand in other liabilities. The estimated fair value of the contingent consideration liability was calculated using a discounted cash flow model of future contingent payments based on projected revenue related to the acquired business. The potential cash payments that could result from the contingent consideration arrangement range from $0 thousand to a maximum of $1.7 million over the next three years. The fair value of the contingent consideration liability will be reviewed on a quarterly basis and any valuation adjustments resulting from a change in the discount rate or change in projected revenue of the acquired business which affect the contingent consideration liability will be recorded through non-interest expense.

As a result of the Javers Group acquisition, the Corporation recorded goodwill of $3.1 million (inclusive of contingent consideration) and customer related intangibles of $989 thousand. The goodwill is expected to be deductible for tax purposes. The customer related intangibles will be amortized over nine years using the sum-of-the-years-digits amortization method. The allocation of the purchase price to goodwill, customer related intangibles and the contingent consideration liability, as of June 30, 2012, are preliminary estimates and are subject to adjustment within the measurement period. The acquisition was accounted for in accordance with FASB Accounting Standards Codification Topic 805, Business Combinations.

Note 3. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at June 30, 2012 and December 31, 2011 by contractual maturity within each type.

	At June 30, 2012				**At December 31, 2011**			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities Held-to-Maturity								
Corporate bonds:								
After 1 year to 5 years	**$ 45,538**	**$ 776**	**$ (18)**	**$ 46,296**	$ 45,804	$ 154	$ (319)	$ 45,639
	45,538	**776**	**(18)**	**46,296**	45,804	154	(319)	45,639
Total	**$ 45,538**	**$ 776**	**$ (18)**	**$ 46,296**	$ 45,804	$ 154	$ (319)	$ 45,639

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(Dollars in thousands)	At June 30, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	At December 31, 2011 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale								
U.S. treasuries:								
Within 1 year	**$**	**$**	**$**	**$**	$ 2,525	$	$	$ 2,525
					2,525			2,525
U.S. government corporations and agencies:								
Within 1 year	**6,540**	**47**		**6,587**	10,009	77		10,086
After 1 year to 5 years	**126,300**	**1,173**		**127,473**	143,189	1,022	(33)	144,178
	132,840	**1,220**		**134,060**	153,198	1,099	(33)	154,264
State and political subdivisions:								
Within 1 year					752	5		757
After 1 year to 5 years	**8,441**	**251**	**(15)**	**8,677**	10,082	308	(16)	10,374
After 5 years to 10 years	**26,850**	**1,029**	**(92)**	**27,787**	11,846	664	(3)	12,507
Over 10 years	**79,808**	**4,872**		**84,680**	87,896	5,472	(1)	93,367
	115,099	**6,152**	**(107)**	**121,144**	110,576	6,449	(20)	117,005
Residential mortgage-backed securities:								
After 5 years to 10 years	**17,969**	**801**		**18,770**	20,745	743		21,488
Over 10 years	**78,487**	**2,532**		**81,019**	55,328	2,665	(680)	57,313
	96,456	**3,333**		**99,789**	76,073	3,408	(680)	78,801
Commercial mortgage obligations:								
After 5 years to 10 years	**1,983**	**34**		**2,017**	5,547	124		5,671
Over 10 years	**24,260**	**505**		**24,765**	54,994	799		55,793
	26,243	**539**		**26,782**	60,541	923		61,464
Corporate bonds:								
After 1 year to 5 years	**4,992**		**(35)**	**4,957**	4,991		(224)	4,767
	4,992		**(35)**	**4,957**	4,991		(224)	4,767
Money market mutual funds:								
Within 1 year	**4,147**			**4,147**	3,851			3,851
	4,147			**4,147**	3,851			3,851
Equity securities:								
No stated maturity	**2,292**	**697**	**(314)**	**2,675**	2,364	544	(224)	2,684
	2,292	**697**	**(314)**	**2,675**	2,364	544	(224)	2,684
Total	**$ 382,069**	**$ 11,941**	**$ (456)**	**$ 393,554**	$ 414,119	$ 12,423	$ (1,181)	$ 425,361

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties.

Securities with a fair value of $310.4 million and $338.5 million at June 30, 2012 and December 31, 2011, respectively, were pledged to secure public deposits and for other purposes as required by law.

The following table presents information related to sales of securities available for sale during the six months ended June 30, 2012 and 2011.

	Six Months Ended June 30,	
(Dollars in thousands)	**2012**	**2011**
Securities available for sale:		
Proceeds from sales	**$ 57,162**	$ 5,928
Gross realized gains on sales	**1,178**	569
Gross realized losses on sales	**896**	
Tax expense related to net realized gains on sales	**99**	199

Accumulated other comprehensive income related to securities of $7.5 million and $7.3 million, net of taxes, has been included in shareholders equity at June 30, 2012 and December 31, 2011, respectively. Unrealized losses in investment securities at June 30, 2012 and December 31, 2011 do not represent other-than-temporary impairments.

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The Corporation realized other-than-temporary impairment charges to noninterest income of $9 thousand and $10 thousand, respectively, on its equity portfolio during the six months ended June 30, 2012 and 2011. The Corporation determined that it was probable that the fair value of certain equity securities would not recover to the Corporation s cost basis within a reasonable period of time due to a decline in the financial stability of the underlying companies. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other equity securities in an unrealized loss position, at this time, as the financial performance of the underlying companies is not indicative of the market deterioration of their stock and it is probable that the market value of the equity securities will recover to the Corporation s cost basis in the individual securities in a reasonable amount of time. The equity securities within the following table consist of common stocks of other financial institutions, which have experienced declines in value consistent with the industry as a whole. Management evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation has the positive intent to hold these securities and believes it is more likely than not, that it will not have to sell these securities until recovery to the Corporation s cost basis occurs. The Corporation does not consider these investments to be other-than-temporarily impaired at June 30, 2012 and December 31, 2011.

Management evaluates debt securities, which are comprised of U. S. Government, Government Sponsored Agencies, municipalities, corporate bonds and other issuers, for other-than-temporary impairment and considers the current economic conditions, the length of time and the extent to which the fair value has been less than cost, interest rates and the bond rating of each security. All of the debt securities are rated as investment grade and management believes that it will not incur any losses. The unrealized losses on the Corporation s investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation has not recognized any other-than-temporary impairment charges on debt securities for the six months ended June 30, 2012 and 2011.

At June 30, 2012 and December 31, 2011, there were no investments in any single non-federal issuer representing more than 10% of shareholders equity.

The following table shows the amount of securities that were in an unrealized loss position at June 30, 2012 and December 31, 2011:

	At June 30, 2012					
	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and political subdivisions	**$ 8,183**	**$ (90)**	**$ 958**	**$ (17)**	**$ 9,141**	**$ (107)**
Corporate bonds	**9,990**	**(53)**			**9,990**	**(53)**
Equity securities	**23**	**(3)**	**769**	**(311)**	**792**	**(314)**
Total	**$ 18,196**	**$ (146)**	**$ 1,727**	**$ (328)**	**$ 19,923**	**$ (474)**

	At December 31, 2011					
	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government corporations and agencies	$ 24,967	$ (33)	$	$	$ 24,967	$ (33)
State and political subdivisions			1,997	(20)	1,997	(20)
Residential mortgage-backed securities	5,184	(20)	3,311	(660)	8,495	(680)
Corporate bonds	34,851	(543)			34,851	(543)
Equity securities	920	(224)			920	(224)
Total	$ 65,922	$ (820)	$ 5,308	$ (680)	$ 71,230	$ (1,500)

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Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

(Dollars in thousands)	At June 30, 2012	At December 31, 2011
Commercial, financial and agricultural	**$ 497,955**	$ 484,687
Real estate-commercial	**517,282**	514,953
Real estate-construction	**79,910**	90,397
Real estate-residential secured for business purpose	**32,097**	32,481
Real estate-residential secured for personal purpose	**140,217**	125,220
Real estate-home equity secured for personal purpose	**78,696**	80,478
Loans to individuals	**44,037**	44,965
Lease financings	**75,255**	73,225
Total loans and leases, net of deferred income	**$ 1,465,449**	$ 1,446,406
Unearned lease income, included in the above table	**$ (10,768)**	$ (9,965)
Net deferred costs, included in the above table	**$ 897**	$ 876
Overdraft deposits included in the above table	**$ 103**	$ 123

Overdraft deposits are re-classified as loans and are included in the total loans and leases on the balance sheet.

Age Analysis of Past Due Loans and Leases

The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans and leases greater than 90 days past due which are accruing interest at June 30, 2012 and December 31, 2011:

(Dollars in thousands)	30-59 Days Past Due*	60-89 Days Past Due*	Greater Than 90 Days Past Due*	Total Past Due*	Current*	Total Loans and Leases	Recorded Investment Greater than 90 Days Past Due and Accruing Interest*
At June 30, 2012							
Commercial, financial and agricultural	**$ 137**	**$ 272**	**$ 20**	**$ 429**	**$ 491,879**	**$ 497,955**	**$ 20**
Real estate commercial real estate and construction:							
Commercial real estate	**1,890**			**1,890**	**494,516**	**517,282**	
Construction					**63,241**	**79,910**	
Real estate residential and home equity:							
Residential secured for business purpose	**295**			**295**	**31,625**	**32,097**	
Residential secured for personal purpose	**112**			**112**	**139,793**	**140,217**	
Home equity secured for personal purpose	**375**	**266**	**58**	**699**	**77,997**	**78,696**	**58**
Loans to individuals	**393**	**173**	**237**	**803**	**43,185**	**44,037**	**237**
Lease financings	**562**	**310**	**69**	**941**	**73,691**	**75,255**	**69**
Total	**$ 3,764**	**$ 1,021**	**$ 384**	**$ 5,169**	**$ 1,415,927**	**$ 1,465,449**	**$ 384**

* Excludes impaired loans and leases.

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(Dollars in thousands)	30-59 Days Past Due*	60-89 Days Past Due*	Greater Than 90 Days Past Due*	Total Past Due*	Current*	Total Loans and Leases	Recorded Investment Greater than 90 Days Past Due and Accruing Interest*
At December 31, 2011							
Commercial, financial and agricultural	$ 3,741	$ 33	$	$ 3,774	$ 476,222	$ 484,687	$
Real estate commercial real estate and construction:							
Commercial real estate	2,212	723		2,935	491,498	514,953	
Construction					74,656	90,397	
Real estate residential and home equity:							
Residential secured for business purpose	340			340	32,026	32,481	
Residential secured for personal purpose	1,783			1,783	123,380	125,220	
Home equity secured for personal purpose	298	68	117	483	79,968	80,478	117
Loans to individuals	386	236	204	826	44,089	44,965	204
Lease financings	1,203	544	44	1,791	70,535	73,225	44
Total	$ 9,963	$ 1,604	$ 365	$ 11,932	$ 1,392,374	$ 1,446,406	$ 365

* Excludes impaired loans and leases.

Nonaccrual and Troubled Debt Restructured Loans and Lease Modifications

The following presents, by class of loans and leases, nonaccrual loans and leases (including nonaccrual troubled debt restructured loans and lease modifications) and accruing troubled debt restructured loans and lease modifications at June 30, 2012 and December 31, 2011.

	At June 30, 2012			**At December 31, 2011**		
(Dollars in thousands)	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Total Impaired Loans and Leases	Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Total Impaired Loans and Leases
Commercial, financial and agricultural	**$ 3,948**	**$ 1,699**	**$ 5,647**	$ 4,614	$ 77	$ 4,691
Real estate commercial real estate and construction:						
Commercial real estate	**17,861**	**3,015**	**20,876**	18,085	2,435	20,520
Construction	**13,887**	**2,782**	**16,669**	14,479	1,262	15,741
Real estate residential and home equity:						
Residential secured for business purpose	**177**		**177**	107	8	115
Residential secured for personal purpose	**312**		**312**	57		57
Home equity secured for personal purpose				27		27
Loans to individuals		**49**	**49**		50	50
Lease financings	**577**	**46**	**623**	838	61	899
Total	**$ 36,762**	**$ 7,591**	**$ 44,353**	$ 38,207	$ 3,893	$ 42,100

* Includes non-accrual troubled debt restructured loans and lease modifications of $8.3 million and $8.6 million at June 30, 2012 and December 31, 2011, respectively.

Credit Quality Indicators

The following tables present by class, the recorded investment in loans and leases by credit quality indicator at June 30, 2012 and December 31, 2011.

The Corporation employs a ten (10) grade risk rating system related to the credit quality of commercial loans and residential real estate loans secured for a business purpose of which the first six categories are pass categories (credits not adversely rated). The following is a description of the internal risk ratings and the likelihood of loss related to each risk rating. Loans with risk ratings of one through five are reviewed based on the relationship dollar

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amount with the borrower: loans with a relationship total of $2.5 million or greater are reviewed quarterly; loans with a relationship balance of less than $2.5 million but greater than $500 thousand are reviewed annually based on the borrower s fiscal year; loans with a relationship balance of less than $500 thousand are reviewed only if the loan becomes 60 days or more past due. Loans with risk ratings of six are also reviewed based on the relationship dollar amount with the borrower: loans with a relationship balance of $2.0 million or greater are reviewed quarterly; loans with a relationship balance of less than $2.0 million but greater than $500 thousand are reviewed annually; loans with a relationship balance of less than $500 thousand are reviewed only if the loan becomes 60 days or more past due. Loans with risk ratings of seven are reviewed at least quarterly, and as often as monthly, at management s discretion. Loans with risk ratings of eight through ten are reviewed monthly.

1. Cash Secured No credit risk

2. Fully Secured Negligible credit risk

3. Strong Minimal credit risk

4. Satisfactory Nominal credit risk

5. Acceptable Moderate credit risk

6. Pre-Watch Marginal, but stable credit risk

7. Special Mention Potential weakness

8. Substandard Well-defined weakness

9. Doubtful Collection in-full improbable

10. Loss Considered uncollectible

Commercial Credit Exposure Credit Risk by Internally Assigned Grades

	Commercial, Financial and Agricultural		**Real Estate Commercial**		**Real Estate Construction**		**Real Estate Residential Secured for Business Purpose**	
(Dollars in thousands)	**At June 30, 2012**	**At December 31, 2011**	**At June 30, 2012**	**At December 31, 2011**	**At June 30, 2012**	**At December 31, 2011**	**At June 30, 2012**	**At December 31, 2011**
Grade:								
1. Cash secured/2. Fully secured	**$ 2,135**	$ 2,426	**$**	$	**$**	$	**$**	$

3. Strong	**8,631**	4,441	**9,039**	9,365	**585**	1,124		
4. Satisfactory	**37,464**	32,730	**32,282**	28,517	**2,672**	89	**349**	1,309
5. Acceptable	**297,403**	296,860	**286,562**	296,499	**30,487**	35,207	**18,418**	18,990
6. Pre-watch	**85,253**	79,402	**112,196**	100,581	**27,368**	33,993	**10,026**	8,853
7. Special Mention	**18,194**	26,162	**25,872**	29,055	**1,477**	1,715	**731**	663
8. Substandard	**47,302**	40,634	**50,338**	49,943	**17,321**	18,269	**2,573**	2,666
9. Doubtful	**1,573**	2,032	**993**	993				
10. Loss								
Total	**$ 497,955**	$ 484,687	**$ 517,282**	$ 514,953	**$ 79,910**	$ 90,397	**$ 32,097**	$ 32,481

The Corporation monitors the credit risk profile by payment activity for the following classifications of loans and leases: residential real estate loans secured for a personal purpose, home equity loans secured for a personal purpose, loans to individuals and lease financings by payment activity. Nonperforming loans and leases are loans past due 90 days or more, loans and leases on non-accrual of interest and troubled debt restructured loans and lease modifications. Performing loans and leases are reviewed only if the loan becomes 60 days or more past due. Nonperforming loans and leases are reviewed monthly. Performing loans and leases have a nominal to moderate risk of loss. Nonperforming loans and leases are loans or leases with a well-defined weakness and where collection in-full is improbable.

Credit Exposure Real Estate Residential Secured for Personal Purpose, Real Estate Home Equity Secured for Personal Purpose, Loans to individuals, Lease Financing Credit Risk Profile by Payment Activity

	Real Estate Residential Secured for Personal Purpose		**Real Estate Home Equity Secured for Personal Purpose**		**Loans to individuals**		**Lease Financing**	
(Dollars in thousands)	**At June 30, 2012**	**At December 31, 2011**	**At June 30, 2012**	**At December 31, 2011**	**At June 30, 2012**	**At December 31, 2011**	**At June 30, 2012**	**At December 31, 2011**
Performing	**$ 139,905**	$ 125,163	**$ 78,638**	$ 80,334	**$ 43,751**	$ 44,711	**$ 74,563**	$ 72,282
Nonperforming	**312**	57	**58**	144	**286**	254	**692**	943
Total	**$ 140,217**	$ 125,220	**$ 78,696**	$ 80,478	**$ 44,037**	$ 44,965	**$ 75,255**	$ 73,225

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Risks associated with lending activities include, among other things, the impact of changes in interest rates and economic conditions, which may adversely impact the ability of borrowers to repay outstanding loans, and impact the value of the associated collateral.

Commercial, financial and agricultural loans, commercial real estate loans, construction loans and residential real estate loans with a business purpose are generally perceived as having more risk of default than residential real estate loans with a personal purpose and consumer loans. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers ability to repay their loans depends on successful development of their properties and factors affecting residential real estate borrowers.

Commercial, financial and agricultural business loans are typically based on the borrowers ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the collateral securing the loans often depreciates over time, is difficult to appraise and liquidate and fluctuates in value based on the success of the business.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property s value at completion of construction equals or exceeds the cost of the property construction (including interest). During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral. Included in real estate-construction is track development financing. Risk factors related to track development financing include the demand for residential housing and the real estate valuation market. When projects move slower than anticipated, the properties may have significantly lower values than when the original underwriting was completed, resulting in lower collateral values to support the loan. Extended time frames also cause the interest carrying cost for a project to be higher than the builder projected, negatively impacting the builder s profit and cash flow and, therefore, their ability to make principal and interest payments.

Commercial real estate loans and residential real estate loans with a business purpose secured by owner-occupied properties are dependent upon the successful operation of the borrower s business. If the operating company suffers difficulties in terms of sales volume and/or profitability, the borrower s ability to repay the loan may be impaired. Loans secured by properties where repayment is dependent upon payment of rent by third party tenants or the sale of the property may be impacted by loss of tenants, lower lease rates needed to attract new tenants or the inability to sell a completed project in a timely fashion and at a profit.

Commercial, financial and agricultural loans, commercial real estate loans, construction loans and residential real estate loans secured for a business purpose are more susceptible to a risk of loss during a downturn in the business cycle. The Corporation has strict underwriting, review, and monitoring procedures in place, however, these procedures cannot eliminate all of the risks related to these loans.

The Corporation focuses on both assessing the borrower s capacity and willingness to repay and on obtaining sufficient collateral. Commercial, financial and agricultural loans are generally secured by the borrower s assets and by personal guarantees. Commercial real estate and residential real estate loans secured for a business purpose are originated primarily within the Eastern Pennsylvania market area at conservative loan-to-value ratios and often by a guarantee of the borrowers. Management closely monitors the composition and quality of the total commercial loan portfolio to ensure that any credit concentrations by borrower or industry are closely monitored.

The Corporation originates fixed-rate and adjustable-rate real estate-residential mortgage loans that are secured by the underlying 1- to 4-family residential properties for personal purposes. Credit risk exposure in this area of lending is minimized by the evaluation of the credit worthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to underwriting policies that emphasize conservative loan-to-value ratios of generally no more than 80%. Residential mortgage loans granted in excess of the 80% loan-to-value ratio criterion are generally insured by private mortgage insurance.

In the real estate-home equity loan portfolio secured for a personal purpose, combined loan-to-value ratios at origination are generally limited to 80%. Other credit considerations may warrant higher combined loan-to-value ratios and are generally insured by private mortgage insurance.

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Credit risk in the loans to individuals portfolio, which includes, direct consumer loans and credit cards, is controlled by strict adherence to conservative underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower and, if secured, collateral values.

The primary risks that are involved with lease financing receivables are credit underwriting and borrower industry concentrations. The Corporation has strict underwriting, review, and monitoring procedures in place to mitigate this risk. Risk also lies in the residual value of the underlying equipment. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors and insurers. To the extent not guaranteed or assumed by a third party, or otherwise insured against, the Corporation bears the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the residual value. The Corporation greatly reduces this risk primarily by using $1.00 buyout leases, in which the entire cost of the leased equipment is included in the contractual payments, leaving no residual payment at the end of the lease terms.

Reserve for Loan and Lease Losses and Recorded Investment in Loans and Leases

The following presents, by portfolio segment, a summary of the activity in the reserve for loan and lease losses, the balance in the reserve for loan and lease losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method for the three and six months ended June 30, 2012 and 2011:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
For the Three Months Ended June 30, 2012								
Reserve for loan and lease losses:								
Beginning balance	**$ 11,701**	**$ 13,352**	**$ 948**	**$ 732**	**$ 704**	**$ 1,160**	**$ 2,000**	**$ 30,597**
Charge-offs	**(1,458)**	**(133)**		**(2)**	**(119)**	**(310)**	**N/A**	**(2,022)**
Recoveries	**362**	**44**	**3**	**1**	**26**	**148**	**N/A**	**584**
Provision (recovery of provision)	**1,416**	**(947)**	**(117)**	**153**	**108**	**163**	**567**	**1,343**
Ending balance	**$ 12,021**	**$ 12,316**	**$ 834**	**$ 884**	**$ 719**	**$ 1,161**	**$ 2,567**	**$ 30,502**
For the Three Months Ended June 30, 2011								
Reserve for loan and lease losses:								
Beginning balance	$ 11,098	$ 16,464	$ 995	$ 594	$ 701	$ 1,946	$ 1,006	$ 32,804
Charge-offs	(1,644)	(3,375)	(136)	(35)	(396)	(391)	N/A	(5,977)
Recoveries	49	17	3	1	34	114	N/A	218
Provision (recovery of provision)	1,374	2,986	157	136	356	243	304	5,556
Ending balance	$ 10,877	$ 16,092	$ 1,019	$ 696	$ 695	$ 1,912	$ 1,310	$ 32,601

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(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
For the Six Months Ended June 30, 2012								
Reserve for loan and lease losses:								
Beginning balance	**$ 11,262**	**$ 13,317**	**$ 823**	**$ 735**	**$ 730**	**$ 1,344**	**$ 1,659**	**$ 29,870**
Charge-offs	**(3,165)**	**(1,675)**		**(2)**	**(240)**	**(646)**	**N/A**	**(5,728)**
Recoveries	**415**	**140**	**55**	**3**	**57**	**247**	**N/A**	**917**
Provision (recovery of provision)	**3,509**	**534**	**(44)**	**148**	**172**	**216**	**908**	**5,443**
Ending balance	**$ 12,021**	**$ 12,316**	**$ 834**	**$ 884**	**$ 719**	**$ 1,161**	**$ 2,567**	**$ 30,502**
For the Six Months Ended June 30, 2011								
Reserve for loan and lease losses:								
Beginning balance	$ 9,630	$ 15,288	$ 1,333	$ 544	$ 734	$ 1,950	$ 1,419	$ 30,898
Charge-offs	(2,774)	(5,063)	(194)	(38)	(597)	(859)	N/A	(9,525)
Recoveries	181	80	6	3	78	190	N/A	538
Provision (recovery of provision)	3,840	5,787	(126)	187	480	631	(109)	10,690
Ending balance	$ 10,877	$ 16,092	$ 1,019	$ 696	$ 695	$ 1,912	$ 1,310	$ 32,601

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
At June 30, 2012								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	**$ 432**	**$**	**$**	**$**	**$**	**$ N/A**	**$ N/A**	**$ 432**
Ending balance: collectively evaluated for impairment	**11,589**	**12,316**	**834**	**884**	**719**	**1,161**	**2,567**	**30,070**
Total ending balance	**$ 12,021**	**$ 12,316**	**$ 834**	**$ 884**	**$ 719**	**$ 1,161**	**$ 2,567**	**$ 30,502**

Loans and leases:

Ending balance: individually evaluated for impairment	$ 5,647	$ 37,545	$ 177	$ 312	$ 49	$ N/A	$ 43,730
Ending balance: collectively evaluated for impairment	492,308	559,647	31,920	218,601	43,988	75,255	1,421,719
Total ending balance	$ 497,955	$ 597,192	$ 32,097	$ 218,913	$ 44,037	$ 75,255	$ 1,465,449

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(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate Commercial and Construction	Real Estate Residential Secured for Business Purpose	Real Estate Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
At June 30, 2011								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 372	$ 933	$	$	$	$	$ N/A	$ 1,305
Ending balance: collectively evaluated for impairment	10,505	15,159	1,019	696	695	1,912	1,310	31,296
Total ending balance	$ 10,877	$ 16,092	$ 1,019	$ 696	$ 695	$ 1,912	$ 1,310	$ 32,601
Loans and leases:								
Ending balance: individually evaluated for impairment	$ 5,987	$ 41,149	$ 218	$ 250	$ 52	$		$ 47,656
Ending balance: collectively evaluated for impairment	473,683	554,870	32,499	212,534	42,525	74,940		1,391,051
Total ending balance	$ 479,670	$ 596,019	$ 32,717	$ 212,784	$ 42,577	$ 74,940		$ 1,438,707

Impaired Loans

The following presents, by class of loans, the recorded investment and unpaid principal balance of impaired loans, the amounts of the impaired loans for which there is not an allowance for credit losses and the amounts for which there is an allowance for credit losses at June 30, 2012 and December 31, 2011:

	At June 30, 2012			At December 31, 2011		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:						
Commercial, financial and agricultural	**$ 4,660**	**$ 5,938**		$ 3,384	$ 4,422	
Real estate commercial real estate	**20,876**	**29,836**		19,453	27,146	
Real estate construction	**16,669**	**18,713**		15,741	17,268	
Real estate residential secured for business purpose	**177**	**187**		115	631	
Real estate residential secured for personal purpose	**312**	**312**		57	57	
Real estate home equity secured for personal purpose				27	27	
Loans to individuals	**49**	**57**		50	58	
Total impaired loans with no related allowance recorded:	**$ 42,743**	**$ 55,043**		$ 38,827	$ 49,609	
Impaired loans with an allowance recorded:						
Commercial, financial and agricultural	**$ 987**	**$ 1,359**	**$ 432**	$ 1,307	$ 1,700	$ 510
Real estate commercial real estate				1,067	1,067	743

Total impaired loan with an allowance recorded	**$ 987**	**$ 1,359**	**$ 432**	$ 2,374	$ 2,767	$ 1,253

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(Dollars in thousands)	At June 30, 2012 Recorded Investment	Unpaid Principal Balance	Related Allowance	At December 31, 2011 Recorded Investment	Unpaid Principal Balance	Related Allowance
Total impaired loans:						
Commercial, financial and agricultural	**$ 5,647**	**$ 7,297**	**$ 432**	$ 4,691	$ 6,122	$ 510
Real estate commercial real estate	**20,876**	**29,836**		20,520	28,213	743
Real estate construction	**16,669**	**18,713**		15,741	17,268	
Real estate residential secured for business purpose	**177**	**187**		115	631	
Real estate residential secured for personal purpose	**312**	**312**		57	57	
Real estate home equity secured for personal purpose				27	27	
Loans to individuals	**49**	**57**		50	58	
Total impaired loans:	**$ 43,730**	**$ 56,402**	**$ 432**	$ 41,201	$ 52,376	$ 1,253

The following presents by class of loans, the average recorded investment in impaired loans and an analysis of interest on impaired loans:

(Dollars in thousands)	Three Months Ended June 30, 2012 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms	Three Months Ended June 30, 2011 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
Commercial, financial and agricultural	**$ 6,011**	**$ 31**	**$ 60**	$ 6,387	$ 12	$ 105
Real estate commercial real estate	**19,863**	**44**	**257**	16,540	49	311
Real estate construction	**16,639**	**35**	**190**	19,355	27	229
Real estate residential secured for business purpose	**161**		**2**	327	1	3
Real estate residential secured for personal purpose	**185**		**3**	544	2	5
Real estate home equity secured for personal purpose				23		
Loans to individuals	**49**	**2**		58	2	
Total	**$ 42,908**	**$ 112**	**$ 512**	$ 43,234	$ 93	$ 653

* Includes interest income recognized on accruing troubled debt restructured loans of $109 thousand and $73 thousand for the three months ended June 30, 2012 and 2011, respectively.

(Dollars in thousands)	Six Months Ended June 30, 2012 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms	Six Months Ended June 30, 2011 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms

Commercial, financial and agricultural	**$ 5,596**	**$ 33**	**$ 152**	$ 6,753	$ 14	$ 193
Real estate commercial real estate	**20,421**	**87**	**526**	17,380	52	561
Real estate construction	**16,250**	**52**	**385**	16,986	28	458
Real estate residential secured for business purpose	**140**		**3**	380	3	9
Real estate residential secured for personal purpose	**130**		**4**	750	19	20
Real estate home equity secured for personal purpose	**4**			13		
Loans to individuals	**49**	**3**		62	3	1
Total	**$ 42,590**	**$ 175**	**$ 1,070**	$ 42,324	$ 119	$ 1,242

* Includes interest income recognized on accruing troubled debt restructured loans of $167 thousand and $79 thousand for the six months ended June 30, 2012 and 2011, respectively.

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Troubled Debt Restructured Loans

The following presents, by class of loans, information regarding accruing and non-accrual loans that were restructured during the three and six months ended June 30, 2012 and 2011.

	Three Months Ended June 30, 2012				**Three Months Ended June 30 , 2011**			
(Dollars in thousands)	**Number Of Loans**	**Pre-Restructuring Outstanding Recorded Investment**	**Post-Restructuring Outstanding Recorded Investment**	**Related Allowance**	**Number Of Loans**	**Pre-Restructuring Outstanding Recorded Investment**	**Post-Restructuring Outstanding Recorded Investment**	**Related Allowance**
Accruing Troubled Debt Restructured Loans								
Commercial, financial and agricultural	**1**	**$ 135**	**$ 135**	**$**		$	$	$
Real estate commercial real estate	**1**	**175**	**175**					
Real estate residential secured for business purpose					1	98	98	
Real estate residential secured for personal purpose					1	156	156	
Real estate home equity secured for personal purpose					1	31	31	
Total	**2**	**$ 310**	**$ 310**	**$**	3	$ 285	$ 285	$
Nonaccrual Troubled Debt Restructured Loans								
Commercial, financial and agricultural		**$**	**$**	**$**		$	$	$
Real estate commercial real estate								
Total		**$**	**$**	**$**		$	$	$

	Six Months Ended June 30, 2012				**Six Months Ended June 30, 2011**			
(Dollars in thousands)	**Number Of Loans**	**Pre-Restructuring Outstanding Recorded Investment**	**Post-Restructuring Outstanding Recorded Investment**	**Related Allowance**	**Number Of Loans**	**Pre-Restructuring Outstanding Recorded Investment**	**Post-Restructuring Outstanding Recorded Investment**	**Related Allowance**
Accruing Troubled Debt Restructured Loans								
Commercial, financial and agricultural	**8**	**$ 1,672**	**$ 1,672**	**$**		$	$	$
Real estate commercial real estate	**3**	**962**	**962**		5	2,438	2,435	
Real estate construction	**2**	**1,330**	**1,330**		5	2,182	2,182	
Real estate residential secured for business purpose					1	98	98	
Real estate residential secured for personal purpose					1	156	156	
Real estate home equity secured for personal purpose					1	31	31	
Total	**13**	**$ 3,964**	**$ 3,964**	**$**	13	$ 4,905	$ 4,902	$

Nonaccrual Troubled Debt Restructured Loans													
Commercial, financial and agricultural	**2**	**$**	**448**	**$**	**448**	**$**			$		$		$
Real estate commercial real estate	**1**		**124**		**124**			1		2,765		2,765	
Total	**3**	**$**	**572**	**$**	**572**	**$**		1	$	2,765	$	2,765	$

The Corporation grants concessions primarily related to extensions of interest-only payment periods and an occasional payment modification. These modifications typically are on a short-term basis up to one year. Our goal when restructuring a credit is to afford the customer a reasonable period of time to provide cash flow relief to customers experiencing cash flow difficulties.

Accruing loans totaling $4.0 million were restructured during the first six months of 2012. Accruing troubled debt restructured loans were primarily comprised of two categories of loans on which interest is being accrued under the restructured terms, and the loans were current or less than ninety days past due. The first category primarily consisted of four commercial business loans for one borrower totaling $1.3 million, which had their interest only payment terms extended due to reduced cash flows. The second category primarily consisted of one construction loan totaling $1.2 million, which had interest only payment terms extended until projected cash flows from rental property income are received. Accruing troubled debt restructured loans charged-off during the six months ended June 30, 2012 subsequent to the restructuring totaled approximately $372 thousand, primarily due to declines in collateral values for two commercial real estate loans for one borrower.

Nonaccrual loans totaling $572 thousand were restructured during the first six months of 2012. Nonaccrual troubled debt restructured loans were comprised of two commercial business loans and one commercial real estate loan for one borrower, which were granted principal and interest deferrals for a six month period.

There were no accruing or nonaccrual troubled debt restructured loans which had payment defaults within twelve months following restructuring during the three and six month periods ending June 30, 2012 and 2011.

Note 5. Mortgage Servicing Rights

The Corporation has originated mortgage servicing rights which are included in other intangible assets on the consolidated balance sheets. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method using an accelerated amortization method and are subject to periodic impairment testing. The aggregate fair value of these rights was $3.3 million and $2.8 million at June 30, 2012 and December 31, 2011, respectively. The fair value of mortgage servicing rights was determined using discount rates ranging from 3.5% to 7.3% at June 30, 2012 and December 31, 2011.

Changes in the mortgage servicing rights balance are summarized as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Dollars in thousands)	**2012**	**2011**	**2012**	**2011**
Beginning of period	**$ 3,067**	$ 2,772	**$ 2,739**	$ 2,441
Servicing rights capitalized	**609**	236	**1,036**	688
Amortization of servicing rights	**(373)**	(112)	**(684)**	(189)
Changes in valuation	**(27)**	(18)	**185**	(62)
End of period	**$ 3,276**	$ 2,878	**$ 3,276**	$ 2,878
Mortgage loans serviced for others	**$ 491,536**	$ 355,356	**$ 491,536**	$ 355,356

Activity in the valuation allowance for mortgage servicing rights was as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Dollars in thousands)	**2012**	**2011**	**2012**	**2011**
Valuation allowance, beginning of period	**$ (581)**	$ (245)	**$ (793)**	$ (201)
Additions	**(27)**	(18)		(62)
Reductions			**185**	
Direct write-downs				
Valuation allowance, end of period	**$ (608)**	$ (263)	**$ (608)**	$ (263)

The estimated amortization expense of mortgage servicing rights for the remainder of 2012 and the succeeding fiscal years is as follows:

Year (Dollars in thousands)	**Amount**
Remainder of 2012	$ 375
2013	649
2014	505
2015	387
2016	294
Thereafter	1,066

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Note 6. Income Taxes

As of June 30, 2012 and December 31, 2011, the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in non-interest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in non-interest expense in the year it is assessed and is treated as a deductible expense for tax purposes. As of June 30, 2012, the Corporation s tax years 2008 through 2011 remain subject to federal examination as well as examination by state taxing jurisdictions.

Note 7. Retirement Plans and Other Postretirement Benefits

Substantially all employees who were hired before December 8, 2009 are covered by a noncontributory retirement plan. Employees hired on or after December 8, 2009 are not eligible to participate in the noncontributory retirement plan. The Corporation also provides supplemental executive retirement benefits, a portion of which is in excess of limits imposed on qualified plans by federal tax law. These plans are non-qualified benefit plans. Information on these plans are aggregated and reported under Retirement Plans within this footnote.

The Corporation also provides certain postretirement healthcare and life insurance benefits for retired employees. Information on these benefits is reported under Other Postretirement Benefits within this footnote.

The Corporation sponsors a Supplemental Non-Qualified Pension Plan which was established in 1981 prior to the existence of a 401(k) Deferred Savings Plan, the Employee Stock Purchase Plan and the Long-Term Incentive Plans and therefore is not actively offered to new participants.

Information with respect to the Retirement and Supplemental Retirement Plans and Other Postretirement Benefits follows:

Components of net periodic benefit cost were as follows:

	Three Months Ended June 30,			
	2012	**2011**	**2012**	**2011**
(Dollars in thousands)	**Retirement Plans**		**Other Post Retirement Benefits**	
Service cost	**$ 155**	$ 184	**$ 20**	$ 17
Interest cost	**432**	433	**29**	30
Expected return on plan assets	**(637)**	(476)		
Amortization of net loss	**287**	176	**5**	
Accretion of prior service cost	**(59)**	(58)	**(5)**	(5)
Net periodic cost	**$ 178**	$ 259	**$ 49**	$ 42

	Six Months Ended June 30,			
	2012	**2011**	**2012**	**2011**
(Dollars in thousands)	**Retirement Plans**		**Other Post Retirement Benefits**	
Service cost	**$ 313**	$ 278	**$ 41**	$ 33
Interest cost	**863**	863	**59**	59
Expected return on plan assets	**(1,128)**	(948)		
Amortization of net loss	**578**	364	**11**	17
Accretion of prior service cost	**(118)**	(117)	**(10)**	(10)