JUNIATA VALLEY FINANCIAL CORP
Form 10-Q
August 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from __________________ to_________________

Commission File Number 000-13232
Juniata Valley Financial Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania23	2235254
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Bridge and Main Streets, Mifflintown, Pennsylvania	17059
(Address of principal executive offices)	(Zip Code)

(717) 436-8211
(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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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).

x Yes ¨ No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

¨ Yes x No

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

Class	Outstanding as of August 8, 2013
Common Stock ($1.00 par value)	4,215,184 shares

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Juniata Valley Financial Corp. and Subsidiary

Consolidated Statements of Financial Condition

(Unaudited, in thousands, except share data)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$9,007	$ 14,261
Interest bearing deposits with banks	202	136
Cash and cash equivalents	9,209	14,397
Interest bearing time deposits with banks	847	847
Securities available for sale	129,100	122,338
Restricted investment in Federal Home Loan Bank (FHLB) stock	1,733	1,726
Investment in unconsolidated subsidiary	4,063	4,000
Loans held for sale	384	-
Loans	275,260	277,500
Less: Allowance for loan losses	(2,375)	(3,281)
Total loans, net of allowance for loan losses	272,885	274,219
Premises and equipment, net	6,257	6,472
Other real estate owned	117	428
Bank owned life insurance and annuities	14,631	14,402
Equity investment in low income housing project	3,968	3,796
Core deposit intangible	142	164
Goodwill	2,046	2,046
Accrued interest receivable and other assets	4,430	4,034
Total assets	$449,812	$ 448,869
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$70,844	$ 71,318
Interest bearing	319,872	315,433
Total deposits	390,716	386,751
Securities sold under agreements to repurchase	3,355	3,836
Short-term borrowings	1,000	1,600
Other interest bearing liabilities	1,328	1,305
Accrued interest payable and other liabilities	4,440	5,080
Total liabilities	400,839	398,572

Stockholders' Equity:		
Preferred stock, no par value: Authorized - 500,000 shares, none issued	-	-
Common stock, par value $1.00 per share: Authorized - 20,000,000 shares Issued - 4,745,826 shares Outstanding - 4,215,184 shares at June 30, 2013; 4,218,361 shares at December 31, 2012	4,746	4,746
Surplus	18,354	18,346
Retained earnings	38,982	38,824
Accumulated other comprehensive loss	(2,855)	(1,419)
Cost of common stock in Treasury: 530,642 shares at June 30, 2013; 527,465 shares at December 31, 2012	(10,254)	(10,200)
Total stockholders' equity	48,973	50,297
Total liabilities and stockholders' equity	$449,812	$ 448,869

See Notes to Consolidated Financial Statements

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Juniata Valley Financial Corp. and Subsidiary

Consolidated Statements of Income

(Unaudited, in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest income:				
Loans, including fees	$3,707	$4,074	$7,397	$8,269
Taxable securities	312	337	609	667
Tax-exempt securities	147	186	298	364
Other interest income	7	8	13	16
Total interest income	4,173	4,605	8,317	9,316
Interest expense:				
Deposits	736	918	1,493	1,883
Securities sold under agreements to repurchase	1	-	2	1
Other interest bearing liabilities	4	6	9	12
Total interest expense	741	924	1,504	1,896
Net interest income	3,432	3,681	6,813	7,420
Provision for loan losses	86	69	166	1,177
Net interest income after provision for loan losses	3,346	3,612	6,647	6,243
Non-interest income:				
Customer service fees	310	321	620	634
Debit card fee income	205	205	399	409
Earnings on bank-owned life insurance and annuities	108	105	205	211
Trust fees	85	114	174	220
Commissions from sales of non-deposit products	103	73	219	160
Income from unconsolidated subsidiary	50	61	104	118
Fees derived from loan activity	52	56	112	95
Gains on sales of loans	85	140	181	205
Gains on calls of securities	-	2	1	2
Gain from life insurance proceeds	-	53	-	53
Other non-interest income	57	65	117	130
Total non-interest income	1,055	1,195	2,132	2,237
Non-interest expense:				
Employee compensation expense	1,387	1,289	2,610	2,567
Employee benefits	384	478	846	1,013
Occupancy	240	229	485	458
Equipment	114	126	234	259
Data processing expense	361	354	715	710
Director compensation	56	60	113	119
Professional fees	91	93	186	181
Taxes, other than income	119	113	242	231
FDIC Insurance premiums	82	81	172	160

Gain on sales of other real estate owned	(8)	(3)	(34)	(1)
Amortization of intangibles	11	11	22	22
Amortization of investment in low-income housing partnership	145	-	145	-
Other non-interest expense	348	389	629	746
Total non-interest expense	3,330	3,220	6,365	6,465
Income before income taxes	1,071	1,587	2,414	2,015
Provision for income taxes	62	372	399	382
Net income	$1,009	$1,215	$2,015	$1,633
Earnings per share				
Basic	$0.24	$0.29	$0.48	$0.39
Diluted	$0.24	$0.29	$0.48	$0.39
Cash dividends declared per share	$0.22	$0.22	$0.44	$0.44
Weighted average basic shares outstanding	4,218,206	4,231,690	4,218,283	4,229,954
Weighted average diluted shares outstanding	4,219,606	4,234,321	4,219,570	4,232,842

See Notes to Consolidated Financial Statements

Juniata Valley Financial Corp. and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited, in thousands)

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Net income	$ 1,071	$ (62)	$ 1,009	$ 1,587	$ (372)	$ 1,215
Other comprehensive (loss) income:						
Unrealized (losses) gains on available for sale securities:						
Unrealized holding gains (losses) arising during the period	(2,215)	754	(1,461)	163	(57)	106
Unrealized holding losses from unconsolidated subsidiary	(11)	-	(11)	-	-	-
Less reclassification adjustment for gains included in net income (1) (3)	-	-	-	(2)	1	(1)
Amortization of pension net actuarial cost (2) (3)	51	(17)	34	74	(25)	49
Other comprehensive (loss) income	(2,175)	737	(1,438)	235	(81)	154
Total comprehensive (loss) income	$ (1,104)	$ 675	$ (429)	$ 1,822	$ (453)	$ 1,369

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Net income	$ 2,414	$ (399)	$ 2,015	$ 2,015	$ (382)	$ 1,633
Other comprehensive (loss) income:						
Unrealized (losses) gains on available for sale securities:						
Unrealized holding gains (losses) arising during the period	(2,254)	768	(1,486)	141	(49)	92
Unrealized holding losses from unconsolidated subsidiary	(16)	-	(16)	(1)	-	(1)
Less reclassification adjustment for gains included in net income (1) (3)	(1)	-	(1)	(2)	1	(1)
Amortization of pension net actuarial cost (2) (3)	102	(35)	67	148	(50)	98
Other comprehensive (loss) income	(2,169)	733	(1,436)	286	(98)	188

Total comprehensive income	$ 245	$ 334	$ 579	$ 2,301	$ (480)	$ 1,821

See Notes to Consolidated Financial Statements

(1) Amounts are included in gains on calls of securities on the Consolidated Statements of Income as a separate element within total non-interest income.

(2) Amounts are included in the computation of net periodic benefit cost and are included in employee benefits expense on the Consolidated Statements of Income as a separate element within total non-interest expense.

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

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Juniata Valley Financial Corp. and Subsidiary

Consolidated Statements of Stockholders' Equity

(Unaudited, in thousands, except share data)

Six Months Ended June 30, 2013

	Number of Shares Outstanding	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2013	4,218,361	$ 4,746	$ 18,346	$ 38,824	$ (1,419)	$ (10,200)	$ 50,297
Net income				2,015			2,015
Other comprehensive loss					(1,436)		(1,436)
Cash dividends at $0.44 per share				(1,857)			(1,857)
Stock-based compensation			14				14
Purchase of treasury stock	(6,000)					(108)	(108)
Treasury stock issued for stock option and stock purchase plans	2,823		(6)			54	48
Balance at June 30, 2013	4,215,184	$ 4,746	$ 18,354	$ 38,982	$ (2,855)	$ (10,254)	$ 48,973

Six Months Ended June 30, 2012

	Number of Shares Outstanding	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2012	4,228,218	$ 4,746	$ 18,363	$ 38,900	$ (2,256)	$ (10,033)	$ 49,720
Net income				1,633			1,633
Other comprehensive income					188		188
Cash dividends at $0.44 per share				(1,862)			(1,862)
Stock-based compensation			11				11
Treasury stock issued for stock option and stock purchase plans	9,493		(40)			184	144
Balance at June 30, 2012	4,237,711	$ 4,746	$ 18,334	$ 38,671	$ (2,068)	$ (9,849)	$ 49,834

See Notes to Consolidated Financial Statements

Juniata Valley Financial Corp. and Subsidiary

Consolidated Statements of Cash Flows

(Unaudited, in thousands)

	Six Months Ended June 30,	
	2013	2012
Operating activities:		
Net income	$2,015	$1,633
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	166	1,177
Depreciation and amortization	255	265
Net amortization of securities premiums	222	195
Net amortization of loan origination costs	35	4
Deferred net loan origination costs	(38)	(22)
Amortization of core deposit intangible	22	22
Amortization of investment in low income housing partnership	145	-
Net realized gains on calls of securities	(1)	(2)
Net gains on sales of other real estate owned	(34)	(1)
Earnings on bank owned life insurance and annuities	(205)	(211)
Deferred income tax expense (benefit)	230	(184)
Equity in earnings of unconsolidated subsidiary, net of dividends of $25 and $25	(79)	(93)
Stock-based compensation expense	14	11
Mortgage loans originated for sale	(5,952)	(4,674)
Proceeds from loans sold to others	5,709	4,674
Net gains on sales of loans	(181)	-
Decrease (increase) in accrued interest receivable and other assets	147	(116)
Decrease in accrued interest payable and other liabilities	(500)	(175)
Net cash provided by operating activities	1,970	2,503
Investing activities:		
Purchases of:		
Securities available for sale	(34,280)	(48,868)
Premises and equipment	(40)	(97)
Bank owned life insurance and annuities	(43)	(40)
Proceeds from:		
Maturities of and principal repayments on securities available for sale	25,042	34,871
Redemption (purchase) of FHLB stock	(7)	166
Bank owned life insurance and annuities	4	4
Life insurance claim	-	147
Sale of other real estate owned	423	502
Sale of other assets	18	2
Investment in low income housing partnership	(317)	(924)
Net decrease in loans	1,075	8,492
Net cash used in investing activities	(8,125)	(5,745)

Financing activities:		
Net increase in deposits	3,965	15,813
Net change in securities sold under agreements to repurchase and short-term borrowings	(1,081)	(425)
Cash dividends	(1,857)	(1,862)
Purchase of treasury stock	(108)	-
Treasury stock issued for employee stock plans	48	144
Net cash provided by financing activities	967	13,670
Net (decrease) increase in cash and cash equivalents	(5,188)	10,428
Cash and cash equivalents at beginning of year	14,397	14,174
Cash and cash equivalents at end of period	$9,209	$24,602
Supplemental information:		
Interest paid	$1,546	$1,894
Income taxes paid	695	825
Supplemental schedule of noncash investing and financing activities:		
Transfer of loans to other real estate owned	$78	$590
Transfer of loans to other assets	18	-

See Notes to Consolidated Financial Statements

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JUNIATA VALLEY FINANCIAL CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and Accounting Policies

The consolidated financial statements include the accounts of Juniata Valley Financial Corp. (the “Company”) and its wholly owned subsidiary, The Juniata Valley Bank (the “Bank”). All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. For comparative purposes, whenever necessary, the 2012 balances have been reclassified to conform to the 2013 presentation. Such reclassifications, if any, had no impact on net income. Operating results for the three and six month periods ended June 30, 2013, are not necessarily indicative of the results for the year ending December 31, 2013. For further information, refer to the consolidated financial statements and notes thereto included in Juniata Valley Financial Corp.’s Annual Report on Form 10-K for the year ended December 31, 2012.

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

2. Recent Accounting Standards Updates (ASU)

There were no new accounting pronouncements affecting the Company during the six months ended June 30, 2013 that were not already adopted by the Company in previous periods.

3. Accumulated other Comprehensive loss

Components of accumulated other comprehensive loss, net of tax consisted of the following (in thousands):

	6/30/2013	12/31/2012
Unrealized (losses) gains on available for sale securities	$ (703)	$ 800
Unrecognized expense for defined benefit pension	(2,152)	(2,219)
Accumulated other comprehensive loss	$ (2,855)	$ (1,419)

4. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

(Amounts, except earnings per share, in thousands)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012
Net income	$ 1,009	$ 1,215
Weighted-average common shares outstanding	4,218	4,232
Basic earnings per share	$ 0.24	$ 0.29
Weighted-average common shares outstanding	4,218	4,232
Common stock equivalents due to effect of stock options	2	3
Total weighted-average common shares and equivalents	4,220	4,235
Diluted earnings per share	$ 0.24	$ 0.29

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$ 2,015	$ 1,633
Weighted-average common shares outstanding	4,218	4,230
Basic earnings per share	$ 0.48	$ 0.39
Weighted-average common shares outstanding	4,218	4,230
Common stock equivalents due to effect of stock options	2	3
Total weighted-average common shares and equivalents	4,220	4,233
Diluted earnings per share	$ 0.48	$ 0.39

5. Securities

The Company’s investment portfolio includes primarily bonds issued by U.S. Government sponsored agencies (approximately 60%) and municipalities (approximately 37%) as of June 30, 2013. Most of the municipal bonds are general obligation bonds with maturities or pre-refunding dates within 5 years. The remaining 3% of the portfolio includes mortgage-backed securities issued by Government-sponsored agencies and backed by residential mortgages and a group of equity investments in other financial institutions.

The amortized cost and fair value of securities as of June 30, 2013 and December 31, 2012, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without prepayment penalties.

	June 30, 2013			
Securities Available for Sale			Gross	Gross
	Amortized	Fair	Unrealized	Unrealized
Type and maturity	Cost	Value	Gains	Losses
Obligations of Government agencies and corporations				
Within one year	$5,509	$5,545	$ 36	$ -
After one year but within five years	40,225	40,132	224	(317)
After five years but within ten years	33,646	32,414	-	(1,232)
	79,380	78,091	260	(1,549)
Obligations of state and political subdivisions				
Within one year	8,697	8,730	33	-
After one year but within five years	30,457	30,450	145	(152)
After five years but within ten years	7,775	7,783	118	(110)
After ten years	722	700	-	(22)
	47,651	47,663	296	(284)
Mortgage-backed securities	2,154	2,163	12	(3)
Equity securities	985	1,183	275	(77)
Total	$130,170	$129,100	$ 843	$ (1,913)

	December 31, 2012			
Securities Available for Sale			Gross	Gross
	Amortized	Fair	Unrealized	Unrealized
Type and maturity	Cost	Value	Gains	Losses
Obligations of Government agencies and corporations				
Within one year	$7,908	$7,996	$ 88	$ -
After one year but within five years	42,253	42,796	543	-
After five years but within ten years	22,004	22,025	53	(32)
	72,165	72,817	684	(32)
Obligations of state and political subdivisions				
Within one year	10,448	10,505	57	-
After one year but within five years	29,595	29,809	246	(32)
After five years but within ten years	4,727	4,936	215	(6)
After ten years	731	726	-	(5)
	45,501	45,976	518	(43)
Mortgage-backed securities	2,502	2,526	24	-
Equity securities	985	1,019	145	(111)
Total	$121,153	$122,338	$ 1,371	$ (186)

Certain obligations of the U.S. Government and state and political subdivisions are pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law. The carrying value of the pledged assets was $28,561,000 and $30,785,000 at June 30, 2013 and December 31, 2012, respectively.

In addition to cash received from the scheduled maturities of securities, some investment securities available for sale are sold at current market values during the course of normal operations. Following is a summary of proceeds received from all investment securities transactions and the resulting realized gains and losses (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Gross proceeds from sales of securities	$ -	$ -	$ -	$ -
Securities available for sale:				
Gross realized gains from called securities	$ -	$ 2	$ 1	$ 2
Gross realized losses	-	-	-	-

Accounting Standards Codification (ASC) Topic 320, *Investments – Debt and Equity Securities*, clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. For equity securities, consideration is given to management's intention and ability to hold the securities until recovery of unrealized losses in assessing potential other-than-temporary impairment. More specifically, considerations used to determine other-than-temporary impairment status for individual equity holdings include the length of time the stock has remained in an unrealized loss position, the percentage of unrealized loss compared to the carrying cost of the stock, dividend reduction or suspension, market analyst reviews and expectations, and other pertinent developments that would affect expectations for recovery or further decline.

In instances when a determination is made that an other-than-temporary impairment exists and the entity does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive (loss) income.

The following table shows gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2013 and December 31, 2012 (in thousands):

	Unrealized Losses at June 30, 2013	
	12 Months or More	Total

	Less Than 12 Months					
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies and corporations	$55,093	$ (1,549)	$ -	$ -	$55,093	$ (1,549)
Obligations of state and political subdivisions	23,848	(283)	41	(1)	23,889	(284)
Mortgage-backed securities	311	(3)	-	-	311	(3)
Debt securities	79,252	(1,835)	41	(1)	79,293	(1,836)
Equity securities	-	-	271	(77)	271	(77)
Total temporarily impaired securities	$79,252	$ (1,835)	$ 312	$ (78)	$79,564	$ (1,913)

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	Unrealized Losses at December 31, 2012					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies and corporations	$11,471	$ (32)	$ -	$ -	$11,471	$ (32)
Obligations of state and political subdivisions	13,040	(43)	-	-	13,040	(43)
Debt securities	24,511	(75)	-	-	24,511	(75)
Equity securities	249	(13)	251	(98)	500	(111)
Total temporarily impaired securities	$24,760	$ (88)	$ 251	$ (98)	$25,011	$ (186)

There are 109 debt securities that were in an unrealized loss position on June 30, 2013, and one that had an unrealized loss for more than 12 months. These securities depreciated 2.3% from their amortized cost basis. The unrealized losses noted above are considered to be temporary impairments. The decline in the values of the debt securities is due only to interest rate fluctuations, rather than erosion of issuer credit quality. As a result, the payment of contractual cash flows, including principal repayment, is not at risk. As management does not intend to sell the securities, does not believe the Company will be required to sell the securities before recovery and expects to recover the entire amortized cost basis, none of the debt securities are deemed to be other-than-temporarily impaired.

Equity securities owned by the Company consist of common stock of various financial services providers (“Bank Stocks”) and are evaluated quarterly for evidence of other-than-temporary impairment. There were eight equity securities that were in an unrealized loss position on June 30, 2013, and have carried unrealized losses for 12 months or more. Individually, none of these eight equity securities have significant unrealized losses and each has increased in value during the first half of 2013. Management has identified no other-than-temporary impairment as of June 30, 2013 in the equity portfolio. Management continues to track the performance of each stock owned to determine if it is prudent to recognize any further other-than-temporary impairment charges. The Company has the ability and intent to hold its equity securities until recovery of unrealized losses.

6. Loans and Related Allowance for Credit Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the outstanding unpaid principal balances, net of any deferred fees or costs and the allowance for loan losses. Interest income on all loans, other than nonaccrual loans, is accrued over the term of the loans based on the amount of principal outstanding. Unearned income is amortized to income over the life of the loans, using the interest method.

The loan portfolio is segmented into commercial and consumer loans. Commercial loans are comprised of the following classes of loans: (1) commercial, financial and agricultural, (2) commercial real estate, (3) real estate construction, a portion of (4) mortgage loans and (5) obligations of states and political subdivisions. Consumer loans are comprised of a portion of (4) mortgage loans and (6) personal loans.

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is generally discontinued when the contractual payment of principal or interest has become 90 days past due or reasonable doubt exists as to the full, timely collection of principal or interest. However, it is the Company’s policy to continue to accrue interest on loans over 90 days past due as long as (1) they are guaranteed or well secured and (2) there is an effective means of timely collection in process. When a loan is placed on non-accrual status, all unpaid interest credited to income in the current year is reversed against current period income, and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal. Generally, accruals are resumed on loans only when the obligation is brought fully current with respect to interest and principal, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The Company originates loans in the portfolio with the intent to hold them until maturity. At the time the Company no longer intends to hold loans to maturity based on asset/liability management practices, the Company transfers loans from its portfolio to held for sale at fair value. Any write-down recorded upon transfer is charged against the allowance for loan losses. Any write-downs recorded after the initial transfers are recorded as a charge to other non-interest expense. Gains or losses recognized upon sale are included in gains on sales of loans which is a component of non-interest income.

The Company also originates residential mortgage loans with the intent to sell. These individual loans are normally funded by the buyer immediately. The Company maintains servicing rights on these loans, and the fair value of the servicing rights is carried as a component of other assets. Servicing rights are not material to the Company's consolidated financial statements.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses ("allowance") represents management's estimate of losses inherent in the loan portfolio as of the consolidated statement of financial condition date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded lending commitments and is recorded in other liabilities on the consolidated statement of financial condition, when necessary. The amount of the reserve for unfunded lending commitments is not material to the consolidated financial statements. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

For financial reporting purposes, the provision for loan losses charged to current operating income is based on management's estimates, and actual losses may vary from estimates. These estimates are reviewed and adjusted at least quarterly and are reported in earnings in the periods in which they become known.

Loans included in any class are considered for charge-off when:

- principal or interest has been in default for 120 days or more and for which no payment has been received during the previous four months;
- all collateral securing the loan has been liquidated and a deficiency balance remains;
- a bankruptcy notice is received for an unsecured loan;
- a confirming loss event has occurred; or
- the loan is deemed to be uncollectible for any other reason.

The allowance for loan losses is maintained at a level considered adequate to offset probable losses on the Company's existing loans. The analysis of the allowance for loan losses relies heavily on changes in observable trends that may indicate potential credit weaknesses. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance for loan losses 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, management believes the level of the allowance for loan losses as of June 30, 2013 was adequate.

There are two components of the allowance: a specific component for loans that are deemed to be impaired; and a general component for contingencies.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 determining impairment include payment status, collateral value and the probability of collecting scheduled principal and 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 loans 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 by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral. For commercial loans secured with real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the current appraisal and the condition of the property. Appraised values may be discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include the estimated costs to sell the property. For commercial loans secured by non-real estate collateral, estimated fair values are determined based on the borrower's financial statements, inventory reports, aging accounts receivable, 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. For such loans that are 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 Bank generally does not separately identify individual consumer segment loans for impairment disclosures, unless such loans are subject to a restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a below-market interest rate based on the loan's risk characteristics or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for a sustained period of time after modification. Loans classified as troubled debt restructurings are designated as impaired.

The component of the allowance for contingencies relates to other loans that have been segmented into risk rated categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated quarterly 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 as 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 as substandard have one or more well-defined weaknesses that jeopardize the liquidation of the debt. Substandard loans include loans that are inadequately protected by the current 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. Specific reserves may be established for larger, individual classified loans as a result of this evaluation, as discussed above. Remaining loans are categorized into large groups of smaller balance homogeneous loans and are collectively evaluated for impairment. This computation is generally based on historical loss experience adjusted for qualitative factors. The historical loss experience is averaged over a ten-year period for each of the portfolio segments. The ten-year timeframe was selected in order to capture activity over a wide range of economic conditions and has been consistently used for the past seven years. The qualitative risk factors are reviewed for relevancy each quarter and include:

- National, regional and local economic and business conditions, as well as the condition of various market segments, including the underlying collateral for collateral dependent loans;
- Nature and volume of the portfolio and terms of loans;
- Experience, ability and depth of lending and credit management and staff;
- Volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications;
- Existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- Effect of external factors, including competition.

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.

Commercial, Financial and Agricultural Lending

The Company originates commercial, financial and agricultural 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 shorter and does not exceed the projected useful life of such machinery and equipment. Most business lines of credit are written with a five year maturity, subject to an annual review.

Commercial 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 Company 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 loans, an analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of conditions affecting the borrower, is performed. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Company's analysis.

Concentration analysis assists in identifying industry specific risk inherent in commercial, financial and agricultural lending. Mitigants include the identification of secondary and tertiary sources of repayment and appropriate increases in oversight.

Commercial, financial and agricultural loans generally present a higher level of risk than certain other types of loans, particularly during slow economic conditions.

Commercial Real Estate Lending

The Company engages in commercial real estate lending in its primary market area and surrounding areas. The Company’s commercial real estate portfolio is secured primarily by residential housing, commercial buildings, raw land 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.

As economic conditions deteriorate, the Company reduces its exposure in real estate loans with higher risk characteristics. In underwriting these loans, the Company 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 Company are performed by independent appraisers.

Commercial real estate loans generally present a higher level of risk than certain other types of loans, particularly during slow economic conditions.

Real Estate Construction Lending

The Company engages in real estate construction lending in its primary market area and surrounding areas. The Company's real estate construction lending consists of commercial and residential site development loans, as well as commercial building construction and residential housing construction loans.

The Company's commercial real estate construction loans are generally secured with the subject property, and advances are made in conformity with a pre-determined draw schedule supported by independent inspections. 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 Company performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, 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 loans originated by the Company are performed by independent appraisers.

Real estate construction loans generally present a higher level of risk than certain other types of loans, particularly during slow economic conditions. The difficulty of estimating total construction costs adds to the risk as well.

Mortgage Lending

The Company's real estate mortgage portfolio is comprised of consumer residential mortgages and business loans secured by one-to-four family properties. One-to-four family residential mortgage loan originations, including home equity installment and home equity lines of credit loans, are generated by the Company's marketing efforts, its present customers, walk-in customers and referrals. These loans originate primarily within the Company's market area or with customers primarily from the market area.

The Company offers fixed-rate and adjustable rate mortgage loans with terms up to a maximum of 25-years for both permanent structures and those under construction. The Company'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 Company's residential mortgage loans originate with a loan-to-value of 80% or less. Home equity installment loans are secured by the borrower's primary residence with a maximum loan-to-value of 80% and a maximum term of

15 years. 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 one-to-four family residential real estate loans, the Company evaluates the borrower's ability to make monthly payments, the borrower's repayment history and the value of the property securing the loan. The ability to repay is determined by the borrower's employment history, current financial conditions, and credit background. The analysis is based primarily on the customer's ability to repay and secondarily on the collateral or security. Most properties securing real estate loans made by the Company are appraised by independent fee appraisers. The Company generally requires mortgage loan borrowers to obtain an attorney's title opinion or title insurance, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. The Company does not engage in sub-prime residential mortgage originations.

Residential mortgage loans and home equity loans generally present a lower level of risk than certain other types of consumer loans because they are secured by the borrower's primary residence. Risk is increased when the Company is in a subordinate position for the loan collateral.

Obligations of States and Political Subdivisions

The Company lends to local municipalities and other tax-exempt organizations. These loans are primarily tax-anticipation notes and, as such, carry little risk. Historically, the Company has never had a loss on any loan of this type.

Personal Lending

The Company offers a variety of secured and unsecured personal loans, including vehicle loans, mobile home loans and loans secured by savings deposits as well as other types of personal loans.

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

Personal loans may entail greater credit risk than do residential mortgage loans, particularly in the case of personal 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 personal 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, personal 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 Company's internal risk rating system as of June 30, 2013 and December 31, 2012 (in thousands):

As of June 30, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial and agricultural	$18,722	$1,399	$ 215	$ -	$20,336
Real estate - commercial	56,303	12,747	3,056	40	72,146
Real estate - construction	15,396	1,014	1,490	2,194	20,094
Real estate - mortgage	138,868	2,520	4,307	1,343	147,038
Obligations of states and political subdivisions	10,953	-	-	-	10,953
Personal	4,683	-	10	-	4,693
Total	$244,925	$17,680	$ 9,078	$ 3,577	$275,260

As of December 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial and agricultural	$17,570	$904	$ 822	$ -	$19,296

Real estate - commercial	55,198	8,939	5,010	40	69,187
Real estate - construction	14,001	1,022	867	2,202	18,092
Real estate - mortgage	144,179	3,864	2,350	2,729	153,122
Obligations of states and political subdivisions	12,769	-	-	-	12,769
Personal	5,024	10	-	-	5,034
Total	$248,741	$14,739	$ 9,049	$ 4,971	$277,500

The Company has certain loans in its portfolio that are considered to be impaired. It is the policy of the Company to recognize income on impaired loans that have been transferred to nonaccrual status on a cash basis, only to the extent that it exceeds principal balance recovery. Until an impaired loan is placed on nonaccrual status, income is recognized on the accrual basis. Collateral analysis is performed on each impaired loan at least quarterly and results are used to determine if a specific reserve is necessary to adjust the carrying value of each individual loan down to the estimated fair value. Generally, specific reserves are carried against impaired loans based upon estimated collateral value until a confirming loss event occurs or until termination of the credit is scheduled through liquidation of the collateral or foreclosure. Charge off will occur when a confirmed loss is identified. Professional appraisals of collateral, discounted for expected selling costs, appraisal age, economic conditions and other known factors are used to determine the charge-off amount. The following tables summarize information regarding impaired loans by portfolio class as of June 30, 2013 and December 31, 2012 (in thousands):

Impaired loans	As of June 30, 2013 Recorded Investment	Unpaid Principal Balance	Related Allowance	As of December 31, 2012 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial, financial and agricultural	$ 142	$ 142	$ -	$ 160	$ 160	$ -
Real estate - commercial	2,610	2,682	-	2,672	2,672	-
Real estate - construction	170	170	-	2,004	2,197	-
Real estate - mortgage	3,559	4,816	-	487	523	-
With an allowance recorded:						
Real estate - commercial	$ 248	$ 248	$ 72	$ -	$ -	$ -
Real estate - construction	2,193	2,404	149	198	198	91
Real estate - mortgage	371	404	118	2,141	2,141	1,036
Total:						
Commercial, financial and agricultural	$ 142	$ 142	$ -	$ 160	$ 160	$ -
Real estate - commercial	2,858	2,930	72	2,672	2,672	-
Real estate - construction	2,363	2,574	149	2,202	2,395	91
Real estate - mortgage	3,930	5,220	118	2,628	2,664	1,036
	$ 9,293	$ 10,866	$ 339	$ 7,662	$ 7,891	$ 1,127

Impaired loans	Three Months Ended June 30, 2013 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income	Three Months Ended June 30, 2012 Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
With no related allowance recorded:						
Commercial, financial and agricultural	$ 144	$ 2	$ -	$ 207	$ 3	$ -
Real estate - commercial	2,598	15	8	2,764	40	-
Real estate - construction	734	-	2	649	-	-
Real estate - mortgage	2,749	11	12	550	-	-
With an allowance recorded:						
Real estate - commercial	$ 124	$ -	$ -	$ -	$ -	$ -
Real estate - construction	1,547	-	-	1,007	3	-
Real estate - mortgage	186	-	3	3,724	-	-
Total:						
Commercial, financial and agricultural	$ 144	$ 2	$ -	$ 207	$ 3	$ -
Real estate - commercial	2,722	15	8	2,764	40	-
Real estate - construction	2,281	-	2	1,656	3	-
Real estate - mortgage	2,935	11	15	4,274	-	-
	$ 8,082	$ 28	$ 25	$ 8,901	$ 46	$ -

Impaired loans	Six Months Ended June 30, 2013 Average Recorded Investment	Six Months Ended June 30, 2013 Interest Income Recognized	Six Months Ended June 30, 2013 Cash Basis Interest Income	Six Months Ended June 30, 2012 Average Recorded Investment	Six Months Ended June 30, 2012 Interest Income Recognized	Six Months Ended June 30, 2012 Cash Basis Interest Income
With no related allowance recorded:						
Commercial, financial and agricultural	$ 151	$ 5	$ -	$ 218	$ 7	$ -
Real estate - commercial	2,641	42	8	2,530	81	-
Real estate - construction	1,087	-	2	1,009	-	-
Real estate - mortgage	2,023	11	12	1,398	-	-
With an allowance recorded:						
Real estate - commercial	$ 124	$ -	$ -	$ -	$ -	$ -
Real estate - construction	1,196	-	-	1,132	3	
Real estate - mortgage	1,256	-	3	2,959	-	-
Total:						
Commercial, financial and agricultural	$ 151	$ 5	$ -	$ 218	$ 7	$ -
Real estate - commercial	2,765	42	8	2,530	81	-
Real estate - construction	2,283	-	2	2,141	3	-
Real estate - mortgage	3,279	11	15	4,357	-	-
	$ 8,478	$ 58	$ 25	$ 9,246	$ 91	$ -

The following table presents nonaccrual loans by classes of the loan portfolio as of June 30, 2013 and December 31, 2012 (in thousands):

Nonaccrual loans:	June 30, 2013	December 31, 2012
Commercial, financial and agricultural	$ 15	$ 20
Real estate - commercial	1,675	1,835
Real estate - construction	2,363	2,376
Real estate - mortgage	3,410	4,615
Total	$ 7,463	$ 8,846

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2013 and December 31, 2012 (in thousands):

As of June 30, 2013	30-59 Days	60-89 Days	Greater than 90	Total Past	Current	Total Loans	Loans Past

	Past Due	Past Due	Days	Due			Due greater than 90 Days and Accruing
Commercial, financial and agricultural	$ 175	$ 608	$ 15	$ 798	$ 19,538	$ 20,336	$ -
Real estate - commercial	221	-	1,650	1,871	70,275	72,146	-
Real estate - construction	-	8	2,174	2,182	17,912	20,094	-
Real estate - mortgage	1,789	279	2,638	4,706	142,332	147,038	402
Obligations of states and political subdivisions	-	-	-	-	10,953	10,953	-
Personal	29	10	-	39	4,654	4,693	-
Total	$ 2,214	$ 905	$ 6,477	$ 9,596	$ 265,664	$ 275,260	$ 402

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As of December 31, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Past Due greater than 90 Days and Accruing
Commercial, financial and agricultural	$ 30	$ -	$ 191	$ 221	$ 19,075	$ 19,296	$ 171
Real estate - commercial	295	819	1,928	3,042	66,145	69,187	93
Real estate - construction	9	136	2,335	2,480	15,612	18,092	156
Real estate - mortgage	1,359	3,131	4,428	8,918	144,204	153,122	320
Obligations of states and political subdivisions	-	-	-	-	12,769	12,769	-
Personal	29	25	2	56	4,978	5,034	2
Total	$ 1,722	$ 4,111	$ 8,884	$ 14,717	$ 262,783	$ 277,500	$ 742

The following table summarizes information regarding troubled debt restructurings by loan portfolio class at June 30, 2013, in thousands of dollars. There were no loans identified as troubled debt restructurings during 2012.

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
As of June 30, 2013				
Accruing troubled debt restructurings:				
Real estate - commercial	1	$ 64	$ 61	$ 61
Real estate - mortgage	4	512	519	519
	5	$ 576	$ 580	$ 580

The Company’s troubled debt restructurings are also impaired loans, which may result in a specific allocation and subsequent charge-off if appropriate. As of June 30, 2013, there were no specific reserves or charge-offs relating to the troubled debt restructurings. The amended terms of the restructured loans vary, whereby interest rates have been reduced, principal payments have been reduced or deferred for a period of time and/or maturity dates have been extended. All restructured loans were current with respect to the terms of the restructurings as of June 30, 2013.

The following table summarizes loans whose terms have been modified resulting in troubled debt restructurings during the three and six months ended June 30, 2013, in thousands of dollars:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Three months ended June 30, 2013				
Accruing troubled debt restructurings:				
Real estate - commercial	1	$ 64	$ 61	$ 61
Real estate - mortgage	3	148	148	148
	4	$ 212	$ 209	$ 209
Six months ended June 30, 2013				
Accruing troubled debt restructurings:				
Real estate - commercial	1	$ 64	$ 61	$ 61
Real estate - mortgage	4	512	519	519
	5	$ 576	$ 580	$ 580

There were no loans modified resulting in troubled debt restructurings during the three and six months ended June 30, 2012. There have been no defaults of troubled debt restructuring that took place during the three and six months ended June 30, 2013 and 2012 within 12 months of restructure.

The following tables summarize the activity in the allowance for loan losses and recorded investments in loans receivable (in thousands):

As of, and for the periods ended June 30, 2013

Allowance for loan losses:	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Beginning Balance, April 1, 2013	$ 193	$ 470	$ 221	$ 1,385	$ -	$ 47	$2,316
Charge-offs	(4)	-	-	(22)	-	(3)	(29)
Recoveries	-	-	-	-	-	2	2
Provisions	11	84	37	(46)	-	-	86
Ending balance, June 30, 2013	$ 200	$ 554	$ 258	$ 1,317	$ -	$ 46	$2,375
Beginning Balance, January 1, 2013	$ 179	$ 463	$ 202	$ 2,387	$ -	$ 50	$3,281
Charge-offs	(4)	-	-	(1,060)	-	(13)	(1,077)
Recoveries	-	-	-	-	-	5	5
Provisions	25	91	56	(10)	-	4	166
Ending balance, June 30, 2013	$ 200	$ 554	$ 258	$ 1,317	$ -	$ 46	$2,375

	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Allowance for loan losses:							
Ending balance	$ 200	$ 554	$ 258	$ 1,317	$ -	$ 46	$2,375
evaluated for impairment							
individually	$ -	$ 72	$ 149	$ 118	$ -	$ -	$339
collectively	$ 200	$ 482	$ 109	$ 1,199	$ -	$ 46	$2,036

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