UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
November 08, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

for the quarterly period ended September 30, 2011.
or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from __________ to __________.
Commission File Number: 0-7617
UNIVEST CORPORATION OF PENNSYLVANIA
(Exact name of registrant as specified in its charter)

Pennsylvania	23-1886144
(State or other jurisdiction of incorporation of organization)	(IRS Employer Identification No.)

14 North Main Street, Souderton, Pennsylvania 18964
(Address of principal executive offices)(Zip Code)
Registrant s telephone number, including area code: (215) 721-2400
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o 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.

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

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

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

Common Stock, $5 par value	16,727,099

(Title of Class)	(Number of shares outstanding at October 31, 2011)

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	(UNAUDITED) At September 30, 2011	(SEE NOTE) At December 31, 2010
ASSETS		
Cash and due from banks	**$ 50,146**	$ 11,624
Interest-earning deposits with other banks	**96,884**	17,563
Investment securities held-to-maturity (fair value $30,212 and $32 at September 30, 2011 and December 31, 2010, respectively)	**30,526**	32
Investment securities available-for-sale	**381,814**	466,992
Loans held for sale	**1,724**	4,178
Loans and leases	**1,436,411**	1,471,186
Less: Reserve for loan and lease losses	**(31,002)**	(30,898)
Net loans and leases	**1,405,409**	1,440,288
Premises and equipment, net	**34,132**	34,605
Goodwill	**51,320**	51,320
Other intangibles, net of accumulated amortization and fair value adjustments of $11,219 and $9,495 at September 30, 2011 and December 31, 2010, respectively	**4,718**	5,477
Bank owned life insurance	**60,885**	48,010
Accrued interest and other assets	**56,569**	53,804
Total assets	**$ 2,174,127**	$ 2,133,893
LIABILITIES		
Demand deposits, noninterest-bearing	**$ 275,930**	$ 271,125
Demand deposits, interest-bearing	**534,179**	529,884
Savings deposits	**482,472**	467,511
Time deposits	**432,482**	417,750
Total deposits	**1,725,063**	1,686,270
Securities sold under agreements to repurchase	**107,621**	90,271
Other short-term borrowings		24,600
Accrued expenses and other liabilities	**38,475**	37,534
Long-term debt	**5,000**	5,000
Subordinated notes	**2,250**	3,375
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding junior subordinated debentures of Univest (Trust Preferred Securities)	**20,619**	20,619

Total liabilities		**1,899,028**		1,867,669
SHAREHOLDERS EQUITY				
Common stock, $5 par value: 48,000,000 shares authorized at September 30, 2011 and December 31, 2010; 18,266,404 shares issued at September 30, 2011 and December 31, 2010; 16,727,099 and 16,648,303 shares outstanding at September 30, 2011 and December 31, 2010, respectively		**91,332**		91,332
Additional paid-in capital		**58,326**		59,080
Retained earnings		**155,617**		151,978
Accumulated other comprehensive loss, net of taxes		**(2,251)**		(6,766)
Treasury stock, at cost; 1,539,305 shares and 1,618,101 shares at September 30, 2011 and December 31, 2010, respectively		**(27,925)**		(29,400)
Total shareholders equity		**275,099**		266,224
Total liabilities and shareholders equity	**$**	**2,174,127**	$	2,133,893

Note: The consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Dollars in thousands, except per share data)			
Interest income				
Interest and fees on loans and leases:				
Taxable	**$ 17,150**	$ 18,427	**$ 51,724**	$ 53,803
Exempt from federal income taxes	**1,087**	1,121	**3,265**	3,160
Total interest and fees on loans and leases	**18,237**	19,548	**54,989**	56,963
Interest and dividends on investment securities:				
Taxable	**1,856**	2,356	**6,268**	7,972
Exempt from federal income taxes	**1,119**	1,136	**3,350**	3,438
Other interest income	**25**	20	**40**	50
Total interest income	**21,237**	23,060	**64,647**	68,423
Interest expense				
Interest on deposits	**2,170**	3,217	**6,926**	11,025
Interest on short-term borrowings	**96**	527	**256**	1,982
Interest on long-term borrowings	**355**	363	**1,059**	1,082
Total interest expense	**2,621**	4,107	**8,241**	14,089
Net interest income	**18,616**	18,953	**56,406**	54,334
Provision for loan and lease losses	**3,649**	5,529	**14,339**	15,289
Net interest income after provision for loan and lease losses	**14,967**	13,424	**42,067**	39,045
Noninterest income				
Trust fee income	**1,625**	1,450	**4,875**	4,450
Service charges on deposit accounts	**1,218**	1,633	**3,910**	5,227
Investment advisory commission and fee income	**1,239**	1,227	**3,595**	3,435
Insurance commission and fee income	**1,787**	1,815	**6,059**	5,954
Other service fee income	**814**	962	**3,606**	3,346
Bank owned life insurance income	**554**	326	**1,166**	860
Other-than-temporary impairment on equity securities	**(1)**	(12)	**(11)**	(59)
Net gain on sales of securities	**848**	339	**1,417**	426
Net gain on mortgage banking activities	**913**	1,246	**1,216**	2,181
Net loss on interest rate swap		(246)		(1,072)
Net loss on dispositions of fixed assets	**(3)**		**(12)**	(11)
	(141)	(5)	**(758)**	(368)

Net loss on sales and write-downs of other real estate owned				
Other	**121**	149	**366**	781
Total noninterest income	**8,974**	8,884	**25,429**	25,150
Noninterest expense				
Salaries and benefits	**9,888**	9,775	**28,505**	29,055
Net occupancy	**1,361**	1,384	**4,272**	4,047
Equipment	**1,026**	1,051	**2,968**	2,889
Marketing and advertising	**305**	365	**1,287**	1,966
Deposit insurance premiums	**442**	698	**1,582**	1,958
Other	**4,273**	3,898	**11,833**	11,244
Total noninterest expense	**17,295**	17,171	**50,447**	51,159
Income before income taxes	**6,646**	5,137	**17,049**	13,036
Applicable income taxes	**1,402**	990	**3,427**	2,189
Net income	**$ 5,244**	**$** 4,147	$ **13,622**	$ 10,847
Net income per share:				
Basic	**$ .31**	**$** .25	$ **.81**	$ .65
Diluted	**.31**	.25	**.81**	.65
Dividends declared	**.20**	.20	**.60**	.60

Note: Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited)

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
For the Nine Months Ended September 30, 2011							
Balance at December 31, 2010	**16,648,303**	**$ (6,766)**	**$ 91,332**	**$ 59,080**	**$ 151,978**	**$ (29,400)**	**$ 266,224**
Comprehensive income:							
Net income					**13,622**		**13,622**
Other comprehensive income, net of income tax:							
Unrealized gain on investment securities available for sale		**5,470**					**5,470**
Unrealized loss on swap		**(1,195)**					**(1,195)**
Unrecognized pension benefits		**240**					**240**
Total comprehensive income							**18,137**
Cash dividends declared ($0.60 per share)					**(10,043)**		**(10,043)**
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs:	**105,345**			**62**	**13**	**1,712**	**1,787**
Purchases of treasury stock	**(85,285)**					**(1,209)**	**(1,209)**
Restricted stock awards granted	**58,736**			**(1,019)**	**47**	**972**	
Vesting of restricted stock awards				**203**			**203**
Balance at September 30, 2011	**16,727,099**	**$ (2,251)**	**$ 91,332**	**$ 58,326**	**$ 155,617**	**$ (27,925)**	**$ 275,099**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Dollars in thousands, except per share data)	Common Shares Outstanding	Accumulated Other Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
For the Nine Months Ended September 30, 2010							
Balance at December 31, 2009	16,465,083	$ (524)	$ 91,332	$ 60,126	$ 150,507	$ (33,634)	$ 267,807
Comprehensive income:							
Net income					10,847		10,847

Other comprehensive income, net of income tax:							
Unrealized gain on investment securities available for sale		1,697					1,697
Unrealized loss on swap		(1,554)					(1,554)
Unrecognized pension benefits		214					214
Total comprehensive income							11,204
Cash dividends declared ($0.60 per share)					(9,955)		(9,955)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	94,160				(497)	2,169	1,672
Purchases of treasury stock	(325)					(6)	(6)
Restricted stock awards granted	67,982			(1,197)	(396)	1,593	
Vesting of restricted stock awards				51			51
Balance at September 30, 2010	16,626,900	$ (167)	$ 91,332	$ 58,980	$ 150,506	$ (29,878)	$ 270,773

Note: Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	For the Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	**$ 13,622**	$ 10,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**14,339**	15,289
Depreciation of premises and equipment	**1,942**	1,885
Other-than-temporary impairment on equity securities	**11**	59
Net gain on sales of investment securities	**(1,417)**	(426)
Net gain on mortgage banking activities	**(1,216)**	(2,181)
Net loss on interest rate swap		1,072
Net loss on dispositions of fixed assets	**12**	11
Net loss on sales and write-downs of other real estate owned	**758**	368
Bank owned life insurance income	**(1,166)**	(860)
Other adjustments to reconcile net income to cash provided by operating activities	**2,509**	4,193
Originations of loans held for sale	**(105,389)**	(102,747)
Proceeds from the sale of loans held for sale	**108,836**	101,745
Increase in interest receivable and other assets	**(1,467)**	(3,535)
Decrease in accrued expenses and other liabilities	**(200)**	(2,979)
Net cash provided by operating activities	**31,174**	22,741
Cash flows from investing activities:		
Net cash paid due to acquisitions, net of cash acquired		(1)
Net capital expenditures	**(1,481)**	(2,800)
Proceeds from maturities of securities held-to-maturity	**33**	56
Proceeds from maturities and calls of securities available-for-sale	**153,033**	219,741
Proceeds from sales of securities available-for-sale	**40,481**	13,466
Purchases of investment securities held-to-maturity	**(30,561)**	
Purchases of investment securities available-for-sale	**(98,833)**	(230,115)
Purchases of lease financings		(4,816)
Net decrease (increase) in loans and leases	**13,114**	(46,692)
Net increase in interest-bearing deposits	**(79,321)**	(2,416)
Purchases of bank owned life insurance	**(12,500)**	
Proceeds from bank owned life insurance	**791**	
Proceeds from sales of other real estate owned	**1,607**	1,690
Net cash used in investing activities	**(13,637)**	(51,887)
Cash flows from financing activities:		
Net increase in deposits	**38,793**	113,384
Net decrease in short-term borrowings	**(7,250)**	(84,227)
Repayment of subordinated debt	**(1,125)**	(750)

Purchases of treasury stock		**(1,209)**		(6)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs		**1,787**		1,672
Cash dividends paid		**(10,011)**		(9,925)
Net cash provided by financing activities		**20,985**		20,148
Net increase (decrease) in cash and due from banks		**38,522**		(8,998)
Cash and due from banks at beginning of year		**11,624**		20,535
Cash and due from banks at end of period	**$**	**50,146**	$	11,537
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	**$**	**8,374**	$	16,506
Income taxes, net of refunds received		**4,357**		1,612
Noncash transfer of loans to other real estate owned	**$**	**7,426**	$	162

Note: Certain amounts have been reclassified to conform to the current-year presentation. See accompanying notes to the unaudited consolidated financial statements.

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UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES

Notes to the Unaudited Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation) and its wholly owned subsidiaries; the Corporation s primary subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the nine-month period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the registrant s Annual Report on Form 10-K for the year ended December 31, 2010, which was filed with the SEC on March 4, 2011.

Use of Estimates

The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include fair value measurement of investment securities available for sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation expense.

Recent Accounting Pronouncements

In August 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to simplify testing goodwill for impairment. The amendments will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not, that its fair value is less than its carrying amount. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 or March 31, 2012 for the Corporation. Early adoption is permitted. The Corporation expects to early adopt this updated standard during the fourth quarter of 2011 and does not anticipate the guidance will have a material impact on its financial statements.

In June 2011, the FASB issued an ASU regarding the presentation of comprehensive income and to increase the prominence of items reported in other comprehensive income and facilitate the convergence of U.S. GAAP and International Financial Reporting Standards (IFRS). The guidance requires entities to report the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. This update is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, or March 31, 2012 for the Corporation, and is to be applied retrospectively. The Corporation does not expect the guidance will have a material impact on its financial statements but will result in a revised format for the presentation of comprehensive income and the components of other comprehensive income.

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In May 2011, the FASB issued an ASU regarding fair value measurements which establishes a global standard in U.S. GAAP and IFRS for applying fair value measurements and disclosures. Consequently, the amendments in this update change the wording to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The amendments do not require additional fair value measurements and most of the amendments are not intended to result in a change of the application of fair value measurement requirements. Additional disclosures required include: 1) for fair value measurements categorized within Level 3 of the fair value hierarchy: a) the valuation processes used by the reporting entity; and b) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any; and 2) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed. This amendment is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, or March 31, 2012 for the Corporation, and is to be applied prospectively. The Corporation does not anticipate the guidance will have a material impact on its financial statements but will result in revised and expanded disclosures.

In April 2011, the FASB issued an ASU regarding a creditor s determination of whether a restructuring is a troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that the restructuring constitutes both a concession and the borrower is experiencing financial difficulties under the guidance provided by this update. In addition, the amendments clarify that a creditor is precluded from using the effective interest rate test in the borrower s guidance on restructuring of payables when evaluating whether a restructuring constitutes a troubled debt restructuring. The guidance on identifying and disclosing troubled debt restructurings was effective for interim and annual periods beginning on or after June 15, 2011, or September 30, 2011 for the Corporation, and applied retrospectively to restructurings occurring on or after the beginning of the year or January 1, 2011 for the Corporation. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring was effective on a prospective basis. The applications of the provisions of this standard did not have a material impact on the Corporation s financial statements.

In July 2010, the FASB issued an ASU for improving disclosures about the credit quality of financing receivables and the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, nonaccrual and past due loans and credit quality indicators. For disclosures required as of the end of a reporting period, the update was effective and implemented commencing as of December 31, 2010 for the Corporation s financial statements. Disclosures that relate to activity during a reporting period were required for financial statements that include periods beginning on or after January 1, 2011, or March 31, 2011 for the Corporation. The guidance related to troubled debt restructurings was effective for interim and annual periods beginning after June 15, 2011, or September, 30, 2011 for the Corporation, in order to be concurrent with the effective date of guidance under the ASU issued in April 2011 regarding a creditor s determination of whether a restructuring is a troubled debt restructuring. The application of the provisions of these standards did not have a material impact on the Corporation s financial statements although it resulted in expanded disclosures effective March 31, 2011 and September 30, 2011, which are included under Note 4, Credit Quality of Loans and Leases and the Reserve for Loans and Lease Losses.

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Note 2. Investment Securities

The following table shows the amortized cost and the approximate fair value of the held-to-maturity securities and available-for-sale securities at September 30, 2011 and December 31, 2010 by maturity within each type.

	At September 30, 2011				At December 31, 2010			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
Residential mortgage-backed securities:								
Within 1 year	$	$	$	$	$ 15	$	$	$ 15
					15			15
Corporate bonds:								
After 1 year to 5 years	**30,526**	**6**	**(320)**	**30,212**	17			17
	30,526	**6**	**(320)**	**30,212**	17			17
Total	**$ 30,526**	**$ 6**	**$ (320)**	**$ 30,212**	$ 32	$	$	$ 32
Securities Available-for-Sale								
U.S. government corporations and agencies:								
Within 1 year	**$ 5,000**	**$ 26**	**$**	**$ 5,026**	$ 7,000	$	$	$ 7,000
After 1 year to 5 years	**117,991**	**964**	**(17)**	**118,938**	182,585	515	(2,000)	181,100
	122,991	**990**	**(17)**	**123,964**	189,585	515	(2,000)	188,100
State and political subdivisions:								
Within 1 year	**754**	**8**		**762**	451			451
After 1 year to 5 years	**9,561**	**358**		**9,919**	8,801	281		9,082
After 5 years to 10 years	**11,426**	**401**	**(23)**	**11,804**	14,042	281	(69)	14,254
Over 10 years	**87,424**	**3,976**	**(16)**	**91,384**	86,315	639	(2,693)	84,261
	109,165	**4,743**	**(39)**	**113,869**	109,609	1,201	(2,762)	108,048
Residential mortgage-backed securities:								
	11,591	**741**		**12,332**	14,709	743		15,452

After 5 years to 10 years								
Over 10 years	**54,036**	**2,701**	**(620)**	**56,117**	66,919	3,222	(492)	69,649
	65,627	**3,442**	**(620)**	**68,449**	81,628	3,965	(492)	85,101
Commercial mortgage obligations:								
After 5 years to 10 years	**6,305**	**181**		**6,486**	8,855	252		9,107
Over 10 years	**55,400**	**1,155**		**56,555**	63,827	1,321	(1,164)	63,984
	61,705	**1,336**		**63,041**	72,682	1,573	(1,164)	73,091
Corporate bonds:								
Within 1 year					2,999	30		3,029
After 1 year to 5 years	**4,990**		**(177)**	**4,813**	4,988		(43)	4,945
	4,990		**(177)**	**4,813**	7,987	30	(43)	7,974
Other debt securities:								
Within 1 year	**5,193**			**5,193**	1,693			1,693
	5,193			**5,193**	1,693			1,693
Equity securities:								
No stated maturity	**2,367**	**356**	**(238)**	**2,485**	2,447	680	(142)	2,985
	2,367	**356**	**(238)**	**2,485**	2,447	680	(142)	2,985
Total	**$ 372,038**	**$ 10,867**	**$ (1,091)**	**$ 381,814**	$ 465,631	$ 7,964	$ (6,603)	$ 466,992

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties.

Securities with a fair value of $289.0 million and $347.3 million at September 30, 2011 and December 31, 2010, respectively, were pledged to secure public deposits and for other purposes as required by law.

During the nine months ended September 30, 2011 and 2010, available-for-sale securities with a fair value at the date of sale of $40.5 million and $13.5 million, respectively, were sold. Gross realized gains on such sales totaled $1.4 million in 2011 and $447 thousand in 2010. Gross realized losses on sales were $11 thousand in 2011 and $21 thousand in 2010. Tax expense related to net realized gains from the sales of investment securities for the nine months ended September 30, 2011 and 2010 was $500 thousand and $149 thousand, respectively. Accumulated other comprehensive income related to securities of $6.4 million and $7.1 million, net of taxes, has been included in shareholders equity at September 30, 2011 and December 31, 2010, respectively. Unrealized losses in investment securities at September 30, 2011 and December 31, 2010 do not represent other-than-temporary impairments.

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The Corporation realized other-than-temporary impairment charges to noninterest income of $11 thousand and $59 thousand, respectively, on its equity portfolio during the nine months ended September 30, 2011 and 2010. The Corporation determined that it was probable that certain equity securities would not regain market value equivalent to the Corporation s cost basis within a reasonable period of time due to a decline in the financial stability of the underlying companies. The Corporation carefully monitors all of its equity securities and has not taken impairment losses on certain other equity securities in an unrealized loss position, at this time, as the financial performance of the underlying companies is not indicative of the market deterioration of their stock and it is probable that the market value of the equity securities will recover to the Corporation s cost basis in the individual securities in a reasonable amount of time. The equity securities within the following table consist of common stocks of other financial institutions, which have experienced recent declines in value consistent with the industry as a whole. Management evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation has the positive intent to hold these securities and believes it is more likely than not, that it will not have to sell these securities until recovery to the Corporation s cost basis occurs. The Corporation does not consider these investments to be other-than-temporarily impaired at September 30, 2011 and December 31, 2010.

Management evaluates debt securities, which are comprised of U. S. Government, Government Sponsored Agencies, municipalities, corporate bonds and other issuers, for other-than-temporary impairment and considers the current economic conditions, the length of time and the extent to which the fair value has been less than cost, interest rates and the bond rating of each security. All of the debt securities are rated as investment grade and management believes that it will not incur any losses. The unrealized losses on the Corporation s investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers within our investment portfolio. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation has not recognized any other-than-temporary impairment charges on debt securities for the nine months ended September 30, 2011 and 2010.

At September 30, 2011 and December 31, 2010, there were no investments in any single non-federal issuer representing more than 10% of shareholders equity.

The following table shows the amount of securities that were in an unrealized loss position at September 30, 2011 and December 31, 2010:

	At September 30, 2011					
	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government corporations and agencies	$ 9,996	$ (17)	$	$	$ 9,996	$ (17)
State and political subdivisions	371	(3)	1,712	(36)	2,083	(39)
Residential mortgage-backed securities			3,528	(620)	3,528	(620)
Corporate bonds	30,025	(497)			30,025	(497)
Equity securities	1,049	(238)			1,049	(238)
Total	$ 41,441	$ (755)	$ 5,240	$ (656)	$ 46,681	$ (1,411)

At December 31, 2010

	Less than Twelve Months		Twelve Months or Longer		Total	
(Dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government corporations and agencies	$ 107,978	$ (2,000)	$	$	$ 107,978	$ (2,000)
State and political subdivisions	52,531	(2,589)	1,589	(173)	54,120	(2,762)
Residential mortgage-backed securities	10,096	(38)	4,419	(454)	14,515	(492)
Commercial mortgage obligations	19,322	(1,164)			19,322	(1,164)
Corporate bonds	4,945	(43)			4,945	(43)
Equity securities	951	(140)	17	(2)	968	(142)
Total	$ 195,823	$ (5,974)	$ 6,025	$ (629)	$ 201,848	$ (6,603)

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Note 3. Loans and Leases

The following is a summary of the major loan and lease categories:

(Dollars in thousands)	At September 30, 2011	At December 31, 2010
Commercial, financial and agricultural	**$ 473,561**	$ 463,518
Real estate-commercial	**518,984**	516,546
Real estate-construction	**83,111**	119,769
Real estate-residential secured for business purpose	**32,657**	42,459
Real estate-residential secured for personal purpose	**131,326**	121,876
Real estate-home equity secured for personal purpose	**80,942**	80,875
Loans to individuals	**42,290**	44,087
Lease financings	**83,402**	92,617
Total gross loans and leases	**1,446,273**	1,481,747
Less: Unearned income	**(9,862)**	(10,561)
Total loans and leases, net of unearned income	**$ 1,436,411**	$ 1,471,186

Note 4. Credit Quality of Loans and Leases and the Reserve for Loan and Lease Losses

Age Analysis of Past Due Loans and Leases

The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans and leases greater than 90 days past due which are accruing interest at September 30, 2011 and December 31, 2010:

	30-59 Days	60-89 Days	Greater Than 90 Days	Total		Total Loans and	Recorded Investment Greater than 90 Days Past Due and Accruing