UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
August 08, 2013
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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, 2013.

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	**(IRS Employer**
incorporation or organization)	**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	**16,678,341**
(Title of Class)	**(Number of shares outstanding at July 31, 2013)**

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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, 2013	(SEE NOTE) At December 31, 2012
ASSETS		
Cash and due from banks	**$ 45,360**	$ 98,399
Interest-earning deposits with other banks	**41,194**	47,713
Investment securities held-to-maturity (fair value $70,029 and $71,327 at June 30, 2013 and December 31, 2012, respectively)	**69,425**	69,845
Investment securities available-for-sale	**416,035**	429,734
Loans held for sale	**3,609**	4,530
Loans and leases held for investment	**1,499,993**	1,481,862
Less: Reserve for loan and lease losses	**(24,718)**	(24,746)
Net loans and leases held for investment	**1,475,275**	1,457,116
Premises and equipment, net	**32,493**	33,222
Goodwill	**57,517**	56,238
Other intangibles, net of accumulated amortization and fair value adjustments of $9,244 and $10,475 at June 30, 2013 and December 31, 2012, respectively	**8,470**	6,456
Bank owned life insurance	**62,326**	61,409
Accrued interest receivable and other assets	**43,897**	40,179
Total assets	**$ 2,255,601**	$ 2,304,841
LIABILITIES		
Demand deposits, noninterest-bearing	**$ 398,906**	$ 368,948
Demand deposits, interest-bearing	**632,563**	638,483
Savings deposits	**542,566**	526,391
Time deposits	**299,016**	331,511
Total deposits	**1,873,051**	1,865,333
Customer repurchase agreements	**45,388**	96,282
Accrued interest payable and other liabilities	**36,955**	37,955
Subordinated notes		375
Junior subordinated debt owed to unconsolidated subsidiary trust	**20,619**	20,619
Total liabilities	**1,976,013**	2,020,564
SHAREHOLDERS EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at June 30, 2013 and December 31, 2012; 18,266,404 shares issued at June 30, 2013 and December 31, 2012; 16,683,009 and 16,770,232 shares outstanding at June 30, 2013 and December 31, 2012, respectively	**91,332**	91,332
Additional paid-in capital	**61,702**	62,101
Retained earnings	**168,233**	164,823

Accumulated other comprehensive loss, net of taxes		**(13,229)**		(6,920)
Treasury stock, at cost; 1,583,395 shares and 1,496,172 shares at June 30, 2013 and December 31, 2012, respectively		**(28,450)**		(27,059)
Total shareholders equity		**279,588**		284,277
Total liabilities and shareholders equity	**$**	**2,255,601**	$	2,304,841

Note: The consolidated balance sheet at December 31, 2012 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. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest income				
Interest and fees on loans and leases:				
Taxable	**$ 15,809**	$ 16,413	**$ 31,751**	$ 32,750
Exempt from federal income taxes	**1,130**	1,229	**2,244**	2,422
Total interest and fees on loans and leases	**16,939**	17,642	**33,995**	35,172
Interest and dividends on investment securities:				
Taxable	**1,432**	1,481	**2,804**	3,234
Exempt from federal income taxes	**1,044**	1,097	**2,070**	2,207
Other interest income	**46**	38	**81**	76
Total interest income	**19,461**	20,258	**38,950**	40,689
Interest expense				
Interest on deposits	**1,155**	1,654	**2,395**	3,507
Interest on short-term borrowings	**15**	156	**32**	262
Interest on long-term borrowings	**183**	301	**472**	609
Total interest expense	**1,353**	2,111	**2,899**	4,378
Net interest income	**18,108**	18,147	**36,051**	36,311
Provision for loan and lease losses	**3,446**	1,343	**5,520**	5,443
Net interest income after provision for loan and lease losses	**14,662**	16,804	**30,531**	30,868
Noninterest income				
Trust fee income	**1,779**	1,625	**3,513**	3,250
Service charges on deposit accounts	**1,098**	1,079	**2,184**	2,179
Investment advisory commission and fee income	**1,811**	1,350	**3,512**	2,606
Insurance commission and fee income	**2,598**	2,057	**5,316**	4,324
Other service fee income	**1,827**	1,368	**3,525**	2,890
Bank owned life insurance income	**413**	336	**917**	1,842
Other-than-temporary impairment on equity securities		(6)		(9)
Net gain on sales of investment securities	**1,339**	24	**1,524**	282
Net gain on mortgage banking activities	**1,416**	1,074	**3,112**	2,346
Net loss on dispositions of fixed assets	**(6)**	(10)	**(6)**	(9)
Net gain (loss) on sales and write-downs of other real estate owned	**252**	(1,071)	**252**	(1,102)
Loss on termination of interest rate swap	**(1,866)**		**(1,866)**	
Other	**330**	174	**483**	422
Total noninterest income	**10,991**	8,000	**22,466**	19,021
Noninterest expense				

Salaries and benefits	**9,359**	9,100	**19,219**	19,241
Commissions	**2,388**	1,633	**4,503**	3,055
Net occupancy	**1,408**	1,402	**2,807**	2,796
Equipment	**1,212**	1,111	**2,394**	2,145
Marketing and advertising	**497**	584	**862**	903
Deposit insurance premiums	**400**	429	**792**	873
Restructuring charges			**539**	
Other	**4,022**	4,377	**8,406**	8,499
Total noninterest expense	**19,286**	18,636	**39,522**	37,512
Income before income taxes	**6,367**	6,168	**13,475**	12,377
Income taxes	**1,537**	1,405	**3,247**	2,351
Net income	**$ 4,830**	$ 4,763	**$ 10,228**	$ 10,026
Net income per share:				
Basic	**$ .29**	$ .28	**$ .61**	$ .60
Diluted	**.29**	.28	**.61**	.60
Dividends declared	**.20**	.20	**.40**	.40

Note: See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	Three Months Ended June 30, 2013 Before Tax Amount	2013 Tax Expense (Benefit)	2013 Net of Tax Amount	2012 Before Tax Amount	2012 Tax Expense (Benefit)	2012 Net of Tax Amount
Income	**$ 6,367**	**$ 1,537**	**$ 4,830**	$ 6,168	$ 1,405	$ 4,763
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	**(9,201)**	**(3,221)**	**(5,980)**	1,417	496	921
Less: reclassification adjustment for net gains on sales realized in net income	**(1,339)**	**(468)**	**(871)**	(24)	(9)	(15)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income				6	2	4
Total net unrealized (losses) gains on available-for-sale investment securities	**(10,540)**	**(3,689)**	**(6,851)**	1,399	489	910
Cash flow hedge derivative:						
Net change in fair value of interest rate swap	**(119)**	**(42)**	**(77)**	(563)	(197)	(366)
Less: reclassification adjustment for loss on termination of interest rate swap realized in net income	**1,866**	**653**	**1,213**			
Total cash flow hedge derivative	**1,747**	**611**	**1,136**	(563)	(197)	(366)
Defined benefit pension plans:						
Less: amortization of net loss included in net periodic pension costs	**349**	**122**	**227**	292	102	190
Less: accretion of prior service cost included in net periodic pension costs	**(63)**	**(21)**	**(42)**	(64)	(22)	(42)
Total defined benefit pension plans	**286**	**101**	**185**	228	80	148
Other comprehensive (loss) income	**(8,507)**	**(2,977)**	**(5,530)**	1,064	372	692
Total comprehensive (loss) income	**$ (2,140)**	**$ (1,440)**	**$ (700)**	$ 7,232	$ 1,777	$ 5,455

(Dollars in thousands)	Six Months Ended June 30, 2013 Before Tax Amount	2013 Tax Expense (Benefit)	2013 Net of Tax Amount	2012 Before Tax Amount	2012 Tax Expense (Benefit)	2012 Net of Tax Amount
Income	**$ 13,475**	**$ 3,247**	**$ 10,228**	$ 12,377	$ 2,351	$ 10,026
Other comprehensive income:						

Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding (losses) gains arising during the period	**(10,605)**	**(3,712)**	**(6,893)**	517	181	336
Less: reclassification adjustment for net gains on sales realized in net income	**(1,524)**	**(533)**	**(991)**	(282)	(99)	(183)
Less: reclassification adjustment for other-than-temporary impairment on equity securities realized in net income				9	3	6
Total net unrealized (losses) gains on available-for-sale investment securities	**(12,129)**	**(4,245)**	**(7,884)**	244	85	159
Cash flow hedge derivative:						
Net change in fair value of interest rate swap	**43**	**15**	**28**	(389)	(136)	(253)
Less: reclassification adjustment for loss on termination of interest rate swap realized in net income	**1,866**	**653**	**1,213**			
Total cash flow hedge derivative	**1,909**	**668**	**1,241**	(389)	(136)	(253)
Defined benefit pension plans:						
Less: amortization of net loss included in net periodic pension costs	**641**	**224**	**417**	589	206	383
Less: accretion of prior service cost included in net periodic pension costs	**(127)**	**(44)**	**(83)**	(128)	(45)	(83)
Total defined benefit pension plans	**514**	**180**	**334**	461	161	300
Other comprehensive (loss) income	**(9,706)**	**(3,397)**	**(6,309)**	316	110	206
Total comprehensive income	**$ 3,769**	**$ (150)**	**$ 3,919**	$ 12,693	$ 2,461	$ 10,232

Note: 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
Six Months Ended June 30, 2013							
Balance at December 31, 2012	**16,770,232**	**$ (6,920)**	**$ 91,332**	**$ 62,101**	**$ 164,823**	**$ (27,059)**	**$ 284,277**
Net income					**10,228**		**10,228**
Other comprehensive loss, net of income tax benefit		**(6,309)**					**(6,309)**
Cash dividends declared ($0.40 per share)					**(6,693)**		**(6,693)**
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**79,139**			**5**	**(33)**	**1,391**	**1,363**
Repurchase of cancelled restricted stock awards	**(29,533)**			**519**		**(519)**	
Stock-based compensation				**262**			**262**
Net tax deficiency on stock-based compensation				**(11)**			**(11)**
Purchases of treasury stock	**(206,870)**					**(3,529)**	**(3,529)**
Restricted stock awards granted	**70,041**			**(1,174)**	**(92)**	**1,266**	
Balance at June 30, 2013	**16,683,009**	**$ (13,229)**	**$ 91,332**	**$ 61,702**	**$ 168,233**	**$ (28,450)**	**$ 279,588**

(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
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 income tax		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
Repurchase of cancelled restricted stock awards	(13,125)			300	(87)	(213)	
Stock-based compensation				847	33		880
Net tax deficiency 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	
Balance at June 30, 2012	16,759,893	$ (5,895)	$ 91,332	$ 58,404	$ 160,633	$ (27,158)	$ 277,316

Note: 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, 2013	2012
Cash flows from operating activities:		
Net income	**$ 10,228**	$ 10,026
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**5,520**	5,443
Depreciation of premises and equipment	**1,470**	1,369
Other-than-temporary impairment on equity securities		9
Net gain on sales of investment securities	**(1,524)**	(282)
Net gain on mortgage banking activities	**(3,112)**	(2,346)
Net loss on dispositions of fixed assets	**6**	9
Net (gain) loss on sales and write-downs of other real estate owned	**(252)**	1,102
Loss on termination of interest rate swap	**1,866**	
Bank owned life insurance income	**(917)**	(1,842)
Stock-based compensation	**262**	774
Other adjustments to reconcile net income to cash provided by operating activities	**1,329**	3,145
Originations of loans held for sale	**(176,114)**	(122,521)
Proceeds from the sale of loans held for sale	**180,931**	125,854
Contributions to pension and other postretirement benefit plans	**(60)**	(59)
(Increase) decrease in accrued interest receivable and other assets	**(3,845)**	400
Decrease in accrued interest payable and other liabilities	**(2,553)**	(2,272)
Net cash provided by operating activities	**13,235**	18,809
Cash flows from investing activities:		
Net cash paid due to acquisitions	**(2,170)**	(3,225)
Net capital expenditures	**(747)**	(1,337)
Proceeds from maturities and calls of securities available-for-sale	**23,467**	81,001
Proceeds from sales of securities available-for-sale	**35,415**	57,162
Purchases of investment securities available-for-sale	**(56,860)**	(106,536)
Net increase in loans and leases	**(25,154)**	(23,854)
Net decrease in interest-earning deposits	**6,519**	8,147
Proceeds from sales of other real estate owned	**2,330**	1,482
Proceeds from bank owned life insurance		2,415
Net cash (used in) provided by investing activities	**(17,200)**	15,255
Cash flows from financing activities:		
Net increase (decrease) in deposits	**7,718**	(5,310)
Net decrease in short-term borrowings	**(50,894)**	(14,606)
Repayment of subordinated debt	**(375)**	(750)
Purchases of treasury stock	**(3,529)**	(1,446)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	**1,363**	1,461
Cash dividends paid	**(3,357)**	(6,699)
Net cash used in financing activities	**(49,074)**	(27,350)

Net (decrease) increase in cash and due from banks		**(53,039)**		6,714
Cash and due from banks at beginning of year		**98,399**		39,857
Cash and due from banks at end of period	**$**	**45,360**	$	46,571
Supplemental disclosures of cash flow information:				
Cash paid for interest	**$**	**3,489**	$	4,759
Cash paid for income taxes, net of refunds received		**3,713**		1,282
Non cash transactions:				
Noncash transfer of loans to other real estate owned	**$**	**1,729**	$	
Contingency consideration recorded as goodwill	**$**	**454**	$	842

Note: 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, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. 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, 2012, which was filed with the SEC on March 4, 2013.

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 February 2013, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The guidance requires entities to present, either on the face of the statement where net income is presented or in a single footnote, significant amounts that are required under U.S. GAAP to be reclassified to net income in their entirety. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to provide a cross-reference to other required U.S. GAAP disclosures. The amendment is effective for reporting periods beginning after December 15, 2012, or January 1, 2013 for the Corporation. The application of the provisions of this standard did not have a material impact on the Corporation s financial statements although it resulted in additional disclosures which are included in Note 10, Accumulated Other Comprehensive (Loss) Income.

In December 2011, the FASB issued an ASU regarding disclosures about offsetting assets and liabilities. The scope of this accounting guidance was further clarified by an ASU issued by the FASB in January 2013. This guidance affects entities that have financial instruments and derivative instruments that are either (1) offset in accordance with U.S. GAAP or (2) subject to an enforceable master netting arrangement or similar agreement. This information will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments within the scope of this guidance. The guidance is effective for annual reporting periods beginning on or after January 1, 2013. The provisions of this guidance did not have any impact on the Corporation s financial statements.

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Note 2. Acquisition

On May 1, 2013, the Corporation and its insurance subsidiary, Univest Insurance, Inc., completed the acquisition of John T. Fretz Insurance Agency, Inc., a full-service property and casualty insurance agency providing solutions to both personal and commercial clients. The acquisition expands the Corporation s insurance business and increases its market share in its core market.

The Corporation paid $2.2 million in cash at closing with additional contingent consideration to be paid in annual installments over the three-year period ended April 30, 2016 based on the achievement of certain levels of revenue. At the acquisition date, the Corporation recorded the estimated fair value of the contingent consideration of $454 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 $930 thousand cumulative 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 estimated future contingent payments based on projected revenue of the acquired business affecting the contingent consideration liability will be recorded through noninterest expense.

As a result of the John T. Fretz Insurance Agency, Inc. acquisition, the Corporation recorded goodwill of $1.3 million (inclusive of the contingent consideration) and customer related intangibles of $1.3 million. The goodwill is expected to be deductible for tax purposes. The customer related intangibles will be amortized over seven 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, 2013, are preliminary estimates and are subject to adjustment within the measurement period. The acquisition was accounted for in accordance with accounting standards for 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, 2013 and December 31, 2012 by contractual maturity within each type:

	At June 30, 2013				At December 31, 2012			
(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:								
Within 1 year	**$ 12,313**	**$ 118**	**$**	**$ 12,431**	$ 3,026	$ 7	$	$ 3,033
After 1 year to 5 years	**57,112**	**969**	**(483)**	**57,598**	66,819	1,526	(51)	68,294
	69,425	**1,087**	**(483)**	**70,029**	69,845	1,533	(51)	71,327
Total	**$ 69,425**	**$ 1,087**	**$ (483)**	**$ 70,029**	$ 69,845	$ 1,533	$ (51)	$ 71,327
Securities Available-for-Sale								
U.S. treasuries:								
After 5 years to 10 years	**$ 4,963**	**$**	**$ (200)**	**$ 4,763**	$ 4,960	$	$ (22)	$ 4,938
	4,963		**(200)**	**4,763**	4,960		(22)	4,938
U.S. government corporations and agencies:								
Within 1 year	**5,998**	**51**		**6,049**	1,517	9		1,526
After 1 year to 5 years	**153,254**	**490**	**(1,649)**	**152,095**	148,120	1,509	(70)	149,559
After 5 years to 10 years	**15,885**		**(608)**	**15,277**	20,953	109	(5)	21,057

	175,137	**541**	**(2,257)**	**173,421**	170,590	1,627	(75)	172,142
State and political subdivisions:								
Within 1 year	**5,383**	**34**		**5,417**	4,607	75		4,682
After 1 year to 5 years	**3,925**	**40**	**(36)**	**3,929**	4,130	88	(19)	4,199
After 5 years to 10 years	**41,966**	**844**	**(562)**	**42,248**	36,499	1,245	(7)	37,737
Over 10 years	**66,555**	**2,098**	**(313)**	**68,340**	70,495	5,055		75,550
	117,829	**3,016**	**(911)**	**119,934**	115,731	6,463	(26)	122,168
Residential mortgage-backed securities:								
After 5 years to 10 years	**22,236**	**468**	**(73)**	**22,631**	20,140	777		20,917
Over 10 years	**44,750**	**617**	**(75)**	**45,292**	66,962	2,861		69,823
	66,986	**1,085**	**(148)**	**67,923**	87,102	3,638		90,740

(Dollars in thousands)	At June 30, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	At December 31, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations:								
After 1 year to 5 years	**155**	**3**		**158**	41			41
After 5 years to 10 years					626	7		633
Over 10 years	**10,335**	**74**	**(93)**	**10,316**	25,698	645	(5)	26,338
	10,490	**77**	**(93)**	**10,474**	26,365	652	(5)	27,012
Corporate bonds:								
After 1 year to 5 years	**10,081**	**23**	**(207)**	**9,897**	4,993	21		5,014
After 5 years to 10 years	**22,179**		**(1,068)**	**21,111**				
	32,260	**23**	**(1,275)**	**31,008**	4,993	21		5,014
Money market mutual funds:								
Within 1 year	**5,500**			**5,500**	4,878			4,878
	5,500			**5,500**	4,878			4,878
Equity securities:								
No stated maturity	**2,161**	**867**	**(16)**	**3,012**	2,279	696	(133)	2,842
	2,161	**867**	**(16)**	**3,012**	2,279	696	(133)	2,842
Total	**$ 415,326**	**$ 5,609**	**$ (4,900)**	**$ 416,035**	$ 416,898	$ 13,097	$ (261)	$ 429,734

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties. Unrealized losses in investment securities at June 30, 2013 and December 31, 2012 do not represent other-than-temporary impairments.

Securities with a carrying value of $305.7 million and $368.2 million at June 30, 2013 and December 31, 2012, 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, 2013 and 2012:

(Dollars in thousands)	Six Months Ended June 30, 2013	2012
Securities available-for-sale:		
Proceeds from sales	$ 35,415	$ 57,162
Gross realized gains on sales	1,524	1,178
Gross realized losses on sales		896
Tax expense related to net realized gains on sales	533	99

The Corporation realized other-than-temporary impairment charges to noninterest income of $0 thousand and $9 thousand, respectively, on its equity portfolio during the six months ended June 30, 2013 and 2012. 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 intent and ability to hold 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, 2013 and December 31, 2012.

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

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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, 2013 and 2012.

At June 30, 2013 and December 31, 2012, 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, 2013 and December 31, 2012:

	At June 30, 2013					
	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. treasuries	**$ 4,763**	**$ (200)**	**$**	**$**	**$ 4,763**	**$ (200)**
U.S. government corporations and agencies	**111,718**	**(2,257)**			**111,718**	**(2,257)**
State and political subdivisions	**25,144**	**(911)**			**25,144**	**(911)**
Residential mortgage-backed securities	**25,535**	**(148)**			**25,535**	**(148)**
Collateralized mortgage obligations	**6,602**	**(93)**			**6,602**	**(93)**
Corporate bonds	**45,778**	**(1,758)**			**45,778**	**(1,758)**
Equity securities	**1,064**	**(16)**			**1,064**	**(16)**
Total	**$ 220,604**	**$ (5,383)**	**$**	**$**	**$ 220,604**	**$ (5,383)**

	At December 31, 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
U.S. treasuries	$ 4,938	$ (22)	$	$	$ 4,938	$ (22)
U.S. government corporations and agencies	36,793	(75)			36,793	(75)
State and political subdivisions	4,574	(14)	480	(12)	5,054	(26)
Collateralized mortgage obligations	5,006	(5)			5,006	(5)
Corporate bonds	10,410	(51)			10,410	(51)
Equity securities	976	(133)			976	(133)
Total	$ 62,697	$ (300)	$ 480	$ (12)	$ 63,177	$ (312)

Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

(Dollars in thousands)	At June 30, 2013	At December 31, 2012
Commercial, financial and agricultural	**$ 439,907**	$ 468,421
Real estate-commercial	**580,400**	530,122
Real estate-construction	**84,027**	91,250
Real estate-residential secured for business purpose	**32,329**	35,179
Real estate-residential secured for personal purpose	**144,002**	146,526
Real estate-home equity secured for personal purpose	**84,109**	82,727

Loans to individuals	**43,598**	43,780
Lease financings	**91,621**	83,857
Total loans and leases held for investment, net of deferred income	**$ 1,499,993**	$ 1,481,862
Unearned lease income, included in the above table	**$ (13,437)**	$ (12,355)
Net deferred costs (fees), included in the above table	**$ 2,205**	$ 1,432
Overdraft deposits included in the above table	**$ 161**	$ 128

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

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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, 2013 and December 31, 2012:

(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 Held for Investment	Recorded Investment Greater than 90 Days Past Due and Accruing Interest*
At June 30, 2013							
Commercial, financial and agricultural	**$ 949**	**$ 274**	**$**	**$ 1,223**	**$ 435,538**	**$ 439,907**	**$**
Real estate commercial real estate and construction:							
Commercial real estate	**1,391**			**1,391**	**560,112**	**580,400**	
Construction					**68,453**	**84,027**	
Real estate residential and home equity:							
Residential secured for business purpose	**353**	**37**		**390**	**31,770**	**32,329**	
Residential secured for personal purpose	**2,176**	**155**	**221**	**2,552**	**140,720**	**144,002**	**221**
Home equity secured for personal purpose	**459**	**77**	**74**	**610**	**83,499**	**84,109**	**74**
Loans to individuals	**519**	**276**	**190**	**985**	**42,575**	**43,598**	**190**
Lease financings	**1,010**	**324**	**36**	**1,370**	**89,902**	**91,621**	**36**
Total	**$ 6,857**	**$ 1,143**	**$ 521**	**$ 8,521**	**$ 1,452,569**	**$ 1,499,993**	**$ 521**

* Excludes impaired loans and leases.

(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 Held for Investment	Recorded Investment Greater than 90 Days Past Due and Accruing Interest*
At December 31, 2012							
Commercial, financial and agricultural	$ 416	$ 95	$	$ 511	$ 464,588	$ 468,421	$
Real estate commercial real estate and construction:							
Commercial real estate	1,173			1,173	504,086	530,122	
Construction	306			306	74,959	91,250	
Real estate residential and home equity:							
Residential secured for business purpose	1,663			1,663	33,344	35,179	
Residential secured for personal purpose	1,617	152		1,769	143,953	146,526	
Home equity secured for personal purpose	276	64	54	394	82,333	82,727	54
Loans to individuals	551	115	347	1,013	42,729	43,780	347
Lease financings	1,001	273	40	1,314	82,138	83,857	40

Total	$ 7,003	$ 699	$ 441	$ 8,143	$ 1,428,130	$ 1,481,862	$ 441

* Excludes impaired loans and leases.

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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, 2013 and December 31, 2012:

	At June 30, 2013			At December 31, 2012		
(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	**$ 1,708**	**$ 1,438**	**$ 3,146**	$ 2,842	$ 480	$ 3,322
Real estate commercial real estate and construction:						
Commercial real estate	**8,726**	**10,171**	**18,897**	14,340	10,523	24,863
Construction	**13,531**	**2,043**	**15,574**	13,588	2,397	15,985
Real estate residential and home equity:						
Residential secured for business purpose	**169**		**169**	172		172
Residential secured for personal purpose	**730**		**730**	804		804
Loans to individuals		**38**	**38**		38	38
Lease financings	**343**	**6**	**349**	386	19	405
Total	**$ 25,207**	**$ 13,696**	**$ 38,903**	$ 32,132	$ 13,457	$ 45,589

* Includes non-accrual troubled debt restructured loans and lease modifications of $503 thousand and $579 thousand at June 30, 2013 and December 31, 2012, respectively.

Credit Quality Indicators

The following tables present by class, the recorded investment in loans and leases held for investment by credit quality indicator at June 30, 2013 and December 31, 2012.

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 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

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Commercial Credit Exposure Credit Risk by Internally Assigned Grades

(Dollars in thousands)	Commercial, Financial and Agricultural At June 30, 2013	Commercial, Financial and Agricultural At December 31, 2012	Real Estate Commercial At June 30, 2013	Real Estate Commercial At December 31, 2012	Real Estate Construction At June 30, 2013	Real Estate Construction At December 31, 2012	Real Estate Residential Secured for Business Purpose At June 30, 2013	Real Estate Residential Secured for Business Purpose At December 31, 2012
Grade:								
1. Cash secured/ 2. Fully secured	**$ 851**	$ 2,263	**$**	$	**$**	$	**$**	$
3. Strong	**6,106**	5,227	**9,502**	9,591	**6,241**	3,907		
4. Satisfactory	**38,401**	40,747	**21,123**	25,837	**1,701**	1,783	**113**	335
5. Acceptable	**243,168**	260,042	**353,806**	321,194	**31,900**	26,331	**23,593**	22,764
6. Pre-watch	**105,622**	106,436	**140,034**	110,476	**27,942**	42,190	**4,412**	8,458
7. Special Mention	**23,053**	31,825	**13,415**	16,187		548	**1,902**	288
8. Substandard	**22,706**	21,881	**42,520**	45,844	**16,243**	16,491	**2,309**	3,334
9. Doubtful				993				
10. Loss								
Total	**$ 439,907**	$ 468,421	**$ 580,400**	$ 530,122	**$ 84,027**	$ 91,250	**$ 32,329**	$ 35,179

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. 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

(Dollars in thousands)	Real Estate Residential Secured for Personal Purpose At June 30, 2013	Real Estate Residential Secured for Personal Purpose At December 31, 2012	Real Estate Home Equity Secured for Personal Purpose At June 30, 2013	Real Estate Home Equity Secured for Personal Purpose At December 31, 2012	Loans to individuals At June 30, 2013	Loans to individuals At December 31, 2012	Lease Financing At June 30, 2013	Lease Financing At December 31, 2012
Performing	**$ 143,051**	$ 145,722	**$ 84,035**	$ 82,673	**$ 43,370**	$ 43,395	**$ 91,236**	$ 83,412
Nonperforming	**951**	804	**74**	54	**228**	385	**385**	445
Total	**$ 144,002**	$ 146,526	**$ 84,109**	$ 82,727	**$ 43,598**	$ 43,780	**$ 91,621**	$ 83,857

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 Southeastern 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, credit exposure is minimized by the evaluation of the creditworthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to the Corporation s underwriting policies. Combined loan-to-value ratios are generally limited to 80%, but increased to 85% for the Corporation s strongest profile borrower. Other credit considerations and compensating factors may warrant higher combined loan-to-value ratios.

Credit risk for direct consumer loans 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. These loans are included within the portfolio of loans to individuals.

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.

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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, 2013 and 2012:

(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
Three Months Ended June 30, 2013								
Reserve for loan and lease losses:								
Beginning balance	**$ 11,883**	**$ 8,032**	**$ 570**	**$ 792**	**$ 628**	**$ 1,358**	**$ 1,959**	**$ 25,222**
Charge-offs	**(90)**	**(3,691)**	**(24)**	**(23)**	**(224)**	**(267)**	**N/A**	**(4,319)**
Recoveries	**39**	**42**		**1**	**78**	**209**	**N/A**	**369**
(Recovery of provision) provision	**(437)**	**4,279**	**40**	**314**	**211**	**(88)**	**(873)**	**3,446**
Ending balance	**$ 11,395**	**$ 8,662**	**$ 586**	**$ 1,084**	**$ 693**	**$ 1,212**	**$ 1,086**	**$ 24,718**
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

(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
Six Months Ended June 30, 2013								
Reserve for loan and lease losses:								
Beginning balance	**$ 11,594**	**$ 7,507**	**$ 639**	**$ 980**	**$ 679**	**$ 1,326**	**$ 2,021**	**$ 24,746**
Charge-offs	**(1,161)**	**(4,073)**	**(74)**	**(27)**	**(404)**	**(426)**	**N/A**	**(6,165)**
Recoveries	**87**	**48**	**8**	**3**	**112**	**359**	**N/A**	**617**
Provision (recovery of provision)	**875**	**5,180**	**13**	**128**	**306**	**(47)**	**(935)**	**5,520**
Ending balance	**$ 11,395**	**$ 8,662**	**$ 586**	**$ 1,084**	**$ 693**	**$ 1,212**	**$ 1,086**	**$ 24,718**
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

N/A Not applicable

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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, 2013								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	**$ 230**	**$**	**$**	**$**	**$**	**$**	**$ N/A**	**$ 230**
Ending balance: collectively evaluated for impairment	**11,165**	**8,662**	**586**	**1,084**	**693**	**1,212**	**1,086**	**24,488**
Total ending balance	**$ 11,395**	**$ 8,662**	**$ 586**	**$ 1,084**	**$ 693**	**$ 1,212**	**$ 1,086**	**$ 24,718**
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	**$ 3,146**	**$ 34,471**	**$ 169**	**$ 730**	**$ 38**	**$**		**$ 38,554**
Ending balance: collectively evaluated for impairment	**436,761**	**629,956**	**32,160**	**227,381**	**43,560**	**91,621**		**1,461,439**
Total ending balance	**$ 439,907**	**$ 664,427**	**$ 32,329**	**$ 228,111**	**$ 43,598**	**$ 91,621**		**$ 1,499,993**

(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	$ 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 held for investment:								
Ending balance: individually evaluated for impairment	$ 5,647	$ 37,545	$ 177	$ 312	$ 49	$		$ 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

N/A Not applicable

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, 2013 and December 31, 2012:

	At June 30, 2013			At December 31, 2012		
(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	**$ 2,504**	**$ 4,082**		$ 2,646	$ 4,504	
Real estate commercial real estate	**18,897**	**28,269**		24,863	30,991	
Real estate construction	**15,574**	**17,594**		15,985	17,959	
Real estate residential secured for business purpose	**169**	**181**		172	184	
Real estate residential secured for personal purpose	**730**	**730**		804	804	
Loans to individuals	**38**	**55**		38	55	
Total impaired loans with no allowance recorded	**$ 37,912**	**$ 50,911**		$ 44,508	$ 54,497	
Impaired loans with an allowance recorded:						
Commercial, financial and agricultural	**$ 642**	**$ 702**	**$ 230**	$ 676	$ 717	$ 208
Total impaired loans with an allowance recorded	**$ 642**	**$ 702**	**$ 230**	$ 676	$ 717	$ 208

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(Dollars in thousands)	At June 30, 2013 Recorded Investment	Unpaid Principal Balance	Related Allowance	At December 31, 2012 Recorded Investment	Unpaid Principal Balance	Related Allowance
Total impaired loans:						
Commercial, financial and agricultural	**$ 3,146**	**$ 4,784**	**$ 230**	$ 3,322	$ 5,221	$ 208
Real estate commercial real estate	**18,897**	**28,269**		24,863	30,991	
Real estate construction	**15,574**	**17,594**		15,985	17,959	
Real estate residential secured for business purpose	**169**	**181**		172	184	
Real estate residential secured for personal purpose	**730**	**730**		804	804	
Loans to individuals	**38**	**55**		38	55	
Total impaired loans	**$ 38,554**	**$ 51,613**	**$ 230**	$ 45,184	$ 55,214	$ 208

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, 2013 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms	Three Months Ended June 30, 2012 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
Commercial, financial and agricultural	**$ 2,469**	**$ 8**	**$ 23**	$ 6,011	$ 31	$ 60
Real estate commercial real estate	**21,434**	**147**	**191**	19,863	44	257
Real estate construction	**15,675**	**28**	**185**	16,639	35	190
Real estate residential secured for business purpose	**169**		**2**	161		2
Real estate residential secured for personal purpose	**751**		**12**	185		3
Real estate home equity secured for personal purpose	**6**					
Loans to individuals	**38**	**1**		49	2	
Total	**$ 40,542**	**$ 184**	**$ 413**	$ 42,908	$ 112	$ 512

* Includes interest income recognized on accruing troubled debt restructured loans of $184 thousand and $109 thousand for the three months ended June 30, 2013 and 2012, respectively.

(Dollars in thousands)	Six Months Ended June 30, 2013 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms	Six Months Ended June 30, 2012 Average Recorded Investment	Interest Income Recognized*	Interest Income That Would Have Been Recognized Under Original Terms
Commercial, financial and agricultural	**$ 2,731**	**$ 16**	**$ 62**	$ 5,596	$ 33	$ 152
Real estate commercial real estate	**22,732**	**302**	**416**	20,421	87	526
Real estate construction	**15,758**	**56**	**369**	16,250	52	385

Real estate residential secured for business purpose	**178**		**5**	140		3
Real estate residential secured for personal purpose	**773**		**24**	130		4
Real estate home equity secured for personal purpose	**3**			4		
Loans to individuals	**42**	**2**		49	3	
Total	**$ 42,217**	**$ 376**	**$ 876**	$ 42,590	$ 175	$ 1,070

* Includes interest income recognized on accruing troubled debt restructured loans of $370 thousand and $167 thousand for the six months ended June 30, 2013 and 2012, 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:

	Three Months Ended June 30, 2013				Three Months Ended June 30, 2012			
(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							