

TRUSTCO BANK CORP N Y
Form 10-Q
May 07, 2010

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

Form 10-Q

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

For the quarterly period ended
March 31, 2010

Commission File Number 0-10592

TRUSTCO BANK CORP NY
(Exact name of registrant as specified in its charter)

NEW YORK
(State or other jurisdiction of incorporation or
organization)

14-1630287
(I.R.S. Employer Identification No.)

5 SARNOWSKI DRIVE, GLENVILLE, NEW YORK
(Address of principal executive offices)

12302
(Zip Code)

Registrant's telephone number, including area code: (518) 377-3311

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. T Yes o 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. (Check one):

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

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

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

Common Stock \$1 Par Value	Number of Shares Outstanding as of April 30, 2010 76,873,254
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TrustCo Bank Corp NY

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TRUSTCO BANK CORP NY
Consolidated Statements of Income (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2010	2009
Interest and dividend income:		
Interest and fees on loans	\$ 31,753	31,191
Interest and dividends on securities available for sale:		
U. S. treasuries and government sponsored enterprises	3,597	1,426
States and political subdivisions	955	1,108
Mortgage-backed securities and collateralized mortgage obligations	1,170	1,627
Corporate bonds	1,046	-
Other securities	118	37
Total interest and dividends on securities available for sale	6,886	4,198
Interest on trading securities:		
U. S. government sponsored enterprises	-	368
States and political subdivisions	-	8
Total interest on trading securities	-	376
Interest on held to maturity securities:		
U. S. government sponsored enterprises	437	1,702
Mortgage-backed securities	1,245	461
Corporate bonds	843	620
Total interest on held to maturity securities	2,525	2,783
Interest on federal funds sold and other short term investments		
	164	518
Total interest income	41,328	39,066
Interest expense:		
Interest on deposits:		
Interest-bearing checking	169	174
Savings accounts	809	751
Money market deposit accounts	1,279	983
Time deposits	6,819	12,235
Interest on short-term borrowings	456	465
Total interest expense	9,532	14,608
Net interest income	31,796	24,458
Provision for loan losses	4,700	2,000
Net interest income after provision for loan losses	27,096	22,458
Noninterest income:		

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Trust department income	1,361	1,506
Fees for other services to customers	2,293	2,666
Net trading losses	-	(308)
Net gain on securities transactions	4	111
Other	206	1,370
Total noninterest income	3,864	5,345
Noninterest expenses:		
Salaries and employee benefits	6,734	6,798
Net occupancy expense	3,501	3,644
Equipment expense	1,420	1,144
Professional services	1,403	1,380
Outsourced Services	1,421	1,468
Advertising	526	775
Insurance	1,522	1,374
Other real estate expense, net	1,953	130
Other	1,609	1,768
Total noninterest expenses	20,089	18,481
Income before taxes	10,871	9,322
Income taxes	3,936	2,973
Net income	\$ 6,935	6,349
Net income per Common Share:		
- Basic	\$ 0.090	0.083
- Diluted	\$ 0.090	0.083

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY
 Consolidated Statements of Financial Condition (Unaudited)
 (dollars in thousands, except per share data)

	March 31, 2010	December 31, 2009
ASSETS:		
Cash and due from banks	\$ 39,626	45,258
Federal funds sold and other short term investments	298,107	100,636
Total cash and cash equivalents	337,733	145,894
Securities available for sale:		
U. S. government sponsored enterprises	492,641	523,483
States and political subdivisions	87,593	93,215
Mortgage-backed securities and collateralized mortgage obligations	95,112	104,901
Corporate bonds	91,212	81,445
Other securities	7,326	7,321
Total securities available for sale	773,884	810,365
Held to maturity securities:		
U. S. government sponsored enterprises (fair value 2010 \$10,097 2009 \$99,179)	10,056	99,251
Mortgage-backed securities (fair value 2010 \$172,146 2009 \$198,601)	168,479	196,379
Corporate bonds (fair value 2010 \$71,939 2009 \$81,782)	69,198	79,241
Total held to maturity securities	247,733	374,871
Loans:		
Commercial	270,804	278,236
Residential mortgage loans	1,730,680	1,721,157
Home equity line of credit	282,627	277,306
Installment loans	4,616	4,837
Total loans	2,288,727	2,281,536
Less:		
Allowance for loan losses	39,490	37,591
Net loans	2,249,237	2,243,945
Bank premises and equipment, net	37,449	37,793
Other assets	72,727	67,029
Total assets	\$ 3,718,763	3,679,897
LIABILITIES:		
Deposits:		
Demand	\$ 240,822	258,759
Interest-bearing checking	404,374	405,383
Savings accounts	684,868	665,463
Money market deposit accounts	476,067	393,779

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Certificates of deposit (in denominations of \$100,000 or more)	450,951	486,190
Other time accounts	1,075,749	1,095,586
Total deposits	3,332,831	3,305,160
Short-term borrowings	116,306	107,728
Accrued expenses and other liabilities	19,008	21,331
Total liabilities	3,468,145	3,434,219
SHAREHOLDERS' EQUITY:		
Capital stock par value \$1; 150,000,000 shares authorized and 83,166,423 shares issued at March 31, 2010 and December 31, 2009, respectively	83,166	83,166
Surplus	128,344	128,681
Undivided profits	101,327	99,190
Accumulated other comprehensive income (loss), net of tax	777	(1,282)
Treasury stock at cost - 6,405,185 and 6,514,994 shares at March 31, 2010 and December 31, 2009, respectively	(62,996)	(64,077)
Total shareholders' equity	250,618	245,678
Total liabilities and shareholders' equity	\$ 3,718,763	3,679,897

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(dollars in thousands, except per share data)

	Capital Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Beginning balance, January 1, 2009	\$83,166	130,142	93,818	(1,441)	(69,661)	236,024
Comprehensive income:						
Net Income - Three Months Ended						
March 31, 2009	-	-	6,349	-	6,349	6,349
Other comprehensive income, net of tax:						
Amortization of prior service cost on pension and post retirement plans, net of tax (pretax of \$101)	-	-	-	-	(61)	-
Unrealized net holding gain on securities available-for-sale arising during the period, net of tax (pretax gain of \$3,903)	-	-	-	-	2,347	-
Reclassification adjustment for net gain realized in net income during the year (pretax gain \$111)	-	-	-	-	(67)	-
Other comprehensive income, net of tax:				2,219	2,219	2,219
Comprehensive income	-	-	-	8,568	-	-
Cash dividend declared, \$.110 per share	-	-	(8,384)	-	-	(8,384)
Sale of treasury stock (134,410 shares)	-	(48)	-	-	1,323	1,275
Stock based compensation expense	-	54	-	-	-	54
Ending balance, March 31, 2009	\$83,166	130,148	91,783	778	(68,338)	237,537
Beginning balance, January 1, 2010	\$83,166	128,681	99,190	(1,282)	(64,077)	245,678
Comprehensive income:						
Net Income - Three Months Ended						
March 31, 2010	-	-	6,935	-	6,935	6,935
Other comprehensive income, net of tax:						
Amortization of prior service cost on pension and post retirement plans, net of tax (pretax of \$101)	-	-	-	-	(61)	-
Unrealized net holding gain on securities available-for-sale arising during the period, net of tax (pretax gain of \$3,530)	-	-	-	-	2,122	-
Reclassification adjustment for net gain realized in net income during the year (pretax gain \$4)	-	-	-	-	(2)	-
Other comprehensive income, net of tax:				2,059	2,059	2,059
Comprehensive income	-	-	-	8,994	-	-

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Cash dividend declared, \$.0625 per share	-	-	(4,798)	-	-	(4,798)
Sale of treasury stock (109,809 shares)	-	(381)	-	-	1,081	700
Stock based compensation expense	-	44	-	-	-	44
Ending balance, March 31, 2010	\$83,166	128,344	101,327	777	(62,996)	250,618

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY
Consolidated Statements of Cash Flows (Unaudited)
(dollars in thousands)

Three months ended
March 31,
2010 2009

Cash flows from operating activities:

Net income	\$6,935	\$6,349
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,161	1,061
Loss (gain) on sale of other real estate owned	336	(28)
Provision for loan losses	4,700	2,000
Deferred tax expense	796	796
Stock based compensation expense	44	54
Net loss on sale of bank premises and equipment	39	-
Net gain on sales and calls of securities	(4)	(111)
Proceeds from sales and calls of trading securities	-	24,936
Proceeds from maturities of trading securities	-	75,000
Net trading losses	-	308
Increase in taxes receivable	(6,155)	(12,143)
Decrease (increase) in interest receivable	(1,835)	2,813
Decrease in interest payable	(146)	(665)
Increase in other assets	(162)	(1,252)
Decrease in accrued expenses and other liabilities	(2,184)	(1,516)
Total adjustments	(3,410)	91,253
Net cash provided by operating activities	3,525	97,602

Cash flows from investing activities:

Proceeds from sales and calls of securities available for sale	110,369	323,951
Proceeds from calls and maturities of held to maturity securities	127,139	182,708
Purchases of securities available for sale	(74,009)	(44,828)
Proceeds from maturities of securities available for sale	3,650	12
Purchases of held to maturity securities	-	(518,351)
Net increase in loans	(12,305)	(13,383)
Proceeds from dispositions of other real estate owned	2,168	178
Purchases of bank premises and equipment	(856)	(2,648)
Net cash provided by (used in) investing activities	156,156	(72,361)

Cash flows from financing activities:

Net (decrease) increase in deposits	27,671	(37,153)
Net increase (decrease) in short-term borrowings	8,578	(26,345)

Proceeds from sale of treasury stock	700	1,275
Dividends paid	(4,791)	(8,369)
Net cash (used in) provided by financing activities	32,158	(70,592)
Net (decrease) increase in cash and cash equivalents	191,839	(45,351)
Cash and cash equivalents at beginning of period	145,894	249,604
Cash and cash equivalents at end of period	\$337,733	\$204,253

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Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest paid	\$9,678	\$15,273
Income taxes paid	10,116	15,105
Other non cash items:		
Increase in due to broker	-	34,368
Transfer of loans to other real estate owned	2,313	2,281
Increase in dividends payable	7	15
Change in unrealized gain on securities available for sale-gross of deferred taxes	3,526	3,791
Change in deferred tax effect on unrealized gain on securities available for sale	(1,406)	(1,511)
Amortization of prior service cost on pension and post retirement plans	(101)	(101)
Change in deferred tax effect of amortization of prior service cost	40	40

See accompanying notes to unaudited consolidated financial statements.

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Notes to Consolidated Interim Financial Statements
(Unaudited)

1. Financial Statement Presentation

The unaudited Consolidated Interim Financial Statements of TrustCo Bank Corp NY (the Company) include the accounts of the subsidiaries after elimination of all significant intercompany accounts and transactions. Prior period amounts are reclassified when necessary to conform to the current period presentation. The net income reported for the three months ended March 31, 2010 is not necessarily indicative of the results that may be expected for the year ending December 31, 2010, or any interim periods. These financial statements consider events that occurred through the date of filing.

In the opinion of the management of the Company, the accompanying unaudited Consolidated Interim Financial Statements contain all adjustments necessary to present fairly the financial position as of March 31, 2010 and the results of operations for the three months ended March 31, 2010 and 2009 and cash flows for the three months ended March 31, 2010 and 2009. The accompanying Consolidated Interim Financial Statements should be read in conjunction with the TrustCo Bank Corp NY year-end Consolidated Financial Statements, including notes thereto, which are included in TrustCo Bank Corp NY's 2009 Annual Report to Shareholders on Form 10-K.

2. Earnings Per Share

A reconciliation of the component parts of earnings per share (EPS) for the three month periods ended March 31, 2010 and 2009 follows:

(dollars in thousands,
except per share data)

	Income	Weighted Average Shares Outstanding	Per Share Amounts
For the quarter ended March 31, 2010:			
Basic EPS:			
Income available to common shareholders	\$6,935	76,758	\$0.090
Effect of Dilutive Securities:			
Stock Options	-	-	-
Diluted EPS	\$6,935	76,758	\$0.090
For the quarter ended March 31, 2009:			
Basic EPS:			
Income available to common shareholders	\$6,349	76,197	\$0.083
Effect of Dilutive Securities:			
Stock Options	-	-	-
Diluted EPS	\$6,349	76,197	\$0.083

There were approximately 3.0 million stock options outstanding for the three months ended March 31, 2010 and 4.0 million stock options outstanding for the three months ended March 31, 2009 which if included, would have been antidilutive in the calculation of average shares outstanding, and were therefore excluded from the earnings per share

calculations. The options are considered antidilutive because the option price is greater than the current market price.

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3. Benefit Plans

The table below outlines the components of the Company's net periodic expense (benefit) recognized during the three month periods ended March 31, 2010 and 2009 for its pension and other postretirement benefit plans:

Components of Net Periodic Expense (Benefit) for the three months ended March 31, 2010 and 2009 (dollars in thousands)

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$14	12	8	6
Interest cost	374	401	16	16
Expected return on plan assets	(453)	(355)	(102)	(86)
Amortization of prior service cost	51	29	(104)	(101)
Net periodic expense(benefit)	\$(14)	87	(182)	(165)

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2009, that it did not expect to make any contributions to its pension and postretirement benefit plans in 2010. As of March 31, 2010, no contributions have been made. The Company presently anticipates that it will not make any contributions in 2010.

Since 2003, the Company has not subsidized retiree medical insurance premiums. However, it continues to provide post-retirement medical benefits to a limited number of current and retired executives in accordance with the terms of their employment contracts.

4. Investment Securities

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolios at March 31, 2010 and December 31, 2009 and the corresponding amounts of unrealized gains and losses therein:

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(dollars in thousands)

Available for sale	Amortized Cost	March 31, 2010		Fair Value
		Unrealized Gains	Gross Unrealized Losses	
U.S. government sponsored enterprises	\$494,001	962	2,322	492,641
State and political subdivisions	85,319	2,321	47	87,593
Mortgage backed securities and collateralized mortgage obligations - residential	95,551	1,250	1,689	95,112
Corporate bonds	91,201	352	341	91,212
Other	650	-	-	650
Total debt securities	766,722	4,885	4,399	767,208
Equity securities	6,632	44	-	6,676
Total securities available for sale	\$773,354	4,929	4,399	773,884

(dollars in thousands)

Held to maturity	Amortized Cost	March 31, 2010		Fair Value
		Unrealized Gains	Gross Unrealized Losses	
U.S. government sponsored enterprises	\$10,056	41	-	10,097
Mortgage backed securities - residential	168,479	3,769	102	172,146
Corporate bonds	69,198	2,741	-	71,939
Total held to maturity securities	\$247,733	6,551	102	254,182

(dollars in thousands)

Available for sale	Amortized Cost	December 31, 2009		Fair Value
		Unrealized Gains	Gross Unrealized Losses	
U.S. government sponsored enterprises	\$528,665	787	5,969	523,483
State and political subdivisions	90,664	2,587	36	93,215
Mortgage backed securities and collateralized mortgage obligations - residential	104,760	1,609	1,468	104,901
Corporate bonds	81,989	135	679	81,445
Other	650	-	-	650
Total debt securities	806,728	5,118	8,152	803,694
Equity securities	6,632	39	-	6,671
Total securities available for sale	\$813,360	5,157	8,152	810,365

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(dollars in thousands)

Held to maturity	December 31, 2009			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government sponsored enterprises	\$99,251	75	147	99,179
Mortgage backed securities - residential	196,379	2,444	222	198,601
Corporate bonds	79,241	2,541	-	81,782
Total held to maturity securities	\$374,871	5,060	369	379,562

The following table shows the amortized cost and fair value of the portfolios of debt securities by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	March 31, 2010	
	Amortized Cost	Fair Value
Available for sale		
Due in one year or less	\$24,762	25,093
Due in one year through five years	240,985	242,293
Due after five years through ten years	448,472	445,835
Due after ten years	52,503	53,987
	\$766,722	767,208

(dollars in thousands)	Amortized Cost	Fair Value
Held to maturity		
Due in one year or less	\$10,096	10,382
Due in one year through five years	207,918	213,659
Due in five years through ten years	29,719	30,141
	\$247,733	254,182

The following table summarizes the investment securities with unrealized losses at March 31, 2010 and December 31, 2009 by aggregated major security type and length of time in a continuous unrealized loss position:

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(dollars in thousands)

Available for sale

	Less than		March 31, 2010		Total	
	12 months		12 months			
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unreal.	Value	Unreal.	Value	Unreal.
		Loss		Loss		Loss
U.S. government sponsored enterprises	\$259,832	2,322	-	-	259,832	2,322
State and political subdivisions	2,412	27	367	20	2,779	47
Mortgage backed securities and collateralized mortgage obligations - residential	60,892	1,493	4,127	196	65,019	1,689
Corporate bonds	44,084	341	-	-	44,084	341
Total available for sale	\$367,220	4,183	4,494	216	371,714	4,399

(dollars in thousands)

Held to maturity

	Less than		March 31, 2010		Total	
	12 months		12 months			
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unreal.	Value	Unreal.	Value	Unreal.
		Loss		Loss		Loss
Mortgage backed securities - residential	\$9,673	102	-	-	9,673	102
Total held to maturity	\$9,673	102	-	-	9,673	102

(dollars in thousands)

Available for sale

	12 months		December 31, 2009		Total	
			or more			
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unreal.	Value	Unreal.	Value	Unreal.
		Loss		Loss		Loss
U.S. government sponsored enterprises	\$405,003	5,969	-	-	405,003	5,969
State and political subdivisions	2,025	16	368	20	2,393	36
Mortgage backed securities and collateralized mortgage obligations - residential	45,870	1,282	4,505	186	50,375	1,468
Corporate bonds	56,985	679	-	-	56,985	679
Total available for sale	\$509,883	7,946	4,873	206	514,756	8,152

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(dollars in thousands)

Held to maturity	December 31, 2009					
	Less than 12 months			12 months or more		Total
	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss	Fair Value	
U.S. government sponsored enterprises	\$39,978	147	-	-	39,978	147
Mortgage backed securities - residential	20,884	222	-	-	20,884	222
Total held to maturity	\$60,862	369	-	-	60,862	369

Proceeds from sales and calls of securities available for sale were \$110.4 million and \$324.0 million for the three months ended March 31, 2010 and 2009, respectively. Gross gains of \$4 thousand and \$111 thousand were realized on these sales during 2010 and 2009, respectively. There were no gross losses on sales or calls of securities available for sale during the three months ended March 31, 2010 and 2009.

Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio by type and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320 “Investments – Debt and Equity Securities.”

In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or it is more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment’s amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

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As of March 31, 2010, the Company's security portfolio consisted of 470 securities, 62 of which were in an unrealized loss position, and are discussed below.

Mortgage-backed Securities and Collateralized Mortgage Obligations

At March 31, 2010, approximately 96% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Ginnie Mae, Fannie Mae and Freddie Mac. The government has affirmed its commitment to support these institutions. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2010.

The Company's mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a market value of \$9.4 million which had unrealized losses of approximately \$171 thousand at March 31, 2010. These non-agency mortgage-backed securities are rated AAA and are not within the scope of FASB ASC 325 "Investments – Other, Beneficial Interest in Securitized Financial Assets." The Company monitors these securities to insure they have adequate credit support and as of March 31, 2010, the Company believes there is no OTTI and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

U.S. Government-Sponsored Enterprises, State and Political Subdivisions and Corporate Bonds

Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2010. Credit ratings on these securities remain within policy limits.

As a result of the above analysis, for the three month period ended March 31, 2010, the Company did not recognize any other-than-temporary impairment losses for credit or any other reason.

5. Fair Value

FASB ASC 820 "Fair Value Measurement and Disclosures," defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

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Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the value that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities Available for Sale: Securities available for sale are fair valued utilizing an independent pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows. This results in a Level 2 classification of the inputs for determining fair value. Interest and dividend income is recorded on the accrual method and included in the income statement in the respective investment class under total interest income. Included in earnings as a result of the changes in fair value of trading securities were \$308 thousand of net trading losses for the three months ended March 31, 2009. No trading gains or losses were recognized in 2010.

Other Real Estate Owned: The fair value of other real estate owned is determined by observable comparable sales and property valuation techniques. This results in a Level 2 classification of the inputs for determining fair value.

Assets and liabilities measured at fair value under FASB ASC 820 on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Carrying Value	Fair Value Measurements at March 31, 2010 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
Securities available-for sale:				
U.S. government-sponsored enterprises	\$492,641	-	492,641	-
State and political subdivisions	87,593	-	87,593	-
Mortgage-backed securities and collateralized mortgage obligations - residential	95,112	-	95,112	-
Corporate bonds	91,212	-	91,212	-
Other securities	963	-	963	-
Total securities available-for-sale	\$767,521	-	767,521	-

IndexFair Value Measurements at
December 31, 2009 Using:

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
Securities available-for sale:				
U.S. government-sponsored enterprises	\$523,483	-	523,483	-
State and political subdivisions	93,215	-	93,215	-
Mortgage-backed securities and collateralized mortgage obligations - residential	104,901	-	104,901	-
Corporate bonds	81,445	-	81,445	-
Other securities	958	-	958	-
Total securities available-for-sale	\$804,002	-	804,002	-

Assets measured at fair value on a non-recurring basis are summarized below:

Fair Value Measurements at
March 31, 2010 Using:

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
Other real estate owned	\$8,828	-	8,828	-

Other real estate owned, which is carried at fair value, approximates \$8.8 million. A valuation charge of \$1.1 million is included in earnings for the period ending March 31, 2010.

Fair Value Measurements at
December 31, 2009 Using:

	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
Other real estate owned	\$9,019	-	9,019	-

In accordance with FASB ASC 825 "Financial Instruments," the carrying amounts and estimated fair values of financial instruments, at March 31, 2010 and December 31, 2009 are as follows:

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(dollars in thousands)	As of	
	March 31, 2010	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	\$337,733	337,733
Securities available for sale	773,884	773,884
Held to maturity securities	247,733	254,182
Loans	2,249,237	2,309,462
Accrued interest receivable	16,033	16,033
Financial liabilities:		
Demand deposits	240,822	240,822
Interest bearing deposits	3,092,009	3,099,439
Short-term borrowings	116,306	116,306
Accrued interest payable	1,443	1,443

(dollars in thousands)	As of	
	December 31, 2009	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	\$145,894	145,894
Securities available for sale	810,365	810,365
Held to maturity securities	374,871	379,562
Loans	2,243,945	2,285,256
Accrued interest receivable	14,198	14,198
Financial liabilities:		
Demand deposits	258,759	258,759
Interest bearing deposits		