BRYN MAWR BANK CORP
Form 10-Q
August 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15 (d) of

the Securities and Exchange Act of 1934.

For Quarter ended June 30, 2012

Commission File Number 0-15261

Bryn Mawr Bank Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2434506**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**identification No.)**
801 Lancaster Avenue, Bryn Mawr, Pennsylvania	**19010**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (610) 525-1700

Not Applicable

Former name, former address and fiscal year, if changed since last report.

Indicate by checkmark whether the registrant (1) has filed all reports 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 (§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 ¨

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer , large accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

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

Class	**Outstanding at August 6, 2012**
Common Stock, par value $1	13,398,398

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

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QUARTER ENDED June 30, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets - Unaudited

(dollars in thousands)	(unaudited) **June 30, 2012**	**December 31, 2011**
Assets		
Cash and due from banks	$ 13,147	$ 11,771
Interest bearing deposits with banks	68,325	57,369
Cash and cash equivalents	81,472	69,140
Investment securities available for sale, at fair value (amortized cost of $325,832 and $269,611 as of June 30, 2012 and December 31, 2011 respectively)	329,876	272,317
Loans held for sale	1,668	1,588
Portfolio loans and leases	1,296,579	1,295,392
Less: Allowance for loan and lease losses	(13,140)	(12,753)
Net portfolio loans and leases	1,283,439	1,282,639
Premises and equipment, net	28,911	29,328
Accrued interest receivable	6,009	6,061
Deferred income taxes	11,208	13,662
Mortgage servicing rights	4,220	4,041
Bank owned life insurance	19,657	19,434
FHLB stock	10,746	11,588
Goodwill	29,753	24,689
Intangible assets	22,855	18,014
Other investments	5,955	5,612
Other assets	19,116	16,794
Total assets	$ 1,854,885	$ 1,774,907
Liabilities		
Deposits:		
Non-interest-bearing	$ 336,972	$ 326,409
Interest-bearing	1,089,595	1,055,960
Total deposits	1,426,567	1,382,369
Short-term borrowings	14,675	12,863
FHLB advances and other borrowings	169,589	147,795
Subordinated debentures	22,500	22,500
Accrued interest payable	1,205	1,592
Other liabilities	22,751	21,875
Total liabilities	1,657,287	1,588,994
Shareholders equity		
	16,304	16,104

Common stock, par value $1; authorized 100,000,000 shares; issued 16,303,530 and 16,103,981 shares as of June 30, 2012 and December 31, 2011, respectively, and outstanding of 13,398,237 and 13,194,439 as of June 30, 2012 and December 31, 2011, respectively		
Paid-in capital in excess of par value	88,123	84,425
Less: Common stock in treasury at cost - 2,905,293 and 2,909,542 shares as of June 30, 2012 and December 31, 2011, respectively	(29,789)	(29,833)
Accumulated other comprehensive loss, net of tax benefit	(9,877)	(11,365)
Retained earnings	132,837	126,582
Total shareholders equity	197,598	185,913
Total liabilities and shareholders equity	$ 1,854,885	$ 1,774,907

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income - Unaudited

(dollars in thousands, except share and per share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest income:				
Interest and fees on loans and leases	$ 17,034	$ 17,515	$ 34,206	$ 34,234
Interest on cash and cash equivalents	30	27	52	59
Interest on investment securities:				
Taxable	1,065	1,166	2,149	2,275
Non-taxable	45	19	83	187
Dividends	30	124	67	322
Total interest income	18,204	18,851	36,557	37,077
Interest expense on:				
Deposits	1,064	1,518	2,190	2,941
Short-term borrowings	5	6	11	12
FHLB advances and other borrowings	925	977	1,889	1,819
Subordinated debentures	291	280	582	556
Junior subordinated debentures	0	271	0	543
Total interest expense	2,285	3,052	4,672	5,871
Net interest income	15,919	15,799	31,885	31,206
Provision for loan and lease losses	1,003	1,919	2,003	3,204
Net interest income after provision for loan and lease losses	14,916	13,880	29,882	28,002
Non-interest income:				
Fees for wealth management services	7,211	5,075	13,440	9,265
Service charges on deposits	608	615	1,189	1,195
Loan servicing and other fees	437	460	871	921
Net gain on sale of residential mortgage loans	1,304	656	2,474	1,054
Net gain on sale of available for sale securities	716	577	716	1,067
Net loss on sale of other real estate owned (OREO)	0	(110)	(41)	(129)
Bank owned life insurance (BOLI) income	105	118	223	233
Other operating income	972	774	2,083	1,769
Total non-interest income	11,353	8,165	20,955	15,375
Non-interest expenses:				
Salaries and wages	8,075	6,700	15,580	13,041
Employee benefits	2,023	1,591	4,183	3,326
Occupancy and bank premises	1,394	1,241	2,770	2,527
Furniture, fixtures, and equipment	940	810	1,831	1,706
Advertising	359	441	679	705
Amortization of mortgage servicing rights	256	158	475	327
Net (recovery) impairment of mortgage servicing rights	87	196	(23)	204
Amortization of intangible assets	560	266	1,069	427
FDIC insurance	234	250	453	730
Due diligence and merger-related expenses	914	174	1,123	481
Professional fees	572	738	1,228	1,148
Other operating expenses	2,831	2,304	5,419	4,444

Total non-interest expenses	18,245	14,869	34,787	29,066
Income before income taxes	8,024	7,176	16,050	14,311
Income tax expense	2,763	2,371	5,554	4,790
Net income	$ 5,261	$ 4,805	$ 10,496	$ 9,521
Basic earnings per common share	$ 0.40	$ 0.38	$ 0.80	$ 0.76
Diluted earnings per common share	$ 0.40	$ 0.38	$ 0.79	$ 0.76
Dividends declared per share	$ 0.16	$ 0.15	$ 0.32	$ 0.30
Weighted-average basic shares outstanding	13,156,231	12,693,782	13,111,058	12,520,211
Dilutive potential shares	158,570	24,491	153,036	19,446
Adjusted weighted-average diluted shares	13,314,801	12,718,273	13,264,094	12,539,657

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income - Unaudited

(dollars 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	$ 5,261	$ 4,805	$ 10,496	$ 9,521
Other comprehensive income:				
Net unrealized gains arising during the period, net of tax expense of $405, $870, $719 and $814, respectively	752	1,615	1,335	1,512
Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of $251, $202, $251 and $374, respectively	(465)	(375)	(465)	(694)
Unrealized investment gains, net of tax expense of $154, $668, $468 and $440, respectively	287	1,240	870	818
Change in unfunded pension liability, net of tax expense of $140, $124, $333 and $261, respectively	259	231	618	485
Total other comprehensive income	546	1,471	1,488	1,303
Total comprehensive income	$ 5,807	$ 6,276	$ 11,984	$ 10,824

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows - Unaudited

(dollars in thousands)	Six Months Ended June 30, 2012	2011
Operating activities:		
Net Income	$ 10,496	$ 9,521
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,003	3,204
Provision for depreciation and amortization	2,970	2,569
Net gain on sale of available for sale securities	(716)	(1,067)
Net gain on sale of residential mortgages	(2,474)	(1,054)
Stock based compensation cost	530	345
Amortization and net impairment of mortgage servicing rights	452	531
Net accretion of fair value adjustments	(456)	(513)
Amortization of intangible assets	1,069	427
Impairment of other real estate owned (OREO)	0	127
Loss on sale of OREO	41	129
Net increase in cash surrender value of bank owned life insurance (BOLI)	(223)	(233)
Other, net	(5,473)	(739)
Loans originated for resale	(75,898)	(32,489)
Proceeds from loans sold	77,661	32,190
Provision for deferred income taxes	313	447
Change in income taxes payable/receivable	3,274	(366)
Change in accrued interest receivable	52	367
Change in accrued interest payable	(387)	87
Net cash provided by operating activities	13,234	13,483
Investing activities:		
Purchases of investment securities	(149,421)	(108,473)
Proceeds from maturity of investment securities and paydowns of mortgage-related securities	19,900	13,504
Proceeds from sale of investment securities available for sale	21,002	66,867
Proceeds from redemptions of FHLB stock	842	1,387
Proceeds from calls of investment securities	50,772	58,590
Net change in other investments	(229)	(29)
Net portfolio loan and lease originations	(2,548)	(58,667)
Purchases of premises and equipment	(870)	(1,373)
Acquisitions, net of cash acquired	(7,845)	(13,367)
Capitalize costs to OREO	(61)	0
Proceeds from sale of OREO	175	1,471
Net cash used by investing activities	(68,283)	(40,090)
Financing activities:		
Change in deposits	44,381	(3,675)
Change in short-term borrowings	1,812	(510)
Dividends paid	(4,241)	(3,725)
Change in FHLB advances and other borrowings	22,017	(7,314)
Tax benefit from exercise of stock options	80	137
Proceeds from issuance of common stock	2,088	6,848
Proceeds from exercise of stock options	1,244	875

Net cash provided (used) by financing activities	67,381	(7,364)
Change in cash and cash equivalents	12,332	(33,971)
Cash and cash equivalents at beginning of period	69,140	89,484
Cash and cash equivalents at end of period	$ 81,472	$ 55,513
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	$ 2,871	$ 4,658
Interest	5,059	5,784
Supplemental cash flow information:		
Available for sale securities purchased, not settled	$ 0	$ 2,500
Change in other comprehensive income	(1,488)	2,005
Change in deferred tax due to change in comprehensive income	(801)	702
Transfer of loans to other real estate owned	471	11
Acquisition of noncash assets and liabilities:		
Assets acquired	12,020	18,411
Liabilities assumed	6,103	0

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes In Shareholders Equity - Unaudited

(dollars in thousands, except share information)

	For the Six Months Ended June 30, 2012						
	Shares of Common Stock Issued	Common Stock	Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders Equity
Balance December 31, 2011	16,103,981	$ 16,104	$ 84,425	$ (29,833)	$ (11,365)	$ 126,582	$ 185,913
Net income	0	0	0	0	0	10,496	10,496
Dividends declared, $0.32 per share	0	0	0	0	0	(4,241)	(4,241)
Other comprehensive income, net of tax expense of $801	0	0	0	0	1,488	0	1,488
Stock based compensation	0	0	530	0	0	0	530
Tax benefit from gains on stock option exercise	0	0	80	0	0	0	80
Retirement of treasury stock	0	0	0	44	0	0	44
Common stock issued:							
Dividend Reinvestment and Stock Purchase Plan	104,600	105	1,939	0	0	0	2,044
Share-based awards and options exercises	94,949	95	1,149	0	0	0	1,244
Balance June 30, 2012	16,303,530	$ 16,304	$ 88,123	$ (29,789)	$ (9,877)	$ 132,837	$ 197,598

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). In the opinion of Bryn Mawr Bank Corporation s (the Corporation) Management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation s 2011 Annual Report on Form 10-K (the 2011 Annual Report).

The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year.

2. Business Combinations

Davidson Trust Company

The acquisition of the Davidson Trust Company (DTC) by the Corporation was completed on May 15, 2012. In addition to cash paid at closing, three separate contingent payments, each of which is not to exceed one-third of the amount indicated in the table below, are payable on each of November 14, 2012, May 14, 2013 and November 14, 2013. These contingent payments are subject to certain post-closing contingencies relating to the assets under management.

The Davidson Trust Company has long been recognized as one of the premier trust and investment firms in the nation. The addition of DTC will allow the Corporation to expand its range of services and will bring deeper market penetration in our core market area. The structure of the Corporation s existing Wealth Management segment will allow for the immediate integration of DTC and will take advantage of the various synergies that exist between the two companies. The acquisition of DTC initially increased the Corporation s Wealth Management Division assets under management by $1.0 billion.

The acquisition of DTC was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The excess of consideration paid over the fair value of net assets acquired was recorded as goodwill. The Corporation allocated the total balance of goodwill to its Wealth Management segment. The Corporation also recorded an intangible asset for customer relationships, which will be amortized over a ten-year period using a straight-line method, an intangible asset for restrictive covenant agreements, which will be amortized over a five-and-half-year period using a straight-line method and an intangible asset for trade name which will not be amortized.

The fair values of the intangible assets listed below are estimates and are subject to adjustment; however, they are not expected to be materially different than those shown. Any adjustments to the estimates will be reflected, retroactively, as of the date of the DTC acquisition.

In connection with the DTC acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

(dollars in thousands)	
Consideration paid:	
Cash paid at closing	$ 7,350
Contingent payment liability	3,150
Value of consideration	10,500
Assets acquired:	
Cash operating accounts	1,433

Other assets	201
Intangible asset customer relationships	3,555
Intangible asset noncompetition agreements	1,385
Intangible asset brand	970
Premises and equipment	117
Deferred tax asset	728
Total assets	8,389
Liabilities assumed:	
Deferred tax liability	2,068
Miscellaneous liabilities	885
Total liabilities	2,953
Net assets acquired	5,436
Goodwill resulting from acquisition of DTC	$ 5,064

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Private Wealth Management Group of the Hershey Trust Company

The acquisition of the Private Wealth Management Group (PWMG) of the Hershey Trust Company (HTC) by the Corporation was completed on May 27, 2011. In addition to cash paid at closing, cash was placed in escrow to be released in three equal installments, each of which is not to exceed one-third of the amount indicated in the table below, on the 6-, 12- and 18-month anniversaries of February 17, 2011, subject to certain post-closing contingencies relating to the assets under management. The first two releases of $1.2 million each were issued on August 31, 2011 and March 2, 2012.

The acquisition of PWMG initially increased the Corporation s Wealth Management Division assets under management by $1.1 billion.

The acquisition of PWMG was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The excess of consideration paid over the fair value of net assets acquired was recorded as goodwill, which will not be amortizable. The Corporation allocated the total balance of goodwill to its Wealth Management segment. The Corporation also recorded an intangible asset for customer relationships, which will be amortized over a 15 year period using an accelerated method and an intangible asset for restrictive covenant agreements, which will be amortized over a five-and-a-half year period using a straight-line method.

In connection with the PWMG acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

(dollars in thousands)	
Consideration paid:	
Common shares issued (322,101 shares)	$ 6,661
Cash paid at closing	8,150
Cash placed in escrow	3,600
Value of consideration	18,411
Assets acquired:	
Intangible asset customer relationships	8,610
Intangible asset noncompetition agreements	3,830
Premises and equipment	250
Total assets	12,690
Liabilities assumed:	0
Net assets acquired	12,690
Goodwill resulting from acquisition of PWMG	$ 5,721

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3. Earnings Per Common Share

Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per common share takes into account the potential dilution computed pursuant to the treasury stock method that could occur if stock options were exercised and converted into common stock, as well as the effect of restricted and performance shares becoming unrestricted common stock. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be anti-dilutive. All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands except per share data)	2012	2011	2012	2011
Numerator:				
Net income available to common shareholders	$ 5,261	$ 4,805	$ 10,496	$ 9,521
Denominator for basic earnings per share weighted average shares outstanding	13,156,231	12,693,782	13,111,058	12,520,211
Effect of dilutive common shares	158,570	24,491	153,036	19,446
Denominator for diluted earnings per share adjusted weighted average shares outstanding	13,314,801	12,718,273	13,264,094	12,539,657
Basic earnings per share	$ 0.40	$ 0.38	$ 0.80	$ 0.76
Diluted earnings per share	$ 0.40	$ 0.38	$ 0.79	$ 0.76
Antidilutive shares excluded from computation of average dilutive earnings per share	351,439	675,386	352,662	685,364

4. Investment Securities

The amortized cost and estimated fair value of investments, all of which are classified as available for sale, are as follows:

As of June 30, 2012

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. government agencies	$ 88,859	$ 679	$ (65)	$ 89,473
Obligations of state & political subdivisions	16,411	156	(33)	16,534
Mortgage-backed securities	133,529	2,724	(13)	136,240
Collateralized mortgage obligations	60,805	448	(114)	61,139
Corporate bonds	10,492	289	0	10,781
Investment certificates of deposit	2,380	18	0	2,398
Other debt securities	1,900	0	0	1,900
Total fixed income investments	314,376	4,314	(225)	318,465
Bond mutual funds	11,456	0	(45)	11,411
Total non-maturity investments	11,456	0	(45)	11,411
Total	$ 325,832	$ 4,314	$ (270)	$ 329,876

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As of December 31, 2011

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. government agencies	$ 104,252	$ 397	$ (79)	$ 104,570
Obligations of state & political subdivisions	8,210	158	(2)	8,366
Mortgage-backed securities	95,713	2,160	(39)	97,834
Collateralized mortgage obligations	32,418	251	(46)	32,623
Corporate bonds	12,616	194	(92)	12,718
Investment certificates of deposit	2,411	10	(1)	2,420
Other debt securities	1,900	0	(18)	1,882
Total fixed income investments	257,520	3,170	(277)	260,413
Bond mutual funds	12,091	9	(196)	11,904
Total non-maturity investments	12,091	9	(196)	11,904
Total	$ 269,611	$ 3,179	$ (473)	$ 272,317

The following table shows the amount of securities that were in an unrealized loss position:

As of June 30, 2012

(dollars in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. government agencies	$ 23,940	$ (65)	$ 0	$ 0	$ 23,940	$ (65)
Obligations of state & political subdivisions	6,790	(33)	0	0	6,790	(33)
Mortgage-backed securities	9,151	(13)	0	0	9,151	(13)
Collateralized mortgage obligations	19,797	(114)	0	0	19,797	(114)
Total fixed income investments	59,678	(225)	0	0	59,678	(225)
Bond mutual funds	11,411	(45)	0	0	11,411	(45)
Total	$ 71,089	$ (270)	$ 0	$ 0	$ 71,089	$ (270)

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The following table shows the amount of securities that were in an unrealized loss position:

As of December 31, 2011

(dollars in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. government agencies	$ 23,457	$ (79)	$ 0	$ 0	$ 23,457	$ (79)
Obligations of state & political subdivisions	620	(2)	0	0	620	(2)
Mortgage-backed securities	7,696	(22)	4,886	(17)	12,582	(39)
Collateralized mortgage obligations	7,440	(46)	0	0	7,440	(46)
Corporate bonds	2,912	(92)	0	0	2,912	(92)
Investment certificates of deposit	442	(1)	0	0	442	(1)
Other debt securities	982	(18)	0	0	982	(18)
Total fixed income investments	43,549	(260)	4,886	(17)	48,435	(277)
Bond mutual funds	11,260	(196)	0	0	11,260	(196)
Total	$ 54,809	$ (456)	$ 4,886	$ (17)	$ 59,695	$ (473)

Management evaluates the Corporation s investment securities that are in an unrealized loss position in order to determine if the decline in market value is other than temporary. The investment portfolio includes debt securities issued by U.S. government agencies, U.S. government-sponsored agencies, state and local municipalities and other issuers. All fixed income investment securities in the Corporation s investment portfolio are rated as investment grade. Factors considered in the evaluation include the current economic climate, the length of time and the extent to which the fair value has been below cost, interest rates and the bond rating of each security. The unrealized losses presented in the tables above are temporary in nature and are primarily related to market interest rates rather than the underlying credit quality of the issuers. Management does not believe that these unrealized losses are other-than-temporary. The Corporation does not have the intent to sell these securities prior to their maturity or the recovery of their cost bases and believes that it is more likely than not that it will not have to sell these securities prior to their maturity or the recovery of their cost bases.

As of June 30, 2012 and December 31, 2011, securities having market values of $131.2 million and $135.3 million, respectively, were specifically pledged as collateral for public funds, trust deposits, the Federal Reserve Bank of Philadelphia discount window program, Federal Home Loan Bank of Pittsburgh (FHLB) borrowings and other purposes. The FHLB has a blanket lien on non-pledged, mortgage-related loans and securities as part of the Bank s borrowing agreement with the FHLB.

The amortized cost and fair value of available for sale investment securities as of June 30, 2012 and December 31, 2011, by contractual maturity, are shown below:

	June 30, 2012		**December 31,2011**	
(dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 5,364	$ 5,356	$ 900	$ 900
Due after one year through five years	38,464	38,965	54,046	54,349
Due after five years through ten years	54,569	54,694	48,210	48,354
Due after ten years	21,645	22,071	26,233	26,353
Mortgage-related securities	194,334	197,379	128,131	130,457
Total fixed income investments	314,376	318,465	257,520	260,413
Bond mutual funds	11,456	11,411	12,091	11,904

Total	$ 325,832	$ 329,876	$ 269,611	$ 272,317

Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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5. Loans and Leases

A. Loans and leases outstanding are detailed by category as follows:

	June 30, 2012	December 31, 2011
Loans held for sale	$ 1,668	$ 1,588
Real estate loans:		
Commercial mortgage	$ 445,254	$ 419,130
Home equity lines and loans	202,676	207,917
Residential mortgage	304,249	306,478
Construction	33,815	52,844
Total real estate loans	985,994	986,369
Commercial and industrial	264,116	267,204
Consumer	15,920	11,429
Leases	30,549	30,390
Total portfolio loans and leases	1,296,579	1,295,392
Total loans and leases	$ 1,298,247	$ 1,296,980
Loans with predetermined rates	$ 639,168	$ 608,490
Loans with adjustable or floating rates	659,079	688,490
Total loans and leases	$ 1,298,247	$ 1,296,980
Net deferred loan origination costs included in the above loan table	$ 675	$ 563

B. Components of the net investment in leases are detailed as follows:

(dollars in thousands)	June 30, 2012	December 31, 2011
Minimum lease payments receivable	$ 34,575	$ 34,143
Unearned lease income	(5,431)	(5,080)
Initial direct costs and deferred fees	1,405	1,327
Total	$ 30,549	$ 30,390

C. Troubled Debt Restructurings (TDRs):

The restructuring of a loan is considered a troubled debt restructuring if both of the following conditions are met: (i) the borrower is experiencing financial difficulties, and (ii) the creditor has granted a concession. The most common concessions granted include one or more modifications to the terms of the debt, such as (a) a reduction in the interest rate for the remaining life of the debt, (b) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (c) a temporary period of interest-only payments, (d) a reduction in the contractual payment amount for either a short period or remaining term of the loan, and (e) for leases, a reduced lease payment. A less common concession granted is the forgiveness of a portion of the principal.

The determination of whether a borrower is experiencing financial difficulties takes into account not only the current financial condition of the borrower, but also the potential financial condition of the borrower, were a concession not granted. Similarly, the determination of whether a concession has been granted is very subjective in nature. For example, simply extending the term of a loan at its original interest rate or even at a higher interest rate could be interpreted as a concession unless the borrower could readily obtain similar credit terms from a different lender.

The following table presents the balance of TDRs as of the indicated dates:

(dollars in thousands)	**June 30, 2012**	**December 31, 2011**
TDRs included in nonperforming loans and leases	**$** 4,005	$ 4,300
TDRs in compliance with modified terms	8,302	7,166
Total TDRs	**$** 12,307	$ 11,466

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The following table presents information regarding loan and lease modifications categorized as Troubled Debt Restructurings for the three and six months ended June 30, 2012:

		For the Three Months Ended June 30, 2012	
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential mortgage	2	$ 343	$ 371
Home equity lines and loans	2	464	474
Commercial and industrial	1	39	39
Leases	2	24	24
Total	7	$ 870	$ 908

		For the Six Months Ended June 30, 2012	
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential mortgage	4	$ 1,364	$ 1,392
Home equity lines and loans	2	464	474
Commercial and industrial	1	39	39
Leases	4	41	41
Total	11	$ 1,908	$ 1,946

The following table presents information regarding the types of loan and lease modifications made for the three and six months ended June 30, 2012:

	Number of Contracts for the Three Months Ended June 30, 2012				
	Interest Rate Change	Loan Term Extension	Interest Rate Change and Term Extension	Interest Rate Change with Interest-Only Period	Contractual Payment Reduction (Leases only)
Residential mortgage	0	1	1	0	0
Home equity lines and loans	0	0	2	0	0
Commercial and industrial	0	0	1	0	0
Leases	0	0	0	0	2
Total	0	1	4	0	2

	Number of Contracts for the Six Months Ended June 30, 2012				
	Interest Rate Change	Loan Term Extension	Interest Rate Change and Term Extension	Interest Rate Change with Interest-Only Period	Contractual Payment Reduction (Leases only)

Residential mortgage	0	2	2	0	0
Home equity lines and loans	0	0	2	0	0
Commercial and industrial	0	0	1	0	0
Leases	0	0	0	0	4
Total	0	2	5	0	4

During the three and six months ended June 30, 2012, there were no defaults of loans or leases that had been previously modified to troubled debt restructurings.

D. Non-Performing Loans and Leases[1]

(dollars in thousands)	**June 30, 2012**	**December 31, 2011**
Non-accrual loans and leases:		
Commercial mortgage	$ 309	$ 1,043
Home equity lines and loans	3,251	2,678
Residential mortgage	3,827	3,228
Construction	3,883	4,901
Commercial and industrial	3,602	2,305
Consumer	17	5
Leases	40	155
Total	14,929	14,315
Loans 90 days past due and still accruing:		
Commercial and industrial	1,000	0
Construction	2,376	0
Total	3,376	0
Total nonperforming loans and leases	$ 18,305	$ 14,315

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(1) *Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of $534 thousand and $1.5 million of purchased credit-impaired loans as of June 30, 2012 and December 31, 2011, respectively, which became non-performing subsequent to acquisition.*

E. Purchased Credit-Impaired Loans

The outstanding principal balance and related carrying amount of credit-impaired loans, for which the Bank applies ASC 310-30 to account for the interest earned, as of the dates indicated, are as follows:

(dollars in thousands)	**June 30, 2012**	**December 31, 2011**
Outstanding principal balance	$ 19,531	$ 22,749
Carrying amount[(1)]	12,349	13,991

(1) *Includes $496 thousand and $678 thousand purchased credit-impaired loans as of June 30, 2012 and December 31, 2011, respectively, for which the Bank could not estimate the timing or amount of expected cash flows to be collected at acquisition, and for which no accretable yield is recognized. Additionally, the table above includes $534 thousand and $1.5 million of purchased credit-impaired loans as of June 30, 2012 and December 31, 2011, respectively, that subsequently became non-performing, which are disclosed in Note 5D, above, and which also have no accretable yield.*

The following table presents changes in the accretable discount on purchased credit-impaired loans, for which the Bank applies ASC 310-30, for the six months ended June 30, 2012:

(dollars in thousands)	**Accretable Discount**
Balance, December 31, 2011	$ 9,537
Accretion	(657)
Reclassifications from nonaccretable difference	432
Additions	430
Disposals	(1,269)
Balance, June 30, 2012	$ 8,473

F. Age Analysis of Past Due Loans and Leases

The following tables present an aging of the Corporation s loan and lease portfolio as of June 30, 2012 and December 31, 2011:

(dollars in thousands) **As of June 30, 2012**	**30 59 Days Past Due**	**60 89 Days Past Due**	**Over 89 Days Past Due**	**Total Past Due**	**Current**	**Total Loans and Leases**
Commercial mortgage	$ 107	$ 183	$ 470	$ 760	$ 444,494	$ 445,254
Home equity lines and loans	456	27	2,208	2,691	199,985	202,676
Residential mortgage	1,896	1,229	1,628	4,753	299,496	304,249
Construction	0	0	5,284	5,284	28,531	33,815
Commercial and industrial	94	190	3,772	4,056	260,060	264,116
Consumer	9	9	10	28	15,892	15,920
Leases	0	72	14	86	30,463	30,549
	$ 2,562	$ 1,710	$ 13,386	$ 17,658	$ 1,278,921	$ 1,296,579

(dollars in thousands)

As of December 31, 2011	30 59 Days Past Due	60 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current	Total Loans and Leases
Commercial mortgage	$ 193	$ 171	$ 1,311	$ 1,675	$ 417,455	$ 419,130
Home equity lines and loans	330	199	2,235	2,764	205,153	207,917
Residential mortgage	1,455	907	1,856	4,218	302,260	306,478
Construction	0	0	4,853	4,853	47,991	52,844
Commercial and industrial	279	1,513	2,089	3,881	263,323	267,204
Consumer	33	0	4	37	11,392	11,429
Leases	156	75	145	376	30,014	30,390
	$ 2,446	$ 2,865	$ 12,493	$ 17,804	$ 1,277,588	$ 1,295,392

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G. Allowance for Loan and Lease Losses (the Allowance)

The following tables detail the roll-forward of the Corporation s allowance for loan and lease losses, by loan category, for the three and six months ended June 30, 2012:

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, March 31, 2012	$ 3,196	$ 1,585	$ 1,692	$ 1,351	$ 3,917	$ 142	$ 508	$ 649	$ 13,040
Charge-offs	(210)	(14)	(157)	(299)	(138)	(17)	(125)	0	(960)
Recoveries	0	0	0	0	0	1	56	0	57
Provision for loan and lease losses	398	178	101	60	10	54	96	106	1,003
Balance, June 30, 2012	$ 3,384	$ 1,749	$ 1,636	$ 1,112	$ 3,789	$ 180	$ 535	$ 755	$ 13,140

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, December 31, 2011	$ 3,165	$ 1,707	$ 1,592	$ 1,384	$ 3,816	$ 119	$ 532	$ 438	$ 12,753
Charge-offs	(235)	(14)	(170)	(699)	(408)	(42)	(231)	0	(1,799)
Recoveries	0	0	0	0	65	5	113	0	183
Provision for loan and lease losses	454	56	214	427	316	98	121	317	2,003
Balance, June 30, 2012	$ 3,384	$ 1,749	$ 1,636	$ 1,112	$ 3,789	$ 180	$ 535	$ 755	$ 13,140

The following table details the roll-forward of the Corporation s allowance for loan and lease losses for the three and six months ended June 30, 2011:

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, March 31, 2011	$ 2,868	$ 1,302	$ 996	$ 832	$ 3,619	$ 97	$ 685	$ 250	$ 10,649
Charge-offs	(226)	(100)	(36)	(360)	(336)	(18)	(249)	0	(1,325)
Recoveries	0	0	0	0	1	3	94	0	98
Provision for loan and lease losses	(71)	274	286	937	335	47	108	3	1,919
Balance, June 30, 2011	$ 2,571	$ 1,476	$ 1,246	$ 1,409	$ 3,619	$ 129	$ 638	$ 253	$ 11,341

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, December 31, 2010	$ 2,534	$ 1,563	$ 843	$ 633	$ 3,565	$ 115	$ 766	$ 256	$ 10,275
Charge-offs	(228)	(450)	(112)	(360)	(491)	(69)	(657)	0	(2,367)
Recoveries	0	0	0	0	3	5	221	0	229

Provision for loan and lease losses	265	363	515	1,136	542	78	308	(3)	3,204
Balance, June 30, 2011	$ 2,571	$ 1,476	$ 1,246	$ 1,409	$ 3,619	$ 129	$ 638	$ 253	$ 11,341

The following table details the allocation of the allowance for loan and lease losses by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2012 and December 31, 2011:

(dollars in thousands) **As of June 30, 2012**	**Commercial Mortgage**	**Home Equity Lines and Loans**	**Residential Mortgage**	**Construction**	**Commercial and Industrial**	**Consumer**	**Leases**	**Unallocated**	**Total**
Allowance on loans and leases:									
Individually evaluated for impairment	$ 0	$ 226	$ 324	$ 622	$ 325	$ 15	$ 0	$ 0	$ 1,512
Collectively evaluated for impairment	3,375	1,523	1,312	486	3,464	165	535	755	11,615
Purchased credit-impaired[1]	9	0	0	4	0	0	0	0	13
Total	$ 3,384	$ 1,749	$ 1,636	$ 1,112	$ 3,789	$ 180	$ 535	$ 755	$ 13,140
As of December 31, 2011									
Allowance on loans and leases:									
Individually evaluated for impairment	$ 0	$ 75	$ 358	$ 640	$ 248	$ 0	$ 0	$ 0	$ 1,321
Collectively evaluated for impairment	3,153	1,632	1,234	741	3,568	119	532	438	11,417
Purchased credit-impaired[1]	12	0	0	3	0	0	0	0	15
Total	$ 3,165	$ 1,707	$ 1,592	$ 1,384	$ 3,816	$ 119	$ 532	$ 438	$ 12,753

(1) *Purchased credit-impaired loans are evaluated for impairment on an individual basis.*

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The following table details the carrying value for loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2012 and December 31, 2011:

(dollars in thousands) **As of June 30, 2012**	**Commercial Mortgage**	**Home Equity Lines and Loans**	**Residential Mortgage**	**Construction**	**Commercial and Industrial**	**Consumer**	**Leases**	**Total**
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 163	$ 3,287	$ 9,860	$ 5,357	$ 3,688	$ 15	$ 0	$ 22,370
Collectively evaluated for impairment	434,650	199,362	294,081	27,337	259,976	15,905	30,549	1,261,860
Purchased credit- impaired[(1)]	10,441	27	308	1,121	452	0	0	12,349
Total	$ 445,254	$ 202,676	$ 304,249	$ 33,815	$ 264,116	$ 15,920	$ 30,549	$ 1,296,579
As of December 31, 2011								
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 0	$ 2,714	$ 8,146	$ 6,062	$ 2,393	$ 5	$ 0	$ 19,320
Collectively evaluated for impairment	407,095	205,172	298,018	45,696	264,286	11,424	30,390	1,262,081
Purchased credit- impaired[(1)]	12,035	31	314	1,086	525	0	0	13,991
Total	$ 419,130	$ 207,917	$ 306,478	$ 52,844	$ 267,204	$ 11,429	$ 30,390	$ 1,295,392

(1) *Purchased credit-impaired loans are evaluated for impairment on an individual basis.*

As part of the process of allocating the allowance to the different segments of the loan and lease portfolio, Management considers certain credit quality indicators. For the commercial mortgage, construction and commercial and industrial loan segments, periodic reviews of the individual loans are performed by both in-house staff as well as external loan reviewers. The result of these reviews is reflected in the risk grade assigned to each loan. These internally assigned grades are as follows:

Pass Loans considered satisfactory with no indications of deterioration.

Special mention - Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

In addition, the remaining segments of the loan and lease portfolio, which include residential mortgage, home equity lines and loans, consumer, and leases, are allocated portions of the allowance based on their performance status.

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The following tables detail the carrying value of loans and leases by portfolio segment based on the credit quality indicators used to allocate the allowance for loan and lease losses as of June 30, 2012 and December 31, 2011:

Credit Risk Profile by Internally Assigned Grade

(dollars in thousands)	Commercial Mortgage		Construction		Commercial and Industrial		Total	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Pass	$ 436,663	$ 414,250	$ 23,019	$ 38,367	$ 255,343	$ 260,050	$ 715,025	$ 712,667
Special Mention	6,259	1,932	3,851	3,704	2,902	1,459	13,012	7,095
Substandard	2,332	2,948	6,945	10,521	5,701	5,523	14,978	18,992
Doubtful[1]	0	0	0	252	170	172	170	424
Total	$ 445,254	$ 419,130	$ 33,815	$ 52,844	$ 264,116	$ 267,204	$ 743,185	$ 739,178

(1) *Loans balances classified as Doubtful have been reduced by partial charge-offs, and are carried at their net realizable value.*

Credit Risk Profile by Payment Activity

(dollars in thousands)	Residential Mortgage		Home Equity Lines and Loans		Consumer		Leases		Total	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Performing	$ 300,422	$ 303,250	$ 199,425	$ 205,239	$ 15,903	$ 11,424	$ 30,509	$ 30,235	$ 546,259	$ 550,148
Non-performing	3,827	3,228	3,251	2,678	17	5	40	155	7,135	6,066
Total	$ 304,249	$ 306,478	$ 202,676	$ 207,917	$ 15,920	$ 11,429	$ 30,549	$ 30,390	$ 553,394	$ 556,214

H. Impaired Loans

The following tables detail the recorded investment and principal balance of impaired loans by portfolio segment, their related allowance for loan and lease losses and interest income recognized as of the dates or for the periods indicated:

(dollars in thousands) **As of or for the three months ended June 30, 2012**	Recorded Investment[2]	Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized	Cash-Basis Interest Income Recognized
Impaired loans with related allowance:						
Home equity lines and loans	$ 1,612	$ 1,662	$ 226	$ 1,664	$ 0	$ 0
Residential mortgage	2,846	2,892	324	2,893	25	0
Construction	3,882	3,938	622	6,284	0	0
Commercial and industrial	1,355	1,361	325	1,469	4	0
Consumer	14	16	15	16	0	0
Total	$ 9,709	$ 9,869	$ 1,512	$ 12,326	$ 29	$ 0
Impaired loans without related allowance[1] [3]:						
Commercial mortgage	$ 163	$ 171	$ 0	$ 171	$ 0	$ 0
Home equity lines and loans	1,675	1,714	0	1,716	1	0
Residential mortgage	7,014	7,305	0	7,108	53	0

Construction		1,475		1,491		0		1,427		15	0
Commercial and industrial		2,333		2,351		0		2,719		3	0
Consumer		1		1		0		2		0	0
Total	$	12,661	$	13,033	$	0	$	13,143	$	72	$ 0
Grand total	$	22,370	$	22,902	$	1,512	$	25,469	$	101	$ 0

(1) *The table above does not include the recorded investment of $323 thousand of impaired leases without a related allowance for loan and lease losses.*

(2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.*

(3) *This table excludes all purchased credit-impaired loans, which are discussed in Note 5E, above.*

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(dollars in thousands) As of or for the six months ended June 30, 2012	Recorded Investment[2]	Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized	Cash-Basis Interest Income Recognized
Impaired loans with related allowance:						
Home equity lines and loans	$ 1,612	$ 1,662	$ 226	$ 1,663	$ 1	$ 0
Residential mortgage	2,846	2,892	324	2,896	48	0
Construction	3,882	3,938	622	6,540	0	0
Commercial and industrial	1,355	1,361	325	1,499	9	0
Consumer	14	16	15	17	0	0
Total	$ 9,709	$ 9,869	$ 1,512	$ 12,615	$ 58	$ 0
Impaired loans without related allowance[1] [3]:						
Commercial mortgage	$ 163	$ 171	$ 0	$ 171	$ 0	$ 0
Home equity lines and loans	1,675	1,714	0	1,720	7	0
Residential mortgage	7,014	7,305	0	7,149	109	0
Construction	1,475	1,491	0	1,341	28	0
Commercial and industrial	2,333	2,351	0	2,851	10	0
Consumer	1	1	0	2	0	0
Total	$ 12,661	$ 13,033	$ 0	$ 13,234	$ 154	$ 0
Grand total	$ 22,370	$ 22,902	$ 1,512	$ 25,849	$ 212	$ 0

(1) *The table above does not include the recorded investment of $323 thousand of impaired leases without a related allowance for loan and lease losses.*

(2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.*

(3) *This table excludes all purchased credit-impaired loans, which are discussed in Note 5E, above.*

(dollars in thousands) As of or for the three months ended June 30, 2011	Recorded Investment[2]	Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized	Cash-Basis Interest Income Recognized
Impaired loans with related allowance:						
Commercial mortgage	$ 1,629	$ 2,439	$ 1	$ 2,441	$ 0	$ 0
Home equity lines and loans	2,479	2,513	18	2,518	1	0
Residential mortgage	6,593	6,699	290	6,695	107	0
Construction	6,169	6,530	612	6,708	0	0
Commercial and industrial	2,515	5,584	254	5,584	8	0
Total	$ 19,385	$ 23,765	$ 1,175	$ 23,946	$ 116	$ 0
Impaired loans without related allowance[1] [3]:						
Home equity lines and loans	$ 41	$ 44	$ 0	$ 45	$ 0	$ 0
Residential mortgage	737	767	0	769	0	0
Commercial and industrial	54	57	0	227	0	0
Consumer loans	2	2	0	2	0	0
Total	$ 834	$ 870	$ 0	$ 1,043	$ 0	$ 0
Grand total	$ 20,219	$ 24,635	$ 1,175	$ 24,989	$ 116	$ 0

(1) *The table above does not include the recorded investment of $1.0 million of impaired leases without a related allowance for loan and lease losses.*

(2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.*

(3) *This table excludes all purchased credit-impaired loans, which are discussed in Note 5E, above.*

(dollars in thousands) **As of or for the six months ended June 30, 2011**	**Recorded Investment[2]**	**Principal Balance**	**Related Allowance**	**Average Principal Balance**	**Interest Income Recognized**	**Cash-Basis Interest Income Recognized**
Impaired loans with related allowance:						
Commercial mortgage	$ 1,629	$ 2,439	$ 1	$ 2,442	$ 0	$ 0
Home equity lines and loans	2,479	2,513	18	2,520	8	0
Residential mortgage	6,593	6,699	290	6,707	107	0
Construction	6,169	6,530	612	6,760	73	0
Commercial and industrial	2,515	5,584	254	5,597	27	0
Total	$ 19,385	$ 23,765	$ 1,175	$ 24,026	$ 215	$ 0
Impaired loans without related allowance[1] [3]:						
Home equity lines and loans	$ 41	$ 44	$ 0	$ 45	$ 0	$ 0
Residential mortgage	737	767	0	773	0	0
Commercial and industrial	54	57	0	227	0	0
Consumer loans	2	2	0	2	0	0
Total	$ 834	$ 870	$ 0	$ 1,047	$ 0	$ 0
Grand total	$ 20,219	$ 24,635	$ 1,175	$ 25,073	$ 215	$ 0

(1) *The table above does not include the recorded investment of $1.0 million of impaired leases without a related allowance for loan and lease losses.*

(2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.*

(3) *This table excludes all purchased credit-impaired loans, which are discussed in Note 5E, above.*

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(dollars in thousands) As of December 31, 2011	Recorded Investment (2)	Principal Balance	Related Allowance
Impaired loans with related allowance:			
Home equity lines and loans	$ 448	$ 456	$ 75
Residential mortgage	2,654	2,682	358
Construction	4,853	6,054	640
Commercial and industrial	1,568	2,160	248
Total	$ 9,523	$ 11,352	$ 1,321
Impaired loans without related allowance(1):			
Home equity lines and loans	$ 2,266	$ 2,310	$ 0
Residential mortgage	5,492	5,863	0
Construction	1,209	1,213	0
Commercial and industrial	825	855	0
Consumer	5	5	0
Total	$ 9,797	$ 10,246	$ 0
Grand total	$ 19,320	$ 21,598	$ 1,321

(1) *The table above does not include the recorded investment of $680 thousand of impaired leases without a related Allowance.*
(2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal*

6. Deposits

The following table details the components of deposits:

(dollars in thousands)	June 30, 2012	December 31, 2011
Non-interest-bearing demand	$ 336,972	$ 326,409
Savings, NOW and market rate accounts	838,644	757,904
Time deposits	193,081	209,333
Wholesale time deposits	22,505	23,550
Wholesale non-maturity deposits	35,365	65,173
	$ 1,426,567	$ 1,382,369

7. Short-term and Other Borrowings

A. Short-term borrowings

The Corporation s short-term borrowings (original maturity of one year or less) which consist of a revolving line of credit with a correspondent bank, funds obtained from overnight repurchase agreements with commercial customers and overnight fed funds are detailed below.

A summary of short-term borrowings is as follows:

(dollars in thousands)	**June 30, 2012**	**December 31, 2011**
Overnight fed funds	$ 0	$ 0
Revolving line of credit with correspondent bank	0	0
Repurchase agreements	14,675	12,863
Total short-term borrowings	$ 14,675	12,863

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The following table sets forth information concerning short-term borrowings:

(dollars in thousands)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Balance at period-end	$ 14,675	$ 9,541	$ 14,675	$ 9,541
Maximum amount outstanding at any month-end	14,675	11,874	14,775	23,326
Average balance outstanding during the period	13,237	9,260	13,583	9,705
Weighted-average interest rate:				
As of period-end	0.15%	0.35%	0.15%	0.35%
Paid during the period	0.17%	0.26%	0.17%	0.25%

B. FHLB Advances and Other Borrowings

The Corporation s other borrowings consist mainly of advances from the FHLB as well as an adjustable rate commercial mortgage loan on its Wealth Management Division s offices located in Bryn Mawr, Pennsylvania as well as an adjustable rate commercial loan, both from correspondent banks.

The following table presents the remaining periods until maturity of the FHLB advances and other borrowings:

(dollars in thousands)	June 30, 2012	December 31, 2011
Within one year	$ 54,893	$ 39,276
Over one year through five years	91,525	85,238
Over five years through ten years	22,206	22,253
Over ten years	965	1,028
Total	$ 169,589	$ 147,795

The following table presents rate and maturity information on FHLB advances and other borrowings:

	Maturity Range[1]		Weighted Average	Interest Rate		Balance	
Description	From	To	Rate	From	To	June 30, 2012	December 31, 2011
Fixed amortizing	08/03/12	12/29/15	3.54%	3.15%	3.90%	$ 6,765	$ 10,535
Adjustable amortizing	12/31/16	01/01/29	3.59%	3.25%	5.50%	12,477	13,692
Bullet maturity	09/10/12	06/12/17	2.08%	1.19%	4.12%	102,500	75,500
Convertible-fixed[2]	12/11/12	08/20/18	2.02%	1.25%	2.62%	47,847	48,068
Total						$ 169,589	$ 147,795

(1) *Maturity range refers to June 30, 2012 balances*

(2) *FHLB advances whereby the FHLB has the option, at predetermined times, to convert the fixed interest rate to an adjustable interest rate indexed to the London Interbank Offered Rate (LIBOR). The Corporation has the option to prepay these advances, without penalty, if the FHLB elects to convert the interest rate to an adjustable rate. As of June 30, 2012, substantially all the FHLB advances with this convertible feature are subject to conversion in fiscal 2012. These advances are included in the periods in which they mature, rather than the period in which they are subject to conversion.*

C. Other FHLB Information

As of June 30, 2012 the Corporation had a maximum borrowing capacity with the FHLB of approximately $725.8 million, of which the unused capacity was $545.7 million. In addition, there were unused capacities of $64.0 million in overnight federal funds line and $51.9 million of Federal Reserve Discount Window borrowings as of June 30, 2012. In connection with its FHLB borrowings, the Corporation is required to hold the capital stock of the FHLB. The amount of FHLB capital stock held was $10.7 million at June 30, 2012, and $11.6 million at December 31, 2011. The carrying amount of the FHLB capital stock approximates its redemption value. During the three and six months ended June 30, 2012, the FHLB redeemed $262 thousand and $842 thousand of its capital stock, respectively.

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8. Stock Based Compensation

A. General Information

The Corporation permits the issuance of stock options, dividend equivalents, performance awards, stock appreciation rights, restricted stock and/or restricted stock units to employees and directors of the Corporation under several plans. The terms and conditions of awards under the plans are determined by the Corporation s Compensation Committee.

Prior to April 25, 2007, all shares authorized for grant as stock-based compensation were limited to grants of stock options. On April 25, 2007, the Shareholders approved the Corporation s 2007 Long-Term Incentive Plan (the 2007 LTIP) under which a total of 428,996 shares of the Corporation s common stock were made available for award grants. On April 28, 2010, the Shareholders approved the Corporation s 2010 Long Term Incentive Plan (2010 LTIP) under which a total of 445,002 shares of the Corporation s common stock were made available for award grants.

The equity awards granted under the 2007 and 2010 LTIPs were authorized to be in the form of, among others, options to purchase the Corporation s common stock, restricted stock awards (RSAs) and performance stock awards (PSAs).

The fair value of the RSAs is based on the closing price on the day preceding the date of the grant.

The PSAs that have been granted to date vest based on the Corporation s total shareholder return relative to the performance of the NASDAQ Community Bank Index for the respective period. The amount of PSAs earned will not exceed 100% of the PSAs awarded. The fair value of the PSAs is calculated using the Monte Carlo Simulation method.

B. Stock Options

Stock based compensation cost is measured at the grant date, based on the fair value of the award and is recognized as an expense over the vesting period. The fair value of stock option grants is determined using the Black-Scholes pricing model. The assumptions necessary for the calculation of the fair value are expected life of options, annual volatility of stock price, risk free interest rate and annual dividend yield.

The following table provides information about options outstanding for the three months ended June 30, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding, March 31, 2012	809,934	$ 20.38	$ 4.62
Granted	0	0	0
Forfeited	0	0	0
Expired	0	0	0
Exercised	(7,670)	18.50	4.02
Options outstanding, June 30, 2012	802,264	$ 20.40	$ 4.61

The following table provides information about options outstanding for the six months ended June 30, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding, December 31, 2011	876,470	$ 20.17	$ 4.55
Granted	0	0	0
Forfeited	(5,755)	20.56	4.74
Expired	0	0	0

Exercised	(68,451)		17.52		3.65
Options outstanding, June 30, 2012	802,264	$	20.40	$	4.61

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The following table provides information about unvested options for the three months ended June 30, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Unvested options, March 31, 2012	152,760	$ 20.49	$ 4.73
Granted	0	0	0
Vested	0	0	0
Forfeited	0	0	0
Unvested options, June 30, 2012	152,760	$ 20.49	$ 4.73

The following table provides information about unvested options for the six months ended June 30, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Unvested options, December 31, 2011	158,515	$ 20.49	$ 4.73
Granted	0	0	0
Vested	0	0	0
Forfeited	(5,755)	20.56	4.74
Unvested options, June 30, 2012	152,760	$ 20.49	$ 4.73

For the three months ended June 30, 2012 there were no grants of stock options.

For the three and six months ended June 30, 2012, the Corporation recognized $63 thousand and $127 thousand, respectively, of expense related to the stock options. As of June 30, 2012, the total not-yet-recognized compensation expense of unvested stock options is $318 thousand. This expense will be recognized over a weighted average period of 1.76 years.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised during the three and six months ended June 30, 2012 and 2011 are detailed below:

(dollars 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
Proceeds from exercise of stock options	$ 142	$ 338	$ 1,199	$ 875
Related tax benefit recognized	4	28	80	137
Net proceeds of options exercised	$ 146	$ 366	$ 1,279	$ 1,012
Intrinsic value of options exercised	$ 13	$ 122	$ 231	$ 433

The following table provides information about options outstanding and exercisable at June 30, 2012:

	Outstanding	Exercisable
Number of shares	802,264	649,504
Weighted average exercise price	$ 20.40	$ 20.37

Aggregate intrinsic value	$ 1,038,797	$ 790,986
Weighted average contractual term in years	4.0	3.5

C. Restricted Stock Awards and Performance Stock Awards

The Corporation has granted RSAs and PSAs under the 2007 LTIP and 2010 LTIP Plans.

The compensation expense for the RSAs is measured based on the market price of the stock on the day prior to the grant date and is recognized on a straight line basis over the vesting period, accelerated for retirement eligibility. Stock restrictions are subject to alternate vesting for death and disability and retirement.

For the three and six months ended June 30, 2012, the Corporation recognized $215 thousand and $261 thousand, respectively, of expense related to the Corporation s RSAs. As of June 30, 2012, there was $866 thousand of unrecognized compensation cost related to RSAs. This cost will be recognized over a weighted average period of 2.72 years.

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The following table details the unvested RSAs for the three and six months ended June 30, 2012:

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Beginning balance	35,025	$ 18.06	35,025	$ 18.06
Granted	29,448	20.38	29,448	20.38
Vested	(7,362)	20.38	(7,362)	20.38
Forfeited	0	0	0	0
Ending balance	57,111	$ 18.96	57,111	$ 18.96

The compensation expense for PSAs is measured based on the grant date fair value as calculated using the Monte Carlo Simulation. The Simulation used various assumptions that include expected volatility of 54.8%, a risk free rate of return of 0.74% and a correlation co-efficient of 0.56%.

For the three and six months ended June 30, 2012, the Corporation recognized $78 thousand and $147 thousand, respectively, of expense related to the PSAs. As of June 30, 2012, there was $513 thousand of unrecognized compensation cost related to PSAs. This cost will be recognized over a weighted average period of 1.8 years.

The following table details the unvested PSAs for the three and six months ended June 30, 2012:

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Beginning balance	114,411	$ 17.48	117,361	$ 17.48
Granted	0	0	0	0
Vested	0	0	0	0
Forfeited	0	0	(2,950)	17.50
Ending balance	114,411	$ 17.48	114,411	$ 17.48

9. Pension and Other Post-Retirement Benefit Plans

The Corporation sponsors two pension plans; the qualified defined benefit pension plan (QDBP) and the non-qualified defined benefit pension plan (SERP). In addition, the Corporation also sponsors a post-retirement benefit plan (PRBP).

On February 12, 2008, the Corporation amended the QDBP to cease further accruals of benefits effective March 31, 2008, and amended the 401(K) Plan to provide for a new class of immediately vested discretionary, non-matching employer contributions effective April 1, 2008. Additionally, the Corporation amended the SERP to expand the class of eligible participants to include certain officers of the Bank and to provide that each participant s accrued benefit shall be reduced by the actuarially equivalent value of the immediately vested discretionary, non-matching employer contribution to the 401(K) Plan made on his or her behalf.

The following tables provide a reconciliation of the components of the net periodic benefits cost (benefit) for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,					
	SERP		QDBP		PRBP	
(dollars in thousands)	2012	2011	2012	2011	2012	2011
Service cost	$ 67	$ 116	$ 0	$ 0	$ 0	$ 0
Interest cost	61	52	394	421	9	12
Expected return on plan assets	0	0	(701)	(555)	0	0
Amortization of transition obligation	0	0	0	0	7	6
Amortization of prior service costs	21	21	0	0	0	(14)
Amortization of net (gain) loss	23	0	447	200	19	19
Net periodic benefit cost	$ 172	$ 189	$ 140	$ 66	$ 35	$ 23

	Six Months Ended June 30,					
	SERP		QDBP		PRBP	
(dollars in thousands)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Service cost	$ 134	$ 157	$ 0	$ 0	$ 0	$ 0
Interest cost	122	104	788	842	18	24
Expected return on plan assets	0	0	(1,402)	(1,110)	0	0
Amortization of transition obligation	0	0	0	0	14	13
Amortization of prior service costs	42	42	0	0	0	(28)
Amortization of net (gain) loss	45	0	894	400	38	38
Net periodic benefit cost	$ 343	$ 303	$ 280	$ 132	$ 70	$ 47

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QDBP: As stated in the Corporation s 2011 Annual Report, the Corporation did not have any minimum funding requirements for its QDBP for 2011. However, a $10 million contribution was made in December 2011. No contributions to the QDBP were made for the three and six months ended June 30, 2012.

SERP: The Corporation contributed $36 thousand and $73 thousand during the three and six months ended June 30, 2012, respectively, and it is expected to contribute an additional $73 thousand to the SERP plan for the remaining six months of 2012.

PRBP: In 2005, the Corporation capped the maximum annual payment under the PRBP at 120% of the 2005 benefit. This maximum was reached in 2008 and the cap is not expected to be increased above this level.

10. Segment Information

The Corporation aggregates certain of its operations and has identified two segments as follows: Banking and Wealth Management.

The following tables detail segment information for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30, 2012			**Three Months Ended June 30, 2011**		
(dollars in thousands)	**Banking**	**Wealth Management**	**Consolidated**	**Banking**	**Wealth Management**	**Consolidated**
Net interest income	$ 15,918	$ 1	$ 15,919	$ 15,797	$ 2	$ 15,799
Less: loan loss provision	1,003	0	1,003	1,919	0	1,919
Net interest income after loan loss provision	14,915	1	14,916	13,878	2	13,880
Other income:						
Fees for wealth management services	0	7,211	7,211	0	5,075	5,075
Service charges on deposit accounts	609	0	609	615	0	615
Loan servicing and other fees	436	0	436	460	0	460
Net gain on sale of loans	1,304	0	1,304	656	0	656
Net gain on sale of available for sale securities	716	0	716	619	0	619
Net loss on sale of other real estate owned	0	0	0	(110)	0	(110)
BOLI income	105	0	105	118	0	118
Other operating income	949	23	972	728	4	732
Total other income	4,119	7,234	11,353	3,086	5,079	8,165
Other expenses:						
Salaries & wages	5,390	2,685	8,075	4,747	1,953	6,700
Employee benefits	1,410	613	2,023	1,124	467	1,591
Occupancy & equipment	1,907	428	2,335	1,812	239	2,051
Amortization of intangible assets	306	487	793	445	183	628
Professional fees	512	59	571	699	39	738
Other operating expenses	3,812	636	4,448	2,661	500	3,161
Total other expenses	13,337	4,908	18,245	11,488	3,381	14,869
Segment profit	5,697	2,327	8,024	5,476	1,700	7,176
Intersegment (revenues) expenses*	(128)	128	0	(29)	29	0
Pre-tax segment profit after eliminations	$ 5,569	$ 2,455	$ 8,024	$ 5,447	$ 1,729	$ 7,176
% of segment pre-tax profit after eliminations	69.4%	30.6%	100.0%	75.9%	24.1%	100%

Segment assets *(dollars in millions)*	$ 1808.2	$ 46.7	$ 1,854.9	$ 1,708.0	$ 33.0	$ 1,741.0

	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011		
(dollars in thousands)	Banking	Wealth Management	Consolidated	Banking	Wealth Management	Consolidated
Net interest income	$ 31,883	$ 2	$ 31,885	$ 31,202	$ 4	$ 31,206
Less: loan loss provision	2,003	0	2,003	3,204	0	3,204
Net interest income after loan loss provision	29,880	2	29,882	27,998	4	28,002
Other income:						
Fees for wealth management services	0	13,440	13,440	0	9,265	9,265
Service charges on deposit accounts	1,189	0	1,189	1,195	0	1,195
Loan servicing and other fees	871	0	871	921	0	921
Net gain on sale of loans	2,474	0	2,474	1,054	0	1,054
Net gain on sale of available for sale securities	716	0	716	1,067	0	1,067
Net loss on sale of other real estate owned	(41)	0	(41)	(129)	0	(129)
BOLI income	223	0	223	233	0	233
Other operating income	2,057	26	2,083	1,760	9	1,769
Total other income	7,489	13,466	20,955	6,101	9,274	15,375
Other expenses:						
Salaries & wages	10,495	5,085	15,580	9,411	3,630	13,041
Employee benefits	2,996	1,187	4,183	2,391	935	3,326
Occupancy & equipment	3,850	751	4,601	3,792	441	4,233
Amortization of intangible assets	599	922	1,521	698	260	958
Professional fees	1,135	93	1,228	1,073	75	1,148
Other operating expenses	6,447	1,227	7,674	5,525	835	6,360
Total other expenses	25,522	9,265	34,787	22,890	6,176	29,066
Segment profit	11,847	4,203	16,050	11,209	3,102	14,311
Intersegment (revenues) expenses*	(241)	241	0	(59)	59	0
Pre-tax segment profit after eliminations	$ 11,606	$ 4,444	$ 16,050	$ 11,150	$ 3,161	$ 14,311
% of segment pre-tax profit after eliminations	72.3%	27.7%	100.0%	77.9%	22.1%	100%
Segment assets *(dollars in millions)*	$ 1808.2	$ 46.7	$ 1,854.9	$ 1,708.0	$ 33.0	$ 1,741.0

* Inter-segment revenues consist of rental payments, interest on deposits and management fees.

Other segment information is as follows:

Wealth Management Segment Activity

	June 30, 2012	December 31, 2011
Assets under management, administration, supervision and brokerage *(dollars in millions)*	$ 6,275.9	$ 4,831.6

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11. Mortgage Servicing Rights

The following tables summarize the Corporation s activity related to mortgage servicing rights (MSRs) for the three months ended June 30, 2012 and 2011:

(dollars in thousands)	Three Months Ended June 30, 2012	2011
Balance, March 31	$ 4,217	$ 4,878
Additions	346	138
Amortization	(256)	(158)
Recovery	0	0
Impairment	(87)	(196)
Balance, June 30	$ 4,220	$ 4,662
Fair value	$ 4,289	$ 5,348
Loans serviced for others	$ 575,533	$ 595,196

(dollars in thousands)	Six Months Ended June 30, 2012	2011
Balance, December 31	$ 4,041	$ 4,925
Additions	631	268
Amortization	(475)	(327)
Recovery	110	0
Impairment	(87)	(204)
Balance, June 30	$ 4,220	$ 4,662
Fair value	$ 4,289	$ 5,348
Loans serviced for others	$ 575,533	$ 595,196

As of June 30, 2012 and December 31, 2011, key economic assumptions and the sensitivity of the current fair value of MSRs to immediate 10 and 20 percent adverse changes in those assumptions are as follows:

(dollars in thousands)	June 30, 2012	December 31, 2011
Fair value amount of MSRs	$ 4,289	$ 4,041
Weighted average life (in years)	4.4	4.0
Prepayment speeds (constant prepayment rate)*	16.9	18.8
Impact on fair value:		
10% adverse change	$ (234)	$ (242)
20% adverse change	$ (448)	$ (461)
Discount rate	10.50%	10.25%
Impact on fair value:		
10% adverse change	$ (136)	$ (118)
20% adverse change	$ (264)	$ (228)

* Represents the weighted average prepayment rate for the life of the MSR asset.

These assumptions and sensitivities are hypothetical and should be used with caution. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which could magnify or counteract the sensitivities.

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12. Goodwill and Other Intangibles

The Corporation s goodwill and intangible assets related to the acquisitions of Lau Associates LLC (Lau) in July, 2008, First Keystone Financial, Inc. (FKF) in July, 2010, PWMG in May, 2011 and DTC in May, 2012 are detailed below:

(dollars in thousands)	**Beginning Balance 1/1/12**	**Additions**	**Amortization**	**Ending Balance 6/30/12**	**Amortization Period**
Goodwill Wealth segment	$ 15,567	$ 5,064	$ 0	$ 20,631	Indefinite
Goodwill Banking segment	9,122	0	0	9,122	Indefinite
Total	24,689	5,064	0	29,753	
Core deposit intangible	1,628	0	(148)	1,480	10 years
Customer relationships	12,376	3,555	(524)	15,407	10 to 20 years
Non-compete agreement	3,770	1,385	(397)	4,758	5.5 to 10 years
Brand (trade name)	240	970	0	1,210	Indefinite
Total	$ 18,014	$ 5,910	$ (1,069)	$ 22,855	
Grand total	$ 42,703	$ 10,974	$ (1,069)	$ 52,608	

The Corporation performed its annual review of goodwill and identifiable intangible assets at December 31, 2011 in accordance with ASC 350, Intangibles Goodwill and Other. For the three and six months ended June 30, 2012, the Corporation determined there were no events that would trigger impairment testing of goodwill and other intangible assets.

13. Shareholders Equity

Dividend

During the second quarter of 2012, the Corporation declared and paid a regular quarterly dividend of $0.16 per share. This payment totaled $2.1 million, based on outstanding shares at May 14, 2012 of 13,289,213. On July 26, 2012, the Corporation s Board of Directors declared a regular quarterly dividend of $0.16 per share payable September 1, 2012 to shareholders of record as of August 7, 2012.

S-3 Shelf Registration Statement and Offerings Thereunder

In April 2012, the Corporation filed a shelf registration statement (the Shelf Registration Statement) to replace its 2009 Shelf Registration Statement, which was set to expire in June 2012. This new Shelf Registration Statement allows the Corporation to raise additional capital through offers and sales of registered securities consisting of common stock, debt securities, warrants to purchase common stock, stock purchase contracts and units or units consisting of any combination of the foregoing securities. Using the prospectus in the Shelf Registration Statement, together with applicable prospectus supplements, the Corporation may sell, from time to time, in one or more offerings, such securities in a dollar amount up to $150,000,000, in the aggregate.

The Corporation has in place under its Shelf Registration Statement a Dividend Reinvestment and Stock Purchase Plan (the Plan), which was amended and restated on April 27, 2012, primarily to increase the number of shares which can be issued by the Corporation from 850,000 to 1,500,000 shares of registered common stock. The Plan allows for the grant of a request for waiver (RFW) above the Plan s maximum investment of $120 thousand per account per year. An RFW is granted based on a variety of factors, including the Corporation s current and projected capital needs, prevailing market prices of the Corporation s common stock and general economic and market conditions.

The Plan is intended to allow both existing shareholders and new investors to easily and conveniently increase their investment in the Corporation without incurring many of the fees and commissions normally associated with brokerage transactions. For the six months ended June 30, 2012, the Corporation issued 104,600 shares and raised $2.0 million through the Plan.

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14. Accounting for Uncertainty in Income Taxes

The Corporation recognizes the financial statement benefit of a tax position only after determining that the Corporation would be more likely than not to sustain the position following an examination. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the relevant tax authority.

The Corporation is subject to income taxes in the United States federal jurisdiction and multiple state jurisdictions. The Corporation is no longer subject to U.S. Federal income tax examination by taxing authorities for years before 2008.

The Corporation s policy is to record interest and penalties on uncertain tax positions as income tax expense. No interest or penalties were accrued in the three months ended June 30, 2012. There were no reserves for uncertain income tax positions recorded during the six months ended June 30, 2012. No interest or penalties were accrued in the six months ended June 30, 2012. There were no reserves for uncertain income tax positions recorded during the six months ended June 30, 2012.

15. Fair Value Measurement

The following disclosures are made in conjunction with the application of fair value measurements.

FASB ASC 820 Fair Value Measurement establishes a fair value hierarchy based on the nature of data inputs for fair value determinations, under which the Corporation is required to value each asset using assumptions that market participants would utilize to value that asset. When the Corporation uses its own assumptions, it is required to disclose additional information about the assumptions used and the effect of the measurement on earnings or the net change in assets for the period.

The Corporation s available for sale investment securities, which generally include state and municipal securities, U.S. government agencies and mortgage backed securities, are reported at fair value. These securities are valued by an independent third party. The third party s evaluations are based on market data. They utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data. For certain securities, additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

U.S. Government agencies are evaluated and priced using multi-dimensional relational models and option adjusted spreads. State and municipal securities are evaluated on a series of matrices including reported trades and material event notices. Mortgage backed securities are evaluated using matrix correlation to treasury or floating index benchmarks, prepayment speeds, monthly payment information and other benchmarks. Other available for sale investments are evaluated using a broker-quote based application, including quotes from issuers.

The value of the investment portfolio is determined using three broad levels of inputs:

Level 1 Quoted prices in active markets for identical securities.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Instruments whose significant value drivers are unobservable.

These levels are not necessarily an indication of the risks or liquidity associated with these investments. The following tables summarize the assets at June 30, 2012 and December 31, 2011 that are recognized on the Corporation s balance sheet using fair value measurement determined based on the differing levels of input.

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Fair value of assets measured on a recurring and non-recurring basis as of June 30, 2012:

(dollars in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets Measured at Fair Value on a Recurring Basis:				
Available for sale investment securities:				
Obligations of the U.S. government agencies	$ 89.5	$ 0	$ 89.5	$ 0
Obligations of state & political subdivisions	16.6	0	16.6	0
Mortgage-backed securities	136.2	0	136.2	0
Collateralized mortgage obligations	61.1	0	61.1	0
Corporate bonds	10.8	0	10.8	0
Investment certificates of deposit	2.4	0	2.4	0
Bond mutual funds	11.4	11.4	0	0
Other debt securities	1.9	0	1.9	0
Total assets measured on a recurring basis at fair value	$ 329.9	$ 11.4	$ 318.5	$ 0
Assets Measured at Fair Value on a Non-Recurring Basis				
Mortgage servicing rights	$ 0.9	$ 0	$ 0	$ 0.9
Impaired loans and leases	21.2	0	0	21.2
Other real estate owned (OREO)	0.9	0	0	0.9
Total assets measured on a non-recurring basis at fair value	$ 23.0	$ 0	$ 0	$ 23.0