

TRUSTCO BANK CORP N Y
Form 10-Q
November 06, 2009

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
September 30, 2009

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. x Yes " No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company." in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer " Non-accelerated filer " Smaller reporting company
..

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

Yes x No

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

Common Stock	Number of Shares Outstanding as of October 30, 2009
\$1 Par Value	76,651,429

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Interest and dividend income:				
Interest and fees on loans	\$31,184	31,066	93,469	91,880
Interest and dividends on securities available for sale:				
U. S. treasuries and government sponsored enterprises	2,314	3,344	4,951	9,470
States and political subdivisions	1,073	1,127	3,278	3,858
Mortgage-backed securities and collateralized mortgage obligations	1,464	1,700	4,626	5,210
Other securities	302	82	446	419
Total interest and dividends on securities available for sale	5,153	6,253	13,301	18,957
Interest on trading securities:				
U. S. government sponsored enterprises	-	1,394	405	8,167
States and political subdivisions	7	15	23	72
Total interest on trading securities	7	1,409	428	8,239
Interest on held to maturity securities:				
U. S. government sponsored enterprises	1,614	840	5,460	1,573
Mortgage-backed securities and collateralized mortgage obligations	1,781	486	3,391	763
Corporate bonds	842	-	2,239	-
Total interest on held to maturity securities	4,237	1,326	11,090	2,336
Interest on federal funds sold and other short term investments				
	565	1,999	1,705	8,017
Total interest income	41,146	42,053	119,993	129,429
Interest expense:				
Interest on deposits:				
Interest-bearing checking	158	187	531	563
Savings	774	883	2,275	3,149
Money market deposit accounts	1,096	1,296	3,156	4,669
Time deposits	9,159	14,505	31,564	46,970
Interest on short-term borrowings	422	483	1,227	1,507
Interest on long-term debt	-	-	-	1
Total interest expense	11,609	17,354	38,753	56,859
Net interest income	29,537	24,699	81,240	72,570
Provision for loan losses	3,150	1,000	7,910	2,000
Net interest income after provision for loan losses	26,387	23,699	73,330	70,570

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Noninterest income:				
Trust department income	1,138	1,259	3,729	4,103
Fees for other services to customers	2,701	3,221	7,947	7,647
Net trading (losses) gains	(6)	14	(350)	(229)
Net gain on securities transactions	892	21	962	439
Other	275	279	1,976	1,312
Total noninterest income	5,000	4,794	14,264	13,272
Noninterest expenses:				
Salaries and employee benefits	6,707	5,786	19,916	16,943
Net occupancy expense	3,436	2,964	10,510	9,007
Equipment expense	1,396	1,019	3,780	3,099
Professional services	1,306	1,050	3,966	3,318
Outsourced Services	1,413	1,241	4,228	3,521
Advertising	742	779	2,348	1,699
Insurance	1,540	418	6,250	1,186
Other real estate (income) expense	719	(63)	1,488	(80)
Other	1,427	1,532	5,039	4,944
Total noninterest expenses	18,686	14,726	57,525	43,637
Income before taxes	12,701	13,767	30,069	40,205
Income taxes	4,792	4,733	10,431	13,275
Net income	\$7,909	9,034	19,638	26,930
Net income per Common Share:				
- Basic	\$0.103	0.119	0.257	0.356
- Diluted	\$0.103	0.119	0.257	0.356

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)

	September 30, 2009	December 31, 2008
ASSETS:		
Cash and due from banks	\$40,145	41,924
Federal funds sold and other short term investments	223,795	207,680
Total cash and cash equivalents	263,940	249,604
Trading securities:		
U. S. government sponsored enterprises	-	115,273
States and political subdivisions	1,040	1,053
Total trading securities	1,040	116,326
Securities available for sale:		
U. S. treasuries and government sponsored enterprises	332,713	426,078
States and political subdivisions	96,652	105,137
Mortgage-backed securities and collateralized mortgage obligations	121,019	137,918
Other securities	7,838	6,869
Total securities available for sale	558,222	676,002
Held to maturity securities:		
U. S. government sponsored enterprises (fair value 2009 \$242,645; 2008 \$215,776)	241,992	214,851
Mortgage-backed securities (fair value 2009 \$233,386; 2008 \$0)	230,774	-
Corporate bonds (fair value 2009 \$81,204; 2008 \$49,365)	79,286	49,838
Total held to maturity securities	552,052	264,689
Loans:		
Commercial	280,802	299,191
Residential mortgage loans	1,673,001	1,607,433
Home equity line of credit	272,830	250,849
Installment loans	4,995	5,865
Total loans	2,231,628	2,163,338
Less:		
Allowance for loan losses	36,817	36,149
Net loans	2,194,811	2,127,189
Bank premises and equipment, net	37,359	35,156
Other assets	42,954	37,847
Total assets	\$3,650,378	3,506,813
LIABILITIES:		
Deposits:		

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Demand	\$258,960	249,887
Interest-bearing checking	371,373	331,144
Savings accounts	640,983	609,444
Money market deposit accounts	354,194	285,829
Certificates of deposit (in denominations of \$100,000 or more)	503,662	456,583
Other time accounts	1,133,917	1,203,384
Total deposits	3,263,089	3,136,271
Short-term borrowings	121,894	109,592
Accrued expenses and other liabilities	20,727	24,926
Total liabilities	3,405,710	3,270,789
SHAREHOLDERS' EQUITY:		
Capital stock par value \$1; 150,000,000 shares authorized and 83,166,423 and 83,166,423 shares issued at September 30, 2009 and December 31, 2008, respectively	83,166	83,166
Surplus	129,044	130,142
Undivided profits	95,512	93,818
Accumulated other comprehensive income (loss), net of tax	2,146	(1,441)
Treasury stock at cost - 6,629,078 and 7,082,494 shares at September 30, 2009 and December 31, 2008, respectively	(65,200)	(69,661)
Total shareholders' equity	244,668	236,024
Total liabilities and shareholders' equity	\$3,650,378	3,506,813

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)	Comprehensive Income	Treasury Stock	Total
Beginning balance, January 1, 2008	\$82,373	121,961	93,099	7,230		(67,595)	237,068
Comprehensive income:							
Net Income - Nine Months Ended September 30, 2008	-	-	26,930	-	26,930	-	26,930
Other comprehensive income, net of tax:							
Amortization of prior service cost on pension and post retirement plans, net of tax (pretax of \$411)	-	-	-	-	(247)	-	-
Unrealized net holding loss on securities available-for-sale arising during the period, net of tax (pretax loss of \$3891)	-	-	-	-	(2,338)	-	-
Reclassification adjustment for net gain realized in net income during the period (pretax gain \$439)	-	-	-	-	(265)	-	-
Other comprehensive loss, net of tax:				(2,850)	(2,850)		(2,850)
Comprehensive income	-	-	-		24,080	-	-
Cash dividend declared, \$.33 per	-	-	(24,976)	-		-	(24,976)

share							
Stock options exercised and related tax benefits	16	139	-	-	-	155	
Sale of treasury stock (525,138 shares)	-	(385)	-	-	5,037	4,652	
Stock based compensation expense	-	139	-	-	-	139	
Ending balance, September 30, 2008	82,389	121,854	95,053	4,380	(62,558)	241,118	
Beginning balance, January 1, 2009	\$83,166	130,142	93,818	(1,441)	(69,661)	236,024	
Comprehensive income:							
Net Income - Nine Months Ended September 30, 2009	-	-	19,638	-	19,638	-	19,638
Other comprehensive income, net of tax:							
Amortization of prior service cost on pension and post retirement plans, net of tax (pretax of \$303)	-	-	-	-	(182)	-	-
Unrealized net holding gain on securities available-for-sale arising during the period, net of tax (pretax gain of \$7,231)	-	-	-	-	4,349	-	-
Reclassification adjustment for net gain realized in net income during the period (pretax gain \$962)	-	-	-	-	(580)	-	-
Other comprehensive				3,587	3,587		3,587

income, net of tax:							
Comprehensive income	-	-	-	23,225	-	-	
Cash dividend declared, \$.235 per share	-	-	(17,944)	-	-	(17,944)	
Sale of treasury stock (453,416 shares)	-	(1,258)	-	-	4,461	3,203	
Stock based compensation expense	-	160	-	-	-	160	
Ending balance, September 30, 2009							
	\$83,166	129,044	95,512	2,146	(65,200)	244,668	

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)	Comprehensive Income	Treasury Stock	Total
Beginning balance, July 1, 2008	\$82,373	122,021	94,363	4,991		(64,244)	239,504
Comprehensive income:							
Net Income - Three Months Ended September 30, 2008	-	-	9,034	-	9,034	-	9,034
Other comprehensive income, net of tax:							
Amortization of prior service cost on pension and post retirement plans, net of tax (pretax of \$136)	-	-	-	-	(82)	-	-
Unrealized net holding loss on securities available-for-sale arising during the period, net of tax (pretax loss of \$860)	-	-	-	-	(516)	-	-
Reclassification adjustment for net gain realized in net income during the period (pretax gain \$21)	-	-	-	-	(13)	-	-
Other comprehensive loss, net of tax:				(611)	(611)		(611)
Comprehensive income	-	-	-		8,423	-	-
Cash dividend declared, \$.11 per	-	-	(8,344)	-		-	(8,344)

share							
Stock options exercised and related tax benefits	16	139	-	-	-	-	155
Sale of treasury stock (175,797 shares)	-	(359)	-	-	-	1,686	1,327
Stock based compensation expense	-	53	-	-	-	-	53
Ending balance, September 30, 2008	82,389	121,854	95,053	4,380		(62,558)	241,118
Beginning balance, July 1, 2009	\$83,166	129,431	92,387	(509)		(66,340)	238,135
Comprehensive income:							
Net Income - Three Months Ended September 30, 2009	-	-	7,909	-	7,909	-	7,909
Other comprehensive income, net of tax:							
Amortization of prior service cost on pension and post retirement plans, net of tax (pretax of \$101)	-	-	-	-	(60)	-	-
Unrealized net holding gain on securities available-for-sale arising during the period, net of tax (pretax gain of \$5,520)	-	-	-	-	3,320	-	-
Reclassification adjustment for net gain realized in net income during the period (pretax gain \$1,072)	-	-	-	-	(605)	-	-
Other comprehensive				2,655	2,655		2,655

income, net of tax:							
Comprehensive income	-	-	-		10,564	-	-
Cash dividend declared, \$.0625 per share	-	-	(4,784)	-		-	(4,784)
Sale of treasury stock (115,907 shares)	-	(440)	-	-		1,140	700
Stock based compensation expense	-	53	-	-		-	53
Ending balance, September 30, 2009							
	\$83,166	129,044	95,512	2,146		(65,200)	244,668

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)

Nine months ended
 September 30,
 2009 2008

Cash flows from operating activities:

Net income	\$ 19,638	26,930
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,336	2,737
Loss (gain) on sale of other real estate owned	327	(142)
Provision for loan losses	7,910	2,000
Deferred tax expense	1,188	363
Stock based compensation expense	160	139
Net (gain) loss on sale of bank premises and equipment	(48)	6
Net gain on sales and calls of securities	(962)	(435)
Proceeds from sales and calls of trading securities	24,936	359,499
Purchases of trading securities	-	(312,106)
Proceeds from maturities of trading securities	90,000	164,650
Net trading losses	350	229
Increase in taxes receivable	(4,243)	(5,204)
Decrease (increase) in interest receivable	1,794	(51)
Decrease in interest payable	(1,230)	(962)
Increase in other assets	(860)	(2,365)
Increase in accrued expenses and other liabilities	617	621
Total adjustments	123,275	208,979
Net cash provided by operating activities	142,913	235,909

Cash flows from investing activities:

Proceeds from sales and calls of securities available for sale	547,599	202,012
Proceeds from calls and maturities of held to maturity securities	459,106	70,000
Purchases of securities available for sale	(429,784)	(160,589)
Proceeds from maturities of securities available for sale	7,194	9,094
Purchases of held to maturity securities	(746,469)	(165,688)
Net increase in loans	(84,703)	(154,439)
Proceeds from dispositions of other real estate owned	3,178	680
Proceeds from dispositions of bank premises and equipment	171	10
Purchases of bank premises and equipment	(5,662)	(6,400)
Net cash used in investing activities	(249,370)	(205,320)

Cash flows from financing activities:

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Net increase in deposits	126,818	32,744
Net increase in short-term borrowings	12,302	18,001
Repayment of long-term debt	-	(24)
Proceeds from exercise of stock options and related tax benefits	-	155
Proceeds from sale of treasury stock	3,203	4,652
Dividends paid	(21,530)	(28,685)
Net cash provided by financing activities	120,793	26,843
Net increase in cash and cash equivalents	14,336	57,432
Cash and cash equivalents at beginning of period	249,604	344,920
Cash and cash equivalents at end of period...	\$263,940	402,352
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest paid	\$39,983	57,821
Income taxes paid	14,642	15,824
Non cash investing and financing activities:		
Transfer of loans to other real estate owned	9,171	1,695
Decrease in dividends payable	(3,586)	(3,709)
Change in unrealized gain (loss) on securities available for sale-gross of deferred taxes, net of reclassification adjustment	6,267	(4,330)
Change in deferred tax effect on unrealized (gain) loss on securities available for sale, net of reclassification adjustment	(2,498)	1,727
Amortization of prior service cost on pension and post retirement plans	(303)	(411)
Change in deferred tax effect of amortization of prior service cost	121	164

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 nine months ended September 30, 2009 is not necessarily indicative of the results that may be expected for the year ending December 31, 2009, or any interim periods. These financial statements consider events that occurred through November 6, 2009, the date the financial statements were issued.

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 September 30, 2009 and the results of operations for the three and nine months ended September 30, 2009 and 2008 and cash flows for the nine months ended September 30, 2009 and 2008. 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 2008 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 and nine-month periods ended September 30, 2009 and 2008 follows:

(In thousands, except per share data)	Net Income	Weighted Average Shares Outstanding	Per Share Amounts
For the quarter ended September 30, 2009:			
Basic EPS:			
Net income available to			
Common shareholders	\$ 7,909	76,526	\$ 0.103
Effect of Dilutive Securities:			
Stock options	-----	-----	-----
Diluted EPS	\$ 7,909	76,526	\$ 0.103
For quarter ended September 30, 2008:			
For quarter ended September 30, 2008:			
Basic EPS:			
Net income available to			
Common shareholders	\$ 9,034	75,833	\$ 0.119
Effect of Dilutive Securities:			
Stock options	-----	12	-----
Diluted EPS	\$ 9,034	75,845	\$ 0.119

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(In thousands, except per share data)	Net Income	Weighted Average Shares Outstanding	Per Share Amounts
For the nine months ended September 30, 2009:			
Basic EPS:			
Net income available to Common shareholders	\$ 19,638	76,329	\$ 0.257
Effect of Dilutive Securities:			
Stock options	-----	-----	-----
Diluted EPS	\$ 19,638	76,329	\$ 0.257
For nine months ended September 30, 2008:			
Basic EPS:			
Net income available to Common shareholders	\$ 26,930	75,672	\$ 0.356
Effect of Dilutive Securities:			
Stock options	-----	8	-----
Diluted EPS	\$ 26,930	75,680	\$ 0.356

There were approximately 2.8 million and 3.4 million stock options for the three and nine months ended September 30, 2009 and 4.0 million and 4.1 million stock options for the three and nine months ended September 30, 2008 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.

3. Benefit Plans

The table below outlines the components of the Company's net periodic expense (benefit) recognized during the three-month and nine-month periods ended September 30, 2009 and 2008 for its pension and other postretirement benefit plans:

Components of Net Periodic Expense (Benefit) for the three months ended September 30, 2009 and 2008 (dollars in thousands)

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Service cost	\$11	12	6	6
Interest cost	199	367	18	15
Expected return on plan assets	(200)	(493)	(87)	(117)
Amortization of prior service cost	181	-	(101)	(136)
Net periodic expense(benefit)	\$191	(114)	(164)	(232)

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Components of Net Periodic Expense (Benefit) for the nine months ended September 30, 2009 and 2008 (dollars in thousands)

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Service cost	\$35	37	18	19
Interest cost	1,001	1,072	50	44
Expected return on plan assets	(910)	(1,495)	(257)	(350)
Amortization of prior service cost	239	-	(303)	(411)
Net periodic expense(benefit)	\$365	(386)	(492)	(698)

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2008, that it did not expect to make any contributions to its pension and postretirement benefit plans in 2009. As of September 30, 2009, no contributions have been made. The Company presently anticipates that it will not make any contributions in 2009.

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 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 portfolio at September 30, 2009 and the corresponding amounts of unrealized gains and losses therein:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(Dollars in thousands)				
Available-for sale				
U.S. government-sponsored enterprises	\$331,357	1,520	164	332,713
State and political subdivisions	92,661	3,992	1	96,652
Mortgage-backed securities	119,647	2,319	947	121,019
Other securities	7,796	43	1	7,838
Total available-for-sale securities	\$551,461	7,874	1,113	558,222

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(Dollars in thousands)				
Held-to-maturity				
U.S. government-sponsored enterprises	\$241,992	817	164	242,645
Mortgage-backed securities	230,774	2,693	81	233,386
Other securities	79,286	1,918	-	81,204
Total held-to-maturity securities	\$552,052	5,428	245	557,235

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The following table shows the amortized cost and fair value of the portfolios 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.

	September 30, 2009	
	Amortized Cost	Fair Value
(Dollars in thousands)		
Available-for-sale		
Within one year	\$ 19,704	19,961
One to five years	321,614	325,133
Five to ten years	144,829	144,843
Beyond ten years	65,314	68,285
Total	\$ 551,461	558,222
Held-to-maturity		
Within one year	\$ 40,034	40,244
One to five years	434,974	439,579
Five to ten years	77,044	77,412
Total	\$ 552,052	557,235

The following table summarizes the investment securities with unrealized losses at September 30, by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
Available-for-sale						
U.S. government-sponsored enterprises	\$65,709	164	-	-	65,709	164
States and political subdivisions	-	-	388	1	388	1
Mortgage-backed securities	28,736	654	11,589	293	40,325	947
Other securities	513	1	-	-	513	1
Total available-for-sale	\$94,958	819	11,977	294	106,935	1,113
Held-to-maturity						
U.S. government-sponsored enterprises	\$47,462	164	-	-	47,462	164
Mortgage-backed securities	10,019	81	-	-	10,019	81
Other securities	-	-	-	-	-	-
Total held-to-maturity	\$57,481	245	-	-	57,481	245

Proceeds from sales and calls of securities available for sale were \$547.6 million and \$202.0 million for the nine months ended September 30, 2009 and 2008, respectively. Gross gains of \$1.3 million and \$972 thousand and gross

losses of \$288 thousand and \$533 thousand were realized on these sales during 2009 and 2008, respectively.

Proceeds from sales and calls of securities available for sale were \$154.1 million and \$43.0 million for the three months ended September 30, 2009 and 2008, respectively. Gross gains of \$1.1 million and \$178 thousand and gross losses of \$245 thousand and \$157 thousand were realized on these sales during 2009 and 2008, respectively.

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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 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.

As of September 30, 2009, the Company’s security portfolio consisted of 463 securities, 20 of which were in an unrealized loss position, and are discussed below.

Mortgage-backed Securities

At September 30, 2009, approximately 97% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. 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 September 30, 2009.

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The Company's mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a market value of \$10.5 million which had unrealized losses of approximately \$252 thousand at September 30, 2009. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of FASB ASC 325 "Investments – Other, Beneficial Interest in Securitized Financial Assets." The Company monitors to insure it has adequate credit support and as of September 30, 2009, 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. All the securities are rated AA- or higher by one or more rating agencies.

Other Securities

The Company's unrealized losses on other securities relate primarily to its investment in 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 September 30, 2009. Credit ratings on these securities remain within policy limits.

As a result of the above analysis, for the three-month and nine-month periods ended September 30, 2009, 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:

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:

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Securities Available for Sale and Trading Securities: Securities available for sale and trading securities 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 \$6 thousand of net trading losses and \$14 thousand of net trading gains for the three months ended September 30, 2009 and 2008, respectively and \$350 thousand and \$229 thousand net trading losses for the nine months ended September 30, 2009 and 2008, respectively.

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:

Fair Value Measurements at
September 30, 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	\$ 332,713	-	332,713	-
States and political subdivisions	96,652	-	96,652	-
Mortgage-backed securities	121,019	-	121,019	-
Other securities	7,838	-	7,838	-
Total securities available-for-sale	\$ 558,222	-	558,222	-