S Y BANCORP INC
Form 10-Q
November 07, 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 September 30, 2013

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 (Do not check if a smaller reporting company)	o	**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 October 30, 2013, was 14,565,559.

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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:

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

September 30, 2013 and December 31, 2012

(In thousands, except share data)

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 47,048	$ 42,610
Federal funds sold	23,472	25,093
Mortgage loans held for sale	3,829	14,047
Securities available for sale (amortized cost of $400,498 in 2013 and $377,383 in 2012)	401,063	386,440
Federal Home Loan Bank stock	6,334	5,180
Other securities	1,013	1,000
Loans	1,709,258	1,584,594
Less allowance for loan losses	28,990	31,881
Net loans	1,680,268	1,552,713
Premises and equipment, net	39,989	36,532
Bank owned life insurance	28,920	28,149
Accrued interest receivable	5,507	5,091
Other assets	52,312	51,407
Total assets	$ 2,289,755	$ 2,148,262
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing	$ 429,297	$ 396,159
Interest bearing	1,453,154	1,385,534
Total deposits	1,882,451	1,781,693
Securities sold under agreements to repurchase	56,225	59,045
Federal funds purchased	31,861	16,552
Accrued interest payable	128	166
Other liabilities	29,233	22,949
Federal Home Loan Bank advances	32,422	31,882
Subordinated debentures	30,900	30,900
Total liabilities	2,063,220	1,943,187
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 14,553,552 and 13,915,265 shares in 2013 and 2012, respectively	9,398	7,273
Additional paid-in capital	31,618	17,731
Retained earnings	185,618	174,650
Accumulated other comprehensive (loss) income	(99)	5,421
Total stockholders equity	226,535	205,075
Total liabilities and stockholders equity	$ 2,289,755	$ 2,148,262

See accompanying notes to unaudited consolidated financial statements.

S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the three and nine months ended September 30, 2013 and 2012 (Unaudited)

(In thousands, except per share data)

	For three months ended September 30,		For nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Interest income:				
Loans	$ 20,233	$ 19,874	$ 58,762	$ 59,227
Federal funds sold	63	82	215	216
Mortgage loans held for sale	57	98	177	217
Securities taxable	1,626	1,379	4,388	4,309
Securities tax-exempt	288	259	853	898
Total interest income	22,267	21,692	64,395	64,867
Interest expense:				
Deposits	1,209	1,725	3,833	5,652
Fed funds purchased	9	8	26	24
Securities sold under agreements to repurchase	38	46	106	138
Federal Home Loan Bank advances	221	345	657	1,072
Subordinated debentures	773	773	2,318	2,341
Total interest expense	2,250	2,897	6,940	9,227
Net interest income	20,017	18,795	57,455	55,640
Provision for loan losses	1,325	2,475	4,975	9,025
Net interest income after provision for loan losses	18,692	16,320	52,480	46,615
Non-interest income:				
Investment management and trust services	4,017	3,515	12,032	10,675
Service charges on deposit accounts	2,348	2,161	6,592	6,341
Bankcard transaction revenue	1,087	985	3,068	2,967
Gains on sales of mortgage loans held for sale	659	1,277	2,333	2,882
Loss on sales of securities available for sale			(5)	
Brokerage commissions and fees	456	651	1,693	1,844
Bank owned life insurance income	260	226	771	743
Gain on acquisition			449	
Other	825	980	2,258	2,878
Total non-interest income	9,652	9,795	29,191	28,330
Non-interest expenses:				
Salaries and employee benefits	10,508	9,711	30,186	28,189
Occupancy	1,522	1,365	4,188	4,198
Data processing	1,520	1,296	4,695	4,131
Furniture and equipment	269	347	846	965
FDIC insurance	348	398	1,055	1,095
Acquisition costs			1,548	
Other	3,404	3,928	9,454	9,711
Total non-interest expenses	17,571	17,045	51,972	48,289
Income before income taxes	10,773	9,070	29,699	26,656
Income tax expense	3,091	2,388	8,842	7,369
Net income	7,682	6,682	20,857	19,287
Net income per share:				

Basic	$	0.53	$	0.48	$	1.47	$	1.39
Diluted	$	0.53	$	0.48	$	1.47	$	1.38
Average common shares:								
Basic		14,408		13,883		14,144		13,867
Diluted		14,556		13,966		14,228		13,929

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 nine months ended September 30, 2013 and 2012 (Unaudited)

(In thousands)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Net income	$ 7,682	$ 6,682	$ 20,857	$ 19,287
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities available for sale:				
Unrealized gains (losses) arising during the period (net of tax of $45, $202, ($2,974) and $432, respectively)	83	375	(5,523)	802
Reclassification adjustment for securities losses realized in income (net of tax of $0, $0, $2, and $0, respectively)			3	
Other comprehensive income (loss)	83	375	(5,520)	802
Comprehensive income	$ 7,765	$ 7,057	$ 15,337	$ 20,089

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 nine months ended September 30, 2013 and 2012 (Unaudited)

(In thousands)

	2013	2012
Operating activities:		
Net income	$ 20,857	$ 19,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,975	9,025
Depreciation, amortization and accretion, net	4,940	4,259
Deferred income tax benefit	(1,229)	(1,487)
Gain on sales of mortgage loans held for sale	(2,333)	(2,882)
Origination of mortgage loans held for sale	(129,742)	(166,297)
Proceeds from sale of mortgage loans held for sale	142,293	160,143
Bank owned life insurance income	(771)	(743)
Increase decrease in value of private investment fund		(637)
Proceeds from liquidation of private investment fund		2,846
Loss on the disposal of premises and equipment	22	47
Loss on the sale of other real estate	365	1,177
Gain on acquisition	(449)	
Stock compensation expense	1,473	1,118
Excess tax benefits from share-based compensation arrangements	(109)	(57)
Decrease (increase) in accrued interest receivable and other assets	3,683	(1,956)
Increase in accrued interest payable and other liabilities	4,498	3,394
Net cash provided by operating activities	48,473	27,237
Investing activities:		
Purchases of securities available for sale	(282,262)	(330,192)
Proceeds from sale of securities available for sale	701	
Proceeds from maturities of securities available for sale	337,762	321,404
Net increase in loans	(95,157)	(44,306)
Purchases of premises and equipment	(1,807)	(3,231)
Acquisition, net of cash acquired	8,963	
Proceeds from sale of foreclosed assets	3,102	2,475
Net cash used in investing activities	(28,698)	(53,850)
Financing activities:		
Net (decrease) increase in deposits	(19,677)	72,291
Net increase (decrease) in securities sold under agreements to repurchase and federal funds purchased	9,727	(29,864)
Proceeds from Federal Home Loan Bank advances	575	30,000
Repayments of Federal Home Loan Bank advances	(35)	(30,008)
Prepayment penalty on modification of Federal Home Loan Bank advances		(872)
Repayments of subordinated debentures		(10,000)
Issuance of common stock for options and dividend reinvestment plan	1,260	585
Excess tax benefits from share-based compensation arrangements	109	57
Common stock repurchases	(315)	(204)
Cash dividends paid	(8,602)	(7,909)
Net cash (used in) provided by financing activities	(16,958)	24,076
Net increase (decrease) in cash and cash equivalents	2,817	(2,537)
Cash and cash equivalents at beginning of period	67,703	54,920

Cash and cash equivalents at end of period	$	70,520	$	52,383
Supplemental cash flow information:				
Income tax payments	$	6,230	$	8,025
Cash paid for interest		6,984		9,257
Supplemental non-cash activity:				
Transfers from loans to other real estate owned	$	2,382	$	3,336

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 nine months ended September 30, 2013 (Unaudited)

(In thousands, except per share data)

	Common stock Number of shares	Common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance December 31, 2012	13,915	$ 7,273	$ 17,731	$ 174,650	$ 5,421	$ 205,075
Net income				20,857		20,857
Other comprehensive loss, net of tax					(5,520)	(5,520)
Stock compensation expense			1,473			1,473
Stock issued for exercise of stock options and dividend reinvestment plan, net of withholdings to satisfy employee tax obligations upon vesting of stock awards	93	309	1,784	(124)		1,969
Stock issued for non-vested restricted stock	55	184	1,083	(1,267)		
Stock issued for acquisition	531	1,769	10,429			12,198
Cash dividends, $0.60 per share				(8,602)		(8,602)
Shares repurchased or cancelled	(40)	(137)	(882)	104		(915)
Balance September 30, 2013	14,554	$ 9,398	$ 31,618	$ 185,618	$ (99)	$ 226,535

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 unaudited 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 unaudited consolidated financial statements of S.Y. Bancorp, Inc. (Bancorp) and its subsidiary reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods. Interim results for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results for the entire year.

The unaudited 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 significant accounting policies is presented in the notes to the consolidated financial statements for the year ended December 31, 2012 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.

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.

The allowance for loan losses is management s estimate of probable losses in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Prior to the third quarter of 2013, management measured the appropriateness of the allowance for loan losses in its entirety using (a) quantitative (historical loss rates) and qualitative factors (management adjustment factors) such as economic outlook and business conditions, and level and trend in delinquencies; which were combined with the historical loss rates to create the baseline factors that were allocated to the various loan categories; (b) specific allocations on impaired loans, and (c) an unallocated amount. The unallocated amount was evaluated on the loan portfolio in its entirety and was based on additional factors, such as national and local economic trends and conditions, changes in volume and severity of past due loans, volume of non-accrual loans, volume and severity of adversely classified or graded loans and other factors and trends that affect specific loans and categories of loans, such as a heightened risk in the commercial and industrial loan portfolios.

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Prior to September 30, 2013, Bancorp utilized the sum of all allowance amounts derived as described above, including a reasonable unallocated allowance, as the primary indicator of the appropriate level of allowance for loan and lease losses. During the third quarter of 2013, Bancorp refined its allowance calculation whereby it allocated the portion of the allowance that was previously deemed to be unallocated allowance based on management s determination of the appropriate qualitative adjustment. This refined allowance calculation includes specific allowance allocations to loan portfolio segments at September 30, 2013 for qualitative factors including, among other factors, (i) national and local economic and business conditions, (ii) the quality and experience of lending staff and management, (iii) changes in lending policies and procedures, (iv) changes in volume and severity of past due loans, classified loans and non-performing loans, (v) potential impact of any concentrations of credit, (vi) changes in the nature and terms of loans such as growth rates and utilization rates, (vii) changes in the value of underlying collateral for collateral-dependent loans, and (viii) the effect of other external factors such as the legal and regulatory environment. Bancorp may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, changes in Bancorp s loan review process and staff. Changes in the criteria used in this evaluation or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan and lease losses based on their judgments and estimates.

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.

Acquired loans

Bancorp acquired loans in the second quarter of 2013 as part of the acquisition referenced in Note 2 to the unaudited consolidated financial statements. Acquired loans were initially recorded at their acquisition date fair values. US GAAP prohibits carryover of the allowance for loan losses as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for acquired loans were based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, default rates, loss severity, collateral values, discount rates, payment speeds, prepayment risk, and liquidity risk at the time of acquisition.

Acquired loans that had evidence of deterioration in credit quality since origination and for which it was probable, at acquisition, that Bancorp will be unable to collect all contractually required payments were specifically identified and analyzed. The excess of cash flows expected at acquisition over the estimated fair value is referred to as accretable discount and will be recognized as interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as non-accretable discount. The non-accretable discount represents estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require Bancorp to evaluate the need for an allowance for loan losses on these loans. Subsequent improvements in expected cash flows will result in the reversal of a corresponding amount of the non-accretable discount which Bancorp will reclassify as an accretable discount that will be recognized into interest income over the remaining life of the loan using the interest

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method. Bancorp s evaluation of the amount of future cash flows that it expects to collect is performed in a similar manner as that used to determine its allowance for loan losses. Charge-offs of the principal amount on credit-impaired acquired loans would be first applied to non-accretable discount.

For acquired loans that are not deemed impaired at acquisition, the methods used to estimate the required allowance for loan losses for acquired loans is the same for originated loans.

(2) Acquisition

On April 30, 2013, Bancorp completed the acquisition of 100% of the outstanding shares of THE BANCorp, Inc. (Oldham), parent company of THE BANK Oldham County, Inc. As a result of the transaction, THE BANK Oldham County merged into Stock Yards Bank & Trust Company. Since the acquisition date, results of operations acquired in the Oldham transaction have been included in Bancorp s financial results.

The Oldham transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration transferred were recorded at estimated fair value on the acquisition date. Assets acquired totaled approximately $146.0 million, including $39.8 million of loans and leases. Liabilities assumed totaled $125.1 million, including $120.4 million of deposits. The fair value adjustments resulted in net assets acquired in excess of the consideration paid. Accordingly, a non-taxable gain of $449,000 was recognized.

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The following table summarizes the consideration paid and the amounts of assets acquired and liabilities assumed, adjusted for fair value at the acquisition date.

(amounts in thousands)

Purchase price:		
Cash	$	8,297
Equity instruments (531,288 common shares of Bancorp)		12,198
Total purchase price		20,495
Identifiable assets:		
Cash and federal funds sold		17,260
Investment securities		81,827
Loans		39,755
Premises and equipment		4,008
Core deposit intangible		2,543
Other assets		605
Total identifiable assets		145,998
Identifiable liabilities:		
Deposits		120,435
Securities sold under agreement to repurchase		2,762
Other liabilities		1,857
Total identifiable liabilities		125,054
Net gain resulting from acquisition	$	449
Acquisition costs (included in other non-interest expenses in Bancorp s income statement for the nine months ended September 30, 2013)	$	1,548

The fair value of the common shares issued as part of the consideration paid was determined based on the closing market price of Bancorp s common shares on the acquisition date.

In the second quarter of 2013, Bancorp recorded a core deposit intangible of $2,543,000 which is being amortized over a ten year period using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. At September 30, 2013, the unamortized core deposit intangible was $2,298,000.

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In many cases, determining the fair value of acquired assets and assumed liabilities required Bancorp to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of these determinations related to the valuation of acquired loans.

(in thousands)	**Acquired impaired loans**	**Acquired non-impaired loans**	**Total acquired loans**
Contractually required principal and interest at acquisition	$ 3,285	$ 37,763	$ 41,048
Contractual cash flows not expected to be collected	(372)	(723)	(1,095)
Expected cash flows at acquisition	2,913	37,040	39,953
Interest component of expected cash flows	(174)	(24)	(198)
Basis in acquired loans at acquisition - estimated fair value	$ 2,739	$ 37,016	$ 39,755

The fair value of checking, savings and money market deposit accounts acquired from Oldham were assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Certificate of deposit accounts were valued at the present value of the certificates expected contractual payments discounted at market rates for similar certificates.

In connection with the Oldham acquisition, Bancorp incurred expenses related to executing the transaction and integrating and conforming acquired operations with and into Bancorp. Those expenses consisted largely of conversion of systems and/or integration of operations, professional services, costs related to termination of existing contractual arrangements of Oldham to purchase various services; initial marketing and promotion expenses designed to introduce Bancorp to its new customers; and printing, postage, supplies, and other costs of completing the transaction.

A summary of acquisition costs, all recorded in the second quarter 2013 consolidated statement of income, follows:

(in thousands)	
Data conversion expenses	$ 906
Consulting	262
Salaries and employee benefits	103
Legal	96
All other	181
Total	$ 1,548

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(3) Securities

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

(in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
September 30, 2013				
U.S. Treasury and other U.S. government obligations	$ 40,000	$	$	$ 40,000
Government sponsored enterprise obligations	124,621	1,937	1,484	125,074
Mortgage-backed securities	165,636	2,156	3,151	164,641
Obligations of states and political subdivisions	70,241	1,562	455	71,348
Total securities available for sale	$ 400,498	$ 5,655	$ 5,090	$ 401,063
December 31, 2012				
U.S. Treasury and other U.S. government obligations	$ 98,000	$	$	$ 98,000
Government sponsored enterprise obligations	83,015	2,789	56	85,748
Mortgage-backed securities	137,407	3,594	120	140,881
Obligations of states and political subdivisions	57,961	2,844	12	60,793
Trust preferred securities of financial institutions	1,000	18		1,018
Total securities available for sale	$ 377,383	$ 9,245	$ 188	$ 386,440

In the second quarter of 2013, Bancorp sold obligations of state and political subdivisions with a total par value of $385,000, generating a loss of $5,000. These securities, acquired in the Oldham transaction, were sold in the ordinary course of investment management because they did not meet Bancorp s current investment strategy. Management has the intent and ability to hold all remaining investment securities available for sale for the foreseeable future. No securities were sold in 2012.

There were no securities held to maturity as of September 30, 2013 or December 31, 2012.

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 access to FHLB borrowing availability, and are classified as restricted securities. Other securities consist of a Community Reinvestment Act (CRA) investment which matures in 2014, which is fully collateralized with a government agency security of similar duration, and holdings of stock in a correspondent bank Bancorp utilizes for various services. Bancorp reviewed the investment in FHLB stock as of September 30, 2013, considering the FHLB equity position, its continuance of dividend payments, liquidity position, and

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positive year-to-date net income. Based on this review, Bancorp believes its investment in FHLB stock is not impaired.

A summary of available for sale investment securities by maturity groupings as of September 30, 2013 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 mortgage-backed securities, all of 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 of the underlying collateral.

(in thousands)	Amortized cost	Fair value
Securities available for sale		
Due within 1 year	$ 62,177	$ 62,213
Due after 1 but within 5 years	113,752	115,551
Due after 5 but within 10 years	36,039	36,470
Due after 10 years	22,894	22,188
Mortgage-backed securities	165,636	164,641
Total securities available for sale	$ 400,498	$ 401,063

Securities with unrealized losses at September 30, 2013 and December 31, 2012, 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
September 30, 2013						
Government sponsored enterprise obligations	$ 59,040	$ 1,484	$	$	$ 59,040	$ 1,484
Mortgage-backed securities	83,927	3,151			83,927	3,151
Obligations of states and political subdivisions	23,443	455			23,443	455
Total temporarily impaired securities	$ 166,410	$ 5,090	$	$	$ 166,410	$ 5,090
December 31, 2012						
Government sponsored enterprise obligations	$ 29,996	$ 56	$	$	$ 29,996	$ 56
Mortgage-backed securities	16,609	120			16,609	120
Obligations of states and political subdivisions	2,292	12			2,292	12
Total temporarily impaired securities	$ 48,897	$ 188	$	$	$ 48,897	$ 188

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 securities reach their maturity date and/or the interest rate environment returns to conditions similar to when these securities were purchased. These investments consist of 142 and 14 separate investment

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positions as of September 30, 2013 and December 31, 2012, respectively, which are not considered other-than-temporarily impaired. Because Bancorp does not intend to sell the investments, and it is not likely that Bancorp will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, management does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

(4) Loans

The composition of loans by primary loan portfolio segment follows:

(in thousands)	September 30, 2013	December 31, 2012
Commercial and industrial	$ 500,478	$ 426,930
Construction and development	135,786	131,253
Real estate mortgage	1,038,864	989,631
Consumer	34,130	36,780
Total loans	$ 1,709,258	$ 1,584,594

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 September 30, 2013 and December 31, 2012.

	Type of loan				
(in thousands)	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Total
September 30, 2013					
Loans	$ 500,478	$ 135,786	$ 1,038,864	$ 34,130	$ 1,709,258
Loans individually evaluated for impairment	$ 8,461	$ 9,870	$ 10,450	$ 88	$ 28,869
Loans collectively evaluated for impairment	$ 491,384	$ 124,647	$ 1,027,906	$ 34,021	$ 1,677,958
Loans acquired with deteriorated credit quality	$ 633	$ 1,269	$ 508	$ 21	$ 2,431

	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Allowance for loan losses						
At December 31, 2012	$ 5,949	$ 4,536	$ 14,288	$ 362	$ 6,746	$ 31,881
Provision	2,598	3,838	5,042	243	(6,746)	4,975

Charge-offs	(257)	(6,440)	(1,817)	(519)		(9,033)
Recoveries	434	164	153	416		1,167
At September 30, 2013	$ 8,724	$ 2,098	$ 17,666	$ 502	$	$ 28,990
Allowance for loans individually evaluated for impairment	$ 682	$ 148	$ 744	$ 86		$ 1,660
Allowance for loans collectively evaluated for impairment	$ 8,042	$ 1,950	$ 16,922	$ 416	$	$ 27,330
Allowance for loans acquired with deteriorated credit quality	$	$	$	$	$	$

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(in thousands)	Type of loan Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Total
December 31, 2012					
Loans	$ 426,930	$ 131,253	$ 989,631	$ 36,780	$ 1,584,594
Loans individually evaluated for impairment	$ 8,667	$ 10,863	$ 9,795	$ 4	$ 29,329
Loans collectively evaluated for impairment	$ 418,263	$ 120,390	$ 979,836	$ 36,776	$ 1,555,265

	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Allowance for loan losses						
At December 31, 2011	$ 7,364	$ 3,546	$ 11,182	$ 540	$ 7,113	$ 29,745
Provision	3,024	2,716	6,308	(181)	(367)	11,500
Charge-offs	(4,523)	(1,726)	(3,451)	(798)		(10,498)
Recoveries	84		249	801		1,134
At December 31, 2012	$ 5,949	$ 4,536	$ 14,288	$ 362	$ 6,746	$ 31,881
Allowance for loans individually evaluated for impairment	$ 156	$ 2,898	$ 563	$		$ 3,617
Allowance for loans collectively evaluated for impairment	$ 5,793	$ 1,638	$ 13,725	$ 362	$ 6,746	$ 28,264

Prior to the third quarter of 2013, management measured the appropriateness of the allowance for loan losses in its entirety using (a) quantitative (historical loss rates) and qualitative factors (management adjustment factors) such as economic outlook and business conditions, and level and trend in delinquencies; which were combined with the historical loss rates to create the baseline factors that were allocated to the various loan categories; (b) specific allocations on impaired loans, and (c) an unallocated amount. The unallocated amount was evaluated on the loan portfolio in its entirety and was based on additional factors, such as national and local economic trends and conditions, changes in volume and severity of past due loans, volume of non-accrual loans, volume and severity of adversely classified or graded loans and other factors and trends that affect specific loans and categories of loans, such as a heightened risk in the commercial and industrial loan portfolios.

During the third quarter of 2013, Bancorp refined its allowance calculation whereby it allocated the portion of the allowance that was previously deemed to be unallocated allowance based on management s determination of the appropriate qualitative adjustments. This refined allowance calculation includes specific allowance allocations to loan portfolio segments at September 30, 2013 for qualitative factors including, among other factors, (i) national and local economic and business conditions, (ii) the quality and experience of lending staff and management, (iii) changes in lending policies and procedures, (iv) changes in volume and severity of past due loans, classified loans and non-performing loans, (v) potential impact of any concentrations of credit, (vi) changes in the nature and terms of loans such as growth rates and utilization rates, (vii) changes in the value of underlying collateral for collateral-dependent loans, and (viii) the effect of other external factors such as the legal and regulatory environment. Bancorp may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, changes in Bancorp s loan review process and staff. Because Bancorp has refined its allowance calculation during 2013 such that it no longer maintains unallocated allowance at September 30, 2013, Bancorp s allocation of its allowance at September 30, 2013 is not comparable with prior periods.

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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

Bancorp did not have any acquired loans with deteriorated credit quality at December 31, 2012. Bancorp has loans that were acquired in the Oldham acquisition in the second quarter of 2013, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is included in the balance sheet amounts of loans at September 30, 2013.

The changes in accretable discount related to credit impaired acquired loans are as follows:

(in thousands)		
Balance at December 31, 2012	$	
Additions due to Oldham acquisition		174
Accretion		(22)
Reclassifications from (to) non-accretable difference		
Disposals		
Balance at September 30, 2013	$	152

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The following table presents loans individually evaluated for impairment as of September 30, 2013 and December 31, 2012.

Unpaid