ACNB CORP
Form 10-Q
November 01, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

Commission file number 0-11783

ACNB CORPORATION

(Exact name of Registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	**23-2233457** (I.R.S. Employer Identification No.)
16 Lincoln Square, Gettysburg, Pennsylvania (Address of principal executive offices)	**17325** (Zip Code)

Registrant s telephone number, including area code: **(717) 334-3161**

Title of each class	**Name of each exchange on which registered**
Common Stock, $2.50 par value per share	The NASDAQ Stock Market, LLC

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 x No o

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 x No o

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 definitions of   large accelerated filer,   accelerated filer   and   smaller reporting company   in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

The number of shares of the Registrant s Common Stock outstanding on November 1, 2013, was 5,986,661.

PART I - FINANCIAL INFORMATION

ACNB CORPORATION

ITEM 1 - FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)

Dollars in thousands, except per share data	September 30, 2013	September 30, 2012	December 31, 2012
ASSETS			
Cash and due from banks	**$ 16,371**	$ 12,338	$ 19,078
Interest bearing deposits with banks	**2,856**	52,165	32,307
Total Cash and Cash Equivalents	**19,227**	64,503	51,385
Securities available for sale	**135,163**	175,889	165,790
Securities held to maturity, fair value $94,667; $48,971; $50,980	**96,255**	48,016	50,159
Loans held for sale	**603**	3,618	6,687
Loans, net of allowance for loan losses $16,797; $15,993; $16,825	**701,251**	686,082	691,311
Premises and equipment	**15,545**	14,529	15,131
Restricted investment in bank stocks	**4,189**	5,887	5,318
Investment in bank-owned life insurance	**32,003**	30,876	31,122
Investments in low-income housing partnerships	**5,233**	5,562	5,440
Goodwill	**6,308**	6,308	6,308
Intangible assets	**1,928**	2,570	2,409
Foreclosed assets held for resale	**1,608**	4,901	4,247
Other assets	**15,217**	14,282	14,688
Total Assets	**$ 1,034,530**	$ 1,063,023	$ 1,049,995
LIABILITIES AND STOCKHOLDERS EQUITY			
LIABILITIES			
Deposits:			
Non-interest bearing	**$ 130,110**	$ 119,086	$ 119,297
Interest bearing	**689,121**	712,265	714,879
Total Deposits	**819,231**	831,351	834,176
Short-term borrowings	**57,418**	52,926	47,303
Long-term borrowings	**47,767**	70,015	59,954
Other liabilities	**7,094**	7,054	7,298
Total Liabilities	**931,510**	961,346	948,731
STOCKHOLDERS EQUITY			
Preferred Stock, $2.50 par value; 20,000,000 shares authorized; no shares outstanding			

Common stock, $2.50 par value; 20,000,000 shares authorized; 6,049,261, 6,023,320 and 6,027,968 shares issued; 5,986,661, 5,960,720 and 5,965,368 shares outstanding		**15,123**		15,058		15,070
Treasury stock, at cost (62,600 shares)		**(728)**		(728)		(728)
Additional paid-in capital		**9,557**		9,183		9,246
Retained earnings		**81,532**		76,802		77,888
Accumulated other comprehensive (loss) income		**(2,464)**		1,362		(212)
Total Stockholders Equity		**103,020**		101,677		101,264
Total Liabilities and Stockholders Equity	**$**	**1,034,530**	$	1,063,023	$	1,049,995

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Dollars in thousands, except per share data	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
INTEREST INCOME				
Loans, including fees	**$ 7,840**	$ 8,484	**$ 24,074**	$ 25,551
Securities:				
Taxable	**1,078**	1,158	**3,166**	3,758
Tax-exempt	**280**	393	**922**	1,130
Dividends	**6**	4	**16**	11
Other	**16**	28	**64**	51
Total Interest Income	**9,220**	10,067	**28,242**	30,501
INTEREST EXPENSE				
Deposits	**500**	864	**1,721**	2,652
Short-term borrowings	**17**	19	**44**	60
Long-term borrowings	**419**	643	**1,321**	2,040
Total Interest Expense	**936**	1,526	**3,086**	4,752
Net Interest Income	**8,284**	8,541	**25,156**	25,749
PROVISION FOR LOAN LOSSES	**150**	1,125	**1,300**	3,375
Net Interest Income after Provision for Loan Losses	**8,134**	7,416	**23,856**	22,374
OTHER INCOME				
Service charges on deposit accounts	**596**	648	**1,682**	1,803
Income from fiduciary activities	**333**	288	**976**	932
Earnings on investment in bank-owned life insurance	**246**	255	**741**	735
Gain on life insurance proceeds		63		63
Net gains on sales or calls of securities				7
Service charges on ATM and debit card transactions	**376**	323	**1,051**	955
Commissions from insurance sales	**1,079**	1,133	**3,609**	3,633
Other	**217**	262	**873**	725
Total Other Income	**2,847**	2,972	**8,932**	8,853
OTHER EXPENSES				
Salaries and employee benefits	**4,546**	4,527	**14,158**	13,772
Net occupancy	**463**	487	**1,471**	1,477
Equipment	**727**	573	**2,177**	1,855
Other tax	**199**	221	**669**	614
Professional services	**232**	186	**667**	628
Supplies and postage	**127**	141	**443**	468
Marketing and corporate relations	**81**	67	**293**	257
FDIC and regulatory	**191**	189	**592**	640
Intangible assets amortization	**160**	160	**481**	481
Foreclosed real estate expenses	**503**	116	**410**	346
Other operating	**817**	825	**2,458**	2,334
Total Other Expenses	**8,046**	7,492	**23,819**	22,872

Income before Income Taxes		**2,935**		2,896		**8,969**		8,355
PROVISION FOR INCOME TAXES		**627**		592		**1,921**		1,687
Net Income	**$**	**2,308**	$	2,304	**$**	**7,048**	$	6,668
PER SHARE DATA								
Basic earnings	**$**	**0.39**	$	0.39	**$**	**1.18**	$	1.12
Cash dividends declared	**$**	**0.19**	$	0.19	**$**	**0.57**	$	0.57

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Dollars in thousands	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
NET INCOME	**$ 2,308**	$ 2,304	**$ 7,048**	$ 6,668
OTHER COMPREHENSIVE (LOSS) INCOME				
SECURITIES				
Unrealized (losses) gains arising during the period, net of income taxes of $(82), $208, $(1,336) and $196, respectively	**(159)**	407	**(2,595)**	386
Reclassification adjustment for net gains included in net income, net of income taxes of $0, $0, $0 and $(2), respectively (A) (C)				(5)
PENSION				
Change in plan assets and benefit obligations, net of income taxes of $58, $56, $176 and $170, respectively (B) (C)	**115**	109	**343**	326
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	**(44)**	516	**(2,252)**	707
TOTAL COMPREHENSIVE INCOME	**$ 2,264**	$ 2,820	**$ 4,796**	$ 7,375

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

(A) Amounts are included in net gains on sales or calls of securities on the Consolidated Statements of Income in total other income.

(B) Amounts are included in the computation of net periodic benefit cost and are included in salaries and employee benefits on the Consolidated Statements of Income in total other expenses.

(C) Income tax amounts are included in the provision for income taxes on the Consolidated Statements of Income.

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

Nine Months Ended September 30, 2013 and 2012

Dollars in thousands	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
BALANCE JANUARY 1, 2012	$ 15,021	$ (728)	$ 9,000	$ 73,526	$ 655	$ 97,474
Net income				6,668		6,668
Other comprehensive income, net of taxes					707	707
Common stock shares issued (14,911 shares)	37		183			220
Cash dividends declared				(3,392)		(3,392)
BALANCE SEPTEMBER 30, 2012	$ 15,058	$ (728)	$ 9,183	$ 76,802	$ 1,362	$ 101,677
BALANCE JANUARY 1, 2013	**$ 15,070**	**$ (728)**	**$ 9,246**	**$ 77,888**	**$ (212)**	**$ 101,264**
Net income				**7,048**		**7,048**
Other comprehensive loss, net of taxes					**(2,252)**	**(2,252)**
Common stock shares issued (21,293 shares)	**53**		**311**			**364**
Cash dividends declared				**(3,404)**		**(3,404)**
BALANCE SEPTEMBER 30, 2013	**$ 15,123**	**$ (728)**	**$ 9,557**	**$ 81,532**	**$ (2,464)**	**$ 103,020**

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Dollars in thousands	Nine Months Ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 7,048**	$ 6,668
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of loans	**(417)**	(192)
Loss on sales of assets held for resale, including writedowns	**173**	143
Earnings on investment in bank-owned life insurance	**(741)**	(735)
Gain on life insurance proceeds		(63)
Gain on sales or calls of securities		(7)
Depreciation and amortization	**1,500**	1,527
Provision for loan losses	**1,300**	3,375
Net amortization of investment securities premiums	**739**	657
Decrease in accrued interest receivable	**226**	87
Decrease in accrued interest payable	**(419)**	(109)
Mortgage loans originated for sale	**(18,882)**	(19,534)
Proceeds from sales of loans originated for sale	**25,383**	16,445
Decrease in other assets	**861**	1,594
Increase in other liabilities	**734**	257
Net Cash Provided by Operating Activities	**17,505**	10,113
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investment securities held to maturity	**7,223**	1,576
Proceeds from maturities of investment securities available for sale	**33,202**	51,695
Purchase of investment securities held to maturity	**(53,689)**	(39,651)
Purchase of investment securities available for sale	**(6,875)**	(18,341)
Net increase in loans	**(11,741)**	(12,283)
Redemption of restricted investment in bank stocks	**1,129**	1,259
Investment in low-income housing project	**(249)**	(2,106)
Purchase of bank-owned life insurance	**(140)**	(1,940)
Capital expenditures	**(1,433)**	(1,092)
Proceeds from life insurance death benefits		273
Proceeds from sale of foreclosed real estate	**2,967**	1,205
Net Cash Used in Investing Activities	**(29,606)**	(19,405)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits	**10,813**	6,839
Net (decrease) increase in time certificates of deposits and interest bearing deposits	**(25,758)**	41,717
Net increase in short-term borrowings	**10,115**	6,964
Dividends paid	**(3,404)**	(3,392)
Common stock issued	**364**	220
Proceeds from long-term borrowings	**2,000**	10,000
Repayments on long-term borrowings	**(14,187)**	(11,176)
Net Cash (Used in) Provided by Financing Activities	**(20,057)**	51,172
Net (Decrease) Increase in Cash and Cash Equivalents	**(32,158)**	41,880
CASH AND CASH EQUIVALENTS BEGINNING	**51,385**	22,623

CASH AND CASH EQUIVALENTS ENDING	**$**	**19,227**	$	64,503
Interest paid	**$**	**3,505**	$	4,861
Incomes taxes paid	**$**	**2,225**	$	250
Loans transferred to foreclosed assets held for resale	**$**	**501**	$	1,812

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

ACNB CORPORATION

ITEM 1 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Basis of Presentation**

ACNB Corporation, headquartered in Gettysburg, Pennsylvania, provides banking, insurance, and financial services to businesses and consumers through its wholly-owned subsidiaries, ACNB Bank and Russell Insurance Group, Inc. (RIG). The Bank engages in full-service commercial and consumer banking and trust services through its nineteen retail banking office locations in Adams, Cumberland and York Counties, Pennsylvania. There are also two loan production offices situated in York and Franklin Counties, Pennsylvania.

RIG is a full-service insurance agency based in Westminster, Maryland. The agency offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients. In 2008, due to an agency acquisition, a second location of RIG was established in Germantown, Maryland.

The Corporation, along with seven other banks, entered into a joint venture to form BankersRe Insurance Group, SPC (formerly Pennbanks Insurance Co., SPC), an offshore reinsurance company. Each participating entity owned an insurance cell through which its premiums and losses from credit life, disability, and accident insurance are funded. Each entity was responsible for the activity in its respective cell. The financial activity for the Corporation s insurance cell has been included in the consolidated financial statements and is not material to the consolidated financial statements. The segregated portfolio was novated to a third party during 2012.

The Corporation s primary source of revenue is interest income on loans and investment securities and fee income on its products and services. Expenses consist of interest expense on deposits and borrowed funds, provisions for loan losses, and other operating expenses.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly ACNB Corporation s financial position and the results of operations, comprehensive income, changes in stockholders equity, and cash flows. All such adjustments are of a normal recurring nature.

The accounting policies followed by the Corporation are set forth in Note A to the Corporation s consolidated financial statements in the 2012 ACNB Corporation Annual Report on Form 10-K, filed with the SEC on March 15, 2013. It is suggested that the consolidated financial statements contained herein be read in conjunction with the consolidated financial statements and notes included in the Corporation s Annual Report on Form 10-K. The results of operations for the three and nine month periods ended September 30, 2013, are not necessarily indicative of the results to be expected for the full year.

The Corporation has evaluated events and transactions occurring subsequent to the statement of condition date of September 30, 2013, for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

2. **Earnings Per Share**

The Corporation has a simple capital structure. Basic earnings per share of common stock is computed based on 5,973,418 and 5,951,102 weighted average shares of common stock outstanding for the nine months ended September 30, 2013 and 2012, respectively, and 5,981,936 and 5,956,380 for the three months ended September 30, 2013 and 2012, respectively. The Corporation does not have dilutive securities outstanding.

3. **Retirement Benefits**

The components of net periodic benefit cost related to the non-contributory, defined benefit pension plan for the three and nine month periods ended September 30 were as follows:

In thousands	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Service cost	**$ 194**	$ 163	**$ 582**	$ 488
Interest cost	**223**	231	**669**	694
Expected return on plan assets	**(489)**	(443)	**(1,467)**	(1,329)
Amortization of net loss	**163**	153	**489**	459
Amortization of transition obligation		2		7
Amortization of prior service cost	**10**	10	**30**	30
Net Periodic Benefit Cost	**$ 101**	$ 116	**$ 303**	$ 349

The Corporation previously disclosed in its consolidated financial statements for the year ended December 31, 2012, that it had not yet determined the amount the Bank planned on contributing to the defined benefit plan in 2013. As of September 30, 2013, this contribution amount has still not been determined. Effective April 1, 2012, no inactive or former participant in the plan is eligible to again participate in the plan, and no employee hired after March 31, 2012, is eligible to participate in the plan. As of the last annual census, ACNB Bank had a combined 368 active, vested terminated, and retired persons in the plan.

4. **Guarantees**

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are written conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Corporation generally holds collateral and/or personal guarantees supporting these commitments. The Corporation had $4,285,000 in standby letters of credit as of September 30, 2013. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability, as of September 30, 2013, for guarantees under standby letters of credit issued is not material.

5. **Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss), net of taxes, are as follows:

In thousands		Unrealized Gains on Securities		Pension Liability		Accumulated Other Comprehensive Income (Loss)
BALANCE SEPTEMBER 30, 2013	**$**	**3,019**	**$**	**(5,483)**	**$**	**(2,464)**
BALANCE DECEMBER 31, 2012	$	5,614	$	(5,826)	$	(212)
BALANCE SEPTEMBER 30, 2012	$	6,377	$	(5,015)	$	1,362

6. **Segment Reporting**

Russell Insurance Group, Inc. (RIG) is managed separately from the banking segment, which includes the Bank and related financial services that the Corporation offers through its banking subsidiary. RIG offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients.

Segment information for the nine month periods ended September 30, 2013 and 2012, is as follows:

In thousands		Banking		Insurance		Total
2013						
Net interest income and other income from external customers	**$**	**30,786**	**$**	**3,302**	**$**	**34,088**
Income before income taxes		**8,470**		**499**		**8,969**
Total assets		**1,024,946**		**9,584**		**1,034,530**
Capital expenditures		**1,426**		**7**		**1,433**
2012						
Net interest income and other income from external customers	$	31,117	$	3,485	$	34,602
Income before income taxes		7,857		498		8,355
Total assets		1,052,755		10,268		1,063,023
Capital expenditures		1,020		72		1,092

Segment information for the three month periods ended September 30, 2013 and 2012, is as follows:

In thousands		Banking		Insurance		Total
2013						
Net interest income and other income from external customers	**$**	**10,343**	**$**	**788**	**$**	**11,131**
Income before income taxes		**2,813**		**122**		**2,935**
Total assets		**1,024,946**		**9,584**		**1,034,530**
Capital expenditures		**734**				**734**
2012						
Net interest income and other income from external customers	$	10,512	$	1,001	$	11,513
Income before income taxes		2,809		87		2,896
Total assets		1,052,755		10,268		1,063,023
Capital expenditures		148				148

Intangible assets, representing customer lists, are amortized over 10 years on a straight line basis. Goodwill is not amortized, but rather is analyzed annually for impairment. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Amortization of goodwill and the intangible assets is deductible for tax purposes.

7. **Securities**

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported, net of tax, in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the security, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) if management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management s intention and ability to hold the securities until recovery of unrealized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Amortized cost and fair value of securities at September 30, 2013, and December 31, 2012, were as follows:

In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
SEPTEMBER 30, 2013				
U.S. Government and agencies	**$ 21,127**	**$ 642**	**$**	**$ 21,769**
Mortgage-backed securities, residential	**55,282**	**2,646**	**46**	**57,882**
State and municipal	**41,508**	**1,209**	**268**	**42,449**
Corporate bonds	**11,004**	**205**	**49**	**11,160**
CRA mutual fund	**1,044**	**4**		**1,048**
Stock in other banks	**627**	**228**		**855**
	$ 130,592	**$ 4,934**	**$ 363**	**$ 135,163**
DECEMBER 31, 2012				
U.S. Government and agencies	$ 23,225	$ 1,016	$	$ 24,241
Mortgage-backed securities, residential	75,816	4,767		80,583
State and municipal	49,568	2,246	10	51,804
Corporate bonds	7,008	286	8	7,286
CRA mutual fund	1,044	52		1,096
Stock in other banks	627	153		780
	$ 157,288	$ 8,520	$ 18	$ 165,790
SECURITIES HELD TO MATURITY				
SEPTEMBER 30, 2013				
U.S. Government and agencies	**$ 37,539**	**$ 221**	**$ 742**	**$ 37,018**
Mortgage-backed securities, residential	**58,716**	**71**	**1,138**	**57,649**
	$ 96,255	**$ 292**	**$ 1,880**	**$ 94,667**
DECEMBER 31, 2012				
U.S. Government and agencies	$ 30,115	$ 536	$ 6	$ 30,645
Mortgage-backed securities, residential	20,044	298	7	20,335
	$ 50,159	$ 834	$ 13	$ 50,980

The following table shows the Corporation s investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2013, and December 31, 2012:

	Less than 12 Months		12 Months or More		Total	
In thousands	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES AVAILABLE FOR SALE						
SEPTEMBER 30, 2013						
Mortgage-backed securities, residential	**$ 5,466**	**$ 46**	**$**	**$**	**$ 5,466**	**$ 46**
State and municipal	**11,350**	**268**			**11,350**	**268**
Corporate bonds	**4,951**	**49**			**4,951**	**49**
	$ 21,767	**$ 363**	**$**	**$**	**$ 21,767**	**$ 363**
DECEMBER 31, 2012						
State and municipal	$ 1,975	$ 10	$	$	$ 1,975	$ 10
Corporate bond	992	8			992	8
	$ 2,967	$ 18	$	$	$ 2,967	$ 18
SECURITIES HELD TO MATURITY						
SEPTEMBER 30, 2013						
U.S. Government and agencies	**$ 23,830**	**$ 699**	**$ 1,957**	**$ 43**	**$ 25,787**	**$ 742**
Mortgage-backed securities, residential	**44,094**	**1,138**			**44,094**	**1,138**
	$ 67,924	**$ 1,837**	**$ 1,957**	**$ 43**	**$ 69,881**	**$ 1,880**
DECEMBER 31, 2012						
U.S. Government and agencies	$ 2,994	$ 6	$	$	$ 2,994	$ 6
Mortgage-backed security, residential	2,046	7			2,046	7
	$ 5,040	$ 13	$	$	$ 5,040	$ 13

All mortgage-backed security investments are government sponsored enterprise (GSE) pass-through instruments issued by the Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA) or Federal Home Loan Mortgage Corporation (FHLMC), which guarantee the timely payment of principal on these investments.

At September 30, 2013, five available for sale residential mortgage-backed securities had unrealized losses that individually did not exceed 3% of amortized cost. These securities have not been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At September 30, 2013, twenty-four available for sale state and municipal bonds had unrealized losses that individually did not exceed 6% of amortized cost. These securities have not been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At September 30, 2013, one available for sale corporate bond had an unrealized loss that did not exceed 1% of amortized cost. This security has not been in a continuous loss position for 12 months or more. This unrealized loss relates principally to changes in interest rates subsequent to the acquisition of the specific security.

At September 30, 2013, seventeen held to maturity U.S. Government and agency securities had unrealized losses that individually did not exceed 6% of amortized cost. One of these securities has been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

At September 30, 2013, twenty-eight held to maturity residential mortgage-backed securities had unrealized losses that individually did not exceed 6% of amortized cost. These securities have not been in a continuous loss position for 12 months or more. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities.

In analyzing the issuer s financial condition, management considers industry analysts reports, financial performance, and projected target prices of investment analysts within a one-year time frame. Based on the above information, management has determined that none of these investments are other-than-temporarily impaired.

The fair values of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the security s relationship to other benchmark quoted prices. The Corporation uses independent service providers to provide matrix pricing.

Management routinely sells securities from its available for sale portfolio in an effort to manage and allocate the portfolio. At September 30, 2013, management had not identified any securities with an unrealized loss that it intends or will be required to sell. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the security, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) if management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management s intention and ability to hold the securities until recovery of unrealized losses.

Amortized cost and fair value at September 30, 2013, by contractual maturity, where applicable, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

	Available for Sale		Held to Maturity	
In thousands	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
1 year or less	**$ 4,129**	**$ 4,190**	**$ 10,009**	**$ 10,229**
Over 1 year through 5 years	**35,039**	**36,402**	**14,067**	**13,875**
Over 5 years through 10 years	**30,813**	**31,021**	**13,463**	**12,914**
Over 10 years	**3,658**	**3,765**		
Mortgage-backed securities, residential	**55,282**	**57,882**	**58,716**	**57,649**
CRA mutual fund	**1,044**	**1,048**		
Stock in other banks	**627**	**855**		
	$ 130,592	**$ 135,163**	**$ 96,255**	**$ 94,667**

The Corporation did not realize any gross gains or losses on sales or calls of securities available for sale during the third quarter of 2013 or 2012. For the nine month period ended September 30, 2013, the Corporation did not realize any gross gains or losses on sales or calls of securities available for sale. For the nine month period ended September 30, 2012, the Corporation realized gross gains of $7,000 and $0 in gross losses on sales or calls of securities available for sale.

At September 30, 2013, and December 31, 2012, securities with a carrying value of $154,575,000 and $147,923,000, respectively, were pledged as collateral as required by law on public and trust deposits, repurchase agreements, and for other purposes.

8. **Loans**

The Corporation grants commercial, residential, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout southcentral Pennsylvania and northern Maryland. The ability of the Corporation s debtors to honor their contracts is dependent upon the real estate values and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The loans receivable portfolio is segmented into commercial, residential mortgage, home equity lines of credit, and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate, and commercial real estate construction.

The accrual of interest on residential mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer loans (consisting of home equity lines of credit and consumer loan classes) are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not collected, for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses (the allowance) is established as losses are estimated to occur through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The reserve for unfunded lending commitments represents management s estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated statement of condition. The amount of the reserve for unfunded lending commitments is not material to the consolidated financial statements.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity, and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for the previous twelve quarters for each of these categories of loans, adjusted for qualitative risk factors. These qualitative risk factors include:

- lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices;

- national, regional and local economic and business conditions, as well as the condition of various market segments, including the impact on the value of underlying collateral for collateral dependent loans;

- the nature and volume of the portfolio and terms of loans;
- the experience, ability and depth of lending management and staff;
- the volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications; and,
- the existence and effect of any concentrations of credit and changes in the level of such concentrations.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management s best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The unallocated component of the allowance is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. It covers risks that are inherently difficult to quantify including, but not limited to, collateral risk, information risk, and historical charge-off risk.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal and/or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and/or interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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. Impairment is measured on a loan by loan basis for commercial and commercial construction loans by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

A specific allocation within the allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of the Corporation s impaired loans are measured based on the estimated fair value of the loan s collateral or the discounted cash flows method.

It is the policy of the Corporation to order an updated valuation on all real estate secured loans when the loan becomes 90 days past due and there has not been an updated valuation completed within the previous 12 months. In addition, the Corporation orders third party valuations on all impaired real estate collateralized loans within 30 days of the loan being classified as impaired. Until the valuations are completed, the Corporation utilizes the most recent independent third party real estate valuation to estimate the need for a specific allocation to be assigned to the loan. These existing valuations are discounted downward to account for such things as the age of the existing collateral valuation, a change in the condition of the real estate, change in local market and economic conditions, and other specific factors involving the collateral. Once the updated valuation is completed, the collateral value is updated accordingly.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower s financial statements, inventory reports, accounts receivable aging reports, equipment appraisals, or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The Corporation actively monitors the values of collateral as well as the age of the valuation of impaired loans. Management believes that the Corporation s market area is not as volatile as other areas throughout the United States, therefore valuations are ordered at least every 18 months, or more frequently if management believes that there is an indication that the fair value has declined.

For impaired loans secured by collateral other than real estate, the Corporation considers the net book value of the asset, as provided by the most recent financial statements of the borrower, and discounts downward accordingly based on determinations made by management.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a troubled debt restructure.

Loans whose terms are modified are classified as troubled debt restructured loans if the Corporation grants such borrowers concessions that it would not otherwise consider and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, a below market interest rate given the risk associated with the loan, or an extension of a loan s stated maturity date. Nonaccrual troubled debt restructurings may be restored to accrual status if principal and interest payments, under the modified terms, are current for a sustained period of time and, based on a well-documented credit evaluation of the borrower s financial condition, there is reasonable assurance of repayment. Loans classified as troubled debt restructurings are generally designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into credit quality rating categories. The borrower s overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are generally evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments.

Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful, and loss. Loans classified special mention have potential weaknesses that deserve management s close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, federal and state regulatory agencies, as an integral part of their examination process, periodically review the Corporation s allowance for loan losses and may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management s comprehensive analysis of the loan portfolio and economic conditions, management believes the current level of the allowance for loan losses is adequate.

Commercial and Industrial Lending The Corporation originates commercial and industrial loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes which include short-term loans and lines of credit to finance machinery and equipment purchases, inventory, and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and may be renewed annually.

Commercial and industrial loans are generally secured with short-term assets; however, in many cases, additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum values have been established by the Corporation and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, collateral appraisals, etc.

In underwriting commercial and industrial loans, an analysis is performed to evaluate the borrower s character and capacity to repay the loan, the adequacy of the borrower s capital and collateral, as well as the conditions affecting the borrower. Evaluation of the borrower s past, present and future cash flows is also an important aspect of the Corporation s analysis.

Commercial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

Commercial Real Estate Lending The Corporation engages in commercial real estate lending in its primary market area and surrounding areas. The Corporation s commercial loan portfolio is secured primarily by commercial retail space, office buildings, and hotels. Generally, commercial real estate loans have terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the property, and are typically secured by personal guarantees of the borrowers.

In underwriting these loans, the Corporation performs a thorough analysis of the financial condition of the borrower, the borrower s credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Corporation are performed by independent appraisers.

Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the complexities involved in valuing the underlying collateral.

Commercial Real Estate Construction Lending The Corporation engages in commercial real estate construction lending in its primary market area and surrounding areas. The Corporation s commercial real estate construction lending consists of commercial and residential site development loans, as well as commercial building construction and residential housing construction loans.

The Corporation s commercial real estate construction loans are generally secured with the subject property. Terms of construction loans depend on the specifics of the project, such as estimated absorption rates, estimated time to complete, etc.

In underwriting commercial real estate construction loans, the Corporation performs a thorough analysis of the financial condition of the borrower, the borrower s credit history, and the reliability and predictability of the cash flow generated by the project using feasibility studies, market data, etc. Appraisals on properties securing commercial real estate construction loans originated by the Corporation are performed by independent appraisers.

Commercial real estate construction loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the uncertainties surrounding total construction costs.

Residential Mortgage Lending One-to-four family residential mortgage loan originations, including home equity closed-end loans, are generated by the Corporation s marketing efforts, its present customers, walk-in customers, and referrals. These loans originate primarily within the Corporation s market area or with customers primarily from the market area.

The Corporation offers fixed-rate and adjustable-rate mortgage loans with terms up to a maximum of 30 years for both permanent structures and those under construction. The Corporation s one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The majority of the Corporation s residential mortgage loans originate with a loan-to-value of 80% or less. Loans in excess of 80% are required to have private mortgage insurance.

In underwriting one-to-four family residential real estate loans, the Corporation evaluates both the borrower s ability to make monthly payments and the value of the property securing the loan. Properties securing real estate loans made by the Corporation are appraised by independent appraisers. The Corporation generally requires borrowers to obtain an attorney s title opinion or title insurance, as well as fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. The Corporation has not engaged in subprime residential mortgage originations.

Residential mortgage loans present a moderate level of risk due primarily to general economic conditions, as well as a continued weak housing market.

Home Equity Lines of Credit Lending The Corporation originates home equity lines of credit primarily within the Corporation s market area or with customers primarily from the market area. Home equity lines of credit are generated by the Corporation s marketing efforts, its present customers, walk-in customers, and referrals.

Home equity lines of credit are secured by the borrower s primary residence with a maximum loan-to-value of 90% and a maximum term of 20 years. In underwriting home equity lines of credit, a thorough analysis of the borrower s financial ability to repay the loan as agreed is performed. The ability to repay is determined by the borrower s employment history, current financial condition, and credit background.

Home equity lines of credit generally present a moderate level of risk due primarily to general economic conditions, as well as a continued weak housing market.

Junior liens inherently have more credit risk by virtue of the fact that another financial institution may have a higher security position in the case of foreclosure liquidation of collateral to extinguish the debt. Generally, foreclosure actions could become more prevalent if the real estate market continues to be weak and property values deteriorate.

Consumer Lending The Corporation offers a variety of unsecured and secured consumer loans, including those for vehicles and mobile homes and those secured by savings deposits. These loans originate primarily within the Corporation s market area or with customers primarily from the market area.

Consumer loan terms vary according to the type and value of collateral and the creditworthiness of the borrower. In underwriting consumer loans, a thorough analysis of the borrower s financial ability to repay the loan as agreed is performed. The ability to repay is determined by the borrower s employment history, current financial condition, and credit background.

Consumer loans may entail greater credit risk than residential mortgage loans or home equity lines of credit, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within the Corporation s internal risk rating system as of September 30, 2013, and December 31, 2012:

In thousands	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
SEPTEMBER 30, 2013					
Commercial and industrial	**$ 49,823**	**$ 2,088**	**$ 2,939**	**$**	**$ 54,850**
Commercial real estate	**200,074**	**22,099**	**17,153**		**239,326**
Commercial real estate construction	**5,372**	**1,833**	**5,478**		**12,683**
Residential mortgage	**337,407**	**2,306**	**3,675**		**343,388**
Home equity lines of credit	**52,499**	**587**	**376**		**53,462**
Consumer	**14,339**				**14,339**
	$ 659,514	**$ 28,913**	**$ 29,621**	**$**	**$ 718,048**
DECEMBER 31, 2012					
Commercial and industrial	$ 44,072	$ 2,491	$ 2,441	$	$ 49,004
Commercial real estate	205,449	20,379	17,191		243,019
Commercial real estate construction	7,354	9,820	1,980		19,154
Residential mortgage	321,986	4,502	2,348		328,836
Home equity lines of credit	51,096	1,776	258		53,130
Consumer	14,993				14,993
	$ 644,950	$ 38,968	$ 24,218	$	$ 708,136

The following table summarizes information relative to impaired loans by loan portfolio class as of September 30, 2013, and December 31, 2012:

	Impaired Loans with Allowance			Impaired Loans with No Allowance	
In thousands	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
SEPTEMBER 30, 2013					
Commercial and industrial	**$**	**$**	**$**	**$ 179**	**$ 1,294**
Commercial real estate	**455**	**699**	**455**	**11,407**	**11,607**
Commercial real estate construction	**3,811**	**3,811**	**906**	**788**	**1,062**
Residential mortgage	**1,050**	**1,050**	**404**	**1,164**	**1,526**
	$ 5,316	**$ 5,560**	**$ 1,765**	**$ 13,538**	**$ 15,489**
DECEMBER 31, 2012					
Commercial and industrial	$ 146	$ 146	$ 29	$ 195	$ 1,310
Commercial real estate	237	276	7	8,772	9,216
Commercial real estate construction				854	1,128
Residential mortgage				938	1,263
	$ 383	$ 422	$ 36	$ 10,759	$ 12,917

The following table summarizes information in regards to average of impaired loans and related interest income by loan portfolio class for the three months ended September 30, 2013 and 2012:

	Impaired Loans with Allowance		Impaired Loans with No Allowance	
In thousands	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
SEPTEMBER 30, 2013				
Commercial and industrial	**$**	**$**	**$ 183**	**$**
Commercial real estate	**228**		**11,997**	**107**
Commercial real estate construction	**4,168**	**34**	**788**	
Residential mortgage	**1,170**		**999**	**2**
	$ 5,566	**$ 34**	**$ 13,967**	**$ 109**
SEPTEMBER 30, 2012				
Commercial and industrial	$	$	$ 215	$
Commercial real estate	1,092		8,676	
Commercial real estate construction			899	
Residential mortgage			1,495	
	$ 1,092	$	$ 11,285	$

The following table summarizes information in regards to average of impaired loans and related interest income by loan portfolio class for the nine months ended September 30, 2013 and 2012:

	Impaired Loans with Allowance		Impaired Loans with No Allowance	
In thousands	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
SEPTEMBER 30, 2013				
Commercial and industrial	**$ 73**	**$**	**$ 189**	**$**
Commercial real estate	**232**		**11,133**	**466**
Commercial real estate construction	**3,430**	**169**	**821**	
Residential mortgage	**935**		**967**	**8**
	$ 4,670	**$ 169**	**$ 13,110**	**$ 474**
SEPTEMBER 30, 2012				
Commercial and industrial	$ 503	$	$ 229	$
Commercial real estate	804		8,049	
Commercial real estate construction	420		1,339	
Residential mortgage	22		1,504	
	$ 1,749	$	$ 11,121	$

No additional funds are committed to be advanced in connection with impaired loans.

The following table presents nonaccrual loans by loan portfolio class as of September 30, 2013, and December 31, 2012:

In thousands	September 30, 2013	December 31, 2012
Commercial and industrial	**$ 179**	$ 341
Commercial real estate	**4,893**	4,515
Commercial real estate construction	**788**	854
Residential mortgage	**1,905**	617
	$ 7,765	$ 6,327

The following table summarizes information relative to troubled debt restructurings by loan portfolio class as of September 30, 2013, and December 31, 2012:

In thousands	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment at Period End
SEPTEMBER 30, 2013			
Nonaccruing troubled debt restructurings:			
Commercial and industrial	**$ 490**	**$ 485**	**$ 170**
Commercial real estate	**1,021**	**1,021**	**656**
Commercial real estate construction	**1,548**	**1,541**	**694**
Total nonaccruing troubled debt restructurings	**3,059**	**3,047**	**1,520**
Accruing troubled debt restructurings:			
Commercial real estate	**7,118**	**7,170**	**6,969**
Residential mortgage	**336**	**336**	**309**
Total accruing troubled debt restructurings	**7,454**	**7,506**	**7,278**
Total troubled debt restructurings	**$ 10,513**	**$ 10,553**	**$ 8,798**
DECEMBER 31, 2012			
Nonaccruing troubled debt restructurings:			
Commercial and industrial	$ 490	$ 485	$ 187
Commercial real estate	1,304	1,304	953
Commercial real estate construction	1,548	1,541	760
Total nonaccruing troubled debt restructurings	3,342	3,330	1,900
Accruing troubled debt restructurings:			
Commercial real estate	4,577	4,577	4,494
Residential mortgage	336	336	321
Total accruing troubled debt restructurings	4,913	4,913	4,815
Total troubled debt restructurings	$ 8,255	$ 8,243	$ 6,715

All of the Corporation s troubled debt restructured loans are also impaired loans, of which some have resulted in a specific allocation and, subsequently, a charge-off as appropriate. During the nine months ended September 30, 2013, one troubled debt restructured loan defaulted in the amount of $237,000 and was transferred to foreclosed assets held for resale. All other troubled debt restructured loans were current with respect to their associated terms, except for one loan which has had periodic late payments. There were no defaults of troubled debt restructured loans during the three months ended September 30, 2013. During the three and nine months ended September 30, 2012, there were no defaulted troubled debt restructurings. One loan was determined to be a troubled debt restructured loan during 2009 and modified during 2011, two were determined to be troubled debt restructured loans during 2010, three were determined to be troubled debt restructured loans during 2012, and one was determined to be a troubled debt restructured loan during 2013.

There are forbearance agreements on all loans currently classified as troubled debt restructurings, except for two loans in which the forbearance agreement has expired and one loan in which a modification took place, all of which remain classified as troubled debt restructured loans. All of these troubled debt restructured loans have resulted in additional principal repayment. The terms of these troubled debt restructured loans vary whereby principal payments have been decreased, interest rates have been reduced, and/or the loan will be repaid as collateral is sold.

The following table summarizes loans whose terms have been modified resulting in troubled debt restructurings during the three and nine months ended September 30, 2013 and 2012:

Dollars in thousands	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Recorded Investment at Period End**
THREE MONTHS ENDED SEPTEMBER 30, 2013				
Troubled debt restructurings:		**$**	**$**	**$**
NINE MONTHS ENDED SEPTEMBER 30, 2013				
Troubled debt restructurings:				
Commercial real estate	**1**	**$ 2,541**	**$ 2,593**	**$ 2,559**
THREE MONTHS ENDED SEPTEMBER 30, 2012				
Troubled debt restructurings:				
Commercial real estate	2	$ 5,225	$ 5,225	$ 5,142
Residential mortgage	1	$ 336	$ 336	$ 324
NINE MONTHS ENDED SEPTEMBER 30, 2012				
Troubled debt restructurings:				
Commercial real estate	2	$ 5,225	$ 5,225	$ 5,142
Residential mortgage	1	$ 336	$ 336	$ 324