BRYN MAWR BANK CORP
Form 10-Q
November 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15 (d)

of the Securities and Exchange Act of 1934.

For Quarter ended September 30, 2010

Commission File Number 0-15261

Bryn Mawr Bank Corporation

(Exact name of registrant as specified in its charter)

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

incorporation or organization)	**identification No.)**

801 Lancaster Avenue, Bryn Mawr, Pennsylvania	**19010**
(Address of principal executive offices)	**(Zip Code)**

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

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

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

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

Class	**Outstanding at November 3, 2010**
Common Stock, par value $1	12,191,326

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2010

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Statements of Income

(dollars in thousands, except share and per share data)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest income:				
Interest and fees on loans and leases	$ 16,876	$ 12,905	$ 42,285	$ 38,873
Interest on cash and cash equivalents	61	40	113	231
Interest on investment securities	1,536	1,241	3,793	3,597
Total interest income	18,473	14,186	46,191	42,701
Interest expense:				
Savings, NOW, and market rate accounts	841	729	2,164	2,343
Time deposits	654	1,094	1,565	3,963
Wholesale deposits	242	465	719	1,894
FHLB advances	1,409	1,239	3,638	3,755
Subordinated debt	294	299	847	825
Junior subordinated debentures	223		223	
Mortgage payable	28	30	85	53
Total interest expense	3,691	3,856	9,241	12,833
Net interest income	14,782	10,330	36,950	29,868
Provision for loan and lease losses	4,236	2,305	8,343	5,582
Net interest income after provision for loan and lease losses	10,546	8,025	28,607	24,286
Non-interest income:				
Fees for wealth management services	3,689	3,457	11,418	10,581
Service charges on deposits	672	493	1,662	1,447
Loan servicing and other fees	422	367	1,183	1,001
Net gain on sale of residential mortgage loans	1,189	760	2,320	5,153
Net gain on sale of available for sale investments	259	848	1,803	1,320
Net gain on trading investments		160		240
Net gain (loss) on sale of other real estate owned (OREO)	38	6	(114)	6
BOLI income	131		131	
Other operating income	653	552	1,699	2,181
Total non-interest income	7,053	6,643	20,102	21,929
Non-interest expenses:				
Salaries and wages	7,047	5,322	17,679	16,427
Employee benefits	1,646	1,281	4,568	4,325
Occupancy and bank premises	1,195	893	3,080	2,726
Furniture, fixtures, and equipment	695	634	1,847	1,832
Advertising	303	196	821	774
Amortization of mortgage servicing rights	206	186	615	637
Net impairment (recovery) of mortgage servicing rights	168	(51)	386	38
Amortization of core deposit intangible asset	89		89	

Amortization of other intangible assets	77	77	231	231
FDIC insurance	416	265	1,029	944
FDIC special assessment				540
OREO expense	54		110	
Impairment of OREO	381		381	
Merger related expenses	4,292	85	5,277	
Professional fees	459	419	1,537	1,306
Other operating expenses	2,337	1,382	5,571	4,664
Total non-interest expenses	19,365	10,689	43,221	34,444
(Loss) income before income taxes	(1,766)	3,979	5,488	11,771
Income tax (benefit) expense	(746)	1,360	1,879	4,071
Net (loss) income	$ (1,020)	$ 2,619	$ 3,609	$ 7,700
Basic (loss) earnings per common share	$ (0.08)	$ 0.30	$ 0.35	$ 0.88
Diluted (loss) earnings per common share	$ (0.08)	$ 0.30	$ 0.35	$ 0.88
Dividends declared per share	$ 0.14	$ 0.14	$ 0.42	$ 0.42
Weighted-average basic shares outstanding	12,184,447	8,782,632	10,284,897	8,710,909
Dilutive potential shares		17,664	12,836	19,254
Adjusted weighted-average diluted shares	12,184,447	8,800,296	10,297,733	8,730,163

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Balance Sheets

(dollars in thousands, except share and per share data)	**September 30, 2010**	**December 31, 2009**
Assets		
Cash and due from banks	$ 11,090	$ 11,670
Interest bearing deposits with banks	42,089	58,472
Money market funds	223	9,175
Cash and cash equivalents	53,402	79,317
Investment securities available for sale, at fair value (amortized cost of $352,483 and $206,689 as of September 30, 2010 and December 31, 2009 respectively)	356,838	208,224
Loans held for sale	4,686	3,007
Portfolio loans and leases	1,176,438	885,739
Less: Allowance for loan and lease losses	(10,297)	(10,424)
Net portfolio loans and leases	1,166,141	875,315
Premises and equipment, net	29,340	21,438
Accrued interest receivable	6,623	4,289
Deferred income taxes	15,071	4,991
Mortgage servicing rights	4,009	4,059
Bank owned life insurance	18,838	
FHLB stock	14,976	7,916
Goodwill	16,671	6,301
Core deposit intangible	2,038	
Other intangible assets	5,190	5,421
Other investments	4,600	3,140
Other assets	15,761	15,403
Total assets	$ 1,714,184	$ 1,238,821
Liabilities		
Deposits:		
Non-interest-bearing demand	$ 227,080	$ 212,903
Savings, NOW and market rate accounts	670,771	482,987
Other wholesale deposits	65,124	52,174
Wholesale time deposits	34,834	36,118
Time deposits	261,839	153,705
Total deposits	1,259,648	937,887
FHLB advances	221,793	144,826
Mortgage payable	2,016	2,062
Subordinated debentures	22,500	22,500
Junior subordinated debentures	12,041	
Repurchase agreements	11,883	
Accrued interest payable	3,159	1,987
Other liabilities	22,817	25,623

Total liabilities	1,555,857	1,134,885
Shareholders equity		
Common stock, par value $1; authorized 100,000,000 shares; issued 15,105,469 and 11,786,084 shares as of September 30, 2010 and December 31, 2009, respectively, and outstanding of 12,190,991 and 8,866,420 as of September 30, 2010 and December 31, 2009, respectively	15,105	11,786
Paid-in capital in excess of par value	68,166	17,705
Accumulated other comprehensive loss, net of taxes	(5,754)	(6,913)
Retained earnings	110,691	111,290
	188,208	133,868
Less: Common stock in treasury at cost 2,914,478 and 2,919,664 shares as of September 30, 2010 and December 31, 2009, respectively	(29,881)	(29,932)
Total shareholders equity	158,327	103,936
Total liabilities and shareholders equity	$ 1,714,184	$ 1,238,821

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows

(dollars in thousands)	Nine Months Ended September 30, 2010	2009
Operating activities:		
Net Income	$ 3,609	$ 7,700
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	8,343	5,582
Provision for depreciation and amortization	2,628	2,257
Loans originated for resale	(79,330)	(236,100)
Proceeds from loans sold	80,642	240,144
Purchase of trading securities		(5,076)
Gain on trading securities		(240)
Net gain on sale of available for sale securities	(1,803)	(1,320)
Net gain on sale of residential mortgages	(2,320)	(5,153)
Provision for deferred income taxes	(1,607)	(788)
Stock based compensation cost	373	283
Change in income taxes payable/receivable	54	1,792
Change in accrued interest receivable	(598)	(326)
Change in accrued interest payable	(678)	(1,477)
Amortization and net impairment of mortgage servicing rights	1,001	675
Net accretion of fair value adjustments	(1,306)	
Amortization of core deposit intangible	89	
Amortization of other intangible assets	231	231
Impairment of OREO	381	
Loss (gain) on sale of OREO	114	(6)
Net change in cash surrender value of bank owned life insurance (BOLI)	(131)	
Other, net	3,212	5,477
Net cash provided by operating activities	12,904	13,655
Investing activities:		
Purchases of investment securities	(271,543)	(128,028)
Proceeds from maturity of investment securities and mortgage-backed securities paydowns	12,169	20,577
Proceeds from sale of investment securities available for sale	57,787	40,053
Proceeds from calls of investment securities	150,020	9,500
Net change in other investments	(97)	(124)
Proceeds from BOLI repayment		15,585
Net portfolio loan and lease (originations) repayments	(26,715)	5,587
Purchases of premises and equipment	(1,579)	(1,472)
Contingent earn-out payment for Lau Associates	(1,477)	(195)
Acquisition of First Keystone Financial, Inc., net cash acquired	46,240	
Decrease in OREO	2	
Proceeds from sale of OREO	1,371	382
Net cash used by investing activities	(33,822)	(38,135)
Financing activities:		
Change in demand, NOW, savings and market rate deposit accounts	15,018	67,118

Change in time deposits	(25,372)	(35,154)
Change in wholesale time and other wholesale deposits	11,666	(1,978)
Change in repurchase agreements	(1,204)	
Dividends paid	(4,208)	(3,661)
Increase in borrowed funds greater than 90 days		
Repayment of borrowed funds greater than 90 days	(27,816)	(7,553)
Increase in subordinated debentures		7,500
Change in mortgage payable	(46)	2,076
Purchase of treasury stock		(42)
Tax benefit from exercise of stock options	58	63
Proceeds from issuance of common stock	26,650	2,501
Proceeds from exercise of stock options	257	497
Net cash (used) provided by financing activities	(4,997)	31,367
Change in cash and cash equivalents	(25,915)	6,887
Cash and cash equivalents at beginning of period	79,317	68,985
Cash and cash equivalents at end of period	$ 53,402	$ 75,872
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	$ 3,418	$ 2,999
Interest	$ 8,069	$ 14,311
Supplemental cash flow information:		
Available for sale securities purchased, not settled	900	
Change in unrealized gains on available for sale securities and pension	1,783	2,894
Change in deferred taxes due to change in comprehensive income	624	1,013
Transfer of loans to other real estate owned	1,962	
Acquisition of noncash assets and liabilities:		
Assets acquired	438,937	
Liabilities assumed	458,684	

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Statement of Changes in Shareholders Equity

	Nine months ending September 30, 2010						
(dollars in thousands, except share information)	**Shares of Common Stock issued**	**Common Stock**	**Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Treasury Stock**	**Total Shareholders Equity**
Balance December 31, 2009	11,786,084	$ 11,786	$ 17,705	$ 111,290	$ (6,913)	$ (29,932)	$ 103,936
Net income				3,609			3,609
Dividends declared, $0.42 per share				(4,208)			(4,208)
Other comprehensive income, net of taxes					1,159		1,159
Stock based compensation			373				373
Tax benefit from gains on stock option exercise			58				58
Retirement of treasury stock	(5,186)	(5)	(46)			51	
Common stock issued:							
Dividend Reinvestment and Stock Purchase Plan	122,031	122	1,958				2,080
Exercise of stock options	24,239	24	233				257
Acquisition of First Keystone Financial, Inc.	1,630,134	1,630	24,863				26,493
Registered direct common stock offering	1,548,167	1,548	23,022				24,570
Balance September 30, 2010	15,105,469	$ 15,105	$ 68,166	$ 110,691	$ (5,754)	$ (29,881)	$ 158,327

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Statements of Comprehensive Income

(dollars in thousands)	**Three Months Ended September 30, 2010**	**Three Months Ended September 30, 2009**
Net (loss) income	$ (1,020)	$ 2,619
Other comprehensive (loss) income:		
Unrealized investment gains, net of tax expense $666 and $418, respectively	1,236	775
Change in unfunded pension liability, net of tax (benefit) expense of $(608) and $147, respectively	(1,130)	272
Total comprehensive (loss) income	$ (914)	$ 3,666

	Nine Months Ended September 30, 2010	**Nine Months Ended September 30, 2009**
Net income	$ 3,609	$ 7,700
Other comprehensive income:		
Unrealized investment gains, net of tax expense $987 and $682, respectively	1,833	1,266
Change in unfunded pension liability, net of tax (benefit) expense of $(363) and $331, respectively	(674)	615
Total comprehensive income	$ 4,768	$ 9,581

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

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of Bryn Mawr Bank Corporation s (the Corporation) Management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation s 2009 Annual Report on Form 10-K (2009 Annual Report). The Corporation s consolidated financial condition and results of operations consist almost entirely of The Bryn Mawr Trust Company s (the Bank) financial condition and results of operations.

The results of operations for the three month and nine month periods ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year.

2. Acquisition of First Keystone Financial, Inc.

On July 1, 2010, the merger of First Keystone Financial, Inc. (FKF) with and into the Corporation (the Merger), and the two step merger of FKF s wholly-owned subsidiary, First Keystone Bank (FKB) with and into the Bank, were completed. In accordance with the terms of the Agreement and Plan of Merger, dated November 3, 2009, by and between the Corporation and FKF (the Merger Agreement), shareholders of FKF received 0.6973 shares of the Corporation s common stock plus $2.06 per share cash consideration for each share of FKF common stock they owned as of the effective date of the Merger. The 85% stock and 15% cash transaction is valued at $31.3 million, based on FKF s June 30, 2010, closing share price as listed on the NASDAQ stock market of $13.35. The aggregate consideration paid to FKF shareholders consisted of approximately 1.6 million shares of the Corporation s common stock, valued at approximately $26.4 million, and approximately $4.8 million in cash. FKF employee stock options, valued at approximately $102 thousand, which were fully vested and converted to options to purchase the Corporation s common stock upon the closing of the Merger, were also included in the total consideration paid. The results of combined entity s operations are included in the Corporation s unaudited Consolidated Statements of Income for the period beginning July 1, 2010, the date of the acquisition.

The acquisition of FKF, a federally chartered thrift institution with assets of approximately $483 million, enabled the Corporation to increase its regional footprint with the addition of eight full service branch locations, primarily in Delaware County, Pennsylvania. The geographic locations of the acquired branches were such that it was not necessary to close any of the former FKF branches. By expanding into these new areas within Delaware County, the Corporation will be able to extend its successful sales culture as well as offer its reputable wealth management products and other value-added services to a wider segment of the county s population. In addition, a large majority of the FKF employees were retained, which will allow the Corporation to maintain the valuable customer relationships that FKF was able to build over the past century.

The acquisition of FKF was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The excess of consideration paid over the fair value of net assets acquired was recorded as goodwill in the amount of approximately $10.4 million, which will not be amortizable and is not deductible for tax purposes. The Corporation allocated the total balance of goodwill to its Banking segment. The Corporation also recorded $2.1 million in core deposit intangibles which will be amortized over ten years using a declining balance method.

The fair values listed below are preliminary estimates and are subject to adjustment, however, while they are not expected to be materially different than those shown, any material adjustments to the estimates will be reflected, retroactively, as of the date of the acquisition.

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

(dollars in thousands)	
Consideration paid:	
Common shares issued (1,630,134 shares)	$ 26,391
Cash paid to FKF shareholders	4,819
Fair value of FKF employee stock options	102
Value of consideration	31,312
Assets acquired:	
Cash and due from banks	51,059
Investment securities	100,888
Loans	274,783
Premises and equipment	7,856
Deferred federal income taxes	9,097
Bank owned life insurance	18,711
Federal Home Loan Bank (FHLB) stock	7,060
Core deposit intangible	2,127
Other assets	8,045
Total assets	479,626
Liabilities assumed:	
Deposits	320,768
FHLB advances	105,734
Junior subordinated debentures	12,103
Repurchase agreements	13,087
Other liabilities	6,992
Total liabilities	458,684
Net assets acquired	20,942
Goodwill resulting from acquisition of FKF	$ 10,370

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at appropriate market rates. The most significant category of assets for which this procedure was used was that of acquired loans. The excess of expected cash flows above the fair value of the majority of loans will be accreted to interest income over the remaining lives of the loans in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 310-20 (formerly SFAS 91).

Certain loans, those for which specific credit-related deterioration, since origination, was identified, are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition on these loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on non-accrual status and have no accretable yield. The Corporation uses the cash basis method of interest income recognition for these impaired loans. The following table details the loans that are accounted for in accordance with FASB ASC 310-30 (formerly SOP 03-3) as of July 1, 2010:

Contractually required principal and interest at acquisition	$ 39,792
Contractual cash flows not expected to be collected (nonaccretable difference)	14,370

Expected cash flows at acquisition	25,422
Interest component of expected cash flows (accretable discount)	6,208
Fair value of acquired loans accounted for under FASB ASC 310-30	$ 19,214

In accordance with accounting principles generally accepted in the United States (GAAP), there was no carryover of the allowance for loan losses that had been previously recorded by FKF.

In connection with the acquisition of FKF, the Corporation acquired an investment portfolio with a fair value of $100.9 million. The fair value of the investment portfolio was determined by taking into account market prices obtained from independent valuation sources.

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In connection with the acquisition of FKF, the Corporation recorded a deferred income tax asset of $9.1 million related to FKF s net operating loss carryforward, as well as other tax attributes of the acquired company, along with the effects of fair value adjustments resulting from applying the acquisition method of accounting. This deferred tax asset is net of a valuation allowance of $1.3 million.

The fair value of savings and transaction deposit accounts acquired from FKF was assumed to approximate their carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit accounts were valued by comparing the contractual cost of the portfolio to an identical portfolio bearing current market rates. The portfolio was segregated into pools based on remaining maturity. For each pool, the projected cash flows from maturing certificates were then calculated based on contractual rates and prevailing market rates. The valuation adjustment for each pool is equal to the present value of the difference of these two cash flows, discounted at the assumed market rate for a certificate with a corresponding maturity. This valuation adjustment will be accreted to reduce interest expense over the remaining maturities of the respective pools.

Due to the overnight nature of the repurchase agreements acquired from FKF, their carrying value was used to approximate their fair value as of the acquisition date, and hence, no adjustment to fair value was recorded.

The fair value of the FHLB advances was determined based on the prepayment penalties that would have been assessed as of July 1, 2010, by the FHLB for their redemption. This adjustment to the face value of the borrowings will be accreted to reduce interest expense over the remaining lives of the respective borrowings.

The fair value of the junior subordinated debentures was determined based on the price to call the instruments. The premium to call the debentures decreases annually until August 2017, at which time they may be called at par. This fair value adjustment will be accreted to reduce interest expense over the periods ending in August 2017.

Direct costs related to the acquisition were expensed as incurred. During the nine months ended September 30, 2010, the Corporation incurred $5.3 million in merger and acquisition integration expenses related to the transaction, including $1.1 million in salaries and benefits, $1.5 million in technology and communications, $55 thousand in occupancy and equipment, $275 thousand in marketing and advertising, $1.9 million in professional services, and $472 thousand in other noninterest expenses.

The following table presents unaudited pro forma information as if the acquisition of FKF had occurred on both January 1, 2010 and January 1, 2009. This pro forma information gives effect to certain adjustments, including purchase accounting fair value adjustments, amortization of core deposit and other intangibles and related income tax effects.

The pro forma information does not necessarily reflect the results of operations that would have occurred had the acquisition of FKF occurred at the beginning of 2010 or 2009. In particular, expected cost savings and $5.9 million of merger and acquisition integration costs are not reflected in the pro forma amounts.

	Pro forma Nine Months Ended	
(dollars in thousands)	**September 30, 2010**	**September 30, 2009**
Net interest income	$ 43,868	$ 41,609
Allowance for loan loss	(10,243)	(8,507)
Non-interest income	19,043	23,328
Non-interest expense and income taxes	47,156	48,669
Net income	$ 5,513	$ 7,762

3. Earnings Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	**2010**	**2009**	**2010**	**2009**
Numerator:				
Net (loss) income available to common shareholders	$ (1,020)	$ 2,619	$ 3,609	$ 7,700
Denominator for basic earnings per share weighted average shares outstanding	12,184,447	8,782,632	10,284,897	8,710,909
Effect of dilutive potential common shares		17,664	12,836	19,254
Denominator for diluted earnings per share adjusted weighted average shares outstanding	12,184,447	8,800,296	10,297,733	8,730,163
Basic (loss) earnings per share	$ (0.08)	$ 0.30	$ 0.35	$ 0.88
Diluted (loss) earnings per share	$ (0.08)	$ 0.30	$ 0.35	$ 0.88
Antidilutive shares excluded from computation of average dilutive earnings per share	953,301	763,102	927,006	718,370

4. Allowance for Loan and Lease Losses

The allowance for loan and lease losses is established through a provision for loan and lease losses charged as an expense. Loans are charged against the allowance for loan and lease losses when the Corporation believes that such amounts are uncollectible. The allowance for loan and lease losses is maintained at a level that the Corporation believes is sufficient to absorb estimated probable credit losses. Note 1 Summary of Significant Accounting Policies Allowance for Loan and Lease Losses, included in the Corporation s 2009 Annual Report contains additional information relative to the Corporation s determination of the adequacy of the allowance for loan and lease losses.

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
(dollars in thousands)	**2010**	**2009**	**2010**	**2009**	**2009**
Balance, beginning of period	$ 9,841	$ 10,389	$ 10,424	$ 10,332	$ 10,332
Charge-offs	(3,934)	(2,581)	(8,951)	(5,985)	(7,370)
Recoveries	154	186	481	370	578
Net charge-offs	(3,780)	(2,395)	(8,470)	(5,615)	(6,792)
Provision for loan and lease losses	4,236	2,305	8,343	5,582	6,884
Balance, end of period	$ 10,297	$ 10,299	$ 10,297	$ 10,299	$ 10,424

5. Investment Securities

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

As of September 30, 2010

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury obligations	$ 5,012	$ 215	$	$ 5,227
Obligations of the U.S. Government and agencies	186,430	1,190	(11)	187,609
State & political subdivisions	33,709	890	(5)	34,594
Federal agency mortgage-backed securities	41,632	807	(8)	42,431
Government agency mortgage-backed securities	19,392	74	(64)	19,402
Collateralized mortgage obligations	2,461	29		2,490
Other debt securities	1,250			1,250
Total fixed income investments	$ 289,886	$ 3,205	$ (88)	$ 293,003
Bond mutual funds	62,354	1,187		63,541
Other equity investments	243	51		294
Total equity investments	62,597	1,238		63,835
Total	$ 352,483	$ 4,443	$ (88)	$ 356,838

As of December 31, 2009

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of the U.S. Government and agencies	$ 85,462	$ 75	$ (476)	$ 85,061
State & political subdivisions	24,859	197	(32)	25,024
Federal agency mortgage-backed securities	49,318	1,634		50,952