S Y BANCORP INC
Form 10-Q
August 06, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended June 30, 2012

OR

o 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 1-13661

S.Y. BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky	**61-1137529**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)

1040 East Main Street, Louisville, Kentucky 40206

(Address of principal executive offices including zip code)

(502) 582-2571

(Registrant s telephone number, including area code)

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. Yes x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). Yes o No x

The number of shares of the registrant s Common Stock, no par value, outstanding as of July 30, 2012, was 13,879,187.

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S.Y. BANCORP, INC. AND SUBSIDIARY

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The following consolidated financial statements of S.Y. Bancorp, Inc. and Subsidiary, Stock Yards Bank & Trust Company, are submitted herewith:

Consolidated Balance Sheets June 30, 2012 (Unaudited) and December 31, 2011

Consolidated Statements of Income for the three and six months ended June 30, 2012 and 2011 (Unaudited)

Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011 (Unaudited)

Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011 (Unaudited)

Consolidated Statement of Changes in Stockholders Equity for the six months ended June 30, 2012 (Unaudited)

Notes to Unaudited Consolidated Financial Statements

Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures about Market Risk
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PART II OTHER INFORMATION

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Item 6.	Exhibits

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

June 30, 2012 and December 31, 2011

(In thousands, except share data)

	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks	$ 34,789	$ 32,901
Federal funds sold	35,533	22,019
Mortgage loans held for sale	6,608	4,381
Securities available for sale (amortized cost of $323,359 in 2012 and $343,059 in 2011)	333,143	352,185
Federal Home Loan Bank stock	5,180	4,948
Other securities	1,000	1,001
Loans	1,577,826	1,544,845
Less allowance for loan losses	31,773	29,745
Net loans	1,546,053	1,515,100
Premises and equipment, net	37,891	36,611
Bank owned life insurance	27,660	27,143
Accrued interest receivable	5,727	5,964
Other assets	50,044	50,844
Total assets	$ 2,083,628	$ 2,053,097
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing	$ 341,128	$ 313,587
Interest bearing	1,323,161	1,304,152
Total deposits	1,664,289	1,617,739
Securities sold under agreements to repurchase	50,700	66,026
Federal funds purchased	36,736	37,273
Accrued interest payable	280	232
Other liabilities	43,995	42,810
Federal Home Loan Bank advances	60,426	60,431
Subordinated debentures	30,900	40,900
Total liabilities	1,887,326	1,865,411
Stockholders equity:		
Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued or outstanding		
Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 13,878,261 and 13,819,319 shares in 2012 and 2011, respectively	7,149	6,953
Additional paid-in capital	16,452	14,599
Retained earnings	166,812	160,672
Accumulated other comprehensive income	5,889	5,462
Total stockholders equity	196,302	187,686
Total liabilities and stockholders equity	$ 2,083,628	$ 2,053,097

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the three and six months ended June 30, 2012 and 2011

(In thousands, except per share data)

	For three months ended June 30, 2012	For three months ended June 30, 2011	For six months ended June 30, 2012	For six months ended June 30, 2011
Interest income:				
Loans	$ 19,473	$ 19,875	$ 39,353	$ 39,475
Federal funds sold	62	49	134	95
Mortgage loans held for sale	56	34	119	97
Securities taxable	1,453	1,260	2,930	2,492
Securities tax-exempt	319	348	639	695
Total interest income	21,363	21,566	43,175	42,854
Interest expense:				
Deposits	1,881	2,654	3,927	5,325
Fed funds purchased	8	10	16	23
Securities sold under agreements to repurchase	43	64	92	131
Federal Home Loan Bank advances	364	364	727	725
Subordinated debentures	772	863	1,568	1,724
Total interest expense	3,068	3,955	6,330	7,928
Net interest income	18,295	17,611	36,845	34,926
Provision for loan losses	2,475	2,600	6,550	5,400
Net interest income after provision for loan losses	15,820	15,011	30,295	29,526
Non-interest income:				
Investment management and trust services	3,670	3,661	7,160	7,198
Service charges on deposit accounts	2,125	2,034	4,180	3,958
Bankcard transaction revenue	1,017	960	1,982	1,837
Gains on sales of mortgage loans held for sale	866	441	1,605	823
Brokerage commissions and fees	652	530	1,193	1,043
Bank owned life insurance income	260	255	517	504
Other	700	271	1,898	794
Total non-interest income	9,290	8,152	18,535	16,157
Non-interest expenses:				
Salaries and employee benefits	9,426	8,648	18,478	17,048
Net occupancy expense	1,464	1,357	2,833	2,587
Data processing expense	1,522	1,346	2,835	2,483
Furniture and equipment expense	326	337	618	692
FDIC insurance expense	346	339	697	960
Other	3,424	2,698	5,783	5,782
Total non-interest expenses	16,508	14,725	31,244	29,552
Income before income taxes	8,602	8,438	17,586	16,131
Income tax expense	2,499	2,441	4,981	4,643
Net income	6,103	5,997	12,605	11,488
Net income per share:				
Basic	$ 0.44	$ 0.43	$ 0.91	$ 0.83
Diluted	$ 0.44	$ 0.43	$ 0.91	$ 0.83
Average common shares:				

Basic	13,874	13,789	13,859	13,768
Diluted	13,941	13,879	13,916	13,857

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the three and six months ended June 30, 2012 and 2011

(In thousands)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income	$ 6,103	$ 5,997	$ 12,605	$ 11,488
Other comprehensive income, net of tax:				
Unrealized gains on securities available for sale:				
Unrealized gains arising during the period (net of tax of $249, $775, $231 and $849, respectively)	462	1,440	427	1,577
Comprehensive income	$ 6,565	$ 7,437	$ 13,032	$ 13,065

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the six months ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Operating activities:		
Net income	$ 12,605	$ 11,488
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,550	5,400
Depreciation, amortization and accretion, net	2,417	1,917
Deferred income tax benefit	(1,057)	(635)
Gain on sales of mortgage loans held for sale	(1,605)	(823)
Origination of mortgage loans held for sale	(95,702)	(42,953)
Proceeds from sale of mortgage loans held for sale	95,080	51,724
Bank owned life insurance income	(517)	(504)
(Increase) decrease in value of private investment fund	(637)	102
Proceeds from liquidation of private investment fund	2,846	
Loss on the disposal of equipment	43	382
Loss on the sale of other real estate	208	32
Stock compensation expense	740	564
Excess tax benefits from share-based compensation arrangements	(30)	(77)
(Increase) decrease in accrued interest receivable and other assets	(1,273)	951
Increase (decrease) in accrued interest payable and other liabilities	1,263	(8,864)
Net cash provided by operating activities	20,931	18,704
Investing activities:		
Purchases of securities available for sale	(214,345)	(132,819)
Proceeds from sale of securities available for sale		
Proceeds from maturities of securities available for sale	233,171	121,840
Proceeds from maturities of securities held to maturity		20
Net increase in loans	(39,173)	(41,503)
Purchases of premises and equipment	(2,920)	(4,750)
Proceeds from disposal of premises and equipment		7
Proceeds from sale of foreclosed assets	2,211	5,293
Net cash used in investing activities	(21,056)	(51,912)
Financing activities:		
Net increase in deposits	46,550	38,903
Net (decrease) increase in securities sold under agreements to repurchase and federal funds purchased	(15,863)	2,273
Net decrease in other short-term borrowings		(755)
Repayments of Federal Home Loan Bank advances	(5)	(5)
Repayments of subordinated debentures	(10,000)	
Issuance of common stock for options and dividend reinvestment plan	288	381
Excess tax benefits from share-based compensation arrangements	30	77
Common stock repurchases	(202)	(167)
Cash dividends paid	(5,271)	(4,956)
Net cash provided by financing activities	15,527	35,751
Net increase in cash and cash equivalents	15,402	2,543
Cash and cash equivalents at beginning of period	54,920	41,655
Cash and cash equivalents at end of period	$ 70,322	$ 44,198

Supplemental cash flow information:				
Income tax payments	$	5,200	$	985
Cash paid for interest		6,282		8,053
Supplemental non-cash activity:				
Transfers from loans to other real estate owned	$	1,670	$	7,599

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity

For the six months ended June 30, 2012

(In thousands, except per share data)

	Common stock Number of shares	Common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balance December 31, 2011	13,819	$ 6,953	$ 14,599	$ 160,672	$ 5,462	$ 187,686
Net income				12,605		12,605
Other comprehensive income, net of tax					427	427
Stock compensation expense			740			740
Stock issued for stock options exercised and dividend reinvestment plan	15	50	267			317
Stock issued for non- vested restricted stock	56	185	1,075	(1,260)		
Cash dividends, $0.38 per share				(5,271)		(5,271)
Shares repurchased or cancelled	(12)	(39)	(229)	66		(202)
Balance June 30, 2012	13,878	$ 7,149	$ 16,452	$ 166,812	$ 5,889	$ 196,302

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

(1) Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and footnotes required by U.S. generally accepted accounting principles (US GAAP) for complete financial statements. The consolidated financial statements of S.Y. Bancorp, Inc. (Bancorp) and its subsidiary reflect all adjustments (consisting only of adjustments of a normal recurring nature) which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods.

The consolidated financial statements include the accounts of S.Y. Bancorp, Inc. and its wholly-owned subsidiary, Stock Yards Bank & Trust Company (Bank). S.Y. Bancorp Capital Trust II is a Delaware statutory trust that is a wholly-owned unconsolidated finance subsidiary of S.Y. Bancorp, Inc. Significant intercompany transactions and accounts have been eliminated in consolidation.

A description of other significant accounting policies is presented in the notes to the Consolidated Financial Statements for the year ended December 31, 2011 included in S.Y. Bancorp, Inc. s Annual Report on Form 10-K. Certain reclassifications have been made in the prior year financial statements to conform to current year classifications.

Interim results for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results for the entire year.

Critical Accounting Policies

Management has identified the accounting policy related to the allowance and provision for loan losses as critical to the understanding of Bancorp s results of operations and discussed this conclusion with the Audit Committee of the Board of Directors. Since the application of this policy requires significant management assumptions and estimates, it could result in materially different amounts to be reported if conditions or underlying circumstances were to change. Assumptions include many factors such as changes in borrowers financial condition which can change quickly or historical loss ratios related to certain loan portfolios which may or may not be indicative of future losses. To the extent that management s assumptions prove incorrect, the results from operations could be materially affected by a higher or lower provision for loan losses. The accounting policy related to the allowance for loan losses is applicable to the commercial banking segment of Bancorp.

Additionally, management has identified the accounting policy related to accounting for income taxes as critical to the understanding of Bancorp s results of operations and discussed this conclusion with the Audit Committee of the Board of Directors. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in Bancorp s financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences, including the effects of periodic IRS and state agency examinations, could materially impact

Bancorp s financial position and its results from operations.

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(2) Securities

The amortized cost, unrealized gains and losses, and fair value of securities available for sale follow:

June 30, 2012 **Securities available for sale** **(in thousands)**	**Amortized cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair value**
U.S. Treasury and other U.S. government obligations	$ 45,000	$	$	$ 45,000
Government sponsored enterprise obligations	74,561	2,711		77,272
Mortgage-backed securities	135,178	4,115	17	139,276
Obligations of states and political subdivisions	67,620	2,957	16	70,561
Trust preferred securities of financial institutions	1,000	34		1,034
Total securities available for sale	$ 323,359	$ 9,817	$ 33	$ 333,143

December 31, 2011 **Securities available for sale** **(in thousands)**	**Amortized cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair value**
U.S. Treasury and other U.S. government obligations	$ 115,001	$	$	$ 115,001
Government sponsored enterprise obligations	43,349	2,837		46,186
Mortgage-backed securities	116,954	3,564	23	120,495
Obligations of states and political subdivisions	66,755	2,779	33	69,501
Trust preferred securities of financial institutions	1,000	2		1,002
Total securities available for sale	$ 343,059	$ 9,182	$ 56	$ 352,185

The investment portfolio includes a significant level of obligations of states and political subdivisions. The issuers of these bonds are generally school districts or essential-service public works projects. The issuers are concentrated in Kentucky, with a small percentage in Indiana and Ohio. Each of these securities has a rating of A or better by a recognized bond rating agency.

In addition to the available for sale portfolio, investment securities held by Bancorp include certain securities which are not readily marketable, and are carried at cost. This category includes holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock which are required for borrowing availability and are classified as restricted securities. Other securities consist of a Community Reinvestment Act (CRA) investment which matures in 2014, and is fully collateralized with a government agency security of similar duration.

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A summary of the available for sale investment securities by maturity groupings as of June 30, 2012 is shown below. Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations. The investment portfolio includes agency mortgage-backed securities, which are guaranteed by agencies such as the FHLMC, FNMA, and GNMA. These securities differ from traditional debt securities primarily in that they may have uncertain principal payment dates and are priced based on estimated prepayment rates on the underlying collateral. Bancorp does not have exposure to subprime originated mortgage-backed or collateralized debt obligation instruments.

Securities available for sale (in thousands)	**Amortized cost**	**Fair value**
Due within 1 year	$ 85,877	$ 86,041
Due after 1 but within 5 years	68,145	70,549
Due after 5 but within 10 years	33,159	36,243
Due after 10 years	1,000	1,034
Mortgage-backed securities	135,178	139,276
Total securities available for sale	$ 323,359	$ 333,143

Securities with unrealized losses at June 30, 2012 and December 31, 2011, not recognized in income are as follows:

	Less than 12 months		**12 months or more**		**Total**	
(in thousands)	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
June 30, 2012						
Mortgage-backed securities	$ 5,234	$ 17	$	$	$ 5,234	$ 17
Obligations of states and political subdivisions			1,013	16	1,013	16
Total temporarily impaired securities	$ 5,234	$ 17	$ 1,013	$ 16	$ 6,247	$ 33
December 31, 2011						
Mortgage-backed securities	$ 5,122	$ 23	$	$	5,122	23
Obligations of states and political subdivisions	2,644	17	1,021	16	3,665	33
Total temporarily impaired securities	$ 7,766	$ 40	$ 1,021	$ 16	$ 8,787	$ 56

Unrealized losses on Bancorp s investment securities portfolio have not been recognized in income because the securities are of high credit quality, and the decline in fair values is largely due to changes in the prevailing interest rate environment since the purchase date. The fair value is expected to recover as the securities reach their maturity date and/or the interest rate environment returns to conditions similar to when the securities were purchased. These investments consist of two and five separate investment positions as of June 30, 2012 and December 31, 2011, respectively. Because management does not intend to sell the investments, and it is not likely that Bancorp will be required to sell the investments before

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recovery of their amortized cost bases, which may be at maturity, Bancorp does not consider these securities to be other-than-temporarily impaired at June 30, 2012.

(3) Loans

The composition of loans by primary loan classification follows:

(in thousands)		June 30, 2012		December 31, 2011
Commercial and industrial	$	417,112	$	393,729
Construction and development		139,328		147,637
Real estate mortgage		985,647		966,665
Consumer		35,739		36,814
Total loans	$	1,577,826	$	1,544,845

The following table presents the balance in the recorded investment in loans and allowance for loan losses by portfolio segment and based on impairment method as of June 30, 2012 and December 31, 2011.

June 30, 2012 (in thousands)	Type of loan: Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Total
Loans					
Balance	$ 417,112	$ 139,328	$ 985,647	$ 35,739	$ 1,577,826
Balance: loans with an allowance recorded	$ 11,516	$ 13,237	$ 10,695	$	$ 35,448
Balance: loans with no related allowance recorded	$ 405,596	$ 126,091	$ 974,952	$ 35,739	$ 1,542,378

	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance December 31, 2011	$ 7,364	$ 3,546	$ 11,182	$ 540	$ 7,113	$ 29,745
Provision	3,475	369	3,913	(327)	(880)	6,550
Charge-offs	(3,500)	(123)	(1,121)	(368)		(5,112)
Recoveries	5		134	451		590
Ending balance June 30, 2012	$ 7,344	$ 3,792	$ 14,108	$ 296	$ 6,233	$ 31,773
Balance: allowance for loans with related allowance recorded	$ 1,758	$ 3,597	$ 527	$		$ 5,882
Balance: allowance for loans with no related allowance	$ 5,586	$ 195	$ 13,581	$ 296	$ 6,233	$ 25,891

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December 31, 2011 (in thousands)	Type of loan: Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Total
Loans					
Balance	$ 393,729	$ 147,637	$ 966,665	$ 36,814	$ 1,544,845
Balance: loans with an allowance recorded	$ 5,459	$ 2,416	$ 14,170	$ 94	$ 22,139
Balance: loans with no related allowance recorded	$ 388,270	$ 145,221	$ 952,495	$ 36,720	$ 1,522,706

	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance December 31, 2010	$ 2,796	$ 2,280	$ 12,272	$ 623	$ 7,572	$ 25,543
Provision	5,475	2,859	4,592	133	(459)	12,600
Charge-offs	(1,015)	(1,593)	(5,840)	(673)		(9,121)
Recoveries	108		158	457		723
Ending balance December 31, 2011	$ 7,364	$ 3,546	$ 11,182	$ 540	$ 7,113	$ 29,745
Balance: allowance for loans with related allowance recorded	$ 954	$ 10	$ 1,597	$		$ 2,561
Balance: allowance for loans with no related allowance recorded	$ 6,410	$ 3,536	$ 9,585	$ 540	$ 7,113	$ 27,184

Bancorp did not have any loans acquired with deteriorated credit quality at June 30, 2012 or December 31, 2011.

Management uses the following portfolio segments of loans when assessing and monitoring the risk and performance of the loan portfolio:

- Commercial and industrial
- Construction and development
- Real estate mortgage
- Consumer

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The following table presents loans individually evaluated for impairment as of June 30, 2012 and December 31, 2011.

June 30, 2012 (in thousands)	**Recorded investment**	**Unpaid principal balance**	**Related allowance**	**Average recorded investment**
Loans with no related allowance recorded				
Commercial and industrial	$ 7,714	$ 7,714		$ 5,410
Construction and development	117	117		1,583
Real estate mortgage	5,384	5,384		6,178
Consumer				32
Subtotal	13,215	13,215		13,203
Loans with an allowance recorded				
Commercial and industrial	3,802	3,802	1,758	4,325
Construction and development	13,120	13,120	3,597	5,009
Real estate mortgage	5,311	7,561	527	6,217
Consumer				
Subtotal	22,233	24,483	5,882	15,551
Total				
Commercial and industrial	$ 11,516	$ 11,516	$ 1,758	$ 9,735
Construction and development	13,237	13,237	3,597	6,592
Real estate mortgage	10,695	12,945	527	12,395
Consumer				32
Total	$ 35,448	$ 37,698	$ 5,882	$ 28,754

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December 31, 2011 (in thousands)	**Recorded investment**	**Unpaid principal balance**	**Related allowance**	**Average recorded investment**
Loans with no related allowance recorded				
Commercial and industrial	$ 694	$ 920		$ 951
Construction and development	2,316	2,316		1,979
Real estate mortgage	6,453	6,453		6,353
Consumer	94	94		83
Subtotal	9,557	9,783		9,366
Loans with an allowance recorded				
Commercial and industrial	4,765	6,415	954	2,447
Construction and development	100	100	10	20
Real estate mortgage	7,717	11,962	1,597	7,249
Consumer				10
Subtotal	12,582	18,477	2,561	9,726
Total				
Commercial and industrial	$ 5,459	$ 7,335	$ 954	$ 3,398
Construction and development	2,416	2,416	10	1,999
Real estate mortgage	14,170	18,415	1,597	13,602
Consumer	94	94		93
Total	$ 22,139	$ 28,260	$ 2,561	$ 19,092

Differences between the recorded investment amounts and the unpaid principal balance amounts are due to partial charge-offs which have occurred over the life of the loans.

Impaired loans include non-accrual loans and loans accounted for as troubled debt restructuring (TDR), which continue to accrue interest. Non-performing loans include the balance of impaired loans plus any loans over 90 days past due and still accruing interest. Loans past due more than 90 days or more and still accruing interest amounted to $112,000 at June 30, 2012, and $1,160,000 at December 31, 2011.

The following table presents the recorded investment in non-accrual loans as of June 30, 2012 and December 31, 2011.

(in thousands)	**June 30, 2012**	**December 31, 2011**
Commercial and industrial	$ 4,478	$ 2,665
Construction and development	13,237	2,416
Real estate mortgage	10,192	13,562
Consumer		94
Total	$ 27,907	$ 18,737

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On June 30, 2012 and 2011, Bancorp had $7.5 million and $250,000 of loans classified as TDR, respectively. The following table presents the recorded investment in loans modified and classified as TDR during the six months ended June 30, 2012.

(dollars in thousands)	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Commercial & industrial	3	$ 5,788	$ 5,788
Real estate mortgage	2	503	503
Total	5	$ 6,291	$ 6,291

Bancorp did not modify and classify any loans as TDR during the six months ended June 30, 2011.

The following table presents the recorded investment in loans accounted for as TDR that have defaulted as of June 30, 2012.

June 30, 2012 (dollars in thousands)	Number of Contracts	Recorded investment
Commercial & industrial	3	$ 1,583
Real estate mortgage	1	361
Total	4	$ 1,944

The loans in the table above are all related to one borrower and have a related allowance allocation of $493,000, which management estimates to be the total loss exposure to this credit. Prior to 2012, Bancorp had not experienced loans accounted for as TDR that have subsequently defaulted. At June 30, 2012, loans accounted for as TDR included modifications from original terms due to bankruptcy proceedings and modifications of amortization periods due to customer financial difficulties. Some loans accounted for as TDR included temporary suspension of principal payments, resulting in payment of interest only. There has been no forgiveness of principal for loans accounted for as TDR. Loans accounted for as TDR, which have not defaulted, are individually evaluated for impairment and, at June 30, 2012, had a total allowance allocation of $300,000, compared to $1,167,000 at December 31, 2011.

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The following table presents the aging of the recorded investment in past due loans as of June 30, 2012 and December 31, 2011.

Greater than