1ST CONSTITUTION BANCORP
Form 10-Q
November 14, 2012

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 OF 1934

For the quarterly period ended September 30, 2012
or

o 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: 000-32891

1ST CONSTITUTION BANCORP
(Exact Name of Registrant as Specified in Its Charter)

New Jersey (State of Other Jurisdiction of Incorporation or Organization)	22-3665653 (I.R.S. Employer Identification No.)
2650 Route 130, P.O. Box 634, Cranbury, NJ (Address of Principal Executive Offices)	08512 (Zip Code)

(609) 655-4500
(Issuer's Telephone Number, Including Area Code)

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

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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of November 6, 2012, there were 5,646,308 shares of the registrant's common stock, no par value, outstanding.

1ST CONSTITUTION BANCORP

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

1st Constitution Bancorp and Subsidiaries
Consolidated Balance Sheets
(unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
CASH AND DUE FROM BANKS	$ 13,988,761	$ 15,183,853
FEDERAL FUNDS SOLD / SHORT-TERM INVESTMENTS	11,417	11,406
Total cash and cash equivalents	14,000,178	15,195,259
INVESTMENT SECURITIES:		
Available for sale, at fair value	97,088,995	93,683,774
Held to maturity (fair value of $129,739,848 and $147,621,280 at September 30, 2012, and December 31, 2011, respectively)	123,399,444	142,474,423
Total securities	220,488,439	236,158,197
LOANS HELD FOR SALE	22,492,565	19,234,111
LOANS	497,247,199	475,431,771
Less- Allowance for loan losses	(6,693,043)	(5,534,450)
Net loans	490,554,156	469,897,321
PREMISES AND EQUIPMENT, net	10,571,265	10,439,304
ACCRUED INTEREST RECEIVABLE	2,678,650	2,996,848
BANK-OWNED LIFE INSURANCE	13,916,355	13,578,981
OTHER REAL ESTATE OWNED	10,225,740	12,409,201
OTHER ASSETS	11,230,203	11,817,693
Total assets	$ 796,157,551	$ 791,726,915
LIABILITIES AND SHAREHOLDERS’ EQUITY		
LIABILITIES:		
Deposits		
Non-interest bearing	$ 133,244,013	$ 105,470,543
Interest bearing	527,753,519	518,391,942
Total deposits	660,997,532	623,862,485

BORROWINGS	51,150,000	88,300,000
REDEEMABLE SUBORDINATED DEBENTURES	18,557,000	18,557,000
ACCRUED INTEREST PAYABLE	923,253	1,186,511
ACCRUED EXPENSES AND OTHER LIABILITIES	4,785,445	4,821,144
Total liabilities	736,413,230	736,727,140
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 5,000,000 shares authorized; none issued		
Common stock, no par value, 30,000,000 shares authorized; 5,144,707 and 5,096,054 shares issued and 5,135,759 and 5,094,503 shares outstanding as of September 30, 2012 and December 31, 2011 respectively	41,364,812	40,847,929
Retained earnings	16,890,365	13,070,606
Treasury Stock, at cost, 8,948 shares at September 30, 2012 and 1,551shares December 31, 2011, respectively	(76,723)	(10,222)
Accumulated other comprehensive income	1,565,867	1,091,462
Total shareholders' equity	59,744,321	54,999,775
Total liabilities and shareholders' equity	$ 796,157,551	$ 791,726,915

See accompanying notes to consolidated financial statements.

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1st Constitution Bancorp and Subsidiaries
Consolidated Statements of Income
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
INTEREST INCOME	2012	2011	2012	2011
Loans, including fees	$ 6,966,886	$ 5,632,351	$ 19,700,449	$ 16,153,997
Securities				
Taxable	1,103,011	1,366,274	3,430,770	4,154,352
Tax-exempt	409,774	433,497	1,241,568	1,070,297
Federal funds sold and short-term investments	6,975	43,524	55,315	115,634
Total interest income	8,486,646	7,475,646	24,428,102	21,494,280
INTEREST EXPENSE				
Deposits	1,026,154	1,437,263	3,291,676	4,365,667
Borrowings	119,223	104,849	340,784	315,481
Redeemable subordinated debentures	96,867	88,063	292,759	589,497
Total interest expense	1,242,244	1,630,175	3,925,219	5,270,645
Net interest income	7,244,402	5,845,471	20,502,883	16,223,635
PROVISION FOR LOAN LOSSES	499,998	608,332	1,649,994	1,283,330
Net interest income after provision for loan losses	6,744,404	5,237,139	18,852,889	14,940,305
NON-INTEREST INCOME				
Service charges on deposit accounts	243,443	237,716	702,671	648,456
Gain on sales of loans	509,138	508,359	1,472,502	1,356,741
Income on bank-owned life insurance	112,276	100,980	337,374	299,639
Other income	451,870	382,209	1,157,311	1,089,488
Total non-interest income	1,316,727	1,229,264	3,669,858	3,394,324
NON-INTEREST EXPENSE				
Salaries and employee benefits	3,061,065	2,892,901	9,156,318	8,313,513
Occupancy expense	523,126	628,652	1,860,446	1,776,359
Data processing expenses	257,990	295,739	774,110	912,988
FDIC insurance expenses	139,694	29,805	426,960	503,810
Other operating expenses	2,201,299	909,370	4,951,831	3,068,414
Total non-interest expenses	6,183,174	4,756,467	17,169,665	14,575,084
Income before income taxes	1,877,957	1,709,936	5,353,082	3,759,545
INCOME TAXES	523,038	496,658	1,533,323	927,485
Net income	$ 1,354,919	$ 1,213,278	$ 3,819,759	$ 2,832,060
NET INCOME PER SHARE				
Basic	$ 0.26	$ 0.24	$ 0.75	$ 0.56
Diluted	$ 0.26	$ 0.24	$ 0.74	$ 0.56

See accompanying notes to consolidated financial statements.

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1st Constitution Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income
(unaudited)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
NET INCOME	$1,354,919	$1,213,278	$3,819,759	$2,832,060
Other comprehensive income, net of tax				
Unrealized gains on securities available for sale	430,698	418,002	468,628	1,237,298
Pension liability	1,925	1,925	5,777	5,778
Unrealized gain on interest rate swap contract	-	-	-	211,562
Other comprehensive income	432,623	419,927	474,405	1,454,638
Comprehensive income	$1,787,542	$1,633,205	$4,294,164	$4,286,698

The accompanying notes are an integral part of these financial statements.

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1st Constitution Bancorp and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2012 and 2011
(unaudited)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholde Equity
BALANCE, January 1, 2011	$38,899,855	$10,741,779	$(58,652)	$98,174	$49,681,15
Exercise of stock options and issuance of vested shares under employee benefit programs	252,959		11,598		264,557
Share-based compensation	41,799				41,799
Treasury stock purchased			(22,760)		(22,760
Net income for the nine months ended September 30, 2011		2,832,060			2,832,060
Other comprehensive income				1,454,638	1,454,638
Balance, September 30, 2011	$39,194,613	$13,573,839	$(69,814)	$1,552,812	$54,251,45
Balance, January 1, 2012	$40,847,929	$13,070,606	$(10,222)	$1,091,462	$54,999,77
Exercise of stock options, net, and issuance of vested shares under employee benefit programs	442,918		13,843		456,761
Share-based compensation	73,965				73,965
Treasury stock purchased			(80,344)		(80,344
Net Income for the nine months ended September 30, 2012		3,819,759			3,819,759
Other comprehensive income				474,405	474,405
Balance, September 30, 2012	$41,364,812	$16,890,365	$(76,723)	$1,565,867	$59,744,32

See accompanying notes to consolidated financial statements.

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1st Constitution Bancorp and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

	Nine Months Ended September 30,	
	2012	2011
OPERATING ACTIVITIES:		
Net income	$ 3,819,759	$ 2,832,060
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for loan losses	1,649,994	1,283,330
Provision for loss on other real estate owned	1,195,288	147,178
Depreciation and amortization	884,595	782,492
Net amortization of premiums and discounts on securities	1,109,663	1,206,566
Gains on sales of loans held for sale	(1,472,502)	(1,356,741)
Originations of loans held for sale	(128,312,763)	(83,022,941)
Proceeds from sales of loans held for sale	126,526,811	95,750,664
Income on Bank – owned life insurance	(337,374)	(299,639)
Share-based compensation expense	336,898	290,226
Decrease (increase) in accrued interest receivable	318,198	(55,960)
Decrease (increase) in other assets	141,220	(1,503,659)
Decrease in accrued interest payable	(263,258)	(426,497)
(Decrease) in accrued expenses and other liabilities	(288,972)	(897,336)
Net cash provided by operating activities	5,307,557	14,729,743
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	(31,800,023)	(69,849,189)
Held to maturity	(6,602,385)	(97,428,222)
Proceeds from maturities and prepayments of securities -		
Available for sale	28,843,391	60,565,434
Held to maturity	24,829,152	25,956,446
Net (increase) in loans	(22,860,591)	(22,796,648)
Capital expenditures	(815,581)	(481,538)
Additional investment in other real estate owned	(144,454)	(560,433)
Proceeds from sales of other real estate owned	1,686,389	1,937,103
Cash consideration received in connection with acquisition of branches	-	101,539,588
Net cash (used in) investing activities	(6,864,102)	(1,117,459)
FINANCING ACTIVITIES:		
Exercise of stock options and issuance of vested shares	456,761	264,557
Purchase of Treasury Stock	(80,344)	(22,760)
Net increase (decrease) in demand, savings and time deposits	37,135,047	(10,220,509)
Net (decrease) in borrowings	(37,150,000)	(6,900,000)
Net cash provided by (used in) financing activities	361,464	(16,878,712)

Decrease in cash and cash equivalents	(1,195,081)	(3,266,428)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	15,195,259	17,710,501
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 14,000,178	$ 14,444,073
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for -		
Interest	$ 4,188,477	$ 5,697,142
Income taxes	1,787,000	1,424,256
Non-cash investing activities		
Real estate acquired in full satisfaction of loans in foreclosure	$ 553,762	$ 7,672,389

See accompanying notes to consolidated financial statements.

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1st Constitution Bancorp and Subsidiaries
Notes To Consolidated Financial Statements
September 30, 2012 (Unaudited)

(1) Summary of Significant Accounting Policies

The accompanying unaudited Consolidated Financial Statements include 1st Constitution Bancorp (the "Company"), its wholly-owned subsidiary, 1st Constitution Bank (the "Bank"), and the Bank's wholly-owned subsidiaries, 1st Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc., 1st Constitution Title Agency, 204 South Newman Street Corp. and 249 New York Avenue, LLC. 1stConstitution Capital Trust II, a subsidiary of the Company, is not included in the Company's consolidated financial statements, as it is a variable interest entity and the Company is not the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to conform to current year presentation. The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") including the instructions to Form 10-Q and Article 8 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. These Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-K for the year ended December 31, 2011, filed with the SEC on March 23, 2012.

In the opinion of the Company, all adjustments (consisting only of normal recurring accruals) which are necessary for a fair presentation of the operating results for the interim periods have been included. The results of operations for periods of less than a year are not necessarily indicative of results for the full year.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2012 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

(2) Acquisition of Unaffiliated Branches

On March 25, 2011, the Bank acquired certain deposit and other liabilities, real estate and related assets of the Rocky Hill, Hillsborough and Hopewell, New Jersey branch banking offices from another financial institution for a purchase price of $9.85 million (the "March 2011 Acquisition"). The March 2011 Acquisition was completed pursuant to the terms and conditions of the Branch Purchase and Assumption Agreement and Agreement for Purchase dated as of December 30, 2010, which was previously disclosed on a Current Report on Form 8-K filed by the Company with the SEC on January 3, 2011.

The Company accounted for this transaction using applicable accounting guidance regarding business combinations. The fair value of savings and transaction deposit accounts acquired was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. A core deposit intangible was ascribed to the value of non-maturity deposits based upon an independent third party evaluation which was prepared using the actual characteristics of the deposits and assumptions we believe to be reasonable. Certificates of deposit accounts were valued utilizing a discounted cash flows analysis based upon the underlying accounts' contractual maturities and interest rates. The present value of the projected cash flow was then determined using discount rates based upon certificate of deposit interest rates available in the marketplace for accounts with similar terms. The fair value of the three branch buildings was determined via appraisals performed by qualified independent third party appraisers. The fair value of loans acquired, all of which were performing, was assumed to approximate amortized cost based upon the small size and nature of those loans.

As a result of the March 2011 Acquisition, the three branches became branches of the Bank. Included in the March 2011 Acquisition were the assumption of deposit liabilities of $111.9 million, primarily consisting of demand deposits, and the acquisition of cash of approximately $101.5 million, fixed assets of approximately $4.6 million, which includes, without limitation, ownership of the real estate and improvements upon which the branches are situated, and loans of $862,000. The Bank recorded goodwill of approximately $3.2 million and a core deposit intangible asset of approximately $1.7 million as a result of the March 2011 Acquisition.

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(3) Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during each period.

Diluted net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding, as adjusted for the assumed exercise of potential common stock warrants, common stock options and unvested restricted stock awards (as defined below), using the treasury stock method. All share information has been adjusted for the effect of a 5% common stock dividend declared December 15, 2011 and paid on February 2, 2012 to shareholders of record on January 17, 2012.

The following tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per common share (EPS) calculations. Dilutive securities in the tables below exclude common stock options and warrants with exercise prices that exceed the average market price of the Company's common stock during the periods presented. Inclusion of these common stock options and warrants would be anti-dilutive to the diluted earnings per common share calculation.

	Three Months Ended September 30, 2012		
	Income	Weighted-average shares	Per share Amount
Basic earnings per common share:			
Net income	$ 1,354,919	5,122,718	$ 0.26
Effect of dilutive securities:			
Stock options and unvested stock awards		123,828	
Diluted EPS:			
Net income plus assumed conversion	$ 1,354,919	5,246,546	$ 0.26

	Three Months Ended September 30, 2011		
	Income	Weighted-average shares	Per share Amount
Basic earnings per common share:			
Net income	$ 1,213,278	5,045,487	$ 0.24
Effect of dilutive securities:			
Stock options and unvested stock awards		38,273	
Diluted EPS			
Net income plus assumed conversion	$ 1,213,278	5,083,760	$ 0.24

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	Nine Months Ended September 30, 2012		
	Income	Weighted-average shares	Per share Amount
Basic earnings per share:			
Net income	$ 3,819,759	5,105,138	$ 0.75
Effect of dilutive securities:			
Stock options and unvested stock awards		91,530	
Diluted EPS			
Net income plus assumed conversion	$ 3,819,759	5,196,668	$ 0.74

	Nine Months Ended September 30, 2011		
	Income	Weighted-average shares	Per share Amount
Basic earnings per common share:			
Net income	$ 2,832,060	5,044,053	$ 0.56
Effect of dilutive securities:			
Stock options and unvested stock awards		52,895	
Diluted EPS:			
Net income plus assumed conversion	$ 2,832,060	5,096,948	$ 0.56

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(4) Investment Securities

Amortized cost, gross unrealized gains and losses, and the estimated fair value by security type are as follows:

September 30, 2012:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ 19,524,794	$ 153,431	$ 0	$ 19,678,225
Residential collateralized mortgage obligations – GSE	9,824,526	440,103	0	10,264,629
Residential collateralized mortgage obligations – non-GSE	4,155,924	129,919	(7,435)	4,278,408
Residential mortgage backed securities – GSE	31,601,987	2,211,436	(1)	33,813,422
Obligations of State and Political subdivisions	5,233,150	411,234	0	5,644,384
Trust preferred debt securities – single issuer	2,465,396	0	(596,085)	1,869,311
Corporate Debt Securities	18,342,779	287,274	(1,537)	18,628,516
Restricted stock	2,887,100	0	0	2,887,100
Mutual fund	25,000	0	0	25,000
	$ 94,060,656	$ 3,633,397	$ (605,058)	$ 97,088,995

September 30, 2012:	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Income	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
U. S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ 3,086,308	$ 0	$ 3,086,308	$ 38,287	$ 0	$ 3,124,595
Residential collateralized	21,183,585	0	21,183,585	1,139,598	0	22,323,183

Mortgage obligations – GSE						
Residential collateralized Mortgage obligations - non-GSE	13,940,266	0	13,940,266	866,160	(2,094)	14,804,332
Residential mortgage backed securities – GSE	21,925,935	0	21,925,935	1,044,517	0	22,970,452
Obligations of State and Political subdivisions	42,867,804	0	42,867,804	3,173,279	0	46,041,083
Trust preferred debt securities – pooled	651,788	(500,944)	150,844	0	(47,775)	103,069
Corporate debt securities	20,244,702	0	20,244,702	128,432	0	20,373,134
	$123,900,388	$ (500,944)	$123,399,444	$6,390,273	$(49,869)	$129,739,848

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December 31, 2011:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale-				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	$ 19,400,856	$ 71,833	$ 0	$ 19,472,689
Residential collateralized mortgage obligations – GSE	13,421,544	476,589	0	13,898,133
Residential collateralized mortgage obligations – non-GSE	4,177,115	143,480	(20,151)	4,300,444
Residential mortgage backed securities – GSE	40,655,157	2,032,059	(7)	42,687,209
Obligations of State and Political subdivisions	5,366,145	339,747	(5,378)	5,700,514
Trust preferred debt securities – single issuer	2,463,296	0	(712,055)	1,751,241
Corporate Debt Securities	1,443,762	0	(7,818)	1,435,944
Restricted stock	4,412,600	0	0	4,412,600
Mutual fund	25,000	0	0	25,000
	$ 91,365,475	$ 3,063,708	$ (745,409)	$ 93,683,774

December 31, 2011:	Amortized Cost	Other-Than-Temporary Impairment Recognized In Accumulated Other Comprehensive Income	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
U. S. Treasury securities and obligations of U.S. Government sponsored corporations (“GSE”) and agencies	$ 11,118,649	$ 0	$ 11,118,649	$ 59,571	$ 0	$ 11,178,220
Residential collateralized mortgage obligations – GSE	24,705,415	0	24,705,415	1,007,737	0	25,713,152
Residential mortgage backed securities – GSE	14,386,327	0	14,386,327	704,792	0	15,091,119

Residential mortgage backed securities – non-GSE	20,260,354	0	20,260,354	801,882	0	21,062,236
Obligations of State and Political subdivisions	46,820,985	0	46,820,985	2,848,587	(2,507)	49,667,065
Trust preferred debt securities – pooled	646,574	(500,944)	145,630	0	(142,122)	3,508
Corporate debt securities	25,037,063	0	25,037,063	85,701	(216,784)	24,905,980
	$ 142,975,367	$ (500,944)	$ 142,474,423	$ 5,508,270	$ (361,413)	$ 147,621,280

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Restricted stock at September 30, 2012 and December 31, 2011 consisted of $2,872,100 and $4,397,600, respectively, of Federal Home Loan Bank of New York stock and $15,000 of Atlantic Central Bankers Bank stock.

The amortized cost and estimated fair value of investment securities at September 30, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Restricted stock is included in "Available for sale-Due in one year or less."

	Amortized Cost	Fair Value
Available for sale-		
Due in one year or less		
U.S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ 7,025,199	$ 7,052,920
Residential backed securities-GSE	35,897	37,214
Corporate Debt Securities	1,920,666	1,934,845
Restricted Stock	2,887,100	2,887,100
Mutual Fund	25,000	25,000
	$ 11,893,862	$ 11,937,079
Due after one year through five years		
U.S. Treasury securities and obligations of US Government sponsored corporations ("GSE")and agencies	$ 9,952,439	$ 10,066,050
Residential mortgage backed securities-GSE	203,984	216,327
Obligations of State and Political subdivisions	483,872	487,143
Corporate Debt Securities	15,335,507	15,605,291
	$ 25,975,802	$ 26,374,811
Due after five years through ten years		
U.S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	$ 2,547,156	$ 2,559,255
Residential collateralized mortgage obligations -GSE	122,367	128,367
Residential mortgage backed Securities - GSE	4,097,302	4,483,478
Obligations of State and Political Subdivisions	2,706,945	2,992,561
	$ 9,473,770	$ 10,163,661
Due after ten years		
Residential collateralized mortgage obligations -GSE	9,702,159	10,136,262
Residential collateralized mortgage obligations –non GSE	4,155,924	4,278,408
Residential mortgage backed securities - GSE	27,264,804	29,076,403
Obligations of State and Political subdivisions	2,042,333	2,164,680
Trust Preferred Debt Securities-single issuer	2,465,396	1,869,311
Corporate Debt Securities	1,086,606	1,088,380
	$ 46,717,222	$ 48,613,444
Total	$ 94,060,656	$ 97,088,995

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Held to maturity-		
Due in one year or less		
U.S. Treasury securities and obligations of US Government sponsored corporations ("GSE") and agencies	$ 1,500,472	$ 1,511,325
Obligations of State and Political subdivisions	2,835,315	2,875,509
Corporate Debt Securities	16,632,361	16,715,477
	$ 20,968,148	$ 21,102,311
Due after one year through five years		
U.S. Treasury securities and obligations of US Government sponsored corporations ("GSE") and agencies	$ 1,585,836	$ 1,613,270
Obligations of State and Political subdivisions	5,774,130	6,065,767
Corporate Debt Securities	3,612,341	3,657,657
	$ 10,972,307	$ 11,336,694
Due after five years through ten years		
Residential collateralized mortgage obligations – GSE	$ 488,372	$ 499,140
Residential mortgage backed securities – GSE	3,675,149	3,829,005
Obligations of State and Political subdivisions	22,655,487	24,275,299
	$ 26,819,008	$ 28,603,444
Due after ten years		
Residential collateralized mortgage obligations - GSE	$ 20,695,213	$ 21,824,043
Residential collateralized mortgage obligations – non GSE	13,940,266	14,804,332
Residential mortgage backed securities - GSE	18,250,786	19,141,447
Obligations of State and Political subdivisions	11,602,872	12,824,508
Trust Preferred Debt Securities - Pooled	651,788	103,069
	$ 65,140,925	$ 68,697,399
Total	$ 123,900,388	$ 129,739,848

Gross unrealized losses on securities and the estimated fair value of the related securities aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2012 and December 31, 2011 are as follows:

September 30, 2012		Less than 12 months		12 months or longer		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unreal Loss
Residential collateralized mortgage obligations – non-GSE	3	$ 1,955,082	$ (7,179)	$ 177,821	$ (2,350)	$ 2,132,903	$ (9
Residential mortgage backed securities - GSE	1	5,029	(1)	0	0	5,029	

Obligations of State and Political Subdivisions	0	0	0	0	0	0	
Trust preferred debt securities – single issuer	4	0	0	1,869,311	(596,085)	1,869,311	(596
Trust preferred debt securities – pooled	1	0	0	103,069	(548,719)	103,069	(548
Corporate Debt Securities	1	518,560	(1,537)	0	0	518,560	(1
Total temporarily impaired securities	10	$ 2,478,671	$ (8,717)	$ 2,150,201	$ (1,147,154)	$ 4,628,872	$ (1,155

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December 31, 2011		Less than 12 months		12 months or longer		Total	
	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrea Los
Residential collateralized mortgage Obligations – non-GSE	1	$ 0	$ 0	$ 251,723	$ (20,151)	$ 251,723	$ (2
Residential mortgage backed securities GSE	1	5,280	(7)	0	0	5,280	
Obligations of State and Political Subdivisions	3	1,049,362	(7,885)	0	0	1,049,362	(
Trust preferred debt securities – Single issuer	4	0	0	1,751,241	(712,055)	1,751,241	(71
Trust preferred debt securities – Pooled	1	0	0	3,508	(643,066)	3,508	(64
Corporate debt securities	25	13,668,246	(211,075)	666,956	(13,527)	14,335,202	(22
Total temporarily impaired securities	35	$ 14,722,888	$ (218,967)	$ 2,673,428	$ (1,388,799)	$ 17,396,316	$ (1,60

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Residential collateralized mortgage obligations and residential mortgaged-backed securities: The unrealized losses on investments in residential collateralized residential mortgage obligations and mortgage-backed securities were caused by interest rate increases. The contractual cash flows of these securities are guaranteed by the issuer, which are generally government or government sponsored agencies. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Obligations of State and Political Subdivisions: The unrealized losses on investments in these securities were caused by interest rate increases. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Corporate debt securities: The unrealized losses on investments in corporate debt securities were caused by interest rate increases. None of the corporate issuers have defaulted on interest payments. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Trust preferred debt securities – single issuer: The investments in these securities with unrealized losses are comprised of four corporate trust preferred securities that mature in 2027, all of which were single-issuer securities. The contractual terms of the trust preferred securities do not allow the issuer to settle the securities at a price less than the face value of the trust preferred securities, which is greater than the amortized cost of the trust preferred securities. None of the corporate issuers have defaulted on interest payments. Because the decline in fair value is attributable to widening of interest rate spreads, the lack of an active trading market for these securities and, lesser degree market concerns on the issuers' credit quality, and because the Company does not intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Trust preferred debt security – pooled: This trust preferred debt security was issued by a two issuer pool (Preferred Term Securities XXV, Ltd. co-issued by Keefe, Bruyette and Woods, Inc. and First Tennessee ("PreTSL XXV"), consisting primarily of financial institution holding companies. During 2009, the Company recognized an other-than-temporary impairment charge of $864,727 of which $363,783 was determined to be a credit loss and charged to operations and $500,944 was recognized in other comprehensive income (loss) component of shareholders' equity.

The primary factor used to determine the credit portion of the impairment loss to be recognized in the income statement for this security was the discounted present value of projected cash flow where that present value of cash flow was less than the amortized cost basis of the security. The present value of cash flow was developed using an EITF 99-20 model that considered performing collateral ratios, the level of subordination to senior tranches of the security, credit ratings of and projected credit defaults in the underlying collateral.

On a quarterly basis, management evaluates this security to determine if there is any additional other-than-temporary impairment. As of September 30, 2012, our evaluation was as follows:

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a. We obtained the PreTSL XXV Depository Institutions Issuer List as of September 30, 2012 from the FTN Financial Corp. ("FTN")website and reviewed the financial ratios and capital levels of each individual financial institution issuer.

b. We sorted the financial institutions on the issuer list to develop three "buckets" (or categories) for further deferred/default analysis based upon the indicated "Texas Ratio." The Texas Ratio is calculated by dividing the institution's Non-Performing Assets plus loans 90 days past due by the combined total of Tangible Equity plus the Allowance for Loan Losses. The three buckets consisted of those institutions with a Texas Ratio of:

(1) Above 100:

(2) 75 to 100:

(3) Below 75.

c. We then applied the following asset specific deferral/default assumptions to each of these buckets:

(1)Above 100 - 100% default; 0% recovery;

(2) 75 to 100 – 100% deferred; 15% recovery at 2 years from initial date of deferral; and

(3) Below 75 – no deferral/default

d. We then ran a cash flow projection to analyze the impact of future deferral/default activity by applying the following assumption on those institutions in bucket 3 of our analysis:

- Defaults at 75 basis points applied annually; 15% recovery with a 2-year lag from the initial date of deferral.

Our rationale for these metrics is as follows: (1) the FDIC lists the number of bank failures each year from 1934 – 2008. Comparing bank failures to the number of FDIC institutions produces an annual average default rate of 36 basis points. Given the continuing uncertain economic environment, we believe double this amount, or 75 basis points, to be an appropriate measurement for defaults; and (2) Standard & Poor's published "Global Methodology for Rating Trust Preferred/Hybrid Securities Revised" on November 21, 2008. This analysis uses a recovery assumption of 15%, which we also deem an appropriate measurement.

Our position is that it is appropriate to apply this future default factor in our analysis as it is not realistic to assume no adverse conditions will occur over the remaining 26 year stated maturity of this pooled security even though the individual institutions are currently performing according to terms.

e. This September 30, 2012 projection of future cash flows produced a present value factor that exceeded the carrying value of the pooled trust preferred security; therefore, management concluded that no OTTI issues were present at September 30, 2012.

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A number of factors or combinations of factors could cause management to conclude in one or more future reporting periods that an unrealized loss that exists with respect to PreTSL XXV constitutes an additional credit impairment. These factors include, but are not limited to, failure to make interest payments, an increase in the severity of the unrealized loss, an increase in the continuous duration of the unrealized loss without an impairment in value or changes in market conditions and/or industry or issuer specific factors that would render management unable to forecast a full recovery in value. In addition, the fair value of trust preferred securities could decline if the overall economy and the financial condition of the issuers continue to deteriorate and there remains limited liquidity for this security.

The following table sets forth information with respect to this security at September 30, 2012:

Security	Class	Amortized Cost	Fair Value	Unrealized (Loss)	Percent of Underlying Collateral Performing	Percent of Underlying Collateral In Deferral (1)	Percent of Underlying Collateral In Default (1)	Expected Deferrals and Defaults as a % of Remaining Performing Collateral	Moody's S&P / Ratings	Excess Subo Amount
PreTSL XXV	B-1	$651,788	$103,069	($548,719)	65.7%	15.6%	18.7%	14.8%	C/ NR	$112,000,00

Notes to table above:

(1) This percentage represents the amount of specific deferrals / defaults that have occurred, plus those that are known for the following quarters to the total amount of original collateral. Fewer deferrals / defaults produce a lower percentage.

(2) "Excess subordination" amount is the additional defaults / deferrals necessary in the next reporting period to deplete the entire credit enhancement (excess interest and over-collateralization) beneath our tranche within each pool to the point that would cause a "break in yield". This amount assumes that all currently performing collateral continues to perform. A break in yield means that our security would not be expected to receive all the contractual cash flows (principal and interest) by maturity. The "percent of underlying collateral performing" is the ratio of the "excess subordination amount" to current performing collateral - a higher percent means there is more excess subordination to absorb additional defaults / deferrals, and the better our security is protected from loss.

The following table presents a cumulative roll forward of the amount of other-than-temporary impairment related to credit losses, all of which relate to PreTSL XXV, which have been recognized in earnings for debt securities held to maturity and not intended to be sold.

(in thousands)	Three and nine months ended September 30, 2012	Three and nine months ended September 30, 2011

Balance at beginning of period	$	364	$	364
Change during the period		-		-
Balance at end of period	$	364	$	364

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(5) Loans and Allowance for Loan Losses

The Company's primary lending emphasis is the origination of commercial and commercial real estate loans and mortgage warehouse lines of credit. Based on the composition of the loan portfolio, the inherent primary risks are deteriorating credit quality, a decline in the economy, and a decline in New Jersey real estate market values. Any one, or a combination, of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

The following table provides an aging of the loan portfolio by loan class at September 30, 2012:

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Nonaccrual Loans
Commercial								
Construction	$679,914	$1,481,117	$0	$2,161,031	$59,413,297	$61,574,328	$0	$0
Commercial Business	40,010	0	419,786	459,796	55,804,206	56,264,002	0	718,283
Commercial Real Estate	0	0	3,305,434	3,305,434	101,901,717	105,207,151	0	3,889,930
Mortgage Warehouse Lines	0	0	0	0	251,330,808	251,330,808	0	0
Residential Real Estate	0	0	0	0	10,985,063	10,985,063	0	135,963
Consumer								
Loans to Individuals	85,514	0	54,904	140,418	10,515,341	10,655,759	0	54,904
Other	16,060	0	0	16,060	214,820	230,880	0	0
Deferred Loan Fees	0	0	0	0	999,208	999,208	0	0
Total	$821,498	$1,481,117	$3,780,124	$6,082,739	$491,164,460	$497,247,199	$0	$4,799,080

The following table provides an aging of the loan portfolio by loan class at December 31, 2011:

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days Accruing	Nonaccrual Loans
Commercial								
Construction	$0	$0	$140,055	$140,055	$49,145,728	$49,285,783	$0	$140,055
Commercial Business	364,743	564,152	122,535	1,051,430	49,733,244	50,784,674	0	669,166
Commercial Real Estate	0	245,874	503,877	749,751	98,887,225	99,636,976	0	1,443,220
Mortgage Warehouse	0	0	0	0	249,345,831	249,345,831	0	0

Lines								
Residential Real Estate	905,310	0	661,171	1,566,481	11,318,871	12,885,352	0	661,171
Consumer Loans to Individuals	0	144,904	77,858	222,762	11,996,878	12,219,640	0	77,858
Other	0	0	0	0	255,556	255,556	0	0
Deferred Loan Costs	0	0	0	0	1,017,959	1,017,959	0	0
Total	$1,270,053	$954,930	$1,505,496	$3,730,479	$471,701,292	$475,431,771	$0	$2,991,470

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Management reviews the adequacy of the allowance on at least a quarterly basis to ensure that the provision for loan losses has been charged against earnings in an amount necessary to maintain the allowance at a level that is adequate based on management's assessment of probable estimated losses. The Company's methodology for assessing the adequacy of the allowance for loan losses consists of several key elements. These elements include a specific reserve for impaired loans, an allocated reserve, and an unallocated portion.

The Company consistently applies the following comprehensive methodology. During the quarterly review of the allowance for loan losses, the Company considers a variety of factors that include:

- General economic conditions.
- Trends in charge-offs.
- Trends and levels of delinquent loans.
- Trends and levels of non-performing loans, including loans over 90 days delinquent.
- Trends in volume and terms of loans.
- Levels of allowance for specific classified loans.
- Credit concentrations.

The methodology includes the segregation of the loan portfolio into loan types with a further segregation into risk rating categories, such as special mention, substandard, doubtful, and loss. This allows for an allocation of the allowance for loan losses by loan type; however, the allowance is available to absorb any loan loss without restriction. Larger balance, non-homogeneous loans representing significant individual credit exposures are evaluated individually through the internal loan review process. It is this process that produces the watch list. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated. Based on these reviews, an estimate of probable losses for the individual larger-balance loans are determined, whenever possible, and used to establish specific loan loss reserves. In general, for non-homogeneous loans not individually assessed, and for homogeneous groups, such as residential mortgages and consumer credits, the loans are collectively evaluated based on delinquency status, loan type, and historical losses. These loan groups are then internally risk rated.

The watch list includes loans that are assigned a rating 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 rated as doubtful in whole, or in part, are placed in nonaccrual status. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses.

The specific reserve for impaired loans is established for specific loans which have been identified by management as being impaired. These impaired loans are assigned a doubtful risk rating grade because the loan has not performed according to payment terms and there is reason to believe that repayment of the loan principal, in whole, or part, is unlikely. The specific portion of the allowance is the total amount of potential unconfirmed losses for these individual doubtful loans. To assist in determining the fair value of loan collateral, the Company often utilizes independent third party qualified appraisal firms which, in turn, employ their own criteria and assumptions that may include occupancy rates, rental rates, and property expenses, among others.

The second category of reserves consists of the allocated portion of the allowance. The allocated portion of the allowance is determined by taking pools of loans outstanding that have similar characteristics and applying historical loss experience for each pool. This estimate represents the potential unconfirmed losses within the portfolio. Individual loan pools are created for commercial and commercial real estate loans, construction loans, and various types of loans to individuals. The historical estimation for each loan pool is then adjusted to account for current conditions, current loan portfolio performance, loan policy or management changes, or any other factor which may cause future losses to deviate from historical levels.

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The Company also maintains an unallocated allowance. The unallocated allowance is used to cover any factors or conditions which may cause a potential loan loss but are not specifically identifiable. It is prudent to maintain an unallocated portion of the allowance because no matter how detailed an analysis of potential loan losses is performed, these estimates by definition, lack precision. Management must make estimates using assumptions and information that is often subjective and changing rapidly.

The following discusses the risk characteristics of each of our loan portfolio segments, commercial and consumer.

Commercial

The Company's primary lending emphasis is the origination of commercial and commercial real estate loans and mortgage warehouse lines of credit. Based on the composition of the loan portfolio, the inherent primary risks are deteriorating credit quality, a decline in the economy, and a decline in New Jersey real estate market values. Any one, or a combination, of these events may adversely affect the loan portfolio and may result in increased delinquencies, loan losses and increased future provision levels.

Consumer

The Company's consumer loan portfolio segment is comprised of residential real estate loans, home equity loans and other loans to individuals. Individual loan pools are created for the various types of loans to individuals.

In general, for homogeneous groups, such as residential mortgages and consumer credits, the loans are collectively evaluated based on delinquency status, loan type, and industry historical losses. These loan groups are then internally risk rated.

The Company considers the following credit quality indicators in assessing the risk in the loan portfolio:

- Consumer credit scores
- Internal credit risk grades
- Loan-to-value ratios
- Collateral
- Collection experience

The Company's internal credit risk grades are based on the definitions currently utilized by the bank regulatory agencies. The grades assigned and their definitions are as follows, and loans graded excellent, above average, good and watch list are treated as "pass" for grading purposes:

1. Excellent - Loans that are based upon cash collateral held at the Bank and adequately margined. Loans that are based upon "blue chip" stocks listed on the major exchanges and adequately margined.

2. Above Average - Loans to companies whose balance sheets show excellent liquidity and whose long-term debt is on well-spread schedules of repayment easily covered by cash flow. Such companies have been consistently profitable and have diversification in their product lines or sources of revenue. The continuation of profitable operations for the foreseeable future is likely. Management is comprised of a mix of ages, experience, and backgrounds and management succession is in place. Sources of raw materials and service companies, the source of revenue is abundant. Future needs have been planned for. Character and repayment ability of individuals or company principals are excellent. Loans to individuals supported by high net worths and liquid assets.

3. Good - Loans to companies whose balance sheets show good liquidity and cash flow adequate to meet maturities of long-term debt with a comfortable margin. Such company has established a profitable record over a number of years, and there has been growth in net worth. Operating ratios are in line with those of the industry, and expenses are in proper relationship to the volume of business done and the profits achieved. Management is well-balanced and competent in their responsibilities. Economic environment is favorable; however, competition is strong. The prospects for growth are good. Loans in this category do not meet the collateral requirements of loans in categories 1 and 2 above. Loans to individuals supported by good net worths but whose supporting assets are illiquid.

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3w. Watch List - Included in this category are loans evidencing problems identified by Bank management that require closer supervision. Such problem has not developed to the point which requires a Special Mention rating. This category also covers situations where the Bank does not have adequate current information upon which credit quality can be determined. The account officer has the obligation to correct these deficiencies within 30 days after the time of notification.

4. Special Mention - Loans or borrowing relationships that require more than the usual amount of attention by Bank management. Industry conditions may be adverse or weak. The borrower's ability to meet current payment schedules may be questionable, even though interest and principal are being paid as agreed. Heavy reliance has been placed on the collateral. Profits, if any, are interspersed with losses. Management is "one man" or incompetent or there is no plan for management succession. Expectations of a loan loss are not immediate; however, if present trends continue, a loan loss could be expected.

5. Substandard - Loans in this category possess weaknesses that jeopardize the ultimate collection of total outstandings. These weaknesses require close supervision by Bank management. Current financial statements are unavailable and the loan is inadequately protected by the collateral pledged. This category will normally include loans that have been classified as substandard by the regulators.

6. Doubtful - Loans with weaknesses inherent in the substandard classification and where collection or liquidation in full is highly questionable. It is likely that the loan will not be collected in full and the Bank will suffer some loss which is not quantifiable at the time of review.

7. Loss - Loans considered uncollectable and of such little value that their continuance as an active asset is not warranted. Loans in this category should immediately be eliminated from the Bank's loan loss reserve. Any accrued interest should immediately be backed out of income.

The following table provides a breakdown of the loan portfolio by credit quality indictor at September 30, 2012.

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$ 56,517,762	$ 53,660,726	$ 78,346,642	$ 251,330,808	$ 10,849,100
Special Mention	0	1,093,493	19,181,135	0	0
Substandard	5,056,566	1,326,624	7,679,374	0	135,963
Doubtful	0	83,159	0	0	0
Total	$ 61,574,328	$ 56,264,002	$ 105,207,151	$ 251,330,808	$ 10,985,063

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$ 10,600,855	$ 230,880
Nonperforming	54,904	0
Total	$ 10,655,759	$ 230,880

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The following table provides a breakdown of the loan portfolio by credit quality indicator at December 31, 2011.

Commercial Credit Exposure - By Internally Assigned Grade	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse Lines	Residential Real Estate
Grade:					
Pass	$ 44,106,827	$ 47,973,545	$ 84,642,510	$ 249,345,831	$ 12,224,181
Special Mention	5,038,901	1,657,993	10,574,489	0	142,477
Substandard	107,405	865,160	3,823,225	0	518,694
Doubtful	32,650	287,976	596,752	0	0
Total	$ 49,285,783	$ 50,784,674	$ 99,636,976	$ 249,345,831	$ 12,885,352

Consumer Credit Exposure - By Payment Activity	Loans To Individuals	Other
Performing	$ 12,141,782	$ 255,556
Nonperforming	77,858	0
Total	$ 12,219,640	$ 255,556

Impaired Loans Disclosures

Loans are considered to be impaired when, based on current information and events, it is determined that the Company will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When a loan is placed on nonaccrual status, it is also considered to be impaired. Loans are placed on nonaccrual status when: (1) the full collection of interest or principal becomes uncertain; or (2) they are contractually past due 90 days or more as to interest or principal payments unless they are both well secured and in the process of collection.

The following tables summarize the distribution of the allowance for loan losses and loans receivable by loan class and impairment method at September 30, 2012 and December 31, 2011:

Period-End Allowance for Credit Losses by Impairment Method – September 30, 2012

	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse	Residential Real Estate	Consumer	Othe
Allowance for credit losses:							
Ending Balance	$1,856,045	$936,530	$2,325,913	$1,256,654	$119,698	$113,271	$2,771
Ending Balance							
Individually evaluated for impairment	0	182,148	447,193	0	28,566	0	0
Collectively evaluated for impairment	1,856,045	754,382	1,878,720	1,256,654	91,132	113,271	2,771
Loans receivables:							
Ending Balance	$61,574,328	$56,264,002	$105,207,151	$251,330,808	$10,985,063	$10,655,759	$230,8
Individually evaluated for impairment	0	1,054,246	4,368,210	0	135,963	54,904	0

Collectively evaluated for impairment	61,574,328	55,209,756	100,838,941	251,330,808	10,849,100	10,600,855	230,8

Period-End Allowance for Credit Losses by Impairment Method – December 31, 2011

	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse	Residential Real Estate	Consumer	Other
Allowance for credit losses:							
Ending Balance	$1,054,695	$934,642	$1,597,702	$1,122,056	$91,076	$187,352	$2,377
Ending Balance							
Individually evaluated for impairment	0	283,424	186,055	0	11,619	77,858	0
Collectively evaluated for impairment	1,054,695	651,218	1,411,647	1,122,056	79,457	109,494	2,377
Loans receivables:							
Ending Balance	$49,285,783	$50,784,674	$99,636,976	$249,345,831	$12,885,352	$12219,640	$255,55
Individually evaluated for impairment	140,055	952,156	1,934,120	0	661,171	77,858	0
Collectively evaluated for impairment	49,145,728	49,832,518	97,702,856	249,345,831	12,224,181	12,141,782	255,55

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The allowance for loan loss by loan class at both September 30, 2012 and December 31, 2011, and related activity for the nine months ended September 30, 2012, are as follows:

	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse	Residential Real Estate	Consumer	Other	Unallo
Balance - December 31, 2011	$1,054,695	$934,642	$1,597,702	$1,122,056	$91,076	$187,352	$2,377	$544,
Provision charged to operations	217,501	15,757	241,180	(115,451)	148,497	22,076	6,803	63,6
Loans charged off	(32,650)	(144,827)	0	0	0	(77,858)	(6,001)	0
Recoveries of loans charged off	3,403	5,427	0	0	0	0	0	0
Balance - March 31, 2012	$1,242,949	$810,999	$1,838,882	$1,006,605	$239,573	$131,570	$3,179	$608,
Provision charged to operations	429,656	111,410	464,946	147,278	13,631	(8,357)	(381)	(608
Loans charged off	(25,000)	(20,199)	0	0	(130,694)	0	0	0
Recoveries of loans charged off	0	1,191	182	0	0	0	0	0
Balance – June 30, 2012	$1,647,605	$903,401	$2,304,010	$1,153,883	$122,510	$123,213	$2,798	0
Provision charged to operations	208,440	33,129	86,278	102,771	(2,812)	(9,942)	(27)	82,1
Loans charged off	0	0	(64,375)	0	0	0	0	0
Recoveries of loans charged off	0	0	0	0	0	0	0	0
Balance - September 30, 2012	$1,856,045	$936,530	$2,325,913	$1,256,654	$119,698	$113,271	$2,771	$82,1

The allowance for loan loss by loan class at both September 30, 2011 and December 31, 2010, and related activity for the nine months ended September 30, 2011, are as follows:

	Construction	Commercial Business	Commercial Real Estate	Mortgage Warehouse	Residential Real Estate	Consumer	Other	Unallocate
Balance - December 31, 2010	$1,744,068	$971,994	$1,723,865	$763,092	$67,828	$192,457	$1,910	$297,498
Provision charged to operations	1,183,736	(55,760)	(318,432)	(344,826)	9,777	(1,990)	571	(73,078
Loans charged off	(366,587)	(46,319)	-	-	-	-	-	-
Recoveries of loans charged off	-	239	-	-	-	-	-	-
Balance - March 31, 2011	$2,561,217	$870,154	$1,405,433	$418,266	$77,605	$190,467	$2,481	$224,420
Provision charged to operations	52,940	48,806	215,679	110,442	(370)	(3,016)	(28)	(149,45
Loans charged off	(158,900)	-	-	-	-	-	-	-
Recoveries of loans charged off	-	3,438	-	-	-	-	-	-
Balance - June 30, 2011	$2,455,257	$922,398	$1,621,112	$528,708	$77,235	$187,451	$2,453	$74,967
Provision charged to operations	29,559	13,870	19,041	354,442	8,772	462	(242)	182,428
Loans charged off	(793,967)	(182,343)	0	0	0	0	0	0
Recoveries of loans charged off	6,478	256	0	0	0	0	0	0
Balance - September 30, 2011	$1,697,327	$754,181	$1,640,153	$883,150	$86,007	$187,913	$2,211	$257,395

When a loan is identified as impaired, the measurement of impairment is based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole remaining source of repayment for the loan is the liquidation of the collateral. In such cases, the current fair value of the collateral less selling costs is used. If the value of the impaired loan is less than the recorded investment in the loan, the impairment is recognized through an allowance estimate or a charge to the allowance.

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Impaired Loans Receivables (By Class) – September 30, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Quarter-End September 30, 2012 Average Recorded Investment	Quarter-End September 30, 2011 Average Recorded Investment	Year to Date 2012 Average Recorded Investment	Year to Date 2011 Average Recorded Investment	Quarter-End September 30, 2012 Interest Income Recognized	Quar Er Septe 30 20 Inte Inco Recog
With no related allowance:									
Commercial									
Construction	$0	$0	$0	$0	$129,525	$47,736	$1,080,426	$0	$0
Commercial Business	561,961	604,643	0	585,257	132,077	471,988	235,059	0	0
Commercial Real Estate	0	0	0	869,901	259,033	428,991	325,338	0	0
Mortgage Warehouse Lines	0	0	0	0	0				
Subtotal	561,961	604,643	0	1,455,158	520,635	948,715	1,640,823	0	0
Residential Real Estate	0	0	0	0	0	31,466	0	0	0
Consumer									
Loans to Individuals	54,904	54,904	0	54,904	0	54,904	0	0	0
Other	0	0	0	0	0	0	0	0	0
Subtotal	54,904	54,904	0	54,904	0	54,904	0	0	0
Subtotal With no related allowance:	616,865	659,547	0	1,510,062	520,635	1,035,085	1,640,823	0	0
With an allowance:									
Commercial									
Construction	0	0	0	0	2,931,088	0	3,080,016	0	0
Commercial Business	492,285	637,112	182,148	466,487	652,990	441,962	613,043	3,809	1,3
Commercial Real Estate	4,368,210	4,368,210	447,193	3,725,809	1,138,248	2,543,757	1,077,913	7,858	0
Mortgage Warehouse Lines	0	0	0	0	0	0	0	0	0
Subtotal	4,860,495	5,005,322	629,341	4,192,296	4,722,326	2,985,719	4,770,972	11,667	1,3

Residential Real Estate	135,963	135,963	28,566	136,781	518,694	338,671	461,468	0	0
Consumer									
Loans to Individuals	0	0	0	0	77,858	0	77,858	0	0
Other	0	0	0	0	0	0	0	0	0
Subtotal	0	0	0	0	77,858	0	77,858	0	0
Subtotal with an allowance:	4,996,458	5,141,285	657,907	4,329,077	5,318,878	3,324,390	5,310,298	11,667	1,3
Total:									
Commercial	5,422,456	5,609,965	629,341	5,647,454	5,242,961	3,934,434	6,411,795	11,667	1,3
Residential Real Estate	135,963	135,963	28,566	136,781	518,694	338,671	461,468	0	0
Consumer	54,904	54,904	0	54,904	77,858	54,904	77,858	0	0
Total	$5,613,323	$5,800,832	$657,907	$5,839,139	$5,839,513	$4,328,009	$6,951,121	$11,667	$1,3

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Impaired Loans Receivables (By Class)
December 31 ,2011

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Year to Date Average Recorded Investment	Year to Date Interest Income Recognized
With no related allowance:					
Commercial					
Construction	$140,055	$ 277,405	$0	$ 610,358	$ 0
Commercial Business	381,190	426,803	0	257,942	0
Commercial Real Estate	503,877	611,389	0	457,464	0
Mortgage Warehouse Lines	0	0	0	0	0
Subtotal	1,025,122	1,315,597	0	1,325,764	0
Residential Real Estate	142,477	142,477	0	11,873	
Consumer					
Loans to Individuals	0	0	0	0	0
Other	0	0	0	0	0
Subtotal	0	0	0	0	0
Subtotal with no Related Allowance	1,167,599	1,315,597	0	1,337,637	0
With an allowance:					
Commercial					
Construction	0	0	0	2,389,162	0
Commercial Business	570,966	570,966	283,424	791,808	10,001
Commercial Real Estate	1,430,243	1,430,243	186,055	1,036,007	