

TRUSTCO BANK CORP N Y
Form 10-Q
August 09, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended
June 30, 2010

Commission File Number 0-10592

TRUSTCO BANK CORP NY
(Exact name of registrant as specified in its charter)

NEW YORK
(State or other jurisdiction of incorporation or
organization)

14-1630287
(I.R.S. Employer Identification No.)

5 SARNOWSKI DRIVE, GLENVILLE, NEW YORK
(Address of principal executive offices)

12302
(Zip Code)

Registrant's telephone number, including area code: (518) 377-3311

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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 (Sec. 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 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 Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes 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 \$1 Par Value	Number of Shares Outstanding as of July 31, 2010 76,998,654
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TrustCo Bank Corp NY

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TRUSTCO BANK CORP NY
Consolidated Statements of Income (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest and dividend income:				
Interest and fees on loans	\$31,976	31,094	63,729	62,285
Interest and dividends on securities available for sale:				
U. S. treasuries and government sponsored enterprises	3,588	1,211	7,185	2,637
States and political subdivisions	891	1,097	1,846	2,205
Mortgage-backed securities and collateralized mortgage obligations	944	1,535	2,114	3,162
Corporate bonds	1,105	-	2,151	-
Other securities	64	107	182	144
Total interest and dividends on securities available for sale	6,592	3,950	13,478	8,148
Interest on trading securities:				
U. S. government sponsored enterprises	-	37	-	405
States and political subdivisions	-	8	-	16
Total interest on trading securities	-	45	-	421
Interest on held to maturity securities:				
U. S. government sponsored enterprises	50	2,144	487	3,846
Mortgage-backed securities	1,455	1,149	2,700	1,610
Corporate bonds	802	777	1,645	1,397
Total interest on held to maturity securities	2,307	4,070	4,832	6,853
Interest on federal funds sold and other short term investments				
	228	622	392	1,140
Total interest income	41,103	39,781	82,431	78,847
Interest expense:				
Interest on deposits:				
Interest-bearing checking	172	199	341	373
Savings	857	750	1,666	1,501
Money market deposit accounts	1,342	1,077	2,621	2,060
Time deposits	6,432	10,170	13,251	22,405
Interest on short-term borrowings	455	340	911	805
Total interest expense	9,258	12,536	18,790	27,144
Net interest income	31,845	27,245	63,641	51,703
Provision for loan losses	7,100	2,760	11,800	4,760
Net interest income after provision for loan losses	24,745	24,485	51,841	46,943
Noninterest income:				

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Trust department income	1,176	1,085	2,537	2,591
Fees for other services to customers	2,646	2,580	4,939	5,246
Net trading losses	-	(36)	-	(344)
Net gain (loss) on securities transactions	1,537	(41)	1,541	70
Other	292	331	498	1,701
Total noninterest income	5,651	3,919	9,515	9,264
Noninterest expenses:				
Salaries and employee benefits	6,556	6,411	13,290	13,209
Net occupancy expense	3,511	3,430	7,012	7,074
Equipment expense	1,464	1,240	2,884	2,384
Professional services	1,565	1,280	2,968	2,660
Outsourced services	1,418	1,347	2,839	2,815
Advertising	796	831	1,322	1,606
Insurance	1,535	3,336	3,057	4,710
Other real estate expense, net	794	639	2,747	769
Other	1,596	1,844	3,205	3,612
Total noninterest expenses	19,235	20,358	39,324	38,839
Income before taxes	11,161	8,046	22,032	17,368
Income taxes	4,037	2,666	7,973	5,639
Net income	\$7,124	5,380	14,059	11,729
Net income per Common Share:				
- Basic	\$0.093	0.070	0.183	0.154
- Diluted	\$0.093	0.070	0.183	0.154

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY

Consolidated Statements of Financial Condition (Unaudited)
(dollars in thousands, except per share data)

	June 30, 2010	December 31, 2009
ASSETS:		
Cash and due from banks	\$39,850	45,258
Federal funds sold and other short term investments	501,957	100,636
Total cash and cash equivalents	541,807	145,894
Securities available for sale:		
U. S. government sponsored enterprises	472,920	523,483
States and political subdivisions	80,806	93,215
Mortgage-backed securities and collateralized mortgage obligations	24,165	104,901
Corporate bonds	84,476	81,445
Other securities	7,870	7,321
Total securities available for sale	670,237	810,365
Held to maturity securities:		
U. S. government sponsored enterprises (fair value 2010 \$0; 2009 \$99,179)	-	99,251
Mortgage-backed securities (fair value 2010 \$159,525; 2009 \$198,601)	152,920	196,379
Corporate bonds (fair value 2010 \$71,914; 2009 \$81,782)	69,152	79,241
Total held to maturity securities	222,072	374,871
Loans:		
Commercial	258,214	278,236
Residential mortgage loans	1,782,410	1,721,157
Home equity line of credit	285,123	277,306
Installment loans	4,477	4,837
Total loans	2,330,224	2,281,536
Less:		
Allowance for loan losses	39,231	37,591
Net loans	2,290,993	2,243,945
Bank premises and equipment, net	37,230	37,793
Other assets	66,565	67,029
Total assets	\$3,828,904	3,679,897
LIABILITIES:		
Deposits:		
Demand	\$258,215	258,759
Interest-bearing checking	421,705	405,383
Savings accounts	711,580	665,463
Money market deposit accounts	513,920	393,779

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Certificates of deposit (in denominations of \$100,000 or more)	464,811	486,190
Other time accounts	1,066,303	1,095,586
Total deposits	3,436,534	3,305,160
Short-term borrowings	116,669	107,728
Accrued expenses and other liabilities	20,512	21,331
Total liabilities	3,573,715	3,434,219
SHAREHOLDERS' EQUITY:		
Capital stock par value \$1; 150,000,000 shares authorized and 83,166,423 shares issued at June 30, 2010 and December 31, 2009, respectively	83,166	83,166
Surplus	127,987	128,681
Undivided profits	103,647	99,190
Accumulated other comprehensive income (loss), net of tax	2,284	(1,282)
Treasury stock at cost - 6,293,169 and 6,514,994 shares at June 30, 2010 and December 31, 2009, respectively	(61,895)	(64,077)
Total shareholders' equity	255,189	245,678
Total liabilities and shareholders' equity	\$3,828,904	3,679,897

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(dollars in thousands, except per share data)

	Capital Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Treasury Stock	Total
Beginning balance, January 1, 2009	\$83,166	130,142	93,818	(1,441)		(69,661)	236,024
Comprehensive income:							
Net Income - Six Months Ended June 30, 2009	-	-	11,729	-	11,729	-	11,729
Other comprehensive income, net of tax:							
Amortization of prior service cost on pension and post retirement plans, net of tax (pretax cost of \$202)	-	-	-	-	(122)	-	-
Unrealized net holding gain on securities available-for-sale arising during the period, net of tax (pretax gain of \$1,822)	-	-	-	-	1,029	-	-
Reclassification adjustment for net gain realized in net income during the year (pretax gain of \$70)	-	-	-	-	25	-	-
Other comprehensive income, net of tax:				932	932		932
Comprehensive income	-	-	-		12,661	-	-

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Cash dividend declared, \$.1725 per share	-	-	(13,160)	-	-	(13,160)
Sale of treasury stock (337,509 shares)	-	(818)	-	-	3,321	2,503
Stock based compensation expense	-	107	-	-	-	107
Ending balance, June 30, 2009	\$83,166	129,431	92,387	(509)	(66,340)	238,135
Beginning balance, January 1, 2010	\$83,166	128,681	99,190	(1,282)	(64,077)	245,678
Comprehensive income:						
Net Income - Six Months Ended June 30, 2010	-	-	14,059	-	14,059	14,059
Other comprehensive income, net of tax:						
Amortization of prior service cost on pension and post retirement plans, net of tax (pretax of \$202)	-	-	-	-	(122)	-
Unrealized net holding gain on securities available-for-sale arising during the period, net of tax (pretax gain of \$7,674)	-	-	-	-	4,617	-
Reclassification adjustment for net gain realized in net income during the year (pretax gain \$1,541)	-	-	-	-	(929)	-
Other comprehensive income, net of tax:				3,566	3,566	3,566
Comprehensive income	-	-	-	-	17,625	-
Cash dividend declared, \$.125	-	-	(9,602)	-	-	(9,602)

per share						
Sale of treasury stock (221,825 shares)	-	(783)	-	-	2,182	1,399
Stock based compensation expense	-	89	-	-	-	89
Ending balance, June 30, 2010	\$83,166	127,987	103,647	2,284	(61,895)	255,189

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY
Consolidated Statements of Cash Flows (Unaudited)
(dollars in thousands)

	Six months ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 14,059	11,729
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,332	2,190
Loss on sale of other real estate owned	530	317
Provision for loan losses	11,800	4,760
Deferred tax expense	667	421
Stock based compensation expense	89	107
Net loss (gain) on sale of bank premises and equipment	39	(49)
Net gain on sales and calls of securities	(1,541)	(70)
Proceeds from sales and calls of trading securities	-	24,936
Proceeds from maturities of trading securities	-	90,000
Net trading losses	-	344
Increase in taxes receivable	(10,084)	(9,034)
Decrease in interest receivable	2,371	1,785
Decrease in interest payable	(303)	(993)
Decrease in other assets	1,325	40
Increase (decrease) in accrued expenses and other liabilities	(530)	1,475
Total adjustments	6,695	116,229
Net cash provided by operating activities	20,754	127,958
Cash flows from investing activities:		
Proceeds from sales and calls of securities available for sale	649,747	393,489
Proceeds from calls and maturities of held to maturity securities	152,549	334,384
Purchases of securities available for sale	(510,553)	(275,299)
Proceeds from maturities of securities available for sale	8,858	7,150
Purchases of held to maturity securities	-	(661,518)
Net increase in loans	(63,276)	(35,795)
Proceeds from dispositions of other real estate owned	7,516	1,705
Proceeds from dispositions of bank premises and equipment	-	141
Purchases of bank premises and equipment	(1,808)	(4,514)
Net cash provided by (used in) investing activities	243,033	(240,257)
Cash flows from financing activities:		

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Net increase in deposits	131,374	97,918
Net increase (decrease) in short-term borrowings	8,941	(24,014)
Proceeds from sale of treasury stock	1,399	2,503
Dividends paid	(9,588)	(16,753)
Net cash provided by financing activities	132,126	59,654
Net increase (decrease) in cash and cash equivalents	395,913	(52,645)
Cash and cash equivalents at beginning of period	145,894	249,604
Cash and cash equivalents at end of period	\$541,807	\$196,959

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest paid	\$19,093	\$28,137
Income taxes paid	18,057	14,636
Other non cash items:		
Increase in due to broker	-	5,000
Transfer of loans to other real estate owned	4,428	7,018
Increase (decrease) in dividends payable	14	(3,593)
Change in unrealized gain on securities available for sale-gross of deferred taxes	6,133	1,751
Change in deferred tax effect on unrealized gain on securities available for sale	(2,445)	(697)
Amortization of prior service cost on pension and post retirement plans	(202)	(202)
Change in deferred tax effect of amortization of prior service cost	80	80

See accompanying notes to unaudited consolidated financial statements.

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Notes to Consolidated Interim Financial Statements
(Unaudited)

1. Financial Statement Presentation

The unaudited Consolidated Interim Financial Statements of TrustCo Bank Corp NY (the Company) include the accounts of the subsidiaries after elimination of all significant intercompany accounts and transactions. Prior period amounts are reclassified when necessary to conform to the current period presentation. The net income reported for the three months and six months ended June 30, 2010 is not necessarily indicative of the results that may be expected for the year ending December 31, 2010, or any interim periods. These financial statements consider events that occurred through the date of filing.

In the opinion of the management of the Company, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments necessary to present fairly the financial position as of June 30, 2010 and the results of operations for the three and six months ended June 30, 2010 and 2009 and cash flows for the six months ended June 30, 2010 and 2009. The accompanying Consolidated Interim Financial Statements should be read in conjunction with the TrustCo Bank Corp NY year-end Consolidated Financial Statements, including notes thereto, which are included in TrustCo Bank Corp NY's 2009 Annual Report to Shareholders on Form 10-K.

2. Earnings Per Share

A reconciliation of the component parts of earnings per share (EPS) for the three month and six month periods ended June 30, 2010 and 2009 follows:

(dollars in thousands, except per share data)	Income	Weighted Average Shares Outstanding	Per Share Amounts
For the quarter ended June 30, 2010:			
Basic EPS:			
Income available to common shareholders	\$ 7,124	76,649	\$ 0.093
Effect of Dilutive Securities:			
Stock Options	-	-	-
Diluted EPS	\$ 7,124	76,649	\$ 0.093
For the quarter ended June 30, 2009:			
Basic EPS:			
Income available to common shareholders	\$ 5,380	76,421	\$ 0.070
Effect of Dilutive Securities:			
Stock Options	-	-	-
Diluted EPS	\$ 5,380	76,421	\$ 0.070

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(dollars in thousands, except per share data)	Income	Weighted Average Shares Outstanding	Per Share Amounts
For the six months ended			
June 30, 2010:			
Basic EPS:			
Income available to common shareholders	\$ 14,059	76,816	\$ 0.183
Effect of Dilutive Securities:			
Stock Options	-	-	-
Diluted EPS	\$ 14,059	76,816	\$ 0.183
For the six months ended			
June 30, 2009:			
Basic EPS:			
Income available to common shareholders	\$ 11,729	76,310	\$ 0.154
Effect of Dilutive Securities:			
Stock Options	-	-	-
Diluted EPS	\$ 11,729	76,310	\$ 0.154

There were approximately 3.0 million stock options outstanding for the three months and six months ended June 30, 2010 and 3.7 million and 3.8 million stock options outstanding for the three months and six months ended June 30, 2009 which, if included, would have been antidilutive in the calculation of average shares outstanding, and were therefore excluded from the earnings per share calculations. The options are considered antidilutive because the option price is greater than the current market price.

3. Benefit Plans

The table below outlines the components of the Company's net periodic expense (benefit) recognized during the three month and six month periods ended June 30, 2010 and 2009 for its pension and other postretirement benefit plans:

Components of Net Periodic Expense (Benefit) for the three months ended June 30, 2010 and 2009 (dollars in thousands)

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$14	12	8	6
Interest cost	375	401	15	16
Expected return on plan assets	(454)	(355)	(106)	(84)
Amortization of net loss	51	29	-	-
Amortization of prior service credit	-	-	(101)	(101)
Net periodic expense (benefit)	\$(14)	87	(184)	(163)

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Components of Net Periodic Expense (Benefit) for the six months ended June 30, 2010 and 2009 (dollars in thousands)

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$28	24	16	12
Interest cost	749	802	31	32
Expected return on plan assets	(907)	(710)	(211)	(170)
Amortization of net loss	102	58	-	-
Amortization of prior service credit	-	-	(202)	(202)
Net periodic expense (benefit)	\$(28)	174	(366)	(328)

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2009, that it did not expect to make any contributions to its pension and postretirement benefit plans in 2010. As of June 30, 2010, no contributions have been made. The Company presently anticipates that it will not make any contributions in 2010.

Since 2003, the Company has not subsidized retiree medical insurance premiums. However, it continues to provide post-retirement medical benefits to a limited number of current and retired executives in accordance with the terms of their employment contracts.

4. Investment Securities

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolios at June 30, 2010 and December 31, 2009 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. government sponsored enterprises	\$ 470,717	2,203	-	472,920
State and political subdivisions	78,604	2,203	1	80,806
Mortgage backed securities and collateralized mortgage obligations - residential	24,297	248	380	24,165
Corporate bonds	85,647	365	1,536	84,476
Other	650	-	-	650
Total debt securities	659,915	5,019	1,917	663,017
Equity securities	7,184	36	-	7,220
Total securities available for sale	\$ 667,099	5,055	1,917	670,237

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(dollars in thousands)		June 30, 2010		
Held to maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage backed securities				
- residential	\$ 152,920	6,605	-	159,525
Corporate bonds	69,152	2,762	-	71,914
Total held to maturity securities	\$ 222,072	9,367	-	231,439

(dollars in thousands)		December 31, 2009		
Available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$ 528,665	787	5,969	523,483
State and political subdivisions	90,664	2,587	36	93,215
Mortgage backed securities and collateralized mortgage obligations - residential	104,760	1,609	1,468	104,901
Corporate bonds	81,989	135	679	81,445
Other	650	-	-	650
Total debt securities	806,728	5,118	8,152	803,694
Equity securities	6,632	39	-	6,671
Total securities available for sale	\$ 813,360	5,157	8,152	810,365

(dollars in thousands)		December 31, 2009		
Held to maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$ 99,251	75	147	99,179
Mortgage backed securities - residential	196,379	2,444	222	198,601
Corporate bonds	79,241	2,541	-	81,782
Total held to maturity securities	\$ 374,871	5,060	369	379,562

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The following table shows the amortized cost and fair value of the portfolios of debt securities by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	June 30, 2010	
	Amortized Cost	Fair Value
Available for sale		
Due in one year or less	\$ 28,362	28,439
Due in one year through five years	224,824	225,229
Due after five years through ten years	361,767	363,033
Due after ten years	44,962	46,316
	\$ 659,915	663,017

(dollars in thousands)	Amortized Cost		Fair Value
	Amortized Cost		
Held to maturity			
Due in one year or less	\$ 20,066		20,415
Due in one year through five years	182,604		190,835
Due in five years through ten years	19,402		20,189
	\$ 222,072		231,439

The following table summarizes the investment securities with unrealized losses at June 30, 2010 and December 31, 2009 by aggregated major security type and length of time in a continuous unrealized loss position:

(dollars in thousands)	June 30, 2010					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss
Available for sale						
State and political subdivisions	\$ 314	1	-	-	314	1
Mortgage backed securities and collateralized mortgage obligations - residential	18,971	335	811	45	19,782	380
Corporate bonds	49,466	1,536	-	-	49,466	1,536
Total available for sale	\$ 68,751	1,872	811	45	69,562	1,917

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(dollars in
thousands)
Available for
sale

	12 months		December 31, 2009 or more		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unreal. Loss	Value	Unreal. Loss	Value	Unreal. Loss
U.S. government sponsored enterprises	\$ 405,003	5,969	-	-	405,003	5,969
State and political subdivisions	2,025	16	368	20	2,393	36
Mortgage backed securities and collateralized mortgage obligations - residential	45,870	1,282	4,505	186	50,375	1,468
Corporate bonds	56,985	679	-	-	56,985	679
Total available for sale	\$ 509,883	7,946	4,873	206	514,756	8,152

(dollars in
thousands)
Held to maturity

	Less than 12 months		December 31, 2009 12 months or more		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unreal. Loss	Value	Unreal. Loss	Value	Unreal. Loss
U.S. government sponsored enterprises	\$ 39,978	147	-	-	39,978	147
Mortgage backed securities - residential	20,884	222	-	-	20,884	222
Total held to maturity	\$ 60,862	369	-	-	60,862	369

Proceeds from sales and calls of securities available for sale were \$649.7 million and \$393.5 million for the six months ended June 30, 2010 and 2009, respectively. Gross gains of approximately \$2.0 million and \$113 thousand and gross losses of \$417 thousand and \$43 thousand were realized on these sales during 2010 and 2009, respectively.

Proceeds from sales and calls of securities available for sale were \$539.4 million and \$69.5 million for the three months ended June 30, 2010 and 2009, respectively. Gross gains of approximately \$2.0 million and \$2 thousand and

gross losses of \$417 thousand and \$43 thousand were realized on these sales during 2010 and 2009, respectively.

Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio by type and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320 “Investments – Debt and Equity Securities.”

In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or it is more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

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When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

As of June 30, 2010, the Company's security portfolio consisted of 352 securities, 18 of which were in an unrealized loss position, and are discussed below.

Mortgage-backed Securities and Collateralized Mortgage Obligations - Residential

At June 30, 2010, all of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Ginnie Mae, Fannie Mae and Freddie Mac. The government has affirmed its commitment to support these institutions. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2010.

State and Political Subdivisions and Corporate Bonds

Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2010. Credit ratings on these securities remain within policy limits.

As a result of the above analysis, for the three month and six month periods ended June 30, 2010, the Company did not recognize any other-than-temporary impairment losses for credit or any other reason.

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5. Loans and Allowance for Loan Losses

A summary of loans by category is as follows:

(dollars in thousands)

	June 30, 2010	December 31, 2009
Commercial	\$ 256,418	275,280
Real estate - construction	12,540	16,162
Real estate mortgage	1,771,666	1,707,951
Home equity lines of credit	285,123	277,306
Installment Loans	4,477	4,837
Total loans, net	2,330,224	2,281,536
Less: Allowance for loan Losses	39,231	37,591
Net loans	\$ 2,290,993	2,243,945

The following table sets forth information with regard to nonperforming loans:

(dollars in thousands)

	June 30, 2010	December 31, 2009
Loans in nonaccrual status	\$ 49,484	45,632
Restructured loans	386	400
Total nonperforming loans	\$ 49,870	46,032

Transactions in the allowance for loan losses is summarized as follows:

(dollars in thousands)	For the three months ended	
	June 30, 2010	2009
Balance at beginning of period	\$ 39,490	36,159
Provision for loan losses	7,100	2,760
Loans charged off	(7,676)	(3,211)
Recoveries on loans previously charged off	317	451
Balance at end of period	\$ 39,231	36,159

(dollars in thousands)	For the six months ended	
	June 30, 2010	2009
Balance at beginning of period	\$ 37,591	36,149
Provision for loan losses	11,800	4,760
Loans charged off	(10,711)	(5,408)
Recoveries on loans previously charged off	551	658
Balance at end of period	\$ 39,231	36,159

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6. Fair Value

FASB ASC 820 “Fair Value Measurement and Disclosures,” defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the value that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities Available for Sale: Securities available for sale are fair valued utilizing an independent pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows. This results in a Level 2 classification of the inputs for determining fair value. Interest and dividend income is recorded on the accrual method and included in the income statement in the respective investment class under total interest income. Included in earnings as a result of the changes in fair value of trading securities were \$36 thousand and \$344 thousand of net trading losses for the three months and six months ended June 30, 2009, respectively. No trading gains or losses were recognized during 2010.

Other Real Estate Owned: The fair value of other real estate owned is determined by observable comparable sales and property valuation techniques. This results in a Level 2 classification of the inputs for determining fair value.

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Assets and liabilities measured at fair value under FASB ASC 820 on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

		Fair Value Measurements at June 30, 2010 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)	Carrying Value			
Securities available-for sale:				
U.S. government-sponsored enterprises	\$			