SHORE BANCSHARES INC
Form 10-Q
November 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Q **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2012

OR

£ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission file number 0-22345

SHORE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	52-1974638 (I.R.S. Employer Identification No.)
18 East Dover Street, Easton, Maryland (Address of Principal Executive Offices)	21601 (Zip Code)

(410) 763-7800

Registrant's Telephone Number, Including Area Code

N/A

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R 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 R No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £	Accelerated filer R
Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company £

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 8,457,359 shares of common stock outstanding as of October 31, 2012.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

SHORE BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$ 22,005	$ 22,986
Interest-bearing deposits with other banks	138,422	99,776
Federal funds sold	23,021	4,980
Investment securities:		
Available for sale, at fair value	126,372	129,780
Held to maturity, at amortized cost – fair value of $4,326 (2012) and $6,732 (2011)	4,075	6,480
Loans	808,030	841,050
Less: allowance for credit losses	(12,955)	(14,288)
Loans, net	795,075	826,762
Premises and equipment, net	15,537	14,662
Goodwill	12,454	12,454
Other intangible assets, net	3,890	4,208
Other real estate and other assets owned, net	8,418	9,385
Other assets	29,364	26,720
TOTAL ASSETS	$ 1,178,633	$ 1,158,193
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 156,579	$ 133,801
Interest-bearing	881,935	876,118
Total deposits	1,038,514	1,009,919
Short-term borrowings	13,079	17,817
Other liabilities	8,422	8,753
Long-term debt	455	455
TOTAL LIABILITIES	1,060,470	1,036,944
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share; shares authorized – 35,000,000; shares issued and outstanding – 8,457,359 (2012 and 2011)	85	85

Additional paid in capital	32,120	32,052
Retained earnings	86,152	90,801
Accumulated other comprehensive loss	(194)	(1,689)
TOTAL STOCKHOLDERS' EQUITY	118,163	121,249
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,178,633	$ 1,158,193

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
INTEREST INCOME				
Interest and fees on loans	$10,604	$12,003	$32,505	$35,900
Interest and dividends on investment securities:				
Taxable	685	795	2,149	2,234
Tax-exempt	22	38	92	116
Interest on federal funds sold	3	3	7	24
Interest on deposits with other banks	79	29	188	47
Total interest income	11,393	12,868	34,941	38,321
INTEREST EXPENSE				
Interest on deposits	2,647	2,720	7,931	8,322
Interest on short-term borrowings	10	15	36	41
Interest on long-term debt	6	10	16	31
Total interest expense	2,663	2,745	7,983	8,394
NET INTEREST INCOME	8,730	10,123	26,958	29,927
Provision for credit losses	6,200	3,650	18,095	15,435
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	2,530	6,473	8,863	14,492
NONINTEREST INCOME				
Service charges on deposit accounts	628	697	1,898	2,145
Trust and investment fee income	410	389	1,279	1,183
Gains on sales of investment securities	278	354	278	435
Insurance agency commissions	2,427	2,312	7,522	7,297
Other noninterest income	258	771	2,175	2,239
Total noninterest income	4,001	4,523	13,152	13,299
NONINTEREST EXPENSE				
Salaries and wages	4,386	4,097	13,178	12,447
Employee benefits	945	878	3,071	2,917
Occupancy expense	625	585	1,950	1,749
Furniture and equipment expense	265	262	728	825
Data processing	703	661	2,063	2,192
Directors’ fees	131	198	367	417

Goodwill and other intangible assets impairment	-	1,344	-	1,344
Amortization of other intangible assets	96	129	318	386
Insurance agency commissions expense	275	250	1,004	982
FDIC insurance premium expense	376	180	993	1,044
Write-downs of other real estate owned	224	395	1,077	563
Other noninterest expenses	1,683	1,698	5,121	4,896
Total noninterest expense	9,709	10,677	29,870	29,762
(LOSS) INCOME BEFORE INCOME TAXES	(3,178)	319	(7,855)	(1,971)
Income tax (benefit) expense	(1,357)	225	(3,291)	(749)
NET (LOSS) INCOME	$(1,821)	$94	$(4,564)	$(1,222)
Basic net (loss) income per common share	$(0.22)	$0.01	$(0.54)	$(0.14)
Diluted net (loss) income per common share	$(0.22)	$0.01	$(0.54)	$(0.14)
Dividends paid per common share	$-	$0.01	$0.01	$0.08

See accompanying notes to Consolidated Financial Statements.

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SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(Dollars in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Net (loss) income	$ (1,821)	$ 94	$ (4,564)	$ (1,222)
Other comprehensive income (loss)				
Securities available for sale:				
Unrealized holding gains on available-for-sale securities	609	723	1,524	1,555
Tax effect	(245)	(292)	(614)	(632)
Reclassification of gains recognized in net income	(278)	(354)	(278)	(435)
Tax effect	112	143	112	176
Net of tax amount	198	220	744	664
Cash flow hedging activities:				
Unrealized holding gains (losses) on cash flow hedging activities	479	(484)	1,259	(821)
Tax effect	(193)	196	(508)	331
Net of tax amount	286	(288)	751	(490)
Total other comprehensive income (loss)	484	(68)	1,495	174
Comprehensive (loss) income	$ (1,337)	$ 26	$ (3,069)	$ (1,048)

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

For the Nine Months Ended September 30, 2012 and 2011

(Dollars in thousands, except per share amounts)

	Common Stock	Warrant	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, January 1, 2012	$ 85	$ -	$ 32,052	$ 90,801	$ (1,689)	$ 121,249
Comprehensive loss:						
Net loss	-	-	-	(4,564)	-	(4,564)
Unrealized gains on available-for-sale securities, net of taxes	-	-	-	-	744	744
Unrealized gains on cash flow hedging activities, net of taxes	-	-	-	-	751	751
Total comprehensive loss						(3,069)
Stock-based compensation	-	-	68	-	-	68
Cash dividends paid ($0.01 per share)	-	-	-	(85)	-	(85)
Balances, September 30, 2012	$ 85	$ -	$ 32,120	$ 86,152	$ (194)	$ 118,163
Balances, January 1, 2011	$ 84	$ 1,543	$ 30,242	$ 92,458	$ (1,814)	$ 122,513
Comprehensive loss:						
Net loss	-	-	-	(1,222)	-	(1,222)
Unrealized gains on available-for-sale securities, net of taxes	-	-	-	-	664	664
Unrealized losses on cash flow hedging activities, net of taxes	-	-	-	-	(490)	(490)
Total comprehensive loss						(1,048)
Shares issued for employee stock-based awards	1	-	(1)	-	-	-
Stock-based compensation	-	-	197	-	-	197
Cash dividends paid ($0.08 per share)	-	-	-	(676)	-	(676)

Balances, September 30, 2011	$ 85	$ 1,543	$ 30,438	$ 90,560	$ (1,640)	$ 120,986

See accompanying notes to Consolidated Financial Statements.

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SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)

	For the Nine Months Ended September 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(4,564)	$(1,222)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for credit losses	18,095	15,435
Goodwill and other intangible assets impairment	-	1,344
Depreciation and amortization	2,011	1,802
Discount accretion on debt securities	(56)	(94)
Stock-based compensation expense	174	241
Excess tax expense from stock-based arrangements	(106)	(44)
Deferred income tax benefit	(63)	(880)
Gains on sales of investment securities	(278)	(435)
(Gains) losses on disposals of premises and equipment	(214)	4
Losses on sales and write-downs of other real estate owned	1,549	651
Net changes in:		
Accrued interest receivable	473	1,039
Other assets	(3,085)	1,031
Accrued interest payable	(66)	(172)
Other liabilities	(265)	(2,730)
Net cash provided by operating activities	13,605	15,970
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal payments of investment securities available for sale	34,795	42,746
Proceeds from sales of investment securities available for sale	6,275	17,446
Purchases of investment securities available for sale	(36,717)	(65,927)
Proceeds from maturities and principal payments of investment securities held to maturity	2,395	186
Net change in loans	8,877	7,025
Purchases of premises and equipment	(1,842)	(525)
Proceeds from sales of premises and equipment	307	4
Proceeds from sales of other real estate owned	4,133	2,879
Investment in unconsolidated subsidiary	-	**(12)**
Net cash provided by investing activities	18,223	3,822
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in noninterest-bearing deposits	22,778	11,634
Net change in interest-bearing deposits	5,817	20,769
Net change in short-term borrowings	(4,738)	(749)

Excess tax expense from stock-based arrangements	106	44
Common stock dividends paid	(85)	(676)
Net cash provided by financing activities	23,878	31,022
Net increase in cash and cash equivalents	55,706	50,814
Cash and cash equivalents at beginning of period	127,742	77,964
Cash and cash equivalents at end of period	$183,448	$128,778
Supplemental cash flows information:		
Interest paid	$8,050	$8,567
Income taxes paid	$122	$1,986
Transfers from loans to other real estate owned	$4,715	$9,693

See accompanying notes to Consolidated Financial Statements.

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Shore Bancshares, Inc.

Notes to Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2012 and 2011

(Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Shore Bancshares, Inc. and its subsidiaries with all significant intercompany transactions eliminated. The consolidated financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") and to prevailing practices within the banking industry. The accompanying interim financial statements are unaudited; however, in the opinion of management all adjustments necessary to present fairly the consolidated financial position at September 30, 2012, the consolidated results of operations and comprehensive income (loss) for the three and nine months ended September 30, 2012 and 2011, and changes in stockholders' equity and cash flows for the nine months ended September 30, 2012 and 2011, have been included. All such adjustments are of a normal recurring nature. The amounts as of December 31, 2011 were derived from the 2011 audited financial statements. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for any other interim period or for the full year. This Quarterly Report on Form 10-Q should be read in conjunction with the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2011. For purposes of comparability, certain reclassifications have been made to amounts previously reported to conform with the current period presentation.

When used in these notes, the term "the Company" refers to Shore Bancshares, Inc. and, unless the context requires otherwise, its consolidated subsidiaries.

Recent Accounting Standards

Accounting Standards Update ("ASU") 2011-03, "*Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements.*" ASU 2011-03 affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendments in ASU 2011-03 remove from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. ASU 2011-03 also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. ASU 2011-03 became effective for the Company on January 1, 2012 and did not have a significant impact on the Company's financial statements.

ASU 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 became effective for the Company on January 1, 2012 and, aside from new disclosures included in Note 8 – Fair Value Measurements, did not have a significant impact on the Company's financial statements.

ASU 2011-08, "Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment." ASU 2011-08 amends Topic 350, "Intangibles – Goodwill and Other," to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 became effective for the Company on January 1, 2012 and did not have a significant impact on the Company's financial statements.

ASU 2012-02, "Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment." ASU 2012-02 gives entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 is effective for the Company beginning January 1, 2013 (early adoption permitted) and is not expected to have a significant impact on the Company's financial statements.

Note 2 – Earnings/(Loss) Per Share

Basic earnings/(loss) per common share is calculated by dividing net income/(loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings/(loss) per common share is calculated by dividing net income/(loss) available to common stockholders by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents (stock-based awards and the warrant). There is no dilutive effect on the loss per share during loss periods. The following table provides information relating to the calculation of earnings/(loss) per common share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands, except per share data)	2012	2011	2012	2011
Net (loss) income	$(1,821)	$94	$(4,564)	$(1,222)
Weighted average shares outstanding - Basic	8,457	8,457	8,457	8,449
Dilutive effect of common stock equivalents	-	-	-	-
Weighted average shares outstanding - Diluted	8,457	8,457	8,457	8,449
(Loss) earnings per common share - Basic	$(0.22)	$0.01	$(0.54)	$(0.14)
(Loss) earnings per common share - Diluted	$(0.22)	$0.01	$(0.54)	$(0.14)

The calculations of diluted earnings/(loss) per share for the three and nine months ended September 30, 2012 excluded 54 thousand and 43 thousand weighted average common stock equivalents, respectively, because the effect of including them would have been antidilutive. The calculations of diluted earnings/(loss) per share for the three and nine months ended September 30, 2011 each excluded 180 thousand weighted average common stock equivalents because the effect of including them would have been antidilutive.

Note 3 – Investment Securities

The following table provides information on the amortized cost and estimated fair values of investment securities.

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
September 30, 2012:				
Obligations of U.S. Government agencies and corporations	$ 34,812	$ 925	$ 2	$ 35,735
Mortgage-backed securities	87,427	2,588	2	90,013
Equity securities	589	35	-	624
Total	$ 122,828	$ 3,548	$ 4	$ 126,372
December 31, 2011:				
Obligations of U.S. Government agencies and corporations	$ 41,360	$ 803	$ 15	$ 42,148
Mortgage-backed securities	85,545	1,587	99	87,033
Equity securities	577	22	-	599
Total	$ 127,482	$ 2,412	$ 114	$ 129,780
Held-to-maturity securities:				
September 30, 2012:				
Obligations of states and political subdivisions	$ 4,075	$ 251	$ -	$ 4,326
December 31, 2011:				
Obligations of states and political subdivisions	$ 6,480	$ 252	$ -	$ 6,732

The following table provides information about gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position at September 30, 2012.

(Dollars in thousands)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	More than 12 Months Fair Value	More than 12 Months Unrealized Losses	Total Fair Value	Total Unrealized Losses
Available-for-sale securities:						
U.S. Gov't. agencies and corporations	$ 2,998	$ 2	$ -	$ -	$ 2,998	$ 2
Mortgage-backed securities	1,571	2	-	-	1,571	2
Total	$ 4,569	$ 4	$ -	$ -	$ 4,569	$ 4

Total available-for-sale securities have a fair value of approximately $126.4 million. Of these securities, approximately $4.6 million have unrealized losses when compared to their amortized cost. All of the securities with the unrealized losses in the available-for-sale portfolio have modest duration risk, low credit risk, and minimal losses when compared to total amortized cost. The unrealized losses on debt securities that exist are the result of market changes in interest rates since original purchase. Because the Company does not intend to sell these debt securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost bases, which may be at maturity, the Company considers the unrealized losses in the available-for-sale portfolio to be temporary. There were no unrealized losses in the held-to-maturity securities portfolio at September 30, 2012.

The following table provides information on the amortized cost and estimated fair values of investment securities by maturity date at September 30, 2012.

	Available for sale		Held to maturity	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$5,015	$5,031	$1,415	$ 1,422
Due after one year through five years	18,240	18,305	1,148	1,206
Due after five years through ten years	4,409	4,579	1,008	1,141
Due after ten years	94,575	97,833	504	557
	122,239	125,748	4,075	4,326
Equity securities	589	624	-	-
Total	$122,828	$126,372	$4,075	$ 4,326

The maturity dates for debt securities are determined using contractual maturity dates.

Note 4 – Loans and allowance for credit losses

The Company makes residential mortgage, commercial and consumer loans to customers primarily in Talbot County, Queen Anne's County, Kent County, Caroline County and Dorchester County in Maryland and in Kent County, Delaware. The following table provides information about the principal classes of the loan portfolio at September 30, 2012 and December 31, 2011.

(Dollars in thousands)	September 30, 2012	December 31, 2011
Construction	$ 108,721	$ 119,883
Residential real estate	302,449	321,604
Commercial real estate	321,817	315,439
Commercial	61,531	69,485
Consumer	13,512	14,639
Total loans	808,030	841,050
Allowance for credit losses	(12,955)	(14,288)
Total loans, net	$ 795,075	$ 826,762

Loans are stated at their principal amount outstanding net of any deferred fees and costs. Interest income on loans is accrued at the contractual rate based on the principal amount outstanding. Fees charged and costs capitalized for originating loans are being amortized substantially on the interest method over the term of the loan. A loan is placed on nonaccrual when it is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more, unless the loan is well secured and in the process of collection. Any unpaid interest previously accrued on those loans is reversed from income. Interest payments received on nonaccrual loans are applied as a reduction of the loan principal balance unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired if it is probable that the Company will not collect all principal and interest payments according to the loan's contractual terms. An impaired loan may show deficiencies in the borrower's overall financial condition, payment history, support available from financial guarantors and/or the fair market value of collateral. The impairment of a loan is measured at the present value of expected future cash flows using the loan's effective interest rate, or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Generally, the Company measures impairment on such loans by reference to the fair value of the collateral. Income on impaired loans is recognized on a cash basis, and payments are first applied against the principal balance outstanding (i.e., placing impaired loans on nonaccrual status). Generally, interest income is not recognized on specific impaired loans unless the likelihood of further loss is remote. The allowance for credit losses includes specific reserves related to impaired loans. Impaired loans do not include groups of smaller balance homogenous loans such as residential mortgage and consumer installment loans that are evaluated collectively for impairment. Reserves for probable credit losses related to these loans are based on historical loss ratios and are included in the formula portion of the allowance for credit losses.

Loans are evaluated on a case-by-case basis for impairment. Once the amount of impairment has been determined, the uncollectible portion is charged off. As seen in the table below, the difference between the unpaid principal balance and the recorded investment is the amount of partial charge-offs that have been taken. In some cases, a specific allocation within the allowance for credit losses is made until such time that a charge-off is made.

A loan is considered a troubled debt restructuring if a borrower is experiencing financial difficulties and a creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

The following tables provide information on impaired loans and any related allowance by loan class as of September 30, 2012 and December 31, 2011.

(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	Year-to-date average recorded investment	Quarter-to-date average recorded investment
September 30, 2012						
Impaired nonaccrual loans:						
Construction	$15,509	$ 11,456	$ 19	$ 19	$ 13,717	$ 12,770
Residential real estate	20,424	14,440	-	-	18,920	17,092
Commercial real estate	16,149	11,916	-	-	12,567	11,446
Commercial	2,124	1,557	-	-	1,760	1,572
Consumer	58	54	-	-	50	55
Total	54,264	39,423	19	19	47,014	42,935
Impaired accruing restructured loans:						
Construction	28,479	28,479	-	-	17,304	22,779
Residential real estate	5,231	5,231	-	-	4,258	5,120
Commercial real estate	16,986	16,986	-	-	14,173	16,032
Commercial	89	89	-	-	74	79
Consumer	-	-	-	-	-	-
Total	50,785	50,785	-	-	35,809	44,010
Total impaired loans:						
Construction	43,988	39,935	19	19	31,021	35,549
Residential real estate	25,655	19,671	-	-	23,178	22,212
Commercial real estate	33,135	28,902	-	-	26,740	27,478
Commercial	2,213	1,646	-	-	1,834	1,651
Consumer	58	54	-	-	50	55
Total	$105,049	$ 90,208	$ 19	$ 19	$ 82,823	$ 86,945

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(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	Year-to-date average recorded investment	Quarter-to-date average recorded investment
December 31, 2011						
Impaired nonaccrual loans:						
Construction	$ 22,883	$ 14,005	$ 1,550	$ 170	$ 16,555	$ 16,367
Residential real estate	22,431	16,925	3,181	1,296	15,430	18,118
Commercial real estate	17,372	14,012	-	-	14,624	13,545
Commercial	2,119	1,669	-	-	2,539	1,680
Consumer	30	28	-	-	32	34
Total	64,835	46,639	4,731	1,466	49,180	49,744
Impaired accruing restructured loans:						
Construction	11,781	11,781	-	-	10,663	10,930
Residential real estate	3,792	3,792	-	-	6,093	3,156
Commercial real estate	9,566	9,566	-	-	7,960	9,949
Commercial	69	69	-	-	111	35
Consumer	-	-	-	-	-	-
Total	25,208	25,208	-	-	24,827	24,070
Total impaired loans:						
Construction	34,664	25,786	1,550	170	27,218	27,297
Residential real estate	26,223	20,717	3,181	1,296	21,523	21,274
Commercial real estate	26,938	23,578	-	-	22,584	23,494
Commercial	2,188	1,738	-	-	2,650	1,715
Consumer	30	28	-	-	32	34
Total	$ 90,043	$ 71,847	$ 4,731	$ 1,466	$ 74,007	$ 73,814

The following tables provide information on troubled debt restructurings by loan class as of September 30, 2012 and December 31, 2011. The amounts include nonaccrual troubled debt restructurings.

(Dollars in thousands)	Number of contracts	Premodification outstanding recorded investment	Postmodification outstanding recorded investment
Troubled debt restructurings:			
September 30, 2012			
Construction	19	$ 33,277	$ 29,518
Residential real estate	28	14,145	7,614
Commercial real estate	22	24,065	20,418
Commercial	3	149	126
Consumer	1	30	27
Total	73	$ 71,666	$ 57,703
December 31, 2011			
Construction	9	$ 12,981	$ 12,539
Residential real estate	20	11,471	10,359
Commercial real estate	20	15,874	14,175
Commercial	1	69	69
Consumer	-	-	-
Total	50	$ 40,395	$ 37,142

(Dollars in thousands)	Number of contracts	Recorded investment
Troubled debt restructurings that subsequently defaulted (1):		
September 30, 2012		
Construction	7	$ 2,129
Residential real estate	13	2,902
Commercial real estate	6	3,433
Commercial	1	36
Consumer	1	27
Total	28	$ 8,527
December 31, 2011		
Construction	3	$ 758
Residential real estate	10	7,353
Commercial real estate	5	6,751
Commercial	-	-
Consumer	-	-
Total	18	$ 14,862

(1) Generally, a loan is considered in default when principal or interest is past due 30 days or more.

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Management uses risk ratings as part of its monitoring of the credit quality in the Company's loan portfolio. Loans that are identified as special mention, substandard and doubtful are adversely rated and are assigned higher risk ratings than favorably rated loans.

The following tables provide information on loan risk ratings as of September 30, 2012 and December 31, 2011.

(Dollars in thousands)	Pass/Performing	Special mention	Substandard	Doubtful	Nonaccrual	Total
September 30, 2012						
Construction	$ 43,334	$31,359	$ 22,553	$ -	$ 11,475	$108,721
Residential real estate	246,805	24,191	16,580	433	14,440	302,449
Commercial real estate	254,339	30,873	24,689	-	11,916	321,817
Commercial	54,488	3,870	1,556	60	1,557	61,531
Consumer	13,252	120	86	-	54	13,512
Total	$ 612,218	$90,413	$ 65,464	$ 493	$ 39,442	$808,030

(Dollars in thousands)	Pass/Performing	Special mention	Substandard	Doubtful	Nonaccrual	Total
December 31, 2011						
Construction	$ 50,403	$30,373	$ 23,552	$ -	$ 15,555	$119,883
Residential real estate	261,910	13,467	25,676	445	20,106	321,604
Commercial real estate	257,247	16,001	28,179	-	14,012	315,439
Commercial	59,178	3,813	4,748	77	1,669	69,485
Consumer	14,520	32	59	-	28	14,639
Total	$ 643,258	$63,686	$ 82,214	$ 522	$ 51,370	$841,050

The following tables provide information on the aging of the loan portfolio as of September 30, 2012 and December 31, 2011.

	Accruing						
(Dollars in thousands)	Current	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Nonaccrual	Total
September 30, 2012							
Construction	$96,156	$1,090	$-	$-	$1,090	$ 11,475	$108,721
Residential real estate	281,610	4,274	1,113	1,012	6,399	14,440	302,449
Commercial real estate	303,008	971	2,371	3,551	6,893	11,916	321,817
Commercial	59,756	69	82	67	218		