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, 2013

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: 0-23636

HAWTHORN BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Missouri	**43-1626350**

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

132 East High Street, Box 688, Jefferson City, Missouri 65102

(Address of principal executive offices) (Zip Code)

(573) 761-6100

(Registrant s telephone number, including area code)

N/A

(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. **x** Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **x** Yes 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.:

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	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 **x** No

As of November 14, 2013, the registrant had 5,032,679 shares of common stock, par value $1.00 per share, outstanding

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets *(unaudited)*

(In thousands, except per share data)

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 24,683	$ 31,020
Federal funds sold and other overnight interest-bearing deposits	1,090	27,857
Cash and cash equivalents	25,773	58,877
Investment in available-for-sale securities, at fair value	213,629	200,246
Loans	823,042	846,984
Allowances for loan losses	(14,254)	(14,842)
Net loans	808,788	832,142
Premises and equipment - net	37,602	37,021
Investments in Federal Home Loan Bank stock and other equity securities, at cost	4,001	3,925
Mortgage servicing rights	3,079	2,549
Other real estate owned and repossessed assets - net	15,868	23,592
Accrued interest receivable	4,956	5,190
Cash surrender value - life insurance	2,192	2,136
Other assets	15,427	15,928
Total assets	$ 1,131,315	$ 1,181,606
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Non-interest bearing demand	$ 179,959	$ 192,271
Savings, interest checking and money market	412,887	405,702
Time deposits $100,000 and over	115,370	120,777
Other time deposits	243,262	272,525
Total deposits	951,478	991,275
Federal funds purchased and securities sold under agreements to repurchase	25,007	21,058
Subordinated notes	49,486	49,486
Federal Home Loan Bank advances	24,013	20,126
Accrued interest payable	456	909
Other liabilities	9,048	6,532
Total liabilities	1,059,488	1,089,386
Stockholders equity:		
Preferred stock, $0.01 par value per share, 1,000,000 shares authorized; Issued 0 shares and 18,255 shares, respectively, $1,000 per share liquidation value, net of discount	0	17,977
Common stock, $1 par value, authorized 15,000,000 shares; Issued 5,194,537 and 5,000,972 shares, respectively	5,195	5,001
Surplus	33,380	31,816
Retained earnings	38,609	39,118
Accumulated other comprehensive (loss) income, net of tax	(1,840)	1,825
Treasury stock; 161,858 shares, at cost	(3,517)	(3,517)
Total stockholders equity	71,827	92,220

Total liabilities and stockholders equity	$	1,131,315	$	1,181,606

See accompanying notes to the unaudited consolidated financial statements.

HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations ***(unaudited)***

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	**2013**	**2012**	**2013**	**2012**
INTEREST INCOME				
Interest and fees on loans	$ 10,186	$ 10,881	$ 31,009	$ 33,068
Interest on debt securities:				
Taxable	873	1,016	2,689	3,216
Nontaxable	212	225	641	688
Federal funds sold and other overnight interest-bearing deposits	6	6	35	43
Dividends on other securities	21	23	62	79
Total interest income	11,298	12,151	34,436	37,094
INTEREST EXPENSE				
Interest on deposits:				
Savings, interest checking and money market	238	265	752	919
Time deposit accounts $100,000 and over	224	297	705	1,316
Other time deposits	535	979	2,275	2,286
Interest on federal funds purchased and securities sold under agreements to repurchase	7	7	17	17
Interest on subordinated notes	323	346	963	1,045
Interest on Federal Home Loan Bank advances	106	135	315	403
Total interest expense	1,433	2,029	5,027	5,986
Net interest income	9,865	10,122	29,409	31,108
Provision for loan losses	0	4,700	2,000	7,900
Net interest income after provision for loan losses	9,865	5,422	27,409	23,208
NON-INTEREST INCOME				
Service charges on deposit accounts	1,463	1,360	4,213	4,067
Trust department income	179	234	598	670
Real estate servicing fees, net	338	(62)	760	(348)
Gain on sale of mortgage loans, net	175	779	1,515	1,773
Gain on sale of investment securities	0	26	554	26
Other	292	343	903	905
Total non-interest income	2,447	2,680	8,543	7,093
NON-INTEREST EXPENSE				
Salaries and employee benefits	4,863	4,761	14,596	14,465
Occupancy expense, net	695	666	1,973	1,953
Furniture and equipment expense	474	431	1,438	1,403
FDIC insurance assessment	253	249	753	752
Legal, examination, and professional fees	207	284	727	880
Advertising and promotion	310	288	907	750
Postage, printing, and supplies	308	274	854	817
Processing expense	749	888	2,758	2,667
Other real estate expense, net	1,265	1,725	4,437	3,174
Other	848	812	2,745	3,094
Total non-interest expense	9,972	10,378	31,188	29,955
Income (loss) before income taxes	2,340	(2,276)	4,764	346
Income tax expense (benefit)	771	(704)	1,519	(273)
Net income (loss)	1,569	(1,572)	3,245	619
Preferred stock dividends	0	228	337	894
Accretion of discount on preferred stock	0	72	278	587
Total preferred stock dividends and accretion of discount on preferred stock	0	300	615	1,481

Net income (loss) available to common shareholders	$	1,569	$	(1,872)	$	2,630	$	(862)
Basic earnings (loss) per share	$	0.31	$	(0.37)	$	0.52	$	(0.17)
Diluted earnings (loss) per share	$	0.31	$	(0.37)	$	0.52	$	(0.17)

See accompanying notes to the unaudited consolidated financial statements.

HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (loss) *(unaudited)*

(In thousands)	**Three Months Ended September 30, 2013**	**2012**	**Nine Months Ended September 30, 2013**	**2012**
Net income (loss)	$ 1,569	$ (1,572)	$ 3,245	$ 619
Other comprehensive (loss) income, net of tax				
Securities available for sale:				
Unrealized (loss) gain on investment securities available-for-sale, net of tax	(109)	315	(3,372)	369
Adjustment for gain on sales of investment securities, net of tax	0	(16)	(343)	(16)
Defined benefit pension plans:				
Amortization of prior service cost included in net periodic pension cost, net of tax	16	26	50	78
Total other comprehensive (loss) income	(93)	325	(3,665)	431
Total comprehensive income (loss)	$ 1,476	$ (1,247)	$ (420)	$ 1,050

See accompanying notes to the unaudited consolidated financial statements.

HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity *(unaudited)*

(In thousands)	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stock - holders Equity
Balance, December 31, 2011	$ 29,318	$ 4,815	$ 30,266	$ 40,354	$ 1,340	$ (3,517)	$ 102,576
Cumulative effect of change in accounting principle	0	0	0	460	0	0	460
Balance, January 1, 2012	$ 29,318	$ 4,815	$ 30,266	$ 40,814	$ 1,340	$ (3,517)	$ 103,036
Net income	0	0	0	619	0	0	619
Other comprehensive income	0	0	0	0	431	0	431
Stock based compensation expense	0	0	27	0	0	0	27
Accretion of preferred stock discount	587	0	0	(587)	0	0	0
Redemption of 12,000 shares of preferred stock	(12,000)	0	0	0	0	0	(12,000)
Stock dividend	0	186	1,521	(1,707)	0	0	0
Cash dividends declared, preferred stock	0	0	0	(975)	0	0	(975)
Cash dividends declared, common stock	0	0	0	(707)	0	0	(707)
Balance, September 30, 2012	**$ 17,905**	**$ 5,001**	**$ 31,814**	**$ 37,457**	**$ 1,771**	**$ (3,517)**	**$ 90,431**
Balance, December 31, 2012	$ 17,977	$ 5,001	$ 31,816	$ 39,118	$ 1,825	$ (3,517)	$ 92,220
Net income	0	0	0	3,245	0	0	3,245
Other comprehensive loss	0	0	0	0	(3,665)	0	(3,665)
Stock based compensation expense	0	0	14	0	0	0	14
Accretion of preferred stock discount	278	0	0	(278)	0	0	0
Redemption of 18,255 shares of preferred stock	(18,255)	0	0	0	0	0	(18,255)
Redemption of common stock warrant	0	0	(540)	0	0	0	(540)
Stock dividend	0	194	2,090	(2,284)	0	0	0
Cash dividends declared, preferred stock	0	0	0	(456)	0	0	(456)
Cash dividends declared, common stock	0	0	0	(736)	0	0	(736)
Balance, September 30, 2013	$ 0	$ 5,195	$ 33,380	$ 38,609	$ (1,840)	$ (3,517)	$ 71,827

See accompanying notes to the unaudited consolidated financial statements.

HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows *(unaudited)*

(In thousands)	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 3,245	$ 619
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,000	7,900
Depreciation expense	1,204	1,447
Net amortization of investment securities, premiums, and discounts	981	851
Amortization of intangible assets	135	307
Stock based compensation expense	14	27
Change in fair value of mortgage servicing rights	(86)	985
Gain on sale of investment securities	(554)	(26)
Loss (gain) on sales and dispositions of premises and equipment	2	(82)
Loss (gain) on sales and dispositions of other real estate owned and repossessed assets	390	(220)
Provision for other real estate owned	3,031	1,821
Decrease (increase) in accrued interest receivable	234	(126)
Increase in cash surrender value -life insurance	(56)	(55)
Decrease in other assets	1,729	679
Decrease (increase) in income tax receivable	963	(1,714)
Increase in income tax payable	424	0
Decrease in accrued interest payable	(453)	(370)
Increase in other liabilities	2,083	823
Origination of mortgage loans for sale	(61,297)	(67,089)
Proceeds from the sale of mortgage loans	63,452	68,506
Gain on sale of mortgage loans, net	(1,515)	(1,773)
Other, net	(362)	44
Net cash provided by operating activities	15,564	12,554
Cash flows from investing activities:		
Net decrease (increase) in loans	17,436	(20,929)
Purchase of available-for-sale debt securities	(76,479)	(69,305)
Proceeds from maturities of available-for-sale debt securities	28,221	32,192
Proceeds from calls of available-for-sale debt securities	6,255	33,095
Proceeds from sales of available-for-sale debt securities	22,115	790
Proceeds from sales of FHLB stock	535	100
Purchases of FHLB stock	(612)	0
Purchases of premises and equipment	(1,787)	(1,155)
Proceeds from sales of premises and equipment	0	269
Proceeds from sales of other real estate owned and repossessed assets	7,586	5,553
Net cash provided (used) by investing activities	3,270	(19,390)
Cash flows from financing activities:		
Net (decrease) increase in demand deposits	(12,312)	5,944
Net increase in interest-bearing transaction accounts	7,185	5,034
Net decrease in time deposits	(34,670)	(12,792)
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	3,949	(407)
Repayment of FHLB advances	(15,113)	(194)
FHLB advances	19,000	0
Redemption of 18,255 and 12,000 shares, respectively, of preferred stock	(18,255)	(12,000)
Warrant redemption	(540)	0
Cash dividends paid - preferred stock	(456)	(975)
Cash dividends paid - common stock	(726)	(698)

Net cash used by financing activities		(51,938)		(16,088)
Net decrease in cash and cash equivalents		(33,104)		(22,924)
Cash and cash equivalents, beginning of period		58,877		43,210
Cash and cash equivalents, end of period	$	25,773	$	20,286

See accompanying notes to the unaudited consolidated financial statements.

HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued) ***(unaudited)***

(In thousands)	Nine Months Ended September 30, 2013		2012	
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	5,479	$	6,724
Income taxes	$	131	$	1,575
Supplemental schedule of noncash investing and financing activities:				
Other real estate and repossessions acquired in settlement of loans	$	3,278	$	16,328

See accompanying notes to the unaudited consolidated financial statements.

HAWTHORN BANCSHARES, INC.
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(1) Summary of Significant Accounting Policies

Hawthorn Bancshares, Inc. (the Company) through its subsidiary, Hawthorn Bank (the Bank), provides a broad range of banking services to individual and corporate customers located within the communities in and surrounding Jefferson City, Clinton, Warsaw, Springfield, Branson, and Lee s Summit, Missouri. The Company is subject to competition from other financial and nonfinancial institutions providing financial products. Additionally, the Company and its subsidiaries are subject to the regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

The accompanying unaudited consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q, and Rule 10-01 of Regulation S-X. Accordingly, the unaudited consolidated financial statements do not include all of the information and disclosures required by U.S. GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The accompanying unaudited consolidated financial statements include all adjustments that, in the opinion of management, are necessary in order to make those statements not misleading. Management is required to make estimates and assumptions, including the determination of the allowance for loan losses, real estate acquired in connection with foreclosure or in satisfaction of loans, fair values of investment securities available-for-sale, and the valuation of mortgage servicing rights that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company s management has evaluated and did not identify any subsequent events or transactions requiring recognition or disclosure in the consolidated financial statements.

Stock Dividend On July 1, 2013, the Company paid a special stock dividend of four percent to common shareholders of record at the close of business on June 15, 2013. For all periods presented, share information, including basic and diluted earnings per share, has been adjusted retroactively to reflect this change.

The following represents significant new accounting principles adopted in 2013:

Balance Sheet In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities.* The ASU is a joint requirement by the FASB and International Accounting Standards Board to enhance current disclosures and increase comparability of U.S. GAAP and International Financial Reporting Standards (IFRS) financial statements. Under the ASU, an entity will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet, as well as instruments and transactions subject to an agreement similar to a master netting agreement. ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,* was issued in January 2013, and amended ASU 2011-11 to specifically include only derivatives accounted for under Topic 815, repurchase and reverse purchase agreements, and securities and borrowing and lending transactions that are either offset or subject to an enforceable master netting arrangement. Both ASUs are effective for annual and interim periods beginning January 1, 2013. The adoption of these ASUs had no effect on the Company s financial statements.

Other Comprehensive Income In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (AOCI). The amendments of ASU No. 2013-02 require an entity to present, either in the income statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This ASU is effective for annual and interim periods beginning January 1, 2013. As a result of the adoption of the ASU, the disclosure of AOCI included in Note 7 contains information regarding reclassifications out of AOCI and into net income.

HAWTHORN BANCSHARES, INC.
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(2) Loans and Allowance for Loan Losses

Loans

A summary of loans, by major class within the Company s loan portfolio, at September 30, 2013 and December 31, 2012 is as follows:

(in thousands)		September 30, 2013		December 31, 2012
Commercial, financial, and agricultural	$	132,923	$	130,040
Real estate construction - residential		23,664		22,177
Real estate construction - commercial		48,489		43,486
Real estate mortgage - residential		220,174		221,223
Real estate mortgage - commercial		375,876		405,092
Installment and other consumer		21,916		24,966
Total loans	$	823,042	$	846,984

The Bank grants real estate, commercial, installment, and other consumer loans to customers located within the communities surrounding Jefferson City, Clinton, Warsaw, Springfield, Branson and Lee s Summit, Missouri. As such, the Bank is susceptible to changes in the economic environment in these communities. The Bank does not have a concentration of credit in any one economic sector. Installment and other consumer loans consist primarily of the financing of vehicles. At September 30, 2013, loans with a carrying value of $383.4 million were pledged to the Federal Home Loan Bank as collateral for borrowings and letters of credit.

Allowance for loan losses

The following is a summary of the allowance for loan losses for the three and nine months ended September 30, 2013, and 2012:

Three Months Ended September 30, 2013

Commercial,	Real Estate	Real Estate	Real Estate	Real Estate	Installment

(in thousands)	Financial, & Agricultural	Construction - Residential	Construction - Commercial	Mortgage - Residential	Mortgage - Commercial	Loans to Individuals	Un- allocated	Total
Balance at beginning of period	**$ 2,119**	**$ 932**	**$ 2,202**	**$ 2,456**	**$ 7,415**	**$ 233**	**$ 1**	**$ 15,358**
Additions:								
Provision for loan losses	444	32	(216)	4	(294)	25	5	0
Deductions:								
Loans charged off	654	0	135	368	178	91	0	1,426
Less recoveries on loans	(201)	0	0	(39)	(34)	(48)	0	(322)
Net loans charged off	453	0	135	329	144	43	0	1,104
Balance at end of period	**$ 2,110**	**$ 964**	**$ 1,851**	**$ 2,131**	**$ 6,977**	**$ 215**	**$ 6**	**$ 14,254**

	Nine Months Ended September 30, 2013							
(in thousands)	Commercial, Financial, & Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment Loans to Individuals	Un- allocated	Total
Balance at beginning of period	**$ 1,937**	**$ 732**	**$ 1,711**	**$ 3,387**	**$ 6,834**	**$ 239**	**$ 2**	**$ 14,842**
Additions:								
Provision for loan losses	725	351	273	(586)	1,142	91	4	2,000
Deductions:								
Loans charged off	817	119	135	754	1,205	271	0	3,301
Less recoveries on loans	(265)	0	(2)	(84)	(206)	(156)	0	(713)
Net loans charged off	552	119	133	670	999	115	0	2,588
Balance at end of period	**$ 2,110**	**$ 964**	**$ 1,851**	**$ 2,131**	**$ 6,977**	**$ 215**	**$ 6**	**$ 14,254**

HAWTHORN BANCSHARES, INC.
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

	Three Months Ended September 30, 2012							
(in thousands)	Commercial, Financial, & Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment Loans to Individuals	Un-allocated	Total
Balance at beginning of period	**$ 3,045**	**$ 709**	**$ 1,644**	**$ 3,560**	**$ 6,107**	**$ 232**	**$ 17**	**$ 15,314**
Additions:								
Provision for loan losses	1,239	(68)	90	118	3,241	91	(11)	4,700
Deductions:								
Loans charged off	742	0	0	41	2,366	154	0	3,303
Less recoveries on loans	(18)	0	0	(19)	(96)	(76)	0	(209)
Net loans charged off	724	0	0	22	2,270	78	0	3,094
Balance at end of period	**$ 3,560**	**$ 641**	**$ 1,734**	**$ 3,656**	**$ 7,078**	**$ 245**	**$ 6**	**$ 16,920**

	Nine Months Ended September 30, 2012							
(in thousands)	Commercial, Financial, & Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment Loans to Individuals	Un-allocated	Total
Balance at beginning of period	**$ 1,804**	**$ 1,188**	**$ 1,562**	**$ 3,251**	**$ 5,734**	**$ 267**	**$ 3**	**$ 13,809**
Additions:								
Provision for loan losses	2,469	(614)	149	913	4,793	187	3	7,900
Deductions:								
Loans charged off	846	0	0	618	3,666	425	0	5,555
Less recoveries on loans	(133)	(67)	(23)	(110)	(217)	(216)	0	(766)
Net loans charged off	713	(67)	(23)	508	3,449	209	0	4,789
Balance at end of period	**$ 3,560**	**$ 641**	**$ 1,734**	**$ 3,656**	**$ 7,078**	**$ 245**	**$ 6**	**$ 16,920**

HAWTHORN BANCSHARES, INC.
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

Loans, or portions of loans, are charged off to the extent deemed uncollectible or a loss is confirmed. Loan charge-offs reduce the allowance for loan losses, and recoveries of loans previously charged off are added back to the allowance. If management determines that it is probable that all amounts due on a loan will not be collected under the original terms of the loan agreement, the loan is considered to be impaired. These loans are evaluated individually for impairment, and in conjunction with current economic conditions and loss experience, specific reserves are estimated as further discussed below. Loans not individually evaluated are aggregated by risk characteristics and reserves are recorded using a consistent methodology that considers historical loan loss experience by loan type, delinquencies, current economic conditions, loan risk ratings and industry concentration. Although the allowance for loan losses are comprised of specific and general allocations, the entire allowance is available to absorb credit losses.

The following table provides the balance in the allowance for loan losses at September 30, 2013 and December 31, 2012, and the related loan balance by impairment methodology.

(in thousands)	Commercial, Financial, and Agricultural	Real Estate Construction - Residential	Real Estate Construction - Commercial	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Installment Loans to Individuals	Un - allocated	Total
September 30, 2013								
Allowance for loan losses:								
Individually evaluated for impairment	$ 576	$ 248	$ 250	$ 719	$ 2,782	$ 6	$ 0	$ 4,581
Collectively evaluated for impairment	1,534	716	1,601	1,412	4,195	209	6	9,673
Total	**$ 2,110**	**$ 964**	**$ 1,851**	**$ 2,131**	**$ 6,977**	**$ 215**	**$ 6**	**$ 14,254**
Loans outstanding:								
Individually evaluated for impairment	$ 4,392	$ 2,254	$ 7,101	$ 5,217	$ 16,948	$ 44	$ 0	$ 35,956
Collectively evaluated for impairment	128,531	21,410	41,388	214,957	358,928	21,872	0	787,086
Total	**$ 132,923**	**$ 23,664**	**$ 48,489**	**$ 220,174**	**$ 375,876**	**$ 21,916**	**$ 0**	**$ 823,042**
December 31, 2012								
Allowance for loan losses:								
Individually evaluated for impairment	$ 213	$ 125	$ 542	$ 1,069	$ 2,071	$ 0	$ 0	$ 4,020
Collectively evaluated for impairment	1,724	607	1,169	2,318	4,763	239	2	10,822

Total	**$**	**1,937**	**$**	**732**	**$**	**1,711**	**$**	**3,387**	**$**	**6,834**	**$**	**239**	**$**	**2**	**$**	**14,842**
Loans outstanding:																
Individually evaluated for impairment	$	4,157	$	2,496	$	7,762	$	5,771	$	18,959	$	44	$	0	$	39,189
Collectively evaluated for impairment		125,883		19,681		35,724		215,452		386,133		24,922		0		807,795
Total	**$**	**130,040**	**$**	**22,177**	**$**	**43,486**	**$**	**221,223**	**$**	**405,092**	**$**	**24,966**	**$**	**0**	**$**	**846,984**

Impaired loans

Loans evaluated under ASC 310-10-35 include loans which are individually evaluated for impairment. All other loans are collectively evaluated for impairment under ASC 450-20. Impaired loans totaled $36.2 million and $39.4 million at September 30, 2013 and December 31, 2012, respectively, and are comprised of loans on non-accrual status and loans which have been classified as troubled debt restructurings. Total impaired loans of $36.2 million at September 30, 2013, includes $36.0 million of impaired loans individually evaluated for impairment and $220,000 of non-accrual consumer loans that were collectively evaluated for impairment. Total impaired loans of $39.4 million at December 31, 2012, includes $39.2 million of impaired loans individually evaluated for impairment and $174,000 of non-accrual consumer loans that were collectively evaluated for impairment.

The specific reserve component applies to loans evaluated individually for impairment. The net carrying value of impaired loans is generally based on the fair values of collateral obtained through independent appraisals or internal evaluations, or by discounting the total expected future cash flows. At September 30, 2013 and December 31, 2012, $32.4 million and $36.1 million, respectively, of impaired loans were evaluated based on the fair value of the loan s collateral. Once the impairment

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amount is calculated, a specific reserve allocation is recorded. At September 30, 2013, $4.6 million of the Company s allowance for loan losses was allocated to impaired loans totaling $36.2 million compared to $4.0 million of the Company s allowance for loan losses allocated to impaired loans totaling approximately $39.4 million at December 31, 2012. Management determined that $12.2 million, or 34%, of total impaired loans required no reserve allocation at September 30, 2013 compared to $14.7 million, or 37%, at December 31, 2012 primarily due to adequate collateral values, acceptable payment history and adequate cash flow ability.

The incurred loss component of the general reserve, or loans collectively evaluated for impairment, is determined by applying percentages to pools of loans by asset type. Loans not individually evaluated are aggregated based on similar risk characteristics. Historical loss rates for each risk group, which are updated quarterly, are quantified using all recorded loan charge-offs. Management determined that the previous twelve quarters were reflective of the loss characteristics of the Company s loan portfolio during the recent economic environment. These historical loss rates for each risk group are used as the starting point to determine allowance provisions. The Company s methodology includes factors that allow management to adjust its estimates of losses based on the most recent information available. The rates are then adjusted to reflect actual changes and anticipated changes such as changes in specific allowances on loans and real estate acquired through foreclosure, any gains and losses on final disposition of real estate acquired through foreclosure, changes in national and local economic conditions and developments, including general economic and business conditions affecting the Company s key lending areas, credit quality trends, specific industry conditions within portfolio segments, bank regulatory examination results, and findings of the internal loan review department. These risk factors are generally reviewed and updated quarterly, as appropriate.

The categories of impaired loans at September 30, 2013 and December 31, 2012 are as follows:

(in thousands)	September 30, 2013	December 31, 2012
Non-accrual loans	$ 28,610	$ 31,081
Troubled debt restructurings continuing to accrue interest	7,566	8,282
Total impaired loans	$ 36,176	$ 39,363

The following tables provide additional information about impaired loans at September 30, 2013 and December 31, 2012, respectively, segregated between loans for which an allowance has been provided and loans for which no allowance has been provided.

(in thousands)	Recorded Investment	Unpaid Principal Balance	Specific Reserves
September 30, 2013			
With no related allowance recorded:			

Commercial, financial and agricultural	$	2,501	$	2,581	$	0
Real estate - construction residential		104		139		0
Real estate - construction commercial		2,861		3,459		0
Real estate - residential		2,419		3,214		0
Real estate - commercial		4,084		4,344		0
Consumer		220		238		0
Total	$	12,189	$	13,975	$	0
With an allowance recorded:						
Commercial, financial and agricultural	$	1,891	$	1,984	$	576
Real estate - construction residential		2,150		2,272		248
Real estate - construction commercial		4,240		4,240		250
Real estate - residential		2,798		2,931		719
Real estate - commercial		12,864		13,772		2,782
Consumer		44		44		6
Total	$	23,987	$	25,243	$	4,581
Total impaired loans	$	36,176	$	39,218	$	4,581

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(in thousands)		Recorded Investment		Unpaid Principal Balance		Specific Reserves
December 31, 2012						
With no related allowance recorded:						
Commercial, financial and agricultural	$	3,272	$	4,009	$	0
Real estate - construction residential		2,307		2,339		0
Real estate - construction commercial		1,879		2,102		0
Real estate - residential		1,939		2,393		0
Real estate - commercial		5,162		5,565		0
Consumer		174		186		0
Total	$	14,733	$	16,594	$	0
With an allowance recorded:						
Commercial, financial and agricultural	$	885	$	898	$	213
Real estate - construction residential		189		189		125
Real estate - construction commercial		5,883		6,011		542
Real estate - residential		3,832		3,999		1,069
Real estate - commercial		13,797		14,167		2,071
Consumer		44		44		0
Total	$	24,630	$	25,308	$	4,020
Total impaired loans	$	39,363	$	41,902	$	4,020

The following table presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,								Nine Months Ended September 30,							
	2013				2012				2013				2012			
(in thousands)		Average Recorded Investment		Interest Recognized For the Period Ended		Average Recorded Investment		Interest Recognized For the Period Ended		Average Recorded Investment		Interest Recognized For the Period Ended		Average Recorded Investment		Interest Recognized For the Period Ended
With no related allowance recorded:																
Commercial, financial and agricultural	$	2,598	$	22	$	3,074	$	23	$	2,643	$	71	$	3,315	$	66
Real estate - construction residential		139		0		1,589		0		242		0		737		7
Real estate - construction commercial		3,459		0		1,879		0		3,803		0		1,653		0
Real estate - residential		3,168		10		2,299		5		3,179		10		3,333		47
Real estate - commercial		4,346		29		3,598		28		4,348		86		10,582		87

Consumer	202	0	181	0	212	1	162	1
Total	$ 13,912	$ 61	$ 12,620	$ 56	$ 14,427	$ 168	$ 19,782	$ 208
With an allowance recorded:								
Commercial, financial and agricultural	$ 1,996	$ 7	$ 2,890	$ 7	$ 2,031	$ 34	$ 2,615	$ 21
Real estate - construction residential	2,272	0	189	0	2,273	0	189	0
Real estate - construction commercial	4,240	0	6,192	0	4,240	0	6,180	0
Real estate - residential	2,920	2	3,037	4	2,947	38	2,566	11
Real estate - commercial	13,210	35	15,072	2	13,524	106	14,209	1
Consumer	44	0	0	0	44	0	0	0
Total	$ 24,682	$ 44	$ 27,380	$ 13	$ 25,059	$ 178	$ 25,759	$ 33
Total impaired loans	$ 38,594	$ 105	$ 40,000	$ 69	$ 39,486	$ 346	$ 45,541	$ 241

The recorded investment varies from the unpaid principal balance primarily due to partial charge-offs taken resulting from current appraisals received. The amount recognized as interest income on impaired loans continuing to accrue interest, primarily related to troubled debt restructurings, was $105,000 and $346,000, and $69,000 and $241,000, for the three and nine months ended September 30, 2013 and 2012, respectively. The average recorded investment on impaired loans is calculated on a monthly basis during the periods reported. Contractual interest lost on loans in non-accrual status was $929,000 at September 30, 2013 compared to $966,000 at September 30, 2012. During the three and nine months ended September 30, 2013, $1,000 and $93,000, respectively, in interest was recognized on loans in non-accrual status on a cash basis. During the three and nine months ended September 30, 2012, there was no significant interest recognized on loans in non-accrual status.

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Delinquent and Non-Accrual Loans

The delinquency status of loans is determined based on the contractual terms of the notes. Borrowers are generally classified as delinquent once payments become 30 days or more past due.

The following table provides aging information for the Company s past due and non-accrual loans at September 30, 2013 and December 31, 2012.

(in thousands)	Current or Less Than 30 Days Past Due	30 - 89 Days Past Due	90 Days Past Due And Still Accruing	Non-Accrual	Total
September 30, 2013					
Commercial, Financial, and Agricultural	$ 130,695	$ 185	$ 15	$ 2,028	$ 132,923
Real Estate Construction - Residential	21,249	160	0	2,255	23,664
Real Estate Construction - Commercial	41,388	0	0	7,101	48,489
Real Estate Mortgage - Residential	213,627	1,798	377	4,372	220,174
Real Estate Mortgage - Commercial	362,293	992	0	12,591	375,876
Installment and Other Consumer	21,378	261	14	263	21,916
Total	$ 790,630	$ 3,396	$ 406	$ 28,610	$ 823,042
December 31, 2012					
Commercial, Financial, and Agricultural	$ 126,884	$ 1,821	$ 0	$ 1,335	$ 130,040
Real Estate Construction - Residential	19,390	290	0	2,497	22,177
Real Estate Construction - Commercial	35,117	607	0	7,762	43,486
Real Estate Mortgage - Residential	213,694	2,199	0	5,330	221,223
Real Estate Mortgage - Commercial	390,032	1,122	0	13,938	405,092
Installment and Other Consumer	24,221	520	6	219	24,966
Total	$ 809,338	$ 6,559	$ 6	$ 31,081	$ 846,984

Credit Quality

The Company categorizes loans into risk categories based upon an internal rating system reflecting management s risk assessment. Loans are placed on *watch* status when (1) one or more weaknesses that could jeopardize timely liquidation exits; or (2) the margin or liquidity of an asset is sufficiently tenuous that adverse trends could result in a collection problem. Loans classified as *substandard* are inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Loans so classified may have a well defined weakness or weaknesses that jeopardize the