FIRST UNITED CORP/MD/
Form 10-Q
November 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For quarterly period ended September 30, 2011

£ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _______________ to ________________

Commission file number 0-14237

First United Corporation
(Exact name of registrant as specified in its charter)

Maryland	52-1380770
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)

19 South Second Street, Oakland, Maryland	21550-0009
(Address of principal executive offices)	(Zip Code)

(800) 470-4356
(Registrant's telephone number, including area code)

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 þ 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 definition 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 £ (Do not check if a smaller reporting company)	Smaller reporting company R

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,182,757 shares of common stock, par value $.01 per share, as of October 31, 2011.

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FIRST UNITED CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST UNITED CORPORATION
Consolidated Statements of Financial Condition
(In thousands, except per share and percentage data)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	$44,022	$ 184,830
Interest bearing deposits in banks	40,874	114,483
Cash and cash equivalents	84,896	299,313
Investment securities – available-for-sale (at fair value)	277,819	229,687
Restricted investment in bank stock, at cost	11,240	12,449
Loans	919,023	1,009,753
Allowance for loan losses	(20,135)	(22,138)
Net loans	898,888	987,615
Premises and equipment, net	31,298	32,945
Goodwill and other intangible assets, net	14,499	14,700
Bank owned life insurance	31,174	30,405
Deferred tax assets	27,116	26,400
Other real estate owned	17,508	18,072
Accrued interest receivable and other assets	39,666	44,859
Total Assets	$1,434,104	$ 1,696,445
Liabilities and Shareholders' Equity		
Liabilities:		
Non-interest bearing deposits	$150,756	$ 121,142
Interest bearing deposits	915,464	1,180,504
Total deposits	1,066,220	1,301,646
Short-term borrowings	44,462	39,139
Long-term borrowings	207,308	243,100
Accrued interest payable and other liabilities	17,786	16,920
Total Liabilities	1,335,776	1,600,805
Shareholders' Equity:		
Preferred stock – no par value; Authorized 2,000 shares of which 30 shares of Series A, $1,000 per share liquidation preference, 5% cumulative increasing to 9% cumulative on February 15, 2014, were issued and outstanding on September 30, 2011 and December 31, 2010 (discount of $156 and $202, respectively)	29,844	29,798
Common Stock – par value $.01 per share; Authorized 25,000 shares; issued and outstanding 6,183 shares at September 30, 2011 and 6,166 shares at December 31, 2010	62	62

Surplus	21,487	21,422
Retained earnings	65,757	64,179
Accumulated other comprehensive loss	(18,822)	(19,821)
Total Shareholders’ Equity	98,328	95,640
Total Liabilities and Shareholders’ Equity	$1,434,104	$ 1,696,445

See accompanying notes to the consolidated financial statements.

FIRST UNITED CORPORATION
Consolidated Statements of Operations
(In thousands, except per share data)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Unaudited)	
Interest income		
Interest and fees on loans	$39,801	$46,595
Interest on investment securities		
Taxable	2,922	5,356
Exempt from federal income tax	2,182	2,689
Total investment income	5,104	8,045
Other	327	407
Total interest income	45,232	55,047
Interest expense		
Interest on deposits	9,724	13,904
Interest on short-term borrowings	177	207
Interest on long-term borrowings	6,888	8,205
Total interest expense	16,789	22,316
Net interest income	28,443	32,731
Provision for loan losses	5,939	10,653
Net interest income after provision for loan losses	22,504	22,078
Other operating income		
Changes in fair value on impaired securities	204	(10,401)
Portion of (gain)/loss recognized in other comprehensive income (before taxes)	(223)	2,126
Net securities impairment losses recognized in operations	(19)	(8,275)
Net losses – other	(125)	(3,396)
Total net losses	(144)	(11,671)
Service charges	2,728	3,449
Trust department	3,237	2,978
Insurance commissions	1,936	2,003
Debit card income	1,598	1,198
Bank owned life insurance	769	754
Other	930	1,070
Total other income	11,198	11,452
Total other operating income/(loss)	11,054	(219)
Other operating expenses		
Salaries and employee benefits	15,185	16,321
FDIC premiums	1,818	3,054
Equipment	2,310	2,384
Occupancy	2,138	2,208
Data processing	2,042	1,966
Other	7,661	7,864
Total other operating expenses	31,154	33,797
Income/(Loss) before income tax benefit	2,404	(11,938)
Applicable income tax benefit	(372)	(6,233)
Net Income/(Loss)	2,776	(5,705)
Accumulated preferred stock dividends and discount accretion	$(1,198)	$(1,169)

Net Income Available to/(Loss Attributable to) Common Shareholders	$1,578	$(6,874)
Basic net income/(loss) per common share	$.26	$(1.12)
Diluted net income/(loss) per common share	$.26	$(1.12)
Dividends declared per common share	$.00	$.03
Weighted average number of basic and diluted shares outstanding	6,175	6,153

See accompanying notes to the consolidated financial statements.

FIRST UNITED CORPORATION
Consolidated Statements of Operations
(In thousands, except per share data)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
	(Unaudited)	
Interest income		
Interest and fees on loans	$12,638	$15,234
Interest on investment securities		
Taxable	1,127	953
Exempt from federal income tax	630	883
Total investment income	1,757	1,836
Other	88	183
Total interest income	14,483	17,253
Interest expense		
Interest on deposits	2,821	4,682
Interest on short-term borrowings	50	68
Interest on long-term borrowings	2,187	2,602
Total interest expense	5,058	7,352
Net interest income	9,425	9,901
Provision for loan losses	1,334	3,467
Net interest income after provision for loan losses	8,091	6,434
Other operating income		
Changes in fair value on impaired securities	(589)	397
Portion of (gain)/loss recognized in other comprehensive income (before taxes)	589	(607)
Net securities impairment losses recognized in operations	0	(210)
Net losses – other	(793)	(687)
Total net losses	(793)	(897)
Service charges	925	1,119
Trust department	1,094	940
Insurance commissions	648	678
Debit card income	486	401
Bank owned life insurance	260	255
Other	205	457
Total other income	3,618	3,850
Total other operating income	2,825	2,953
Other operating expenses		
Salaries and employee benefits	5,027	5,384
FDIC premiums	431	980
Equipment	735	738
Occupancy	713	767
Data processing	655	662
Other	2,590	2,701
Total other operating expenses	10,151	11,232
Income/(Loss) before income tax expense/(benefit)	765	(1,845)
Applicable income tax expense/(benefit)	79	(2,167)
Net Income	686	322
Accumulated preferred stock dividends and discount accretion	$(404)	$(390)

Net Income Available to/(Loss Attributable to) Common Shareholders	$282	$(68)
Basic net income/(loss) per common share	$.05	$(.01)
Diluted net income/(loss) per common share	$.05	$(.01)
Dividends declared per common share	$.00	$.01
Weighted average number of basic and diluted shares outstanding	6,183	6,160

See accompanying notes to the consolidated financial statements.

FIRST UNITED CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
(In thousands, except share and per share data)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2010	$ 29,739	$ 61	$ 21,305	$ 76,120	$ (26,659)	$ 100,566
Comprehensive loss:						
Net loss for the year				(10,197)		(10,197)
Unrealized gain on securities available-for-sale, net of reclassifications and income taxes of $4,052					5,987	5,987
Change in accumulated unrealized losses for pension and SERP obligations, net of income taxes of $887					1,311	1,311
Unrealized loss on derivatives, net of income taxes of $312					(460)	(460)
Comprehensive loss						(3,359)
Issuance of 9,924 shares of common stock under dividend reinvestment plan		1	47			48
Stock based compensation			70			70
Preferred stock discount accretion	59			(59)		0
Preferred stock dividends paid				(1,125)		(1,125)
Preferred stock dividends deferred				(375)		(375)
Common stock dividends declared - $.03 per share				(185)		(185)
Balance at December 31, 2010	29,798	62	21,422	64,179	(19,821)	95,640
Comprehensive income:						
Net income for the period				2,776		2,776
Unrealized gain on securities available-for-sale, net of reclassifications and income taxes of $801					1,184	1,184
Unrealized loss on derivatives, net of income taxes of $125					(185)	(185)
Comprehensive income						3,775
Stock based compensation			65			65
Preferred stock discount accretion	46			(46)		0
Preferred stock dividends deferred				(1,152)		(1,152)
Balance at September 30, 2011	$ 29,844	$ 62	$ 21,487	$ 65,757	$ (18,822)	$ 98,328

See accompanying notes to the consolidated financial statements.

FIRST UNITED CORPORATION
Consolidated Statements of Cash Flows
(In thousands)

	Nine Months Ended September 30, 2011	2010
	(Unaudited)	
Operating activities		
Net income/(loss)	$2,776	$(5,705)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Provision for loan losses	5,939	10,653
Depreciation	1,801	1,899
Stock compensation	65	70
Amortization of intangible assets	201	622
Loss on sales of other real estate owned	244	275
Write-downs of other real estate owned	1,875	563
Proceeds from sale of loans held for sale	33,902	0
Gain on sale of loans held for sale	(1,366)	0
(Gain)/loss on loan sales	(60)	156
Loss/(gain) on disposal of fixed assets	8	(11)
Net amortization of investment securities discounts and premiums	1,310	578
Other-than-temporary-impairment loss on securities	19	8,275
Proceeds from sales of investment securities trading	0	99,626
Proceeds from maturities/calls of investment securities trading	0	17,167
Loss on trading securities	0	251
Gain on sales of investment securities – available-for-sale	(576)	(92)
Loss on transfers of available-for-sale securities to trading	0	2,254
Decrease in accrued interest receivable and other assets	4,883	6,604
Deferred tax benefit	(1,392)	(1,178)
Decrease in accrued interest payable and other liabilities	(286)	(627)
Earnings on bank owned life insurance	(769)	(754)
Net cash provided by operating activities	48,574	140,626
Investing activities		
Proceeds from maturities/calls of investment securities available-for-sale	61,236	95,795
Proceeds from sales of investment securities available-for-sale	62,833	12,297
Purchases of investment securities available-for-sale	(170,969)	(186,911)
Proceeds from sales of other real estate owned	3,561	2,007
Proceeds from loan sales	7,390	1,764
Net decrease in loans	37,806	58,619
Net decrease in FHLB stock	1,209	930
Purchases of premises and equipment	(162)	(2,156)
Net cash provided by/(used in) investing activities	2,904	(17,655)
Financing activities		
Net (decrease)/ increase in deposits	(235,426)	82,263
Net increase/(decrease) in short-term borrowings	5,323	(3,641)
Proceeds from long-term borrowings	0	3,609

Payments on long-term borrowings	(35,792)	(30,789)
Cash dividends paid on common stock	0	(737)
Proceeds from issuance of common stock	0	29
Preferred stock dividends paid	0	(1,125)
Net cash (used in)/provided by financing activities	(265,895)	49,609
(Decrease)/increase in cash and cash equivalents	(214,417)	172,580
Cash and cash equivalents at beginning of the year	299,313	189,671
Cash and cash equivalents at end of period	$84,896	$362,251
Supplemental information		
Interest paid	$14,448	$22,731
Taxes paid	$0	$70
Non-cash investing activities:		
Transfers from loans to other real estate owned	$5,116	$10,865
Transfers from loans to loans held-for-sale	$32,536	$1,954
Transfers from available-for-sale to trading	$0	$117,078

See accompanying notes to the consolidated financial statements.

FIRST UNITED CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements of First United Corporation and its consolidated subsidiaries, including First United Bank & Trust (the "Bank"), have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information, as required by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 270, Interim Reporting, and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all the information and footnotes required for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring items, have been included. Operating results for the three- and nine-month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the full year or for any future interim period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in First United Corporation's Annual Report on Form 10-K for the year ended December 31, 2010. For purposes of comparability, certain prior period amounts have been reclassified to conform to the 2011 presentation. Such reclassifications had no impact on net income/(loss) or equity.

First United Corporation has evaluated events and transactions occurring subsequent to the statement of financial condition date of September 30, 2011 for items that should potentially be recognized or disclosed in these financial statements as prescribed by ASC Topic 855, Subsequent Events.

As used in these notes to consolidated financial statements, First United Corporation and its consolidated subsidiaries are sometimes collectively referred to as the "Corporation".

Note 2 – Earnings/(Loss) Per Common Share

Basic earnings/(loss) per common share is derived by dividing net income available to/(loss attributable to) common shareholders by the weighted-average number of common shares outstanding during the period and does not include the effect of any potentially dilutive common stock equivalents. Diluted earnings/(loss) per share is derived by dividing net income available to/(loss attributable to) common shareholders by the weighted-average number of shares outstanding, adjusted for the dilutive effect of outstanding common stock equivalents. There were no common stock equivalents at September 30, 2011. There is no dilutive effect on the earnings/(loss) per share during loss periods.

The following table sets forth the calculation of basic and diluted earnings/(loss) per common share for the nine- and three-month periods ended September 30, 2011 and 2010:

	For the nine months ended September 30,					
	2011			2010		
(in thousands, except for per share amount)	Income	Average Shares	Per Share Amount	Loss	Average Shares	Per Share Amount
Basic and Diluted Earnings/(Loss) Per Share:						
Net income/(loss)	$ 2,776			$ (5,705)		
Preferred stock dividends paid	0			(1,125)		
	(1,152)			0		

Preferred stock dividends deferred						
Discount accretion on preferred stock	(46)			(44)		
Net income available to/(loss attributable to) common shareholders	$ 1,578	6,175	$ .26	$ (6,874)	6,153	$ (1.12)

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(in thousands, except for per share amount)	For the three months ended September 30, 2011 Income	Average Shares	Per Share Amount	2010 Loss	Average Shares	Per Share Amount
Basic and Diluted Earnings/(Loss) Per Share:						
Net income	$ 686			$ 322		
Preferred stock dividends paid	0			(375)		
Preferred stock dividends deferred	(389)			0		
Discount accretion on preferred stock	(15)			(15)		
Net income available to/(loss attributable to) common shareholders	$ 282	6,183	$ .05	$ (68)	6,160	$ (.01)

Note 3 – Net Gains/(Losses)

The following table summarizes the gain/(loss) activity for the nine- and three-month periods ended September 30, 2011 and 2010:

(in thousands)	Nine months ended September 30, 2011	2010
Other-than-temporary impairment charges:		
Available-for-sale securities	$ (19)	$ (8,275)
Net gains/(losses) – other:		
Available-for-sale securities:		
Realized gains	773	262
Realized losses	(197)	(170)
Transfers of available-for-sale securities to trading:		
Gains recognized in earnings	0	2,852
Losses recognized in earnings	0	(5,106)
Trading securities:		
Gross gains on sales	0	972
Gross losses on sales	0	(1,223)
Loss on sales of other real estate owned	(244)	(275)
Write-down of other real estate owned	(1,875)	(563)
Gain/(loss) on sale of consumer loans	60	(156)
Gain on sale of indirect auto loans	1,366	0
(Loss)/gain on disposal of fixed assets	(8)	11
Net losses – other	(125)	(3,396)
Net losses	$ (144)	$ (11,671)

(in thousands)	Three months ended September 30, 2011	2010
Other-than-temporary impairment charges:		
Available-for-sale securities	$ 0	$ (210)
Net gains/(losses) – other:		
Available-for-sale securities:		
Realized gains	406	0
Realized losses	(96)	(170)
Transfers of available-for-sale securities to trading:		
Gains recognized in earnings	0	0
Losses recognized in earnings	0	0
Trading securities:		
Gross gains on sales	0	0
Gross losses on sales	0	0
Loss on sales of other real estate owned	(200)	(54)
Write-down of other real estate owned	(923)	(474)
Gain on sale of consumer loans	19	0
Gain on sale of indirect auto loans	0	0
Gain on disposal of fixed assets	1	11
Net losses – other	(793)	(687)
Net losses	$ (793)	$ (897)

Note 4 – Cash and Cash Equivalents

Cash and due from banks, which represents vault cash in the retail offices and invested cash balances at the Federal Reserve, is carried at fair value.

	September 30, 2011	December 31, 2010
Cash and due from banks, weighted average interest rate of 0.25% (at September 30, 2011)	$ 44,022	$ 184,830

Interest bearing deposits in banks, which represent funds invested at a correspondent bank, are carried at fair value and, as of September 30, 2011 and December 31, 2010, consisted of daily funds invested at the Federal Home Loan Bank ("FHLB") of Atlanta, First Tennessee Bank ("FTN"), Merchants and Traders ("M&T") and Community Bankers Bank ("CBB").

	September 30, 2011	December 31, 2010
FHLB daily investments, interest rate of 0.005% (at September 30, 2011)	$ 3,431	$ 77,102
FTN daily investments, interest rate of 0.06% (at September 30, 2011)	1,350	1,350
M&T Fed Funds sold, interest rate of 0.25% (at September 30, 2011)	6,018	6,004
CBB Fed Funds sold, interest rate of 0.21% (at September 30, 2011)	30,075	30,027
	$ 40,874	$ 114,483

Note 5 – Investments

The investment portfolio is classified and accounted for based on the guidance of ASC Topic 320, Investments – Debt and Equity Securities.

The following table shows a comparison of amortized cost and fair values of investment securities available-for-sale at September 30, 2011 and December 31, 2010:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
September 30, 2011					
U.S. treasuries	$8,000	$0	$0	$8,000	$0
U.S. government agencies	35,057	307	216	35,148	0
Residential mortgage-backed agencies	152,553	1,898	300	154,151	0
Collateralized mortgage obligations	683	0	117	566	0
Obligations of states and political subdivisions	68,042	2,557	17	70,582	0
Collateralized debt obligations	36,280	0	26,908	9,372	17,928
Totals	$300,615	$4,762	$27,558	$277,819	$17,928
December 31, 2010					
U.S. government agencies	$24,813	$101	$64	$24,850	$0
Residential mortgage-backed agencies	98,109	1,703	199	99,613	0
Collateralized mortgage obligations	763	0	101	662	0
Obligations of states and political subdivisions	94,250	1,011	537	94,724	0
Collateralized debt obligations	36,533	0	26,695	9,838	18,151
Totals	$254,468	$2,815	$27,596	$229,687	$18,151

Proceeds from sales of securities and the realized gains and losses are as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
(in thousands)	2011	2010	2011	2010
Proceeds	$ 62,833	$ 12,297	$ 33,719	$ 10,029
Realized gains	773	262	406	0
Realized losses	197	170	96	170

The following table shows the Corporation's available-for-sale securities with gross unrealized losses and fair values at September 30, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 months		12 months or more	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2011				
U.S. treasuries	$ 8,000	$ 0 *	$ 0	$ 0
U.S. government agencies	18,584	216	0	0

Residential mortgage-backed agencies	54,465	280	5,062	20
Collateralized mortgage obligations	0	0	566	117
Obligations of states and political subdivisions	2,466	14	2,812	3
Collateralized debt obligations	0	0	9,372	26,908
Totals	$ 83,515	$ 510	$ 17,812	$ 27,048

*Not meaningful

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December 31, 2010				
U.S. government agencies	$ 13,044	$ 64	$ 0	$ 0
Residential mortgage-backed agencies	19,453	199	0	0
Collateralized mortgage obligations	0	0	662	101
Obligations of states and political subdivisions	26,887	537	0	0
Collateralized debt obligations	0	0	9,838	26,695
Totals	$ 59,384	$ 800	$ 10,500	$ 26,796

Management systematically evaluates securities for impairment on a quarterly basis. Management assesses whether (a) it has the intent to sell a security being evaluated and (b) it is more likely than not that the Corporation will be required to sell the security prior to its anticipated recovery. If neither applies, then declines in the fair values of securities below their cost that are considered other-than-temporary declines are split into two components. The first is the loss attributable to declining credit quality. Credit losses are recognized in earnings as realized losses in the period in which the impairment determination is made. The second component consists of all other losses, which are recognized in other comprehensive loss. In estimating other-than-temporary impairment ("OTTI") losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) adverse conditions specifically related to the security, an industry, or a geographic area, (3) the historic and implied volatility of the fair value of the security, (4) changes in the rating of the security by a rating agency, (5) recoveries or additional declines in fair value subsequent to the balance sheet date, (6) failure of the issuer of the security to make scheduled interest or principal payments, and (7) the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future. Management also monitors cash flow projections for securities that are considered beneficial interests under the guidance of ASC Subtopic 325-40, Investments – Other – Beneficial Interests in Securitized Financial Assets, (ASC Section 325-40-35). Further discussion about the evaluation of securities for impairment can be found in Item 2 of Part I of this report under the heading "Investment Securities".

Management believes that the valuation of certain securities is a critical accounting policy that requires significant estimates in preparation of its consolidated financial statements. Management utilizes an independent third party to prepare both the impairment valuations and fair value determinations for its collateralized debt obligation ("CDO") portfolio consisting of pooled trust preferred securities. Management reviews the assumptions and results and does not believe that there were any material differences in the valuations between September 30, 2011 and December 31, 2010.

U.S. Treasuries - One U.S. treasury bond was in a slight unrealized loss position for less than 12 months as of September 30, 2011. This bond is of the highest investment grade. The bond is very short-term in nature and the Corporation does not intend to sell it, and it is not more likely than not that the Corporation will be required to sell it before recovery of its amortized cost basis, which may be at maturity. Therefore, no OTTI exists at September 30, 2011.

U.S. Government Agencies - Two U.S. government agencies have been in a slight unrealized loss position for less than 12 months as of September 30, 2011. The securities are of the highest investment grade and the Corporation does not intend to sell them, and it is not more likely than not that the Corporation will be required to sell them before recovery of their amortized cost basis, which may be at maturity. Therefore, no OTTI exists at September 30, 2011.

Residential Mortgage-Backed Agencies - Eight residential mortgage-backed agencies have been in a slight unrealized loss position for less than 12 months as of September 30, 2011. One residential mortgage-backed agency has been in slight unrealized loss position for 12 months or more. The security is of the highest investment grade and the Corporation does not intend to sell it, and it is not more likely than not that the Corporation will be required to sell it before recovery of their amortized cost basis, which may be at maturity. Therefore, no OTTI exists at September 30, 2011.

Collateralized Mortgage Obligations – The collateralized mortgage obligation portfolio, consisting of one security at September 30, 2011, has been in an unrealized loss position for 12 months or more. This security is a private label residential mortgage-backed security and is reviewed for factors such as loan to value ratio, credit support levels, borrower FICO scores, geographic concentration, prepayment speeds, delinquencies, coverage ratios and credit ratings. Management believes that this security continues to demonstrate collateral coverage ratios that are adequate to support the Corporation's investment. At the time of purchase, this security was of the highest investment grade and was purchased at a discount relative to its face amount. As of September 30, 2011, this security remains at investment grade and continues to perform as expected at the time of purchase. The Corporation does not intend to sell this security and it is not more likely than not that the Corporation will be required to sell the investment before recovery of its amortized cost basis, which may be at maturity. Accordingly, management does not consider this investment to be other-than-temporarily impaired at September 30, 2011.

Obligations of State and Political Subdivisions – The unrealized losses on the Corporation's investments in state and political subdivisions were $18,000 at September 30, 2011. Two securities have been in an unrealized loss position for less than 12 months. Two additional securities have been in a slight unrealized loss position for 12 months or more. All of these investments are of investment grade as determined by the major rating agencies and management reviews the ratings of the underlying issuers. Management believes that this portfolio is well-diversified throughout the United States, and all bonds continue to perform according to their contractual terms. The Corporation does not intend to sell these investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity. Accordingly, management does not consider these investments to be other-than-temporarily impaired at September 30, 2011.

Collateralized Debt Obligations - The $26.9 million in unrealized losses greater than 12 months at September 30, 2011 relates to 18 pooled trust preferred securities that comprise the CDO portfolio. See Note 8 for a discussion of the methodology used by management to determine the fair values of these securities. Based upon a review of credit quality and the cash flow tests performed by the independent third party, management determined that there were no securities that had credit-related non-cash OTTI charges during the third quarter of 2011. The Corporation has recorded $19,000 in credit-related non-cash OTTI charges for the nine-months ended September 30, 2011. The unrealized losses on the remaining securities in the portfolio are primarily attributable to continued depression in market interest rates, marketability, liquidity and the current economic environment.

The following tables present a cumulative roll-forward of the amount of non-cash OTTI charges related to credit losses which have been recognized in earnings for the trust preferred securities in the CDO portfolio held and not intended to be sold for the nine- and three-month periods ended September 30, 2011 and 2010:

	Nine months ended	
(in thousands)	September 30, 2011	September 30, 2010
Balance of credit-related OTTI at January 1	$14,653	$ 10,765
Additions for credit-related OTTI not previously recognized	0	1,402
Additional increases for credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis	19	6,873
Decreases for previously recognized credit-related OTTI because there was an intent to sell	0	(4,369)
Reduction for increases in cash flows expected to be collected	(159)	(33)
Balance of credit-related OTTI at September 30	$14,513	$ 14,638

	Three months ended	
(in thousands)	September 30, 2011	September 30, 2010
Balance of credit-related OTTI at July 1	$14,571	$ 14,461
Additions for credit-related OTTI not previously recognized	0	0
Additional increases for credit-related OTTI previously recognized when there is no intent to sell and no requirement to sell before recovery of amortized cost basis	0	210
Decreases for previously recognized credit-related OTTI because there was an intent to sell	0	0
Reduction for increases in cash flows expected to be collected	(58)	(33)
Balance of credit-related OTTI at September 30	$14,513	$ 14,638

The amortized cost and estimated fair value of available-for-sale securities by contractual maturity at September 30, 2011 and December 31, 2010 are shown in the following table. Actual maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2011		December 31, 2010	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Contractual Maturity				
Due in one year or less	$9,700	$9,723	$2,500	$2,421
Due after one year through five years	5,000	5,219	16,470	16,573
Due after five years through ten years	49,048	49,492	19,293	19,492
Due after ten years	83,631	58,668	117,333	90,926
	147,379	123,102	155,596	129,412
Residential mortgage-backed agencies	152,553	154,151	98,109	99,613
Collateralized mortgage obligations	683	566	763	662
	$300,615	$277,819	$254,468	$229,687

Note 6 - Restricted Investment in Bank Stock

Restricted stock, which represents required investments in the common stock of the FHLB of Atlanta, Atlantic Central Bankers Bank ("ACBB") and CBB, is carried at cost and is considered a long-term investment.

Management evaluates the restricted stock for impairment in accordance with ASC Industry Topic 942, Financial Services – Depository and Lending, (ASC Section 942-325-35). Management's evaluation of potential impairment is based on management's assessment of the ultimate recoverability of the cost of the restricted stock rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (a) the significance of the decline in net assets of the issuing bank as compared to the capital stock amount for that bank and the length of time this situation has persisted, (b) commitments by the issuing bank to make payments required by law or regulation and the level of such payments in relation to the operating performance of that bank, and (c) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the issuing bank. Management has evaluated the restricted stock for impairment and believes that no impairment charge is necessary as of September 30, 2011.

The Corporation recognizes dividends on a cash basis. For the nine months ended September 30, 2011, dividends of $73,500 were recognized in earnings. For the comparable period of 2010, dividends of $33,600 were recognized in earnings.

Note 7 – Loans and Related Allowance for Loan Losses

The following table summarizes the primary segments of the loan portfolio as of September 30, 2011 and December 31, 2010:

(in thousands)	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Residential Mortgage	Consumer	Total
September 30, 2011						
Total loans	$ 321,352	$ 147,580	$ 70,541	$ 345,525	$ 34,025	$ 919,023
Individually evaluated for impairment	18,938	27,810	13,767	5,815	26	66,356
Collectively evaluated for impairment	302,414	119,770	56,774	339,710	33,999	852,667
December 31, 2010						

Total loans	$ 348,584	$ 156,892	$ 69,992	$ 356,742	$ 77,543	$ 1,009,753
Individually evaluated for impairment	16,270	31,196	5,131	9,854	152	62,603
Collectively evaluated for impairment	332,314	125,696	64,861	346,888	77,391	947,150

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The commercial real estate ("CRE") loan segment is then segregated into two classes. Non-owner occupied CRE loans, which include loans secured by non-owner occupied, nonfarm, nonresidential properties, generally have a greater risk profile than all other CRE loans, which include loans secured by farmland, multifamily structures and owner-occupied commercial structures. The acquisition and development ("A&D") loan segment is segregated into two classes. One-to-four family residential construction loans are generally made to individuals for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. All other A&D loans are generally made to developers or investors for the purpose of acquiring, developing and constructing residential or commercial structures. These loans have a higher risk profile because the ultimate buyer, once development is completed, is generally not known at the time of the A&D loan. The commercial and industrial ("C&I") loan segment consists of loans made for the purpose of financing the activities of commercial customers. The residential mortgage loan segment is segregated into two classes: (a) amortizing term loans, which are primarily first liens; and (b) home equity lines of credit, which are generally second liens. The consumer loan segment consists primarily of installment loans (direct and indirect) and overdraft lines of credit connected with customer deposit accounts.

During the second quarter of 2011, the Bank sold $32.5 million of the indirect auto portfolio that is included in the consumer loan class.

Management uses a 10 point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. At December 2010, the portion of any loan that represented a specific allocation of the allowance for loan losses was placed in the Doubtful category. Based upon consultation with the regulators, beginning with June 30, 2011, only the portion of a specific allocation of the allowance for loan losses that management believes is associated with a pending event that could trigger loss in the short term will be classified in the Doubtful category. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank’s Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in the commercial segments at origination and on an ongoing basis. The Credit Quality Department performs an annual review of all commercial relationships $500,000 or greater. Confirmation of the appropriate risk grade is included as part of the review process on an ongoing basis. The Bank has an experienced Credit Quality and Loan Review Department that continually reviews and assesses loans within the portfolio. In addition, the Bank engages an external consultant to conduct loan reviews on at least an annual basis. Generally, the external consultant reviews commercial relationships greater than $750,000 and/or criticized relationships greater than $500,000. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of September 30, 2011 and December 31, 2010:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2011					
Commercial real estate					
Non owner-occupied	$104,551	$9,035	$ 33,624	$0	$147,210
All other CRE	119,402	14,631	40,109	0	174,142
Acquisition and development					
1-4 family residential construction	11,160	0	6,151	0	17,311
All other A&D	82,092	1,642	46,535	0	130,269
Commercial and industrial	51,580	768	18,193	0	70,541
Residential mortgage					
Residential mortgage - term	249,826	3,097	13,915	0	266,838
Residential mortgage – home equity	75,724	34	2,929	0	78,687
Consumer	33,578	63	384	0	34,025
Total	$727,913	$29,270	$ 161,840	$0	$919,023

December 31, 2010					
Commercial real estate					
Non owner-occupied	$121,144	$9,541	$33,914	$2,768	$167,367
All other CRE	123,115	8,995	49,027	80	181,217
Acquisition and development					
1-4 family residential construction	7,038	0	6,876	334	14,248
All other A&D	86,352	4,664	50,487	1,141	142,644
Commercial and industrial	46,760	2,933	20,299	0	69,992
Residential mortgage					
Residential mortgage - term	255,916	2,634	18,576	43	277,169
Residential mortgage – home equity	76,828	0	2,745	0	79,573
Consumer	76,736	23	784	0	77,543
Total	$793,889	$28,790	$182,708	$4,366	$1,009,753

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. A loan is considered to be past due when a payment has not been received for 30 days past its contractual due date. For all loan segments, the accrual of interest is discontinued when principal or interest is delinquent for 90 days or more unless the loan is well-secured and in the process of collection. All non-accrual loans are considered to be impaired. Interest payments received on non-accrual loans are applied as a reduction of the loan principal balance. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Corporation's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and non-accrual loans as of September 30, 2011 and December 31, 2010:

(in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days+ Past Due	Total Past Due and still accruing	Non-Accrual	Total Loans
September 30, 2011							
Commercial real estate							
Non owner-occupied	$ 131,425	$ 682	$ 4,854	$ 0	$ 5,536	$ 10,249	$ 147,210
All other CRE	166,717	472	5,232	0	5,704	1,721	174,142
Acquisition and development							
1-4 family residential construction	17,311	0	0	0	0	0	17,311
All other A&D	112,349	930	4,807	173	5,910	12,010	130,269
Commercial and industrial	60,241	246	3	1	250	10,050	70,541
Residential mortgage							
Residential mortgage - term	257,653	1,745	3,742	580	6,067	3,118	266,838
Residential mortgage – home equity	77,285	1,016	101	0	1,117	285	78,687
Consumer	32,391	1,160	375	73	1,608	26	34,025
Total	$ 855,372	$ 6,251	$ 19,114	$ 827	$ 26,192	$ 37,459	$ 919,023
December 31, 2010							
Commercial real estate							
Non owner-occupied	$ 146,470	$ 892	$ 8,801	$ 0	$ 9,693	$ 11,204	$ 167,367
All other CRE	179,661	581	286	0	867	689	181,217
Acquisition and development							
1-4 family residential construction	13,626	0	0	0	0	622	14,248
All other A&D	124,731	1,950	188	128	2,266	15,647	142,644
Commercial and industrial	67,688	883	22	44	949	1,355	69,992
Residential mortgage							
Residential mortgage - term	253,225	12,168	4,455	2,359	18,982	4,962	277,169
	78,533	559	129	78	766	274	79,573

Residential mortgage – home equity							
Consumer	74,392	2,116	700	183	2,999	152	77,543
Total	$ 938,326	$ 19,149	$ 14,581	$ 2,792	$ 36,522	$ 34,905	$ 1,009,753

Non-accrual loans which have been subject to a partial charge-off totaled $8.9 million as of September 30, 2011, compared to $2.9 million as of December 31, 2010.

An Allowance for Loan Losses ("ALL") is maintained to absorb losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

The Bank's methodology for determining the ALL is based on the requirements of ASC Section 310-10-35, Receivables-Overall-Subsequent Measurement, for loans individually evaluated for impairment and ASC Subtopic 450-20, Contingencies-Loss Contingencies, for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Bank's ALL.

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of September 30, 2011 and December 31, 2010.

(In thousands)	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Residential Mortgage	Consumer	Total
September 30, 2011						
Total ALL	$ 7,234	$ 6,524	$ 2,197	$ 3,694	$ 486	$ 20,135
Individually evaluated for impairment	$ 1,342	$ 2,132	$ 1,184	$ 78	$ 0	$ 4,736
Collectively evaluated for impairment	$ 5,892	$ 4,392	$ 1,013	$ 3,616	$ 486	$ 15,399
December 31, 2010						
Total ALL	$ 8,658	$ 6,345	$ 1,345	$ 4,211	$ 1,579	$ 22,138
Individually evaluated for impairment	$ 2,848	$ 1,475	$ 0	$ 43	$ 0	$ 4,366
Collectively evaluated for impairment	$ 5,810	$ 4,870	$ 1,345	$ 4,168	$ 1,579	$ 17,772

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $500,000 or is part of a relationship that is greater than $750,000, and (a) is either in nonaccrual status, or (b) is risk-rated Substandard and is greater than 60 days past due. Loans are considered to be impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Corporation does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of larger relationship that is impaired; otherwise loans in these segments are considered impaired when they are classified as non-accrual.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily utilizing the fair value of collateral method. If the fair value of the collateral less selling costs method is utilized for collateral securing loans in the commercial segments, then an updated external appraisal is ordered on the collateral supporting the loan if the loan balance is greater than $500,000 and the existing appraisal is greater than 18 months old. If an appraisal is less than 12 months old (the age at which the internal appraisal grid begins) and if management believes that general market conditions in that geographic market have changed considerably, the property has deteriorated or perhaps lost an income stream, or a recent appraisal for a similar property indicates a significant change, then management may adjust the fair value indicated by the existing appraisal until a new appraisal is obtained. If the most recent appraisal is greater than 12 months old or if an updated appraisal has not been received and reviewed in time for the determination of estimated fair value at quarter (or year) end, then the estimated fair value of the collateral is determined by adjusting the existing appraisal by the appropriate percentage from an internally prepared appraisal discount grid. This grid considers the age of a third party appraisal and the geographic region where the collateral is located in order to discount an appraisal that is greater than 12 months old. The discount rates in the appraisal discount grid are updated quarterly to reflect the most current knowledge that management has available, including the results of current appraisals. If there is a delay in receiving an updated appraisal or if the appraisal is found to be deficient in our internal appraisal review process and re-ordered, the Corporation continues to use a discount factor from the appraisal discount grid based on the collateral location and current appraisal age in order to determine the estimated fair value. A specific allocation of the ALL is recorded if there is any deficiency in collateral value determined by comparing the estimated fair value to the recorded investment of the loan. When updated appraisals are received and reviewed, adjustments are made to the specific allocation as needed.

The evaluation of the need and amount of a specific allocation of the ALL and whether a loan can be removed from impairment status is made on a quarterly basis.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2011 and December 31, 2010:

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans	
(in thousands)	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
September 30, 2011					
Commercial real estate					
Non owner-occupied	$1,257	$1,073	$9,282	$10,539	$15,666
All other CRE	832	269	7,567	8,399	8,424
Acquisition and development					
1-4 family residential construction	2,491	861	0	2,491	2,491
All other A&D	7,884	1,271	17,435	25,319	28,381
Commercial and industrial	9,400	1,184	4,367	13,767	14,063
Residential mortgage					
Residential mortgage - term	573	78	4,708	5,281	5,920
Residential mortgage – home equity	0	0	534	534	580
Consumer	0	0	26	26	27
Total impaired loans	$22,437	$4,736	$43,919	$66,356	$75,552
December 31, 2010					
Commercial real estate					
Non owner-occupied	$8,183	$2,768	$4,635	$12,818	$12,818
All other CRE	713	80	2,740	3,453	3,478
Acquisition and development					
1-4 family residential construction	2,823	334	622	3,445	3,491
All other A&D	7,269	1,141	20,482	27,751	31,284
Commercial and industrial	0	0	5,131	5,131	6,540
Residential mortgage					
Residential mortgage - term	725	43	8,606	9,331	10,086
Residential mortgage – home equity	0	0	522	522	522
Consumer	0	0	152	152	153
Total impaired loans	$19,713	$4,366	$42,890	$62,603	$68,372

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors.

The classes described above, which are based on the Federal call code assigned to each loan, provide the starting point for the ALL analysis. Management tracks the historical net charge-off activity (full and partial charge-offs, net of full and partial recoveries) at the call code level. A historical charge-off factor is calculated utilizing a defined number of consecutive historical quarters. Consumer pools currently utilize a rolling 12 quarters, while Commercial pools currently utilize a rolling eight quarters.

“Pass” rated credits are segregated from “Criticized” credits for the application of qualitative factors. The un-criticized (“pass”) pools for commercial and residential real estate are further segmented based upon the geographic location of the underlying collateral. There are seven geographic regions utilized – six that represent the Bank’s lending footprint and a seventh for all out-of-market credits. Different economic environments and resultant credit risks exist in each region that are acknowledged in the assignment of qualitative factors. Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closely monitored by management and subject to additional qualitative factors.

Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: (a) national and local economic trends and conditions; (b) levels of and trends in delinquency rates and non-accrual loans; (c) trends in volumes and terms of loans; (d) effects of changes in lending policies; (e) experience, ability, and depth of lending staff; (f) value of underlying collateral; and (g) concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL. Residential mortgage and consumer loans are charged off after they are 120 days contractually past due. All other loans are charged off based on an evaluation of the facts and circumstances of each individual loan. When the Bank believes that its ability to collect is solely dependent on the liquidation of the collateral, a full or partial charge-off is recorded promptly to bring the recorded investment to an amount that the Bank believes is supported by an ability to collect on the collateral. The circumstances that may impact the Bank's decision to charge-off all or a portion of a loan include default or non-payment by the borrower, scheduled foreclosure actions, and/or prioritization of the Bank's claim in bankruptcy. There may be circumstances where due to pending events, the Bank will place a specific allocation of the ALL on a loan for which a partial charge-off has been previously recognized. This specific allocation may be either charged-off or removed depending upon the outcome of the pending event. Full or partial charge-offs are not recovered until full principal and interest on the loan have been collected, even if a subsequent appraisal supports a higher value. Loans with partial charge-offs remain in non-accrual status. Both full and partial charge-offs reduce the recorded investment of the loan and the ALL and are considered to be charge-offs for purposes of all credit loss metrics and trends, including the historical rolling charge-off rates used in the determination of the ALL.

Activity in the ALL is presented for the nine- and three-months ended September 30, 2011 and September 30, 2010:

	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Residential Mortgage	Consumer	Total
ALL balance at January 1, 2011	$ 8,658	$ 6,345	$ 1,345	$ 4,211	$ 1,579	$ 22,138
Charge-offs	(5,508)	(1,048)	(515)	(1,403)	(673)	(9,147)
Recoveries	91	278	15	415	406	1,205
Provision	3,993	949	1,352	471	(826)	5,939
ALL balance at September 30, 2011	$ 7,234	$ 6,524	$ 2,197	$ 3,694	$ 486	$ 20,135
ALL balance at January 1, 2010	$ 5,351	$ 7,922	$ 1,945	$ 3,061	$ 1,811	$ 20,090
Charge-offs	(513)	(3,601)	(1,402)	(1,701)	(1,489)	(8,706)
Recoveries	94	1,067	380	330	380	2,251
Provision	1,103	5,169	985	2,449	947	10,653
ALL balance at September 30, 2010	$ 6,035	$ 10,557	$ 1,908	$ 4,139	$ 1,649	$ 24,288

	Commercial Real Estate	Acquisition and Development	Commercial and Industrial	Residential Mortgage	Consumer	Total
ALL balance at July 1, 2011	$ 6,112	$ 8,440	$ 2,235	$ 3,714	$ 500	$ 21,001
Charge-offs	(978)	(327)	(267)	(601)	(197)	(2,370)
Recoveries	13	7	5	24	121	170
Provision	2,087	(1,596)	224	557	62	1,334
ALL balance at September 30, 2011	$ 7,234	$ 6,524	$ 2,197	$ 3,694	$ 486	$ 20,135
ALL balance at July 1, 2010	$ 5,595	$ 10,141	$ 2,017	$ 4,299	$ 1,730	$ 23,782
Charge-offs	(49)	(1,753)	(1,059)	(235)	(293)	(3,389)
Recoveries	9	22	147	159	91	428
Provision	480	2,147	803	(84)	121	3,467
ALL balance at September 30, 2010	$ 6,035	$ 10,557	$ 1,908	$ 4,139	$ 1,649	$ 24,288

The ALL is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

The following tables present the average recorded investment in impaired loans by class and related interest income recognized for the periods indicated:

	Nine months ended September 30, 2011			Nine months ended September 30, 2010		
(in thousands)	Average investment	Interest income recognized on an accrual basis	Interest income recognized on a cash basis	Average investment	Interest income recognized on an accrual basis	Interest income recognized on a cash basis
Commercial real estate						
Non owner-occupied	$ 13,409	$ 41	$ 91	$ 9,960	$ 214	$ 0
All other CRE	6,636	204	50	16,132	483	0
Acquisition and development						
1-4 family residential construction	2,921	69	0	1,099	14	0
All other A&D	26,520	444	81	58,253	704	0
Commercial and industrial	11,688	117	0	9,314	226	0
Residential mortgage						
Residential mortgage - term	6,761	117	14	7,729	183	0
Residential mortgage – home equity	635	10	4	3,231	65	0
Consumer	61	0	0	51	0	0
Total	$ 68,631	$ 1,002	$ 240	$ 105,769	$ 1,889	$ 0

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	Three months ended September 30, 2011			Three months ended September 30, 2010		
(in thousands)	Average investment	Interest income recognized on an accrual basis	Interest income recognized on a cash basis	Average investment	Interest income recognized on an accrual basis	Interest income recognized on a cash basis
Commercial real estate						
Non owner-occupied	$ 11,650	$ 6	$ 30	$ 9,012	$ 64	$ 0
All other CRE	8,202	74	0	11,750	137	0
Acquisition and development						