Bancorp, Inc.
Form 10-Q
August 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[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 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: to

Commission file number: 51018

THE BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	23-3016517 (IRS Employer Identification No.)
409 Silverside Road Wilmington, DE (Address of principal executive offices)	19809 (Zip code)

Registrant's telephone number, including area code: (302) 385-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]   No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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).
Yes [X] 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.

(Check one):

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 Act).

Yes [ ] No [X]

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

As of August 2, 2012 there were 33,101,281 outstanding shares of common stock, $1.00 par value.

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THE BANCORP, INC

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Part I Financial Information

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED BALANCE SHEETS

	June 30, 2012	December 31, 2011
	(in thousands)	
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$5,560	$96,228
Interest earning deposits at Federal Reserve Bank	692,582	652,946
Total cash and cash equivalents	698,142	749,174
Investment securities, available-for-sale, at fair value	582,219	448,204
Investment securities, held-to-maturity (fair value $13,575 and $13,826, respectively)	17,796	18,044
Federal Home Loan and Atlantic Central Bankers Bank stock	4,596	5,088
Loans, net of deferred loan costs	1,804,312	1,744,828
Allowance for loan and lease losses	(31,171)	(29,568)
Loans, net	1,773,141	1,715,260
Premises and equipment, net	8,694	8,358
Accrued interest receivable	9,297	8,476
Intangible assets, net	7,504	8,004
Other real estate owned	4,919	7,405
Deferred tax asset, net	20,716	21,941
Other assets	23,178	20,727
Total assets	$3,150,202	$3,010,681
LIABILITIES		
Deposits		
Demand and interest checking	$2,335,960	$2,192,938
Savings and money market	456,614	454,343
Time deposits	20,619	25,528
Time deposits, $100,000 and over	9,104	9,742
Total deposits	2,822,297	2,682,551
Securities sold under agreements to repurchase	21,948	33,177
Accrued interest payable	127	123
Subordinated debenture	13,401	13,401
Other liabilities	9,555	9,950
Total liabilities	2,867,328	2,739,202

SHAREHOLDERS' EQUITY		
Common stock - authorized, 50,000,000 shares of $1.00 par value; 33,201,281 and 33,196,281 shares issued at June 30, 2012 and December 31, 2011, respectively	33,201	33,196
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	243,284	241,997
Accumulated deficit	(1,451)	(9,277)
Accumulated other comprehensive income	8,706	6,429
Total shareholders' equity	282,874	271,479
Total liabilities and shareholders' equity	$3,150,202	$3,010,681

The accompanying notes are an integral part of these statements.

THE BANCORP, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$19,260	$18,144	$38,206	$36,437
Interest on investment securities:				
Taxable interest	3,371	2,340	6,561	3,897
Tax-exempt interest	712	670	1,405	1,342
Interest bearing deposits	605	230	1,658	745
	23,948	21,384	47,830	42,421
Interest expense				
Deposits	2,826	2,885	5,548	5,490
Securities sold under agreements to repurchase	24	26	51	42
Short-term borrowings	-	-	-	3
Subordinated debenture	217	216	434	431
	3,067	3,127	6,033	5,966
Net interest income	20,881	18,257	41,797	36,455
Provision for loan and lease losses	4,287	6,963	9,507	11,635
Net interest income after provision for loan and lease losses	16,594	11,294	32,290	24,820
Non-interest income				
Service fees on deposit accounts	847	589	1,584	1,224
Merchant credit card processing and ACH fees	809	590	1,482	1,159
Prepaid card fees	7,065	4,390	16,111	9,145
Gain on sales of investment securities	-	603	-	603
Other than temporary impairment on securities held-to-maturity (1)	(126)	-	(126)	(75)
Leasing income	843	645	1,793	1,349
Debit card income	148	189	304	403
Affinity fees	584	355	1,187	534
Other	279	426	404	1,128
Total non-interest income	10,449	7,787	22,739	15,470
Non-interest expense				
Salaries and employee benefits	9,099	7,550	18,715	14,530
Depreciation and amortization	848	723	1,654	1,452
Rent and related occupancy cost	795	734	1,592	1,433
Data processing expense	2,725	2,173	5,368	4,566
Printing and supplies	458	398	914	680
Audit expense	273	250	575	510
Legal expense	607	696	1,143	1,196

Amortization of intangible assets	250	250	500	500
Losses and write downs on other real estate owned	421	439	1,872	491
FDIC Insurance	754	711	1,688	1,923
Software, maintenance and equipment	483	381	914	747
Other real estate owned expense	380	317	539	484
Other	3,946	3,510	7,352	6,710
Total non-interest expense	21,039	18,132	42,826	35,222
Net income before income tax	6,004	949	12,203	5,068
Income tax provision	2,150	289	4,377	1,720
Net income available to common shareholders	$3,854	$660	$7,826	$3,348
Net income per share - basic	$0.12	$0.02	$0.24	$0.11
Net income per share - diluted	$0.12	$0.02	$0.24	$0.11

(1) Other than temporary impairment was due to credit loss and therefore did not include amounts due to market conditions.

The accompanying notes are an integral part of these statements.

THE BANCORP INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the six months ended June 30,	
	2012	2011
	(in thousands)	
Net income	$7,826	$3,348
Other comprehensive income, net of tax		
Unrealized gains on securities		
Unrealized holding gain arising during the period	3,498	6,823
Reclassification adjustment for gain included in net income	-	(603)
Amortization of losses previously held as available for sale	6	852
	3,504	7,072
Deferred tax expense		
Unrealized holding gain arising during the period	1,225	2114
Amortization of losses previously held as available for sale	2	290
	1,227	2,404
Other comprehensive income	2,277	4,668
Comprehensive income	$10,103	$8,016

The accompanying notes are an integral part of these statements.

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THE BANCORP INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the six months ended June 30, 2012
(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at January 1, 2012	33,196,281	33,196	(866)	241,997	(9,277)	6,429	271,479
Net income					7,826		7,826
Common stock issued from option exercise, net of tax benefits	5,000	5	-	34	-	-	39
Stock-based compensation	-	-	-	1,253	-	-	1,253
Other comprehensive income, net of reclassification adjustments and tax	-	-	-	-	-	2,277	2,277
Balance at June 30, 2012	33,201,281	$ 33,201	$ (866)	$ 243,284	$ (1,451)	$ 8,706	$ 282,874

The accompanying notes are an integral part of this statement.

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THE BANCORP, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the six months ended June 30, 2012	2011
Operating activities		
Net income	$7,826	$3,348
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,154	1,952
Provision for loan and lease losses	9,507	11,635
Net amortization of investment securities discounts/premiums	748	223
Stock-based compensation expense	1,253	814
Mortgage loans originated for sale	(233)	(458)
Sale of mortgage loans originated for resale	237	462
Gain on sale of mortgage loans originated for resale	(4)	(4)
Deferred income tax benefit	2	-
Gain on sales of fixed assets	(27)	(8)
Other than temporary impairment on securities held-to-maturity	126	75
Losses and writedowns of other real estate owned	1,872	491
Gain on sales of investment securities	-	(603)
(Increase) decrease in accrued interest receivable	(821)	1,039
Increase in interest payable	4	7
Increase in other assets	(2,784)	(2,110)
Decrease in other liabilities	(396)	(1,703)
Net cash provided by operating activities	19,464	15,160
Investing activities		
Purchase of investment securities available-for-sale	(179,694)	(194,522)
Proceeds from call of securities held-to-maturity	-	4,000
Proceeds from sale of investment securities available-for-sale	-	23,581
Proceeds from redemptions and prepayments of securities available-for-sale	49,048	55,647
Proceeds from sale of other real estate owned	2,504	769
Net increase in loans	(69,278)	(70,387)
Proceeds from sale of fixed assets	139	45
Purchases of premises and equipment	(1,769)	(771)
Net cash used in investing activities	(199,050)	(181,638)
Financing activities		
Net increase in deposits	139,746	138,606
Net (decrease) increase in securities sold under agreements to repurchase	(11,229)	5,875
Repayment of short-term borrowings and federal funds purchased	-	(136,000)
Proceeds from issuance of common stock	-	54,501

Proceeds from the exercise of options	39	-
Excess tax benefit from share-based payment arrangements	(2)	-
Net cash provided by financing activities	128,554	62,982
Net increase in cash and cash equivalents	(51,032)	(103,496)
Cash and cash equivalents, beginning of period	749,174	472,319
Cash and cash equivalents, end of period	$698,142	$368,823
Supplemental disclosure:		
Interest paid	$6,029	$5,959
Taxes paid	$4,275	$4,571
Transfers of loans to other real estate owned	$1,890	$2,909

The accompanying notes are an integral part of these statements.

THE BANCORP, INC. AND SUBSIDIARY
NOTES TO THE CONSOLDIATED FINANCIAL STATEMENTS

Note 1. Formation and Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company with a wholly owned subsidiary bank, The Bancorp Bank (the Bank). The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. Through the Bank, the Company provides retail and commercial banking services in the Philadelphia, Pennsylvania and Wilmington, Delaware areas and other banking services nationally, which include prepaid debit cards, health savings accounts, wealth management and private label banking. The principal medium for the delivery of the Company's banking services is the Internet.

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of June 30, 2012 and for the three and six month periods ended June 30, 2012 and 2011, are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of management, these interim financial statements include all necessary adjustments to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (Form 10-K report). The results of operations for the three month period ended June 30, 2012 may not necessarily be indicative of the results of operations for the full year ending December 31, 2012.

Note 3. Share-based Compensation

The Company recognizes compensation expense for stock options in accordance with FASB ASC topic 718, Stock Based Compensation. The expense of the option is generally measured at fair value at the grant date with compensation expense recognized over the service period, which is usually the vesting period. For grants subject to a service condition, the Company utilizes the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model takes into consideration the exercise price and expected life of the options, the current price of the underlying stock and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Company's estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. In accordance with ASC topic 718, the Company estimates the number of options for which the requisite service is expected to be rendered. At June 30, 2012, the Company had three stock-based compensation plans, which are more fully described in its Form 10-K report and the portions of the Company's Proxy Statement dated March 21, 2012, incorporated therein by reference.

The Company granted 500,000 common stock options in the first quarter of 2012, 40,000 with a vesting period of one year and 460,000 with a vesting period of four years. The weighted-average fair value of the stock options issued was \$5.06. During the second quarter of 2011, the Company granted 10,000 stock options with a vesting period of four years. The weighted-average fair value of the stock options issued was \$4.97. There were no stock options exercised for the three month period ending June 30, 2012 or June 30, 2011 respectively.

The Company estimated the fair value of each grant on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	June 30, 2012		2011	
Risk-free interest rate	1.97	%	2.96	%
Expected dividend yield	-		-	
Expected volatility	72.90	%	55.07	%
Expected lives (years)	4.83		5.40	

Expected volatility is based on the historical volatility of the Company's stock and peer group comparisons over the expected life of the grant. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury strip rate in effect at the time of the grant. The life of the option is based on historical factors which include the contractual term, vesting period, exercise behavior and employee terminations. In accordance with the ASC topic 718, Stock Based Compensation, stock based compensation expense for the six month period ended June 30, 2012 is based on awards that are ultimately expected to vest and has been reduced for estimated forfeitures. The Company estimates forfeitures using historical data based upon the groups identified by management.

As of June 30, 2012, there was a total of $6.4 million of unrecognized compensation cost related to unvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of 2.5 years. Related compensation expense for the six months ended June 30, 2012 and 2011 was $1.3 million and $814,000 respectively.

A summary of the status of the Company's equity compensations plans is presented below.

	Shares	Weighted average exercise price	Weighted-average remaining contractual term (years)	Aggregate intrinsic value
	(in thousands, except per share data)			
Outstanding at January 1, 2012	2,745,115	$ 10.10		
Granted	500,000	8.50	-	-
Exercised	(5,000)	7.81	-	-
Expired	-	-	-	-
Forfeited	(20,874)	9.16	-	-
Outstanding at June 30, 2012	3,219,241	$ 9.86	6.46	$ -
Exercisable at June 30, 2012	1,584,741		3.95	$ -

A summary of the status of the Company's stock appreciation rights is presented below.

	Shares	Weighted-average price	Average remaining contractual term (years)
Outstanding at January 1, 2012	60,000	$ 11.41	
Granted	-	-	-
Exercised	-	-	-
Expired/forfeited	(60,000)	11.41	-
Outstanding at June 30, 2012	-	$ -	-

Note 4. Earnings Per Share

The Company calculates earnings per share under FASB ASC topic 260, Earnings Per Share. Basic earnings per share exclude dilution and are computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

The following tables show the Company's earnings per share for the periods presented:

	For the three months ended June 30, 2012		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	$3,854	33,101,281	$0.12
Effect of dilutive securities			
Common stock options	-	46,510	-
Diluted earnings per share			
Net income available to common shareholders	$3,854	33,147,791	$0.12

Stock options for 1,595,241 shares, exercisable at prices between $9.58 and $25.43 per share, were outstanding at June 30, 2012 but were not included in the dilutive shares because the exercise price per share was greater than the average market price.

	For the six months ended June 30, 2012		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	$7,826	33,099,303	$0.24
Effect of dilutive securities			
Common stock options	-	15,665	-
Diluted earnings per share			
Net income available to common shareholders	$7,826	33,114,968	$0.24

Stock options for 1,595,241 shares, exercisable at prices between $9.58 and $25.43 per share, were outstanding at June 30, 2012 but were not included in the dilutive shares because the exercise share price was greater than the average market price.

	For the three months ended June 30, 2011		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	$660	33,196,281	$0.02
Effect of dilutive securities			
Stock options	-	9,460	-

Diluted earnings per share			
Net income available to common shareholders	$660	33,205,741	$0.02

Stock options for 2,206,115 shares and stock appreciation rights for 60,000 shares, exercisable at prices between $7.81 and $25.43 per share, were outstanding at June 30, 2011 but were not included in the diluted earnings per share computation because the exercise price per share was greater than the average market price of the common stock.

	For the six months ended June 30, 2011		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	$3,348	30,638,325	$0.11
Effect of dilutive securities			
Stock options	-	7,353	-
Diluted earnings per share			
Net income available to common shareholders	$3,348	30,645,678	$0.11

Stock options for 2,206,115 shares and stock appreciation rights for 60,000 shares, exercisable at prices between $7.81 and $25.43 per share, were outstanding at June 30, 2011 but were not included in the diluted earnings per share computation because the exercise price per share was greater than the average market price of the common stock.

Note 5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of the Company's investment securities classified as available-for-sale and held-to-maturity at June 30, 2012 and December 31, 2011 are summarized as follows (in thousands):

Available-for-sale	June 30, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	$8,804	$242	$-	$9,046
Federally insured student loan securities	50,299	56	(79)	50,276
Tax-exempt obligations of states and political subdivisions	107,957	4,530	(19)	112,468
Taxable obligations of states and political subdivisions	44,519	3,042	(57)	47,504
Residential mortgage-backed securities	195,236	3,401	(219)	198,418
Commercial mortgage-backed securities	107,563	3,057	(308)	110,312
Other debt securities	50,561	1,022	(398)	51,185
Other equity securities	3,000	10	-	3,010
	$567,939	$15,360	$(1,080)	$582,219

Held-to-maturity	June 30, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$16,335	$143	$(4,113)	$12,365
Other debt securities - pooled	1,461	-	(251)	1,210
	$17,796	$143	$(4,364)	$13,575

Available-for-sale	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	$9,087	$198	$-	$9,285
Tax-exempt obligations of states and political subdivisions	94,227	3,580	(8)	97,799
Taxable obligations of states and political subdivisions	50,778	2,149	(60)	52,867
Residential mortgage-backed securities	190,214	3,582	(111)	193,685
Commercial mortgage-backed securities	51,242	875	(56)	52,061
Other debt securities	38,873	1,058	(399)	39,532
Other equity securities	3,000	-	(25)	2,975
	$437,421	$11,442	$(659)	$448,204

Held-to-maturity	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$16,337	$138	$(4,051)	$12,424
Other debt securities - pooled	1,707	-	(305)	1,402
	$18,044	$138	$(4,356)	$13,826

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to $4.6 million at June 30, 2012 and $5.1 million at December 31, 2011.

The amortized cost and fair value of the Company's investment securities at June 30, 2012, by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due before one year	$72,082	$72,292	$-	$-
Due after one year through five years	170,391	174,382	-	-
Due after five years through ten years	25,249	26,162	3,248	2,853
Due after ten years	297,217	306,373	14,548	10,722
Other equity securities	3,000	3,010	-	-
	$567,939	$582,219	$17,796	$13,575

At June 30, 2012 and December 31, 2011, investment securities with a book value of approximately $39.5 million and $44.6 million, respectively, were pledged to secure securities sold under repurchase agreements as required or permitted by law.

Available-for-sale securities fair values are based on the fair market value supplied by the third-party market data provider while held-to-maturity securities are based on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date. The Company periodically reviews its investment portfolio to determine whether unrealized losses are temporary, based on an evaluations of the creditworthiness of the issuers/guarantors as well as the underlying collateral if applicable, in addition to the continuing performance of the securities. The Company recognized other-than-temporary impairment charges of $126,000 on one trust preferred pooled security in the first six months of 2012 as compared to $75,000 on one trust preferred pooled security in the first six months of 2011. The amount of the credit impairment was calculated by estimating the discounted cash flows for those securities.

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at June 30, 2012 (dollars in thousands):

Available-for-sale		Less than 12 months		12 months or longer		Total	
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Description of Securities							
Federally insured student loan securities	6	$ 43,440	$ (79)	$ -	$ -	$ 43,440	$ (79)
Tax-exempt obligations of states and political subdivisions	4	4,180	(19)	-	-	4,180	(19)
Taxable obligations of states and political subdivisions	9	12,387	(57)	-	-	12,387	(57)
Residential mortgage-backed securities	9	42,155	(219)	-	-	42,155	(219)
Commercial mortgage-backed securities	7	50,734	(308)	-	-	50,734	(308)
Other debt securities	7	22,270	(66)	2,496	(332)	24,766	(398)
Total temporarily impaired investment securities	42	$ 175,166	$ (748)	$ 2,496	$ (332)	$ 177,662	$ (1,080)

Held-to-maturity		Less than 12 months		12 months or longer		Total	
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Description of Securities							
Other debt securities - single issuers	2	$ -	$ -	$ 7,969	$ (4,113)	$ 7,969	$ (4,113)
Other debt securities - pooled	2	-	-	1,210	(251)	1,210	(251)
Total temporarily impaired investment securities	4	$ -	$ -	$ 9,179	$ (4,364)	$ 9,179	$ (4,364)

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 2011 (dollars in thousands):

Available-for-sale		Less than 12 months		12 months or longer		Total	
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Description of Securities							
Tax-exempt obligations of states and political subdivisions	7	$ 11,104	$ (8)	$ -	$ -	$ 11,104	$ (8)
Taxable obligations of states and political subdivisions	10	16,905	(60)	-	-	16,905	(60)
Residential mortgage-backed securities	5	10,054	(111)	-	-	10,054	(111)
Commercial mortgage-backed securities	4	24,421	(56)	-	-	24,421	(56)
Other debt securities	3	10,929	(93)	2,549	(306)	13,478	(399)
Other equity securities	1	2,975	(25)	-	-	2,975	(25)
Total temporarily impaired investment securities	30	$ 76,388	$ (353)	$ 2,549	$ (306)	$ 78,937	$ (659)

Held-to-maturity	Less than 12 months		12 months or longer		Total	
		Unrealized		Unrealized		Unrealized

	Number of securities	Fair Value	losses	Fair Value	losses	Fair Value	losses
Description of Securities							
Other debt securities - single issuers	2	$ -	$ -	$ 8,021	$ (4,051)	$ 8,021	$ (4,051)
Other debt securities - pooled	2	-	-	1,402	(305)	1,402	(305)
Total temporarily impaired investment securities	4	$ -	$ -	$ 9,423	$ (4,356)	$ 9,423	$ (4,356)

The other debt securities included in the held-to-maturity classification on the Company's balance sheet at June 30, 2012 included four single issuer trust preferred securities issued by either banks or insurance companies and two pooled issuer trust preferred securities, whose collateral is made up of trust preferred securities issued by banks. The amortized cost of the single issuer trust preferred securities was $16.3 million, of which two securities totaling $4.3 million were issued by two different banks and two securities totaling $12.0 million were issued by two different insurance companies. The two pooled trust preferred securities had an aggregate amortized cost of $1.5 million.

The Company has evaluated the securities in the above tables and has concluded that none of these securities has impairment that is other-than-temporary. The Company evaluates whether a credit impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. The Company's best estimate of expected future cash flows which is used to determine the credit loss amount is a quantitative and qualitative process that incorporates information received from third-party sources along with internal assumptions and judgments regarding the future performance of the security. The Company concluded that most of the securities that are in an unrealized loss position are in a loss position because of changes in interest rates after the securities were purchased. The securities that have been in an unrealized loss position for 12 months or longer include other securities whose market values are sensitive to interest rates and changes in credit quality. The Company's unrealized loss for the debt securities, which includes four single issuer trust preferred securities and two pooled trust preferred securities, is primarily related to general market conditions and the resultant lack of liquidity in the market. The severity of the impairments in relation to the carrying amounts of the individual investments is consistent with market developments. The Company's analysis for each investment is performed at the security level. As a result of its review, the Company concluded that other-than-temporary impairment did not exist due to the Company's ability and intention to hold these securities to recover their amortized cost basis.

Note 6. Loans

Major classifications of loans are as follows (in thousands):

	June 30, 2012	December 31, 2011
Commercial	$441,167	$450,411
Commercial mortgage *	596,639	609,487
Construction	269,636	246,611
Total commercial loans	1,307,442	1,306,509
Direct lease financing	140,012	129,682
Residential mortgage	97,226	96,110
Consumer loans and others	255,769	209,041
	1,800,449	1,741,342
Unamortized loan costs	3,863	3,486
Total loans, net of deferred loan costs	$1,804,312	$1,744,828
Supplemental loan data:		
Construction 1-4 family	$79,546	$85,189
Commercial construction, acquisition and development	190,090	161,422
	$269,636	$246,611

* At June 30, 2012, our owner occupied loans amounted to $141.9 million, or 23. 8% of commercial mortgages as compared to $137.9 million, or 22.6% at December 31, 2011.

The Company has identified thirty-one loans as impaired, where it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. The balance of these impaired loans was $27.5 million at June 30, 2012, of which $18.9 million had a specific reserve of $7.0 million. The remaining $8.6 million of impaired loans did not have a reserve. Included within the impaired loans at June 30, 2012 are eight troubled debt restructured loans with a balance of $10.0 million with a total specific reserve of $3.3 million. The Company recognizes income on impaired loans when they are placed into non-accrual status on a cash basis when the loans are both current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, the Company will not recognize income on such loans. Interest income would have increased by $521,000 in second quarter 2012 if interest on impaired loans had been accrued. The balance of impaired loans was $17.6 million at December 31, 2011, of which $14.5 million had specific reserves of $5.9 million. The Company did recognize interest income of $43,000 on impaired loans in the six months ended June 30, 2012 and did not recognize any interest income for the six months ended June 30, 2011.

The following table provides information about impaired loans at June 30, 2012 and December 31, 2011 (in thousands):

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
June 30, 2012					
Without an allowance recorded					
Construction	$2,541	$5,781	$-	$1,123	$-
Commercial mortgage	3,482	4,027	-	1,550	-
Commercial	1,689	3,727	-	1,284	-
Consumer - home equity	927	927	-	927	-
Residential	-	-	-	421	-
With an allowance recorded					
Construction	6,433	7,249	3,303	7,069	-
Commercial mortgage	4,508	5,052	903	5,089	-
Commercial	7,847	8,043	2,739	6,051	-
Consumer - home equity	-	-	-	108	-
Residential	95	95	73	31	-
Total					
Construction	$8,974	$13,030	$3,303	$8,192	$-
Commercial mortgage	$7,990	$9,079	$903	$6,639	$-
Commercial	$9,536	$11,770	$2,739	$7,335	$-
Consumer - home equity	$927	$927	$-	$1,035	$-
Residential	$95	$95	$73	$452	$-
December 31, 2011					
Without an allowance recorded					
Construction	$-	$-	$-	$100	$-
Commercial mortgage	-	-	-	310	-
Commercial	900	2,042	6,831	626	-
Consumer - home equity	927	927	3,765	371	-
Residential	1,264	1,414	149	662	-
With an allowance recorded					
Construction	4,949	4,949	2,296	2,123	-
Commercial mortgage	3,672	3,672	712	2,793	-
Commercial	5,550	5,550	2,724	3,075	-
Consumer - home equity	325	325	204	510	-
Residential	-	-	-	5,048	-
Total					
Construction	$4,949	$4,949	$2,296	$2,223	$-
Commercial mortgage	$3,672	$3,672	$712	$3,103	$-
Commercial	$6,450	$7,592	$9,555	$3,701	$-
Consumer - home equity	$1,252	$1,252	$3,969	$881	$-
Residential	$1,264	$1,414	$149	$5,710	$-

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The following tables summarize the Company's non-accrual loans, loans past due 90 days and other real estate owned for the periods indicated (the Company had no non-accrual leases at June 30, 2012 or December 31, 2011):

	June 30, 2012	June 30, 2011	December 31, 2011
	(in thousands)		
Non-accrual loans			
Construction *	$8,698	$845	$4,949
Commercial mortgage *	5,559	2,782	3,672
Commercial *	9,536	5,337	6,450
Consumer	927	633	1,252
Residential	95	9,929	1,264
Total non-accrual loans	24,815	19,526	17,587
Loans past due 90 days or more	3,105	4,397	4,101
Total non-performing loans	27,920	23,923	21,688
Other real estate owned	4,919	3,764	7,405
Total non-performing assets	$32,839	$27,687	$29,093

* Included in the non-accrual loans as of June 30, 2012 are five troubled debt restructured loans: $3.4 million in construction, $737,000 in commercial mortgage and $3.2 million in commercial.

The Company's loans that were modified and considered troubled debt restructurings in the six month period ended June 30, 2012 and year ended December 31, 2011 were already included in non-accrual and non-performing loan totals and are further detailed as follows (dollars in thousands):

	June 30, 2012			December 31, 2011		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
Commercial	1	$ 3,155	$ 3,155	-	$ -	$ -
Commercial mortgage	3	3,167	3,167	1	759	759
Construction	4	3,701	3,701	-	-	-
Residential mortgage	-	-	-	1	364	364
Total	8	$ 10,023	$ 10,023	2	$ 1,123	$ 1,123

The balances below provide information as to how the loans were modified as troubled debt restructurings loans during the six months ended June 30, 2012 and year ended December 31, 2011. All of the loans were already included in non-accrual and non-performing loans (dollars in thousands).

	June 30, 2012			December 31, 2011		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
Commercial	$-	$3,155	$-	$-	$-	$-
Commercial mortgage	736	214	2,217	759	-	-
Construction	-	3,701	-	-	-	-
Residential mortgage	-	-	-	364	-	-
Total	$736	$7,070	$2,217	$1,123	$-	$-

As of June 30, 2012 and December 31, 2011, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

A detail of the changes in the allowance for loan and lease losses by loan category is as follows (in thousands):

Six months ended June 30, 2012	Commercial	Commercial mortgage	Construction	Residential mortgage	Consumer	Direct lease financing	Unallocated	Total
Beginning balance	$ 10,214	$ 9,274	$ 5,352	$ 2,090	$ 1,346	$ 254	$ 1,038	$ 29,568
Charge-offs	(2,454)	(1,646)	(4,837)	-	(258)	(87)	-	(9,282)
Recoveries	254	1,018	9	85	-	12	-	1,378
Provision	2,109	(1,442)	8,728	(21)	552	152	(571)	9,507
Ending balance	$ 10,123	$ 7,204	$ 9,252	$ 2,154	$ 1,640	$ 331	$ 467	$ 31,171
Ending balance: Individually evaluated for impairment	$ 2,739	$ 902	$ 3,303	$ 73	$ -	$ -	$ -	$ 7,017
Ending balance: Collectively evaluated for impairment	$ 7,384	$ 6,302	$ 5,949	$ 2,081	$ 1,640	$ 331	$ 467	$ 24,154

Loans: