FIDELITY SOUTHERN CORP
Form 10-Q
August 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2011

Commission File Number: 001-34981

Fidelity Southern Corporation

(Exact name of registrant as specified in its charter)

Georgia	58-1416811
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3490 Piedmont Road, Suite 1550, Atlanta GA	30305
(Address of principal executive offices)	(Zip Code)

(404) 639-6500

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 o (Do not check if a Smaller Reporting Company)	Smaller Reporting Company þ

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

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

Class	Shares Outstanding at July 31, 2011
Common Stock, no par value	13,006,682

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PART I FINANCIAL INFORMATION
Item 1. *Financial Statements*
FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2011	December 31, 2010
	(Dollars in thousands)	
Assets		
Cash and due from banks	**$ 191,759**	$ 45,761
Interest-bearing deposits with banks	**2,869**	1,481
Federal funds sold	**371**	517
Cash and cash equivalents	**194,999**	47,759
Investment securities available-for-sale (amortized cost of $169,618 and $160,740 at June 30, 2011 and December 31, 2010, respectively)	**171,683**	161,478
Investment securities held-to-maturity (approximate fair value of $11,393 and $14,926 at June 30, 2011 and December 31, 2010, respectively)	**10,570**	14,110
Investment in FHLB stock	**6,456**	6,542
Loans held-for-sale (loans at fair value: $47,503 at June 30, 2011; $155,029 at December 31, 2010)	**98,333**	209,898
Loans	**1,458,658**	1,403,372
Allowance for loan losses	**(29,801)**	(28,082)
Loans, net of allowance for loan losses	**1,428,857**	1,375,290
Premises and equipment, net	**21,154**	19,510
Other real estate, net	**21,026**	20,525
Accrued interest receivable	**7,704**	7,990
Bank owned life insurance	**30,878**	30,275
Other assets	**52,676**	51,923
Total Assets	**$ 2,044,336**	$ 1,945,300
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	**$ 214,980**	$ 185,614
Interest-bearing deposits:		
Demand and money market	**421,458**	427,590
Savings	**420,082**	398,012
Time deposits, $100,000 and over	**302,463**	246,317
Other time deposits	**349,421**	355,715
Total deposits	**1,708,404**	1,613,248
Other short-term borrowings	**35,951**	32,977
Subordinated debt	**67,527**	67,527
Other long-term debt	**52,500**	75,000

Accrued interest payable	**2,686**	2,973
Other liabilities	**17,430**	13,064
Total liabilities	**1,884,498**	1,804,789
Shareholders Equity		
Preferred stock, no par value. Authorized 10,000,000; 48,200 shares issued and outstanding	**46,020**	45,578
Common stock, no par value. Authorized 50,000,000; issued and outstanding 13,014,077 and 10,829,492 at June 30, 2011 and December 31, 2010	**72,217**	57,542
Unrealized gain on investments, net of tax	**1,280**	458
Retained earnings	**40,321**	36,933
Total shareholders equity	**159,838**	140,511
Total liabilities and shareholders equity	**$ 2,044,336**	$ 1,945,300

See accompanying notes to consolidated financial statements

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(Dollars in thousands, except per share data)			
Interest income				
Loans, including fees	**$ 43,044**	$ 42,818	**$ 21,153**	$ 21,754
Investment securities	**3,402**	4,748	**1,889**	2,673
Federal funds sold and bank deposits	**90**	106	**49**	13
Total interest income	**46,536**	47,672	**23,091**	24,440
Interest expense				
Deposits	**8,980**	13,225	**4,448**	6,349
Short-term borrowings	**344**	713	**169**	381
Subordinated debt	**2,243**	2,240	**1,122**	1,123
Other long-term debt	**752**	689	**307**	346
Total interest expense	**12,319**	16,867	**6,046**	8,199
Net interest income	**34,217**	30,805	**17,045**	16,241
Provision for loan losses	**10,625**	5,125	**4,850**	1,150
Net interest income after provision for loan losses	**23,592**	25,680	**12,195**	15,091
Noninterest income				
Service charges on deposit accounts	**1,972**	2,219	**1,015**	1,171
Other fees and charges	**1,253**	1,043	**672**	559
Mortgage banking activities	**11,443**	7,800	**5,484**	4,525
Indirect lending activities	**2,710**	2,197	**1,524**	1,161
SBA lending activities	**5,836**	846	**3,604**	734
Bank owned life insurance	**653**	656	**333**	330
Securities gains	**1,078**	2,291	**1,078**	2,291
Other	**835**	703	**384**	477
Total noninterest income	**25,780**	17,755	**14,094**	11,248
Noninterest expense				
Salaries and employee benefits	**22,463**	18,905	**11,641**	10,021
Furniture and equipment	**1,543**	1,318	**791**	674
Net occupancy	**2,295**	2,215	**1,160**	1,125
Communication	**1,095**	919	**532**	475
Professional and other services	**2,645**	2,112	**1,453**	1,074

Cost of operation of other real estate	**4,251**	4,527	**1,793**	2,358
FDIC insurance premiums	**1,708**	1,767	**806**	881
Other	**5,358**	4,054	**2,707**	2,215
Total noninterest expense	**41,358**	35,817	**20,883**	18,823
Income before income tax expense	**8,014**	7,618	**5,406**	7,516
Income tax expense	**2,558**	2,554	**1,792**	2,647
Net income	**5,456**	5,064	**3,614**	4,869
Preferred stock dividends	**(1,646)**	(1,646)	**(823)**	(823)
Net income available to common equity	**$ 3,810**	$ 3,418	**$ 2,791**	$ 4,046
Earnings per share:				
Basic earnings per share	**$ .34**	$ .32	**$ .24**	$ .38
Diluted earnings per share	**$ .30**	$ .29	**$ .21**	$ .33
Weighted average common shares outstanding-basic	**11,267,916**	10,619,041	**11,700,955**	10,776,579
Weighted average common shares outstanding-fully diluted	**12,798,015**	11,895,606	**13,190,787**	12,258,681

See accompanying notes to consolidated financial statements.

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands)	
Operating Activities		
Net income	**$ 5,456**	$ 5,064
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	**10,625**	5,125
Depreciation and amortization of premises and equipment	**1,003**	876
Other amortization	**1,338**	933
Reserve for impairment of other real estate	**2,688**	2,881
Share-based compensation	**119**	128
Proceeds from sales of loans	**716,932**	442,345
Proceeds from sales of other real estate	**8,225**	7,080
Loans originated for resale	**(588,959)**	(489,222)
Gain on loan sales	**(16,408)**	(5,564)
Gain on sales of investment securities	**(1,078)**	(2,291)
Gain on sales of other real estate	**(329)**	(386)
Increase in cash value of bank owned life insurance	**(603)**	(605)
Net (increase) decrease in deferred income taxes	**(1,060)**	1,012
Changes in assets and liabilities which provided (used) cash:		
Accrued interest receivable	**286**	(160)
Other assets	**(1,006)**	6,033
Accrued interest payable	**(287)**	(796)
Other liabilities	**4,366**	5,491
Net cash provided by (used in) operating activities	**141,308**	(22,056)
Investing Activities		
Purchases of investment securities available-for-sale	**(83,769)**	(196,547)
Purchases of investment in FHLB stock		(90)
Proceeds from sale of investment securities available-for-sale	**32,781**	100,633
Maturities and calls of investment securities held-to-maturity	**3,545**	2,434
Maturities and calls of investment securities available-for-sale	**42,654**	72,638
Redemption of investment in FHLB stock	**86**	
Net increase in loans	**(75,278)**	(37,230)
Capital improvements to other real estate		(15)
Purchases of premises and equipment	**(2,647)**	(1,579)
Net cash used in investing activities	**(82,628)**	(59,756)
Financing Activities		
Net increase in transactional accounts	**45,304**	94,569

Net increase (decrease) in time deposits	**49,852**	(81,673)
Net (decrease) increase in borrowings	**(19,526)**	8,032
Dividends paid	**(4)**	(3)
Proceeds from the issuance of common stock	**14,139**	2,149
Preferred stock dividends paid	**(1,205)**	(1,205)
Net cash provided by financing activities	**88,560**	21,869
Net increase (decrease) in cash and cash equivalents	**147,240**	(59,943)
Cash and cash equivalents, beginning of period	**47,759**	171,120
Cash and cash equivalents, end of period	**$ 194,999**	$ 111,177
Supplemental disclosures of cash flow information:		
Cash paid (refunded) during the period for:		
Interest	**$ 12,606**	$ 17,663
Income taxes	**$ 6,455**	$ (951)
Non-cash transfers to other real estate	**$ 11,085**	$ 10,005
Accretion on U.S. Treasury preferred stock	**$ 440**	$ 441
Loans transferred from held-for-sale	**$ 1,586**	$ 3,884

See accompanying notes to consolidated financial statements.

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JUNE 30, 2011

1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Fidelity Southern Corporation and its wholly owned subsidiaries (Fidelity). Fidelity Southern Corporation (FSC) owns 100% of Fidelity Bank (the Bank), and LionMark Insurance Company, an insurance agency offering consumer credit related insurance products. FSC also owns five subsidiaries established to issue trust preferred securities, which entities are not consolidated for financial reporting purposes in accordance with Accounting Standards Codification (ASC) 942-810-55, as FSC is not the primary beneficiary. The Company , as used herein, includes FSC and its subsidiaries, unless the context otherwise requires.

These unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles followed within the financial services industry for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods covered by the statements of income. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of mortgage loans held-for-sale, the calculations of and the amortization of capitalized servicing rights, the valuation of net deferred income taxes and the valuation of real estate or other assets acquired in connection with foreclosures or in satisfaction of loans. In addition, the actual lives of certain amortizable assets and income items are estimates subject to change. The Company principally operates in one business segment, which is community banking.

In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and results of operations for the interim periods have been included. All such adjustments are normal recurring accruals. Certain previously reported amounts have been reclassified to conform to current presentation. These reclassifications had no impact on previously reported net income, or shareholders equity or cash flows. The Company s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission. There were no new accounting policies or changes to existing policies adopted in the first six months of 2011, which had a significant effect on the results of operations or statement of financial condition. For interim reporting purposes, the Company follows the same basic accounting policies and considers each interim period as an integral part of an annual period.

Operating results for the six month period ended June 30, 2011, are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K and Annual Report to Shareholders for the year ended December 31, 2010.

2. Shareholders Equity

The Board of Governors of the Federal Reserve System (the FRB) is the primary regulator of FSC, a bank holding company. The Bank is a state chartered commercial bank subject to Federal and state statutes applicable to banks chartered under the banking laws of the State of Georgia and to banks whose deposits are insured by the Federal Deposit Insurance Corporation (the FDIC), the Bank s primary Federal regulator. The Bank is a wholly owned subsidiary of the Company. The Bank s state regulator is the Georgia Department of Banking and Finance (the GDBF). The FDIC and the GDBF examine and evaluate the financial condition, operations, and policies and procedures of state chartered commercial banks, such as the Bank, as part of their legally prescribed oversight responsibilities.

The FRB, FDIC, and GDBF have established capital adequacy requirements as a function of their oversight of bank holding companies and state chartered banks. Each bank holding company and each bank must maintain certain minimum capital ratios. At June 30, 2011 and December 31, 2010, the Company exceeded all capital ratios required by the FRB, FDIC, and GDBF to be considered well capitalized.

In May 2011, the Company increased capital $14.4 million in a private placement of common stock. The 2,167,166 shares were sold for $6.65 per share, with no investor purchasing shares resulting in beneficial ownership of more than 9.9% of the Company s common stock.

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Earnings per share were calculated as follows:

	For the Quarter Ended June 30, 2011	2010
	(Dollars in thousands, except per share data)	
Net income	**$ 3,614**	$ 4,869
Less dividends on preferred stock and accretion of discount	**(823)**	(823)
Net income available to common equity	**$ 2,791**	$ 4,046
Average common shares outstanding	**11,643**	10,511
Effect of stock dividends	**58**	106
Average common shares outstanding basic	**11,701**	10,617
Dilutive stock options and warrants	**1,490**	1,460
Average common shares outstanding dilutive	**13,191**	12,077
Earnings per share basic	**$ .24**	$ .38
Earnings per share dilutive	**$ .21**	$ .33

	For the Six Months Ended June 30, 2011	2010
	(Dollars in thousands, except per share data)	
Net income	**$ 5,456**	$ 5,064
Less dividends on preferred stock and accretion of discount	**(1,646)**	(1,646)
Net income available to common equity	**$ 3,810**	$ 3,418
Average common shares outstanding	**11,212**	10,357
Effect of stock dividends	**56**	104
Average common shares outstanding basic	**11,268**	10,461
Dilutive stock options and warrants	**1,530**	1,258
Average common shares outstanding dilutive	**12,798**	11,719
Earnings per share basic	**$ .34**	$ .32
Earnings per share dilutive	**$ .30**	$ .29

Average number of shares for 2010 and 2011 includes participating securities related to unvested restricted stock awards. There were 150,907 in common stock options with an average exercise price of $18.37 at June 30, 2011, and

158,407 in options with an average price of $18.38 at June 30, 2010, which would have been included in the calculation of dilutive earnings per share except that to do so would have an anti-dilutive impact on earnings per share.

3. Contingencies

Due to the nature of their activities, the Company and its subsidiaries are at times engaged in various legal proceedings that arise in the course of normal business, some of which were outstanding as of June 30, 2011. While it is difficult to predict or determine the outcome of these proceedings, it is the opinion of management, after consultation with its legal counsel, that the ultimate liabilities, if any, will not have a material adverse impact on the Company s consolidated results of operations, financial position, or cash flows.

4. Comprehensive Income

Comprehensive income includes net income and other comprehensive income (loss), related to unrealized gains and losses on investment securities classified as available-for-sale. All other comprehensive income (loss) items are tax effected at a rate of 38% for each period.

During the second quarter and first six months of 2011, other comprehensive income net of tax was $1.1 million and $822,000, respectively. Other comprehensive income, net of tax, was $943,000 and $1.3 million for the comparable periods in 2010. Comprehensive income for the second quarter and first six months of 2011 was $4.7 million and $6.3 million, respectively, compared to $5.8 million and $6.4 million for the same periods in 2010.

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5. Share-Based Compensation

The Company s 1997 Stock Option Plan authorized the grant of options to management personnel for up to 500,000 shares of the Company s common stock. All options granted have three year to eight year terms and vest and become fully exercisable at the end of three years to five years of continued employment. No options may be or were granted after June 30, 2007, under this plan.

The Fidelity Southern Corporation Equity Incentive Plan (the 2006 Incentive Plan), as amended, permits the grant of stock options, stock appreciation rights, restricted stock and other incentive awards (Incentive Awards). Pursuant to an amendment to the Plan adopted by the shareholders on April 26, 2011, the maximum number of shares of the Company s common stock that may be issued under the 2006 Incentive Plan is 2,250,000 shares, all of which may be stock options. Generally, no award shall be exercisable or become vested or payable more than 10 years after the date of grant. Options granted under the 2006 Incentive Plan have four year terms and become fully exercisable at the end of three years of continued employment. Incentive awards available under the 2006 Incentive Plan totaled 212,227 shares at June 30, 2011.

In the first quarter of 2010, FSC granted 154,078 restricted shares of common stock under the 2006 Equity Incentive Plan to certain employees. The stock was granted at $4.50 per share, vests 40% after two years and then 20% per year through five years and will be fully vested after January 22, 2015. The restricted stock is subject to section 111 of the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009 and regulations issued by the Department of the Treasury. At June 30, 2011, there was $485,000 in remaining unrecognized compensation cost related to the restricted stock.

A summary of option activity as of June 30, 2011, and changes during the six month period then ended is presented below:

	Number of share options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms	Aggregate Intrinsic Value
Outstanding at January 1, 2011	492,239	$ 8.59		
Granted				
Exercised	334	4.60		
Forfeited	121,000	18.70		
Outstanding at June 30, 2011	370,905	$ 5.30	2.0 years	$ 590,000
Exercisable at June 30, 2011	254,572	$ 5.62	2.0 years	$ 324,000

Share-based compensation expense was not significant for the three month and six month periods ended June 30, 2011.

6. Fair Value Election and Measurement

The Company adopted the provisions of SFAS No. 157, Fair Value Measurements , now codified in FASB ASC 820-10-35, for financial assets and financial liabilities, which establishes a common definition of fair value and framework for measuring fair value under U.S. GAAP. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. FASB ASC 820-10-35 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10-35 are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly, for substantially the full term of the asset or liability;
Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).
A financial instrument s level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement.

In certain circumstances, fair value enables a company to more accurately align its financial performance with the economic value of hedged assets. Fair value enables a company to mitigate the non-economic earnings volatility caused from financial assets and financial liabilities being carried at different bases of accounting, as well as to more accurately portray the active and dynamic management of a company s balance sheet.

In accordance with SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities which is now codified in ASC 825-10-25, the Company has elected to record mortgage loans held-for-sale at fair value. The following is a description of mortgage loans held-for-sale as of June 30, 2011, including the specific reasons for electing fair value and the strategies for managing these assets on a fair value basis.

Mortgage Loans Held-for-Sale

The Company records mortgage loans held-for-sale at fair value in order to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and related hedge instruments. This election impacts the timing and recognition of origination fees and costs, as well as servicing value. Specifically, origination fees and costs, which had been appropriately deferred under SFAS No. 91 Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases now codified in ASC 310-20-25 and previously recognized as part of the gain/loss on sale of the loans, are now recognized in earnings at the time of origination. Interest income on mortgage loans held-for-sale is recorded on an accrual basis in the consolidated statement of income under the heading Interest income loans, including fees . The servicing value is included in the fair value of the Interest Rate Lock Commitments (IRLCs) with borrowers. The mark to market adjustments related to loans held-for-sale and the associated economic hedges are captured in mortgage banking activities.

Valuation Methodologies and Fair Value Hierarchy

The primary financial instruments that the Company carries at fair value include investment securities, IRLCs, derivative instruments, and loans held-for-sale. Classification in the fair value hierarchy of financial instruments is based on the criteria set forth in SFAS No. 157, now codified in FASB ASC 820-10-35.

Debt securities issued by U.S. Government corporations and agencies, debt securities issued by states and political subdivisions, and agency residential mortgage backed securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. The investments in the Company s portfolio are generally not quoted on an exchange but are actively traded in the secondary institutional markets.

The fair value of mortgage loans held-for-sale is based on what secondary markets are currently offering for portfolios with similar characteristics predominantly consisting of those conforming to government sponsored entity or agency standards. The fair value measurements consider observable data that may include market trade pricing from brokers and the mortgage-backed security markets. As such, the Company classifies these loans as Level 2.

The Company classifies IRLCs on residential mortgage loans held-for-sale, which are derivatives under SFAS No. 133 now codified in ASC 815-10-15, on a gross basis within other liabilities or other assets. The fair value of these commitments, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These pull-through rates are based on both the Company s historical data and the current interest rate environment and reflect the Company s best estimate of the likelihood that a commitment will ultimately result in a closed loan. As a result of the adoption of Staff Accounting Bulletin No. 109 (SAB No. 109), the loan servicing value is also included in the fair value of IRLCs. Because these inputs are not transparent in market trades, IRLCs are considered to be Level 3 assets.

Derivative instruments are primarily transacted in the secondary mortgage and institutional dealer markets and priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. For purposes of valuation adjustments to its derivative positions under FASB ASC 820-10-35, the Company has evaluated liquidity premiums that may be demanded by market participants, as well as the credit risk of its counterparties and its own credit if applicable. To date, no material losses due to a counterparty s inability to pay any net uncollateralized position has been incurred.

The credit risk associated with the underlying cash flows of an instrument carried at fair value was a consideration in estimating the fair value of certain financial instruments. Credit risk was considered in the valuation through a variety of inputs, as applicable, including, the actual default and loss severity of the collateral, and level of subordination. The assumptions used to estimate credit risk applied relevant information that a market participant would likely use in valuing an instrument. Because mortgage loans held-for-sale are sold within a few weeks of origination, it is unlikely to demonstrate any of the credit weaknesses discussed above and as a result, there were no credit related adjustments to fair value at June 30, 2011.

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The following tables present financial assets measured at fair value at June 30, 2011 and December 31, 2010, on a recurring basis and the change in fair value for those specific financial instruments in which fair value has been elected at June 30, 2011 and 2010. The changes in the fair value of economic hedges were also recorded in mortgage banking activities and are designed to partially offset the change in fair value of the mortgage loans held-for-sale and interest rate lock commitments referenced in the tables below.

	Assets Measured at Fair Value June 30, 2011	Fair Value Measurements at June 30, 2011 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Debt securities issued by U.S. Government corporations and agencies	**$ 36,276**	**$**	**$ 36,276**	**$**
Debt securities issued by states and political subdivisions	**11,629**		**11,629**	
Residential mortgage-backed securities Agency	**123,778**		**123,778**	
Mortgage loans held-for-sale	**47,503**		**47,503**	
Other Assets(1)	**1,809**			**1,809**
Other Liabilities(1)	**8**			**8**

(1) This amount includes mortgage related interest rate lock commitments and derivative financial instruments to hedge interest rate risk. Interest rate lock commitments were recorded on a gross basis.

	Assets Measured at Fair Value December 31, 2010	Fair Value Measurements at December 31, 2010 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Debt securities issued by U.S. Government corporations and agencies	$ 26,336	$	$ 26,336	$
Debt securities issued by states and political subdivisions	11,330		11,330	

Residential mortgage-backed securities	Agency	123,812		123,812	
Mortgage loans held-for-sale		155,029		155,029	
Other Assets[(1)]		6,627			6,627
Other Liabilities[(1)]		446			446

(1) This amount includes mortgage related interest rate lock commitments and derivative financial instruments to hedge interest rate risk. Interest rate lock commitments were recorded on a gross basis.

	For Items Measured at Fair Value Pursuant to Election of the Fair Value Option: Fair Value Gain related to Mortgage Banking Activities for the Three Months Ended	
	June 30, 2011	**June 30, 2010**
	(In thousands)	
Mortgage loans held-for-sale	**$ 186**	$ 3,270

	For Items Measured at Fair Value Pursuant to Election of the Fair Value Option: Fair Value Gain related to Mortgage Banking Activities for the Six Months Ended	
	June 30, 2011	**June 30, 2010**
	(In thousands)	
Mortgage loans held-for-sale	**$ 2,603**	$ 3,627

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The tables below present a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3) during the three and six months ended June 30, 2011 and 2010.

	Other Assets(1)	Other Liabilities(1)
	(In thousands)	
Beginning Balance April 1, 2011	$ 1,756	$ (224)
Total gains (losses) included in earnings:(2)		
Issuances	1,809	(8)
Settlements and closed loans	(1,050)	1
Expirations	(706)	223
Total gains (losses) included in other comprehensive income		
Ending Balance June 30, 2011 (3)	$ 1,809	$ (8)

(1) Includes mortgage related interest rate lock commitments and derivative financial instruments entered into to hedge interest rate risk.

(2) Amounts included in earnings are recorded in mortgage banking activities.

(3) Represents the amount included in earnings attributable to the changes in unrealized gains/losses relating to IRLCs and derivatives still held at period end.

	Other Assets(1)	Other Liabilities(1)
	(In thousands)	
Beginning Balance January 1, 2011	$ 6,627	$ (446)
Total gains (losses) included in earnings:(2)		
Issuances	3,565	(232)
Settlements and closed loans	(1,510)	178
Expirations	(6,873)	492
Total gains (losses) included in other comprehensive income		
Ending Balance June 30, 2011 (3)	$ 1,809	$ (8)

(1) Includes mortgage related interest rate lock commitments and derivative financial instruments entered into to hedge interest rate risk.

(2) Amounts included in earnings are recorded in mortgage banking activities.

(3)

Represents the amount included in earnings attributable to the changes in unrealized gains/losses relating to IRLCs and derivatives still held at period end.

	Other Assets[1]	Other Liabilities[1]
	(In thousands)	
Beginning Balance April 1, 2010	$ 1,288	$ (37)
Total gains (losses) included in earnings:[2]		
Issuances	2,447	(2,714)
Settlements and closed loans	(482)	2
Expirations	(806)	35
Total gains (losses) included in other comprehensive income		
Ending Balance June 30, 2010 [3]	$ 2,447	$ (2,714)

(1) Includes mortgage related interest rate lock commitments and derivative financial instruments entered into to hedge interest rate risk.

(2) Amounts included in earnings are recorded in mortgage banking activities.

(3) Represents the amount included in earnings attributable to the changes in unrealized gains/losses relating to IRLCs and derivatives still held at period end.

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	Other Assets[1]	Other Liabilities[1]
	(In thousands)	
Beginning Balance January 1, 2010	$ 1,778	$ (55)
Total gains (losses) included in earnings:[2]		
Issuances	3,735	(2,751)
Settlements and closed loans	(660)	46
Expirations	(2,406)	46
Total gains (losses) included in other comprehensive income		
Ending Balance June 30, 2010 [3]	$ 2,447	$ (2,714)

(1) Includes mortgage related interest rate lock commitments and derivative financial instruments entered into to hedge interest rate risk.

(2) Amounts included in earnings are recorded in mortgage banking activities.

(3) Represents the amount included in earnings attributable to the changes in unrealized gains/losses relating to IRLCs and derivatives still held at period end.

The following tables present the assets that are measured at fair value on a non-recurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial position at June 30, 2011 and December 31, 2010.

		Fair Value Measurements at June 30, 2011			
	Total	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**	**Valuation Allowance**
			(In thousands)		
Impaired loans	**$ 68,253**	**$**	**$**	**$ 68,253**	**$ (9,227)**
ORE	**21,026**			**21,026**	**(6,836)**
Mortgage servicing rights	**8,831**			**8,831**	**(60)**
SBA servicing rights	**5,868**			**5,868**	**(349)**

		Fair Value Measurements at March 31, 2011		
		Quoted Prices in Active Markets for	**Significant Other**	**Significant Unobservable**

	Total	Identical Assets Level 1	Observable Inputs Level 2	Inputs Level 3	Valuation Allowance
			(In thousands)		
Impaired loans	**$ 70,455**	**$**	**$**	**$ 70,455**	**$ (7,011)**
ORE	**18,383**			**18,383**	**(7,228)**
Mortgage servicing rights	**7,109**			**7,109**	**(61)**
SBA servicing rights	**3,613**			**3,613**	**(226)**

	Fair Value Measurements at December 31, 2010				
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Valuation Allowance
			(In thousands)		
Impaired loans	$ 79,954	$	$	$ 79,954	$ (6,218)
ORE	20,525			20,525	(6,403)
Mortgage servicing rights	5,495			5,495	(85)
SBA servicing rights	2,624			2,624	(203)

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified as a Level 3 in the fair value hierarchy. Collateral may include real estate or business assets, including equipment, inventory and accounts receivable. The value of real estate collateral is determined based on an appraisal by qualified licensed appraisers hired by the Company. If significant, the value of business equipment is based on an appraisal by qualified licensed appraisers hired by the Company otherwise, the equipment s net book value on the business financial statements is the basis for the value of business equipment. Inventory and accounts receivable collateral are valued based on independent field examiner review or aging reports. Appraised and reported values may be discounted based on management s historical knowledge, changes in market conditions from the time of the valuation, and management s expertise and knowledge of the client and client s business. Impaired loans are evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

Mortgage servicing rights are initially recorded at fair value when mortgage loans are sold servicing retained. These assets are then amortized in proportion to and over the period of estimated net servicing income. On a monthly basis these servicing assets are assessed for impairment based on fair value. Management determines fair value by stratifying the servicing portfolio into homogeneous subsets with unique behavior characteristics, converting those characteristics into income and expense streams, adjusting those streams for prepayments, present valuing the adjusted streams, and combining the present values into a total. If the cost basis of any loan stratification tranche is higher than the present value of the tranche, an impairment is recorded.

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SBA servicing rights are initially recorded at fair value when loans are sold servicing retained. These assets are then amortized in proportion to and over the period of estimated net servicing income. On a monthly basis these servicing assets are assessed for impairment based on fair value. Management determines fair value by stratifying the servicing portfolio into homogeneous subsets with unique behavior characteristics, converting those characteristics into income and expense streams, adjusting those streams for prepayments, present valuing the adjusted streams, and combining the present values into a total. If the cost basis of any loan stratification tranche is higher than the present value of the tranche, an impairment is recorded.

Foreclosed assets in Other Real Estate are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less estimated selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3. Appraised and reported values may be discounted based on management s historical knowledge, changes in market conditions from the time of the valuation, and management s expertise and knowledge of the client and client s business.

The following tables present the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held-for-sale for which the fair value option has been elected as of June 30, 2011 and December 31, 2010. The tables also include the difference between aggregate fair value and the aggregate unpaid principal balance of loans that are 90 days or more past due, as well as loans in nonaccrual status.

	Aggregate Fair Value June 30, 2011	Aggregate Unpaid Principal Balance Under FVO June 30, 2011	Fair Value Over Unpaid Principal
		(In thousands)	
Loans held-for-sale	**$ 47,503**	**$ 46,842**	**$ 661**
Past due loans of 90+ days			
Nonaccrual loans			

	Aggregate Fair Value December 31, 2010	Aggregate Unpaid Principal Balance Under FVO December 31, 2010	Fair Value Under Unpaid Principal
		(In thousands)	
Loans held-for-sale	$ 155,029	$ 156,971	$ (1,942)
Past due loans of 90+ days			
Nonaccrual loans			

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, (SFAS No. 107) as amended by FASB Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments now codified in ASC 825-10-50 requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on settlements using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets, and, in many cases, could not be realized in immediate settlement of the instrument. ASC 825-10-50 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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	June 30, 2011 Carrying Amount	June 30, 2011 Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Fair Value
	(In thousands)			
Financial Instruments (Assets):				
Cash and due from banks	**$ 194,628**	**$ 194,628**	$ 47,242	$ 47,242
Federal funds sold	**371**	**371**	517	517
Investment securities available-for-sale	**171,683**	**171,683**	161,478	161,478
Investment securities held-to-maturity	**10,570**	**11,393**	14,110	14,926
Investment in FHLB stock	**6,456**	**6,456**	6,542	6,542
Total loans	**1,527,190**	**1,408,725**	1,585,188	1,469,404
Total financial instruments (assets)	**1,910,898**	**$ 1,793,256**		$ 1,700,109
Non-financial instruments (assets)	**133,438**		130,223	
Total assets	**$ 2,044,336**		$ 1,945,300	
Financial Instruments (Liabilities):				
Noninterest-bearing demand deposits	**$ 214,980**	**$ 214,980**	$ 185,614	$ 185,614
Interest-bearing deposits	**1,493,424**	**1,500,523**	1,427,634	1,433,558
Total deposits	**1,708,404**	**1,715,503**	1,613,248	1,619,172
Short-term borrowings	**35,951**	**36,377**	32,977	32,977
Subordinated debt	**67,527**	**65,045**	67,527	63,279
Other long-term debt	**52,500**	**52,204**	75,000	75,457
Total financial instruments (liabilities)	**1,864,382**	**$ 1,869,129**	1,788,752	$ 1,790,885
Non-financial instruments (liabilities and shareholders equity)	**179,954**		156,548	
Total liabilities and shareholders equity	**$ 2,044,336**		$ 1,945,300	

The carrying amounts reported in the consolidated balance sheets for cash, due from banks, and Federal funds sold approximate the fair values of those assets. For investment securities, fair value equals quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or dealer quotes.

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the remaining maturities using estimated market discount rates that reflect the credit and interest rate risk inherent in the loans along with a market risk premium and liquidity discount.

Fair value for significant nonperforming loans is estimated taking into consideration recent external appraisals of the underlying collateral for loans that are collateral dependent. If appraisals are not available or if the loan is not collateral dependent, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

The fair value of deposits with no stated maturities, such as noninterest-bearing demand deposits, savings, interest-bearing demand, and money market accounts, is equal to the amount payable on demand. The fair value of time deposits is based on the discounted value of contractual cash flows based on the discounted rates currently offered for deposits of similar remaining maturities.

The carrying amounts reported in the consolidated balance sheets for short-term debt generally approximate those liabilities fair values with the exception of FHLB advances which are estimated based on the current rates offered to us for debt of the same remaining maturity.

The fair value of the Company s long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities.

For off-balance sheet instruments, fair values are based on rates currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing for loan commitments and letters of credit. Fees related to these instruments were immaterial at June 30, 2011 and December 31, 2010, and the carrying amounts represent a reasonable approximation of their fair values. Loan commitments, letters and lines of credit, and similar obligations typically have variable interest rates and clauses that deny funding if the customer s credit quality deteriorates. Therefore, the fair values of these items are not significant and are not included in the foregoing schedule.

This presentation excludes certain nonfinancial instruments. The disclosures also do not include certain intangible assets, such as customer relationships, and deposit base intangibles. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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7. Derivative Financial Instruments

The Company maintains a risk management program to manage interest rate risk and pricing risk associated with its mortgage lending activities. The risk management program includes the use of forward contracts and other derivatives that are recorded in the financial statements at fair value and are used to offset changes in value of the mortgage inventory due to changes in market interest rates. As a normal part of its operations, the Company enters into derivative contracts to economically hedge risks associated with overall price risk related to IRLCs and mortgage loans held-for-sale carried at fair value under ASC 825-10-25. Fair value changes occur as a result of interest rate movements as well as changes in the value of the associated servicing. Derivative instruments used include forward sale commitments and IRLCs. All derivatives are carried at fair value in the Consolidated Balance Sheets in other assets or other liabilities. A gross gain of $439,000 and a gross loss of $4.8 million for the first six months of 2011 associated with the forward sales commitments and IRLCs, respectively, are recorded in the Consolidated Statements of Income in mortgage banking activities.

The Company s risk management derivatives are based on underlying risks primarily related to interest rates and forward sales commitments. Forwards are contracts for the delayed delivery or net settlement of an underlying instrument, such as a mortgage loan, in which the seller agrees to deliver on a specified future date, either a specified instrument at a specified price or yield or the net cash equivalent of an underlying instrument. These hedges are used to preserve the Company s position relative to future sales of loans to third parties in an effort to minimize the volatility of the expected gain on sale from changes in interest rate and the associated pricing changes.

Credit and Market Risk Associated with Derivatives

Derivatives expose the Company to credit risk. If the counterparty fails to perform, the credit risk at that time would be equal to the net derivative asset position, if any, for that counterparty. The Company minimizes the credit or repayment risk in derivative instruments by entering into transactions with high quality counterparties that are reviewed periodically by the Company s Risk Management area.

The Company s derivative positions as of June 30, 2011, were as follows:

	Contract or Notional Amount *(In thousands)*
Forward rate commitments	$ 134,673
Interest rate lock commitments	92,883
Total derivatives contracts	$ 227,556

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8. Investments

Investment securities at June 30, 2011 and December 31, 2010, are summarized as follows:

	June 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(In thousands)		
Available-for-Sale:				
Obligations of U.S. Government corporations and agencies:				
Due in less than one year	**$ 15,000**	**$ 15,131**	$ 10,000	$ 10,039
Due after one year through five years	**21,035**	**21,145**	16,135	16,297
Municipal securities:				
Due after one year through five years	**6,145**	**6,231**	5,592	5,482
Due five years through ten years	**5,559**	**5,398**	6,113	5,848
Residential mortgage-backed securities-agency:				
Due after one year through five years	**106,283**	**108,022**	118,958	119,962
Due five years through ten years	**15,596**	**15,756**	3,942	3,850
	$ 169,618	**$ 171,683**	$ 160,740	$ 161,478
Held-to-Maturity:				
Residential mortgage-backed securities-agency:				
Due in less than one year	**$ 38**	**$ 38**	$ 1,770	$ 1,785
Due after one year through five years	**10,532**	**11,355**	12,340	13,141
	$ 10,570	**$ 11,393**	$ 14,110	$ 14,926

The Bank sold five securities available-for-sale totaling $32.8 million during the six month period ended June 30, 2011. Proceeds received totaled $33.9 million for a gross gain of $1.1 million. The Bank sold 17 securities held-for-sale totaling $102.8 million during the six month period ended June 30, 2010. Proceeds received totaled $105.1 million for a gross gain of $2.3 million. The Bank had three securities for a total of $33.3 million called during the six month period ended June 30, 2011. Seven securities for a total of $60.0 million were called during the six months ended June 30, 2010. There were no investments held in trading accounts during 2011 and 2010.

			June 30, 2011		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other than Temporary Impairment	Fair Value
			(In thousands)		
Available-for-Sale:					
Obligations of U.S. Government corporations and agencies	**$ 36,035**	**$ 273**	**$ (32)**	**$**	**$ 36,276**
Municipal securities	**11,704**	**170**	**(245)**		**11,269**
Residential mortgage-backed securities agency	**121,879**	**2,129**	**(230)**		**123,778**

	$	**169,618**	**$**	**2,512**	**$**	**(507)**	**$**		**$**	**171,683**
Held-to-Maturity:										
Residential mortgage-backed securities agency	**$**	**10,570**	**$**	**823**	**$**		**$**		**$**	**11,393**
	$	**10,570**	**$**	**823**	**$**		**$**		**$**	**11,393**

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	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other than Temporary Impairment	Fair Value
			(In thousands)		
Available-for-Sale:					
Obligations of U.S. Government corporations and agencies	$ 26,135	$ 201	$	$	$ 26,336
Municipal securities	11,705	20	(395)		11,330
Residential mortgage-backed securities agency	122,900	1,557	(645)		123,812
	$ 160,740	$ 1,778	$ (1,040)	$	$ 161,478
Held-to-Maturity:					
Residential mortgage-backed securities agency	$ 14,110	$ 816	$	$	$ 14,926

The following table reflects the gross unrealized losses and fair values of investment securities with unrealized losses at June 30, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss and temporarily impaired position:

	June 30, 2011			
	12 Months or Less		More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(In thousands)		
Available-for-Sale:				
U.S. Government corporations and agencies	**$ 6,969**	**$ 31**	**$**	**$**
Municipal securities	**1,910**	**44**	**843**	**201**
Residential mortgage-backed securities agency	**24,996**	**231**		
	$ 33,875	**$ 306**	**$ 843**	**$ 201**
Held-to-Maturity:				
Residential mortgage-backed securities agency	**$**	**$**	**$**	**$**

	December 31, 2010			
	12 Months or Less		More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(In thousands)		

Available-for-Sale:				
U.S. Government corporations and agencies	$	$	$	$
Municipal securities	9,491	280	929	115
Residential mortgage-backed securities agency	52,983	645		
	$ 62,474	$ 925	$ 929	$ 115
Held-to-Maturity:				
Residential mortgage-backed securities agency	$	$	$	$

If fair value of a debt security is less than its amortized cost basis at the balance sheet date, management must determine if the security has an other than temporary impairment (OTTI). If management does not expect to recover the entire amortized cost basis of a security, an OTTI has occurred. If management s intention is to sell the security, an OTTI has occurred. If it is more likely than not that management will be required to sell a security before the recovery of the amortized cost basis, an OTTI has occurred. The Company will recognize the full OTTI in earnings if it intends to sell a security or will more likely than not be required to sell the security. Otherwise, an OTTI will be separated into the amount representing a credit loss and the amount related to all other factors. The amount of an OTTI related to credit losses will be recognized in earnings. The amount related to other factors will be recognized in other comprehensive income, net of taxes.

There was one municipal investment security in a continuous unrealized loss position for 37 months at June 30, 2011 and for 31 months at December 31, 2010. Although under pressure from the recent recession, the unrealized loss position resulted not from credit quality issues, but from market interest rate increases over the interest rates prevalent at the time the security was purchased, and is considered temporary. In determining other-than-temporary impairment losses on municipal securities, management primarily considers the credit rating of the municipality itself as the primary source of repayment and secondarily the financial viability of the insurer of the obligation.

9. Loans

Loans outstanding, by class, are summarized as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Commercial loans	**$ 386,365**	$ 384,220
SBA loans	**83,172**	94,282
Total commercial loans	**469,537**	478,502
Construction	**102,377**	115,224
Indirect loans	**773,859**	695,754
Installment loans	**19,291**	20,431
Total consumer loans	**793,150**	716,185
First mortgage loans	**36,036**	34,367
Second mortgage loans	**57,558**	59,094
Total mortgage loans	**93,594**	93,461
Total loans	**$ 1,458,658**	$ 1,403,372

Loans held-for-sale at June 30, 2011 and December 31, 2010 are shown in the table below:

	June 30, 2011	December 31, 2010
	(In thousands)	
SBA loans	**$ 20,830**	$ 24,869
Real estate mortgage residential	**47,503**	155,029
Consumer installment loans	**30,000**	30,000
Total	**$ 98,333**	$ 209,898

Nonaccrual loans, segregated by class of loans, were as follows:

	June 30,	December 31,

	2011	2010
	(In thousands)	
Commercial loans	**$ 3,716**	$ 2,269
SBA loans	**14,648**	14,024
Total commercial loans	**18,364**	16,293
Construction	**45,889**	54,117
Indirect loans	**1,177**	1,551
Installment loans	**174**	112
Total consumer loans	**1,351**	1,663
First mortgage loans	**3,310**	3,833
Second mortgage loans	**740**	639
Total mortgage loans	**4,050**	4,472
Loans	**$ 69,654**	$ 76,545

* Approximately $61 million and $58 million in loan balances were past due 90 days or more at June 30, 2011 and December 31, 2010, respectively.

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Loans delinquent 30-89 days and troubled debt restructured loans accruing interest, segregated by class of loans at June 30, 2011 and December 31, 2010, were as follows:

	June 30, 2011		December 31, 2010	
	Accruing Delinquent 30-89 Days	Troubled Debt Restructured Loans Accruing	Accruing Delinquent 30-89 Days	Troubled Debt Restructured Loans Accruing
	(In thousands)			
Commercial loans	**$ 456**	**$ 10,913**	$ 2,075	$ 3,152
SBA loans	**1,202**		698	
Construction loans	**82**		1,064	6,243
Indirect loans	**2,554**		4,936	
Installment loans	**314**		265	
First mortgage loans	**560**		723	
Second mortgage loans	**536**		822	
Total	**$ 5,704**	**$ 10,913**	$ 10,583	$ 9,395

There were no loans greater than 90 days delinquent and still accruing at June 30, 2011 and December 31, 2010. Loans and allowance for loan loss individually and collectively evaluated by portfolio segment follow below:

	Three Months Ended June 30, 2011					
	Commercial	Construction	Consumer	Mortgage	Unallocated	Total
	(In thousands)					
Beginning balance	**$ 7,569**	**$ 11,314**	**$ 7,241**	**$ 2,592**	**$ 978**	**$ 29,694**
Charge-offs	**(318)**	**(3,661)**	**(840)**	**(194)**		**(5,013)**
Recoveries	**4**	**53**	**211**	**2**		**270**
Net Charge-offs	**(314)**	**(3,608)**	**(629)**	**(192)**		**(4,743)**
Provision for loan losses	**500**	**2,609**	**988**	**242**	**511**	**4,850**
Ending Balance	**$ 7,755**	**$ 10,315**	**$ 7,600**	**$ 2,642**	**$ 1,489**	**$ 29,801**

	Three Months Ended June 30, 2010					
	Commercial	Construction	Consumer	Mortgage	Unallocated	Total
	(In thousands)					
Beginning balance	$ 5,867	$ 10,474	$ 10,840	$ 1,086	$ 1,207	$ 29,474
Charge-offs	(127)	(1,993)	(1,551)	(74)		(3,745)
Recoveries	1	47	177			225
Net Charge-offs	(126)	(1,946)	(1,374)	(74)		(3,520)
Provision for loan losses	288	1,071	(448)	153	86	1,150

Ending Balance	$ 6,029	$ 9,599	$ 9,018	$ 1,165	$ 1,293	$ 27,104

	Six Months Ended June 30, 2011					
	Commercial	**Construction**	**Consumer**	**Mortgage**	**Unallocated**	**Total**
	(In thousands)					
Beginning balance	**$ 7,532**	**$ 9,286**	**$ 7,598**	**$ 2,570**	**$ 1,096**	**$ 28,082**
Charge-offs	**(589)**	**(6,162)**	**(2,390)**	**(299)**		**(9,440)**
Recoveries	**25**	**104**	**403**	**2**		**534**
Net Charge-offs	**(564)**	**(6,058)**	**(1,987)**	**(297)**		**(8,906)**
Provision for loan losses	**787**	**7,087**	**1,989**	**369**	**393**	**10,625**
Ending Balance	**$ 7,755**	**$ 10,315**	**$ 7,600**	**$ 2,642**	**$ 1,489**	**$ 29,801**

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	Six Months Ended June 30, 2010					
	Commercial	Construction	Consumer	Mortgage	Unallocated	Total
	(In thousands)					
Beginning balance	$ 5,468	$ 11,436	$ 10,772	$ 1,093	$ 1,303	$ 30,072
Charge-offs	(220)	(4,331)	(3,895)	(129)		(8,575)
Recoveries	2	108	370	2		482
Net Charge-offs	(218)	(4,223)	(3,525)	(127)		(8,093)
Provision for loan losses	779	2,386	1,771	199	(10)	5,125
Ending Balance	$ 6,029	$ 9,599	$ 9,018	$ 1,165	$ 1,293	$ 27,104

	June 30, 2011					
	Commercial	Construction	Consumer	Mortgage	Unallocated	Total
	(In thousands)					
Individually evaluated for impairment	**$ 1,175**	**$ 6,515**	**$ 1,173**	**$ 1,123**	**$**	**$ 9,986**
Collectively evaluated for impairment	**6,580**	**3,800**	**6,427**	**1,519**	**1,489**	**19,815**
Total allowance for loan losses	**$ 7,755**	**$ 10,315**	**$ 7,600**	**$ 2,642**	**$ 1,489**	**$ 29,801**
Individually evaluated for impairment	**$ 36,221**	**$ 52,704**	**$ 1,915**	**$ 3,626**		**$ 94,466**
Collectively evaluated for impairment	**433,316**	**49,673**	**791,235**	**89,968**		**1,364,192**
Total loans	**$ 469,537**	**$ 102,377**	**$ 793,150**	**$ 93,594**		**$ 1,458,658**

	December 31, 2010					
	Commercial	Construction	Consumer	Mortgage	Unallocated	Total
	(In thousands)					
Individually evaluated for impairment	$ 1,808	$ 5,603	$ 253	$ 1,221	$	$ 8,885
Collectively evaluated for impairment	5,724	3,683	7,345	1,349	1,096	19,197
Total allowance for loan losses	$ 7,532	$ 9,286	$ 7,598	$ 2,570	$ 1,096	$ 28,082
	$ 34,280	$ 69,619	$ 484	$ 4,690		$ 109,073

Individually evaluated for impairment					
Collectively evaluated for impairment	444,222	45,605	715,701	88,771	1,294,299
Total loans	$ 478,502	$ 115,224	$ 716,185	$ 93,461	$ 1,403,372

Impaired loans are evaluated based on the present value of expected future cash flows discounted at the loan s original effective interest rate, or at the loan s observable market price, or the fair value of the collateral, if the loan is collateral dependent. Impaired loans are specifically reviewed loans for which it is probable that the Bank will be unable to collect all amounts due according to the terms of the loan agreement. A specific valuation allowance is required to the extent that the estimated value of an impaired loan is less than the recorded investment. FASB ASC 310-10-35, formerly known as SFAS No. 114, Accounting by Creditors for Impairment of a Loan, does not apply to large groups of smaller balance, homogeneous loans, such as consumer installment loans, and which are collectively evaluated for impairment. Smaller balance commercial loans are also excluded from the application of the statement. Interest on impaired loans is reported on the cash basis as received when the full recovery of principal and interest is anticipated, or after full principal and interest has been recovered when collection of interest is in question.
Impaired loans, by class, are shown below.

	June 30, 2011			**December 31, 2010**		
	Unpaid Principal	**Amortized Cost(1)**	**Related Allowance**	**Unpaid Principal**	**Amortized Cost(1)**	**Related Allowance**
	(In thousands)					
Impaired Loans with Allowance						
Commercial loans	**$ 7,778**	**$ 7,774**	**$ 888**	$ 3,138	$ 3,108	$ 1,307
SBA loans	**6,255**	**4,758**	**287**	4,532	4,441	501
Construction loans	**57,360**	**42,605**	**6,515**	68,670	50,077	5,603
Indirect loans	**436**	**436**	**152**	484	484	253
Installment loans	**1,466**	**1,436**	**1,021**			
First mortgage loans	**2,685**	**2,685**	**602**	3,047	3,033	716
Second mortgage loans	**615**	**592**	**521**	586	576	505
Loans	**$ 76,595**	**$ 60,286**	**$ 9,986**	$ 80,457	$ 61,719	$ 8,885

	June 30, 2011			December 31, 2010		
	Unpaid Principal	Amortized Cost(1)	Related Allowance	Unpaid Principal	Amortized Cost(1)	Related Allowance
			(In thousands)			
Impaired Loans with No Allowance						
Commercial loans	**$ 8,384**	**$ 8,365**	**$**	$ 11,053	$ 11,041	$
SBA loans	**17,653**	**15,324**		16,102	15,690	
Construction loans	**13,799**	**10,099**		21,790	19,542	
Indirect loans						
Installment loans	**44**	**43**				
First mortgage loans	**254**	**254**		1,013	984	
Second mortgage loans	**95**	**95**		97	97	
Loans	**$ 40,229**	**$ 34,180**	**$**	$ 50,055	$ 47,354	$

(1) Amortized cost reflects charge-offs that have been recognized plus other amounts that have been applied to reduce net book balance.

Average impaired loans and interest income recognized, by class, are summarized below.

	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010		
	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Cash basis Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Cash basis Interest Income Recognized on Impaired Loans
			(In thousands)			
Commercial loans	**$ 19,335**	**$ 13**	**$**	$ 2,463	$ 47	$
SBA loans	**19,433**	**321**		13,443	216	
Construction loans	**54,396**	**114**		64,727	70	
Indirect loans	**487**	**25**		773	21	
Installment loans	**1,237**	**13**		579	15	
First mortgage loans	**2,977**	**20**		2,029	2	
Second mortgage loans	**648**			206		
	$ 98,513	**$ 506**	**$**	$ 84,220	$ 371	$

	Six Months Ended June 30, 2011			Six Months Ended June 30, 2010		
		Interest Income	Cash basis Interest Income		Interest Income	Cash basis Interest Income

	Average Impaired Loans	Recognized on Impaired Loans	Recognized on Impaired Loans	Average Impaired Loans	Recognized on Impaired Loans	Recognized on Impaired Loans
			(In thousands)			
Commercial loans	**$ 16,688**	**$ 27**	**$**	$ 1,554	$ 87	$
SBA loans	**19,385**	**510**		11,358	275	
Construction loans	**60,129**	**220**		69,473	138	
Indirect loans	**532**	**41**		885	36	
Installment loans	**618**	**25**		290	28	
First mortgage loans	**3,292**	**33**		2,222	4	
Second mortgage loans	**642**			374		
	$ 101,286	**$ 856**	**$**	$ 86,156	$ 568	$

The Bank uses an asset quality ratings system to assign a numeric indicator of the credit quality and level of existing credit risk inherent in a loan. These ratings are adjusted periodically as the Bank becomes aware of changes in the credit quality of the underlying loans. The following are definitions of the asset ratings.

Rating #1 (High Quality) Loans rated 1 are of the highest quality. This category includes loans that have been made to borrower s exhibiting strong profitability and stable trends with a good track record. The borrower s balance sheet indicates a strong liquidity and capital position. Industry outlook is good with the borrower performing as well as or better than the industry. Little credit risk appears to exist.

Rating #2 (Good Quality) A 2 rated loan represents a good business risk with relatively little credit risk apparent.

Rating #3 (Average Quality) A 3 rated loan represents an average business risk and credit risk within normal credit standards.
Rating #4 (Acceptable Quality) A 4 rated loan represents acceptable business and credit risks. However, the risk exceeds normal credit standards. Weaknesses exist and are considered offset by other factors such as management, collateral or guarantors.
Rating #5 (Special Mention) A special mention asset has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or deterioration in the Bank s credit position at some future date. Special mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.
Rating #6 (Substandard Assets) A Substandard Asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified will have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
Rating #7 (Doubtful Assets) Doubtful Assets have all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
Rating #8 (Loss Assets) Loss Assets are considered uncollectable and of such little value that their continuance as recorded assets is not warranted. This classification does not mean that the Loss Asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer charging off this substantially worthless asset, even though partial recovery may be realized in the future.
The table below shows the weighted average asset rating by class as of June 30, 2011 and December 31, 2010.

	Weighted Average Asset Rating	
	June 30, 2011	**December 31, 2010**
Commercial loans	**3.83**	3.87
SBA loans	**4.39**	4.36
Construction loans	**5.13**	5.06
Indirect loans	**3.02**	3.03
Installment loans	**3.59**	3.56
First mortgage loans	**3.11**	3.05
Second mortgage loans	**3.17**	3.18

The Bank uses FICO scoring to help evaluate the likelihood borrowers will pay their credit obligations as agreed. The weighted-average FICO score for the indirect loan portfolio, included in consumer installment loans, was 735 and 726 at June 30, 2011 and December 31, 2010, respectively.

10. Certain Transfers of Financial Assets

The Company has transferred certain residential mortgage loans, SBA loans, and indirect loans in which the Company has continuing involvement to third parties. The Company has not engaged in securitization activities with respect to such loans. All such transfers have been accounted for as sales by the Company. The Company s continuing involvement in such transfers has been limited to certain servicing responsibilities. The Company is not required to provide additional financial support to any of these entities, nor has the Company provided any support it was not obligated to provide. Servicing rights may give rise to servicing assets, which are initially recognized at fair value, subsequently amortized, and tested for impairment. Gains or losses upon sale, in addition to servicing fees and collateral management fees, are recorded in noninterest income.
The majority of the indirect automobile loan pools and certain SBA and residential mortgage loans are sold with servicing retained. When the contractually specific servicing fees on loans sold servicing retained are expected to be more than adequate compensation to a servicer for performing the servicing, a capitalized servicing asset is recognized based on fair value. When the expected costs to a servicer for performing loan servicing are not expected to

adequately compensate a servicer, a capitalized servicing liability is recognized based on fair value. The Company has no servicing liabilities. Servicing assets and servicing liabilities are amortized over the expected lives of the serviced loans utilizing the interest method. Management makes certain estimates and assumptions related to costs to service varying types of loans and pools of loans, prepayment speeds, the projected lives of loans and pools of loans sold servicing retained, and discount factors used in calculating the present values of servicing fees projected to be received.

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At June 30, 2011 and December 31, 2010, the total fair value of servicing for mortgage loans was $9.5 million and $6.3 million, respectively. The fair value of servicing for SBA loans at June 30, 2011 and December 31, 2010, was $5.9 million and $3.8 million, respectively. To estimate the fair values of these servicing assets, consideration was given to dealer indications of market value, where applicable, as well as the results of discounted cash flow models using key assumptions and inputs for prepayment rates, credit losses, and discount rates. Carrying value of these servicing assets is shown below.

	June 30, 2011	December 31, 2010
	(In thousands)	
Mortgage servicing	**$ 8,832**	$ 5,495
SBA servicing	**4,767**	2,624
Indirect servicing	**427**	405
	$ 14,026	$ 8,524

There are two primary classes of loan servicing rights for which the Company separately manages the economic risks: residential mortgage and SBA. Residential mortgage servicing rights and SBA loan servicing rights are initially recorded at fair value and then accounted for at the lower of cost or market and amortized in proportion to, and over the estimated period that net servicing income is expected to be received based on projections of the amount and timing of estimated future net cash flows. The amount and timing of estimated future net cash flows are updated based on actual results and updated projections. The Company periodically evaluates its loan servicing rights for impairment.

Residential Mortgage Loans

The Company typically sells first lien residential mortgage loans to third party investors including Fannie Mae. Certain of these loans are exchanged for cash and servicing rights, which generate servicing assets for the Company. The servicing assets are recorded initially at fair value. As seller, the Company has made certain standard representations and warranties with respect to the originally transferred loans. The Company estimates its reserves under such arrangements predominantly based on prior experience. To date, the Company s estimate of reserve, actual buy-backs as well as asserted claims under these provisions have been de minimus.

During the six months ended June 30, 2011 and 2010, the Company sold residential mortgage loans with unpaid principal balances of $312 million and $32 million, respectively on which the Company retained the related mortgage servicing rights (MSRs) and receives servicing fees. At June 30, 2011 and December 31, 2010, the approximate weighted average servicing fee was .25% of the outstanding balance of the residential mortgage loans. The weighted average coupon interest rate on the portfolio of mortgage loans serviced for others was 4.53% and 4.43% at June 30, 2011 and December 31, 2010, respectively.

The following is an analysis of the activity in the Company s residential MSR and impairment for the quarters ended June 30, 2011 and 2010:

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands)			
Residential Mortgage Servicing Rights				
Beginning carrying value	**$ 7,109**	$ 958	**$ 5,495**	$ 875
Additions	**2,002**	210	**3,810**	337
Amortization	**(280)**	(47)	**(498)**	(89)
Impairment, net	**1**	(39)	**25**	(41)

Ending carrying value	**$**	**8,832**	$	1,082	**$**	**8,832**	$	1,082

	Quarter Ended June 30,				Six Months Ended June 30,			
	2011		2010		**2011**		2010	
	(In thousands)							
Residential Mortgage Servicing Impairment								
Beginning balance	**$**	**61**	$	85	**$**	**85**	$	83
Additions		**16**		49		**16**		65
Recoveries		**(17)**		(10)		**(41)**		(24)
Ending balance	**$**	**60**	$	124	**$**	**60**	$	124

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The Company uses assumptions and estimates in determining the impairment of capitalized MSRs. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by market participants to value and bid MSRs available for sale in the market. At June 30, 2011, the sensitivity of the current fair value of the residential mortgage servicing rights to immediate 10% and 20% adverse changes in key economic assumptions are included in the accompanying table.

		June 30, 2011 (Dollars in thousands)
Residential Mortgage Servicing Rights		
Fair Value of Residential Mortgage Servicing Rights	$	9,462
Composition of Residential Loans Serviced for Others:		
Fixed-rate mortgage loans		97%
Adjustable-rate mortgage loans		3%
Total		100%
Weighted Average Remaining Term		25.3 years
Prepayment Speed		10.00%
Effect on fair value of a 10% increase	$	(316)
Effect on fair value of a 20% increase		(613)
Weighted Average Discount Rate		9.08%
Effect on fair value of a 10% increase	$	(340)
Effect on fair value of a 20% increase		(658)

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in value may not be linear. Also, in this table, the effect of an adverse variation in a particular assumption on the value of the MSRs is calculated without changing any other assumption; while in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the effect of the change.

Information about the asset quality of mortgage loans managed by the Company is shown below.

	June 30, 2011							
	Unpaid Principal		Delinquent (days) 30 to 89		90+		YTD Charge-offs	
	(In thousands)							
Loan Servicing Portfolio	$	815,054	$	199	$	416	$	
Mortgage Loans Held-for-Sale		46,842						
Mortgage Loans Held-for-Investment		29,985		444		547		219
Total Residential Mortgages Serviced	$	891,881	$	643	$	963	$	219

SBA Loans

Certain transfers of SBA loans were executed with third parties. These SBA loans, which are typically partially guaranteed or otherwise credit enhanced, are generally secured by business property such as inventory, equipment and accounts receivable. As seller, the Company had made certain representations and warranties with respect to the originally transferred loans and the Company has not incurred any material losses with respect to such representations and warranties.

In 2010, consistent with the updated guidance on accounting for transfers of financial assets, because the Company warranted the borrower would make all scheduled payments for the first 90 days following the sale of certain SBA loans, certain loan sales were accounted for as secured borrowings which resulted in an increase in Cash for the proceeds of the borrowing and an increase in Other Short-Term Borrowings on the Consolidated Balance Sheet. No gain or loss was recognized for the proceeds of secured borrowings. When the 90 day warranty period expired, the secured borrowing was reduced, loans were reduced, and a gain or loss on sale was recorded in SBA Lending Activities in the Consolidated Statement of Income. In the first quarter of 2011, the 90 day warranty following the sale was removed, and the Bank began recognizing gains on sales of SBA loans concurrent with the sales transaction.

During the six months ended June 30, 2011 and 2010, the Company sold SBA loans with unpaid principal balances of $68 million and $7 million, respectively. The Company retained the related loan servicing rights and receives servicing fees. At June 30, 2011 and December 31, 2010, the approximate weighted average servicing fee as a percentage of the outstanding balance of the SBA loans was .90% and .94%, respectively. The weighted average coupon interest rate on the portfolio of loans serviced for others was 4.72% and 4.24% at June 30, 2011 and December 31, 2010, respectively.

The following is an analysis of the activity in the Company s SBA loan servicing rights and impairment for the quarters ended June 30, 2011 and 2010:

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands)			
SBA Loan Servicing Rights				
Beginning carrying value	**$ 3,350**	$ 2,185	**$ 2,624**	$ 2,405
Additions	**1,755**	228	**2,615**	228
Amortization	**(215)**	(163)	**(326)**	(385)
Impairment, net	**(123)**	(54)	**(146)**	(52)
Ending carrying value	**$ 4,767**	$ 2,196	**$ 4,767**	$ 2,196

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands)			
SBA Servicing Rights Impairment				
Beginning balance	**$ 226**	$ 93	**$ 203**	$ 95
Additions	**168**	78	**198**	110
Recoveries	**(45)**	(24)	**(52)**	(58)
Ending balance	**$ 349**	$ 147	**$ 349**	$ 147

SBA loan servicing rights are recorded on the Consolidated Balance Sheet at the lower of cost or market and are amortized in proportion to, and over the estimated period that, net servicing income is expected to be received based on projections of the amount and timing of estimated future net cash flows. The amount and timing of estimated future net cash flows are updated based on actual results and updated projections. The Company periodically evaluates its loan servicing rights for impairment.

The Company uses assumptions and estimates in determining the impairment of capitalized SBA loan servicing rights. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by market participants to value and bid servicing rights available for sale in the market. At June 30, 2011, the sensitivity of the current fair value of the SBA loan servicing rights to immediate 10% and 20% adverse changes in key economic assumptions are included in the accompanying table.

	June 30, 2011
	(Dollars in thousands)
SBA Loan Servicing Rights	

Fair Value of SBA Servicing Rights	$	5,868
Composition of SBA Loans Serviced for Others:		
Fixed-rate SBA loans		0%
Adjustable-rate SBA loans		100%
Total		100%
Weighted Average Remaining Term		21.4 years
Prepayment Speed		4.81%
Effect on fair value of a 10% increase	$	(143)
Effect on fair value of a 20% increase		(282)
Weighted Average Discount Rate		4.73%
Effect on fair value of a 10% increase	$	(151)
Effect on fair value of a 20% increase		(297)

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The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in value may not be linear. Also in this table, the effect of an adverse variation in a particular assumption on the value of the SBA servicing rights is calculated without changing any other assumption; while in reality, changes in one factor may magnify or counteract the effect of the change.

Information about the asset quality of SBA loans managed by Fidelity is shown below.

	June 30, 2011			
	Unpaid Principal	Delinquent (days) 30 to 89	90+	YTD Charge-offs
	(In thousands)			
SBA Serviced for Others Portfolio	$ 155,796	$ 342	$	$
SBA Loans Held-for-Sale	20,830			
SBA Loans Held-for-Investment	83,172	3,583	9,912	475
Total SBA Loans Serviced	$ 259,798	$ 3,925	$ 9,912	$ 475

Indirect Loans

The Bank purchases, on a nonrecourse basis, consumer installment contracts secured by new and used vehicles purchased by consumers from franchised motor vehicle dealers and selected independent dealers located throughout the Southeast. A portion of the indirect automobile loans the Bank originates is sold with servicing retained. Certain of these loans are exchanged for cash and servicing rights, which generate servicing assets for the Company. The servicing assets are recorded initially at fair value and subsequently amortized and evaluated for impairment. As seller, the Company has made certain standard representations and warranties with respect to the originally transferred loans. The estimate of reserve related to this liability, amount of loans repurchased as well as asserted claims under these provisions have been de minimus.

11. Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, an update to ASC 820-10, Fair Value Measurements . This update adds a new requirement to disclose transfers in and out of level 1 and level 2, along with the reasons for the transfers, and requires a gross presentation of purchases and sales of level 3 activities. Additionally, the update clarifies that entities provide fair value measurement disclosures for each class of assets and liabilities and that entities provide enhanced disclosures around level 2 valuation techniques and inputs. The Company adopted the disclosure requirements for level 1 and level 2 transfers and the expanded fair value measurement and valuation disclosures effective January 1, 2010. The disclosure requirements for level 3 activities were effective on January 1, 2011. The adoption of ASU 2010-06 had no impact on the Company s financial position and statement of income.

In February 2010, the FASB issued ASU No. 2010-09 an update to Subsequent Events (Topic 855) to clarify that an SEC filer must evaluate subsequent events through the date the financial statements are issued. The update removes the requirement for SEC filers to disclose the date through which subsequent events were evaluated. ASU No. 2010-09 was effective upon issuance and was adopted by the Company immediately. This ASU did not have a material impact on the Company s financial condition and statements of income.

In April 2010, the FASB issued ASU No. 2010-18 Effect of a Loan Modification When the Loan is Part of a Pool That is Accounted for as a Single Asset which clarifies that modifications of loans that are accounted for within a pool under Subtopic 310-30, which provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition, do not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. This ASU is effective for modifications of loans accounted for within pools occurring in the first interim period ending after July 15, 2010. This ASU did not have a material impact on the Company s financial position and statement of income.

In July 2010, the FASB issued ASU No. 2010-20 Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses which amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. These disclosures are included in Note 9. ASU No. 2011-01 issued in January 2011, temporarily delayed the effective date for the disclosures for troubled debt restructurings to allow the FASB to complete its deliberations.

In April 2011, the FASB issued ASU No. 2011-02 A Creditors Determination of Whether a Restructuring Is a Troubled Debt Restructuring which clarifies a creditor s determination of whether it has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. This ASU is effective for the first interim or annual period beginning after June 15, 2011. The Company has made the proper disclosure in these interim financial statement footnotes and is evaluating the impact of the adoption of this ASU on its financial position and statement of income.

In April 2011, the FASB issued ASU No. 2011-03 Reconsideration of Effective Control for Repurchase Agreements which removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. This ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The Company does not expect the adoption of this ASU to have a material impact on its financial position and statement of income.

In May 2011, the FASB issued ASU No. 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs which result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs by changing the wording used to describe many of the requirements in U.S. GAAP and is generally not intended to result in a change in the application of the requirements. This ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The Company does not expect the adoption of this ASU to have a material impact on its financial position and statement of income.

In June 2011, the FASB issued ASU No. 2011-05 Presentation of Comprehensive Income which gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income. This ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The Company does not expect the adoption of this ASU to have a material impact on its financial position and statement of income.

Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

The following analysis reviews important factors affecting our financial condition at June 30, 2011, compared to December 31, 2010, and compares the results of operations for the second quarter and six months ended June 30, 2011 and 2010. These comments should be read in conjunction with our consolidated financial statements and accompanying notes appearing in this report and the Risk Factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2010. All percentage and dollar variances noted in the following analysis are calculated from the balances presented in the accompanying consolidated financial statements.

Forward-Looking Statements

This report on Form 10-Q may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that reflect our current expectations relating to present or future trends or factors generally affecting the banking industry and specifically affecting our operations, markets and products. Without limiting the foregoing, the words believes , expects , anticipates , estimates , projects , intends , and similar expressions are intended to identify forward-lookin statements. These forward-looking statements are based upon assumptions we believe are reasonable and may relate to, among other things, the deteriorating economy and its impact on operating results and credit quality, the adequacy of the allowance for loan losses, changes in interest rates, and litigation results. These forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those projected for many reasons, including without limitation, changing events and trends that have influenced our assumptions.

These trends and events include (1) risks associated with our loan portfolio, including difficulties in maintaining quality loan growth, greater loan losses than historic levels, the risk of an insufficient allowance for loan losses, and expenses associated with managing nonperforming assets, unique risks associated with our construction and land development loans, our ability to maintain and service relationships with automobile dealers and indirect automobile loan purchasers, and our ability to profitably manage changes in our indirect automobile lending operations; (2) risks associated with adverse economic conditions, including risk of a continued decline in real estate values in the Atlanta, Georgia, metropolitan area and in eastern and northern Florida markets, conditions in the financial markets and economic conditions generally and the impact of recent efforts to address difficult market and economic conditions; a stagnant economy and its impact on operations and credit quality, the impact of a recession on our consumer loan portfolio and its potential impact on our commercial portfolio, changes in the interest rate environment and their impact on our net interest margin, and inflation; (3) risks associated with government regulation and programs, including risks arising from the terms of the U.S. Treasury Department s (the Treasury s) equity investment in us, and the resulting limitations on executive compensation imposed through our participation in the TARP Capital Purchase Program, uncertainty with respect to future governmental economic and regulatory measures, including the ability of the Treasury to unilaterally amend any provision of the purchase agreement we entered into as part of the TARP Capital Purchase Program, the winding down of governmental emergency measures intended to stabilize the financial system, and numerous legislative proposals to further regulate the financial services industry, the impact of and

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adverse changes in the governmental regulatory requirements affecting us, and changes in political, legislative and economic conditions; (4) the ability to maintain adequate liquidity and sources of liquidity; (5) our ability to maintain sufficient capital and to raise additional capital; (6) the accuracy and completeness of information from customers and our counterparties; (7) the effectiveness of our controls and procedures; (8) our ability to attract and retain skilled people; (9) greater competitive pressures among financial institutions in our market; (10) failure to achieve the revenue increases expected to result from our investments in our growth strategies, including our branch additions and in our transaction deposit and lending businesses; (11) the volatility and limited trading of our common stock; and (12) the impact of dilution on our common stock.

This list is intended to identify some of the principal factors that could cause actual results to differ materially from those described in the forward-looking statements included herein and are not intended to represent a complete list of all risks and uncertainties in our business. Investors are encouraged to read the related section in our 2010 Annual Report on Form 10-K, including the Risk Factors set forth therein. Additional information and other factors that could affect future financial results are included in our filings with the Securities and Exchange Commission.

Critical Accounting Policies

Our accounting and reporting policies are in accordance with U.S. generally accepted accounting principles and conform to general practices within the financial services industry. Our financial position and results of operations are affected by management s application of accounting policies, including estimates, assumptions and judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies, or conditions significantly different from certain assumptions, could result in material changes in our consolidated financial position or consolidated results of operations. Critical accounting and reporting policies include those related to the allowance for loan losses, fair value of mortgage loans held-for-sale, the capitalization of servicing assets and liabilities and the related amortization, loan related revenue recognition, and income taxes. Our accounting policies are fundamental to understanding our consolidated financial position and consolidated results of operations. Significant accounting policies have been periodically discussed and reviewed with and approved by the Board of Directors.

Our critical accounting policies that are highly dependent on estimates, assumptions, and judgment are substantially unchanged from the descriptions included in the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

Results of Operations

Net Income

For the second quarter of 2011, the Company recorded net income of $3.6 million compared to net income of $4.9 million for the second quarter of 2010. Net income available to common equity was $2.8 million and $4.0 million for the quarters ended June 30, 2011 and 2010, respectively. Basic and diluted earnings per share for the second quarter of 2011 were $0.24 and $.21, respectively, compared to $0.38 and $0.33, respectively, for the three months ended June 30, 2010. The decrease in net income for the second quarter of 2011 when compared to the same period in 2010 was primarily due to a $3.7 million increase in provision for loan losses and a $2.1 million increase in noninterest expense somewhat offset by increased noninterest income and net interest income.

Net income for the six months ended June 30, 2011 was $5.5 million compared to $5.1 million for the same period in 2010. Net income available to common equity was $3.8 million and $3.4 million for the six month period ended June 30, 2011 and 2010, respectively. Basic and diluted earnings per share for the first six months of 2011 were $0.34 and $0.30, respectively, compared to $0.32 and $0.29 for the six months ended June 30, 2010. The increase in net income for the six months ended June 30, 2011, compared to the same period in 2010 was primarily due to an $8.0 million increase in noninterest income and a $3.4 million increase in net interest income somewhat offset by a $5.5 million increase in provision for loan loss and a $5.5 million increase in noninterest expense.

Details of the changes in the various components of net income are further discussed below.

Net Interest Income

	QUARTER ENDED					
	June 30, 2011			June 30, 2010		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Loans, net of unearned income:						
Taxable	$ 1,550,103	$ 21,103	5.46%	$ 1,436,360	$ 21,701	6.06%
Tax-exempt(1)	5,067	77	6.14%	5,269	80	6.14%
Total loans	1,555,170	21,180	5.46%	1,441,629	21,781	6.06%
Investment securities:						
Taxable	227,412	1,767	3.11%	289,034	2,551	3.53%
Tax-exempt(2)	11,704	184	6.27%	11,706	182	6.22%
Total investment securities	239,116	1,951	3.27%	300,740	2,733	3.64%
Interest-bearing deposits	86,841	49	0.22%	42,148	13	0.13%
Federal funds sold	733		0.05%	604		0.09%
Total interest-earning assets	1,881,860	23,180	4.94%	1,785,121	$ 24,527	5.51%
Noninterest-earning:						
Cash and due from banks	27,933			2,249		
Allowance for loan losses	(29,019)			(28,537)		
Premises and equipment, net	20,495			18,845		
Other real estate	20,107			25,297		
Other assets	85,401			77,042		
Total assets	$ 2,006,777			$ 1,880,017		
Liabilities and shareholders equity						
Interest-bearing liabilities:						
Demand deposits	$ 416,214	$ 682	0.66%	$ 288,301	$ 673	0.94%
Savings deposits	417,580	1,114	1.07%	454,791	1,708	1.51%
Time deposits	634,012	2,652	1.68%	655,751	3,968	2.43%
Total interest-bearing deposits	1,467,806	4,448	1.22%	1,398,843	6,349	1.82%
Federal funds purchased			%	2,967	7	0.94%

Securities sold under agreements to repurchase	14,788	24	0.64%	23,149	115	1.99%
Other short-term borrowings	20,495	145	2.83%	26,813	259	3.88%
Subordinated debt	67,527	1,122	6.67%	67,527	1,123	6.67%
Long-term debt	54,505	307	2.26%	50,000	346	2.78%
Total interest-bearing liabilities	1,625,121	6,046	1.49%	1,569,299	8,199	2.09%
Noninterest-bearing:						
Demand deposits	207,554			164,001		
Other liabilities	25,697			14,266		
Shareholders equity	148,405			132,451		
Total liabilities and shareholders equity	$ 2,006,777			$ 1,880,017		
Net interest income/spread		$ 17,134	3.45%		$ 16,328	3.42%
Net interest margin			3.65%			3.67%

(1) Interest income includes the effect of taxable equivalent adjustment for 2011 and 2010 of $27,000 and $27,000, respectively.

(2) Interest income includes the effect of taxable-equivalent adjustment for 2011 and 2010 of $62,000 and $60,000, respectively.

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	Year To Date					
	June 30, 2011			June 30, 2010		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Loans, net of unearned income:						
Taxable	$ 1,560,728	$ 42,943	5.54%	$ 1,413,338	$ 42,713	6.09%
Tax-exempt(1)	5,093	155	6.14%	5,294	160	6.14%
Total loans	1,565,821	43,098	5.54%	1,418,632	42,873	6.09%
Investment securities:						
Taxable	201,539	3,158	3.13%	243,971	4,504	3.69%
Tax-exempt(2)	11,704	367	6.28%	11,706	365	6.21%
Total investment securities	213,243	3,525	3.31%	255,677	4,869	3.82%
Interest-bearing deposits	76,705	90	0.24%	92,295	106	0.23%
Federal funds sold	818		0.06%	603		0.08%
Total interest-earning assets	1,856,587	46,713	5.07%	1,767,207	$ 47,848	5.46%
Noninterest-earning:						
Cash and due from banks	29,947			6,580		
Allowance for loan losses	(28,684)			(28,940)		
Premises and equipment, net	20,094			18,523		
Other real estate	20,686			24,912		
Other assets	84,909			78,385		
Total assets	$ 1,983,539			$ 1,866,667		
Liabilities and shareholders equity						
Interest-bearing liabilities:						
Demand deposits	$ 415,994	$ 1,371	0.66%	$ 274,007	$ 1,232	0.91%
Savings deposits	412,697	2,234	1.09%	448,381	3,500	1.57%
Time deposits	624,924	5,375	1.73%	673,241	8,493	2.54%
Total interest-bearing deposits	1,453,615	8,980	1.25%	1,395,629	13,225	1.91%
Federal funds purchased			%	1,492	7	0.94%
Securities sold under agreements to repurchase	20,702	190	1.85%	21,773	177	1.64%

Other short-term borrowings	10,801	154	2.87%	27,155	529	3.93%
Subordinated debt	67,527	2,243	6.70%	67,527	2,240	6.69%
Long-term debt	64,199	752	2.36%	50,000	689	2.78%
Total interest-bearing liabilities	1,616,844	12,319	1.54%	1,563,576	16,867	2.18%
Noninterest-bearing:						
Demand deposits	198,023			158,745		
Other liabilities	24,119			13,138		
Shareholders equity	144,553			131,208		
Total liabilities and shareholders equity	$ 1,983,539			$ 1,866,667		
Net interest income/spread		$ 34,394	3.54%		$ 30,981	3.28%
Net interest margin			3.74%			3.54%

(1) Interest income includes the effect of taxable equivalent adjustment for 2011 and 2010 of $54,000 and $55,000, respectively.

(2) Interest income includes the effect of taxable-equivalent adjustment for 2011 and 2010 of $123,000 and $121,000, respectively.

Net interest income for the three months ended June 30, 2011, increased $804,000 or 5.0% to $17.0 million compared to the same period in 2010. The cost of funds on total interest bearing liabilities decreased 60 basis points to 1.49% for the second quarter of 2011 compared to the same period in 2010 as a result of a continued reduction in deposit interest rates in response to the market and our local competition. The average balance of interest-earning assets increased by $96.7 million or 5.4% to $1.882 billion for the second quarter of 2011, when compared to the same period in 2010. The yield on interest-earning assets for the second quarter of 2011 was 4.94%, a decrease of 57 basis points when compared to the yield on interest-earning assets for the same period in 2010. The average balance of loans outstanding for the second quarter of 2011 increased $113.5 million or 7.9% to $1.555 billion when compared to the same period in 2010. The increase in the loan portfolio was led by growth in the indirect lending portfolio due to competitive pricing in the marketplace and a general recovery of automobile sales. The yield on average loans outstanding for the quarter ended June 30, 2011 decreased 60 basis points to 5.46% when compared to the same period in 2010.

Net interest income for the first six months ended June 30, 2011, increased $3.4 million or 11.1% to $34.2 million compared to the same period in 2010. The cost of funds on total interest bearing liabilities decreased 64 basis points to 1.54% for the first half of 2011 compared to the same period in 2010 as a result of a continued reduction in deposit interest rates. The average balance of interest-earning assets increased by $89.4 million or 5.1% to $1.857 billion for the first half of 2011, when compared to the same period in 2010. The yield on interest-earning assets for the first six months of 2011 was 5.07%, a decrease of 39 basis points when compared to the yield on interest-earning assets for the same period in 2010. The average balance of loans outstanding for the first half of 2011 increased $147.2 million or 10.4% to $1.566 billion when compared to the same period in 2010 led by an increase in the indirect lending portfolio. The Bank manages its net interest spread and net interest margin based primarily on its loan and deposit pricing. As part of management s concerted effort to reduce the cost of funds on deposits, there was a shift in the mix of deposits from higher cost certificate of deposits to lower cost savings and money market accounts. Management will continue to review its deposit pricing in 2011 and forecasts a continued decrease to cost of funds as higher priced certificates of deposit and brokered deposits mature and reset to lower interest rates.

Provision for Loan Losses

The allowance for loan losses is established and maintained through provisions charged to operations. Such provisions are based on management s evaluation of the loan portfolio including loan portfolio concentrations, current economic conditions, past loan loss experience, adequacy of underlying collateral, and such other factors which, in management s judgment, require consideration in estimating loan losses. Loans are charged off or charged down when, in the opinion of management, such loans are deemed to be uncollectible or not fully collectible. Subsequent recoveries are added to the allowance.

For all loan categories, historical loan loss experience, adjusted for changes in the risk characteristics of each loan category, current trends, and other factors, is used to determine the level of allowance required. Additional amounts are allocated based on the probable losses of individual impaired loans and the effect of economic conditions on both individual loans and loan categories. Since the allocation is based on estimates and subjective judgment, it is not necessarily indicative of the specific amounts of losses that may ultimately occur.

The allowance for loan losses for homogenous pools is allocated to loan types based on historical net charge-off rates adjusted for any current trends or other factors. The specific allowance for individually reviewed nonperforming loans and loans having greater than normal risk characteristics is based on a specific loan impairment analysis which in many cases relies predominantly on the adequacy of loan collateral.

In determining the appropriate level for the allowance, management ensures that the overall allowance appropriately reflects a margin for the imprecision inherent in most estimates of the range of probable credit losses. This additional amount, if any, is reflected in the overall allowance. Management believes the allowance for loan losses is adequate to provide for losses inherent in the loan portfolio at June 30, 2011 (see Asset Quality).

The provision for loan losses for the second quarter and first six months of 2011 was $4.9 million and $10.6 million, respectively, compared to $1.2 million and $5.1 million for the same periods in 2010. The increase was a result of an increase in general reserves related to growth in the loan portfolio, an increase in specific reserves on impaired loans, and an increase in net charge-offs. From January 1, 2008 to June 30, 2011, net charge-offs were $79.9 million and the Company recorded an aggregate provision for loan losses of $93.1 million. For every dollar of net charge-offs realized, the Company recorded $1.17 in provision during this period.

The following schedule summarizes changes in the allowance for loan losses for the periods indicated:

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	Year Ended December 31, 2010
	(Dollars in thousands)		
Balance at beginning of period	**$ 28,082**	$ 30,072	$ 30,072
Charge-offs:			
Commercial, financial and agricultural	**96**	79	883
SBA	**493**	140	381
Real estate-construction	**6,162**	4,331	11,274
Real estate-mortgage	**299**	129	656
Consumer installment	**2,390**	3,895	7,086
Total charge-offs	**9,440**	8,574	20,280
Recoveries:			
Commercial, financial and agricultural	**7**	2	23
SBA	**18**		5
Real estate-construction	**104**	108	361
Real estate-mortgage	**2**	1	8
Consumer installment	**403**	370	768
Total recoveries	**534**	481	1,165
Net charge-offs	**8,906**	8,093	19,115
Provision for loan losses	**10,625**	5,125	17,125
Balance at end of period	**$ 29,801**	$ 27,104	$ 28,082
Annualized ratio of net charge-offs to average loans	**1.25%**	1.26%	2.00%
Allowance for loan losses as a percentage of loans at end of period	**2.04%**	2.07%	1.44%

SBA loan net charge-offs were $475,000 for the first six months of 2011 compared to $140,000 for the same period in 2010. Nonaccrual loans increased from $10.2 million at June 30, 2010 to $14.6 million at June 30, 2011. Management expects charge-offs to be consistent with the first half of 2011 through the end of 2011.

Construction loan net charge-offs were $6.1 million in the first six months of 2011 compared to $4.2 million in the same period of 2010 and $6.7 million in the last six months of 2010. Management will continue to monitor closely and aggressively address credit quality and trends in the residential construction loan portfolio.

Substantially all of the consumer installment loan net charge-offs in the first six months of 2011 and 2010 were from the indirect automobile loan portfolio. Consumer installment loan net charge-offs decreased $1.5 million to $2.0 million for the six months ended June 30, 2011, compared to the same period in 2010 as the overall economy showed signs of improvement. The annualized ratio of net charge-offs to average consumer loans outstanding was .54% and 1.13% during the first six months of 2011 and 2010, respectively.

Noninterest Income

Noninterest income for the second quarter of 2011 was $14.1 million compared to $11.2 million for the same period in 2010, an increase of $2.8 million for the three month period. For the six month period ended June 30, 2011 compared to 2010, noninterest income increased $8.0 million to $25.8 million. The increases were a result of higher income from SBA lending activities, and higher income from mortgage banking activities, somewhat offset by lower securities gains.

For the second quarter and first six months of 2011 compared to the same periods in 2010, income from SBA lending activities increased $2.9 million and $5.0 million to $3.6 million and $5.8 million, respectively, due to an increase in the gain on loans sold. SBA loans sold totaled $43.6 million and $68.3 million for the second quarter and first six months of 2011 compared to $6.5 million sold in the second quarter and first six months of 2010 because of the updated accounting guidance for transfers of financial assets effective January 1, 2010. With the improvement in credit markets, demand for loan sales and therefore the market price and profit on loan sales continued to improve in 2011.

Income from mortgage banking activities increased $959,000 and $3.6 million to $5.5 million and $11.4 million for the quarter and six months ended June 30, 2011, respectively, compared to the same periods in 2010 due to a $539,000 and $2.6 million increase in the gain on loans sold, and a $460,000 and $908,000 increase in other fee income. Mortgage loans sold totaled $262 million and $573 million for the second quarter and first six months of 2011, respectively, compared to $212 million and $394 million sold in the second quarter and first six months of 2010. Historically low interest rates and an increase in origination staff contributed to the increase in the volume of loans originated.

Securities gains decreased $1.2 million to $1.1 million for both the second quarter and first six months of 2011 compared to the same periods in 2010 because of a decrease in the volume of securities sold for the periods. In 2011, the Bank sold $31.7 million compared to $102.8 million for 2010.

Noninterest Expense

Noninterest expense was $20.9 million for the second quarter of 2011, compared to $18.8 million for the same period in 2010, an increase of $2.1 million or 10.9%. For the six months ended June 30, 2011, noninterest expense increased $5.5 million to $41.4 million compared to the same period in 2010. For the second quarter, the increase was a result of higher salaries and benefits expense which increased $1.6 million or 16.2% as a result of increased commission expense related to higher SBA loan sales, the expansion of the mortgage division and an increase in lenders in the Commercial, Private Banking and Indirect Auto Lending divisions. Other operating expense increased $492,000 or 22.2% due to higher other insurance expense, higher losses and reserves primarily related to the establishment of certain mortgage lending reserves, and higher credit reporting expense due to loan growth in the mortgage division. Other real estate expense decreased $565,000 or 24.0% to $1.8 million due primarily to lower write-downs related to ORE. For the six months ended June 30, 2011, the increase was a result of higher salaries and benefits expense which increased $3.6 million or 18.8% as a result of the expansion of the mortgage division and an increase in lenders in the SBA, Commercial, Private Banking and Indirect Auto Lending divisions. Other operating expense increased $1.3 million or 32.2% due to higher other losses, other insurance expense, higher credit reporting expense due to loan growth in the mortgage division and an increase in advertising expense.

	Three Months Ended June 30,				**Six Months Ended June 30,**			
	2011		**2010**		**2011**		**2010**	
	$	**%**	**$**	**%**	**$**	**%**	**$**	**%**
	(Dollars in thousands)							
Writedown of ORE	**$ 1,069**	**59.6%**	$ 1,615	68.5%	**$ 2,669**	**62.8%**	$ 2,983	65.9%
ORE real property taxes	**130**	**7.3**	159	6.7	**259**	**6.1**	386	8.5
Foreclosure expense	**373**	**20.8**	395	16.8	**840**	**19.8**	762	16.8
ORE misc. expense	**221**	**12.3**	189	8.0	**483**	**11.3**	396	8.8
Cost of operation of ORE	**$ 1,793**	**100.0%**	$ 2,358	100.0%	**$ 4,251**	**100.0%**	$ 4,527	100.0%

Provision for Income Taxes

The provision for income taxes for the second quarter of 2011 was $1.8 million, compared to $2.6 million for the same period in 2010. For the six month period ended June 30, 2011, provision for income taxes was $2.6 million and equal to the amount in the six month period ended June 30, 2010. The decreased income tax expense for the second quarter of 2011 was primarily the result of a decrease in income before taxes. The effective income tax rate at June 30, 2011, differs from the statutory rate primarily due to benefits related to increases in the cash surrender value of life insurance.

Taxes are accounted for in accordance with ASC 740-10-05. Under the liability method, deferred tax assets and liabilities (net DTA) are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A charge to establish a valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) some portion or all of the deferred tax assets will not be realized.

Four sources of taxable income are considered in determining whether a valuation allowance is required, included as set forth within ASC 740: taxable income in prior years, future reversals of existing taxable temporary differences, tax planning strategies and future taxable income. Management has concluded that it will more likely than not realize the benefit of its net DTA as of June 30, 2011, based to a large extent on its reliance on projections of future taxable income. Management believes that sufficient taxable income will be present in near term future periods to fully realize these net DTAs.

Management also recognizes that the actual results could not only be impacted by the operational decisions it makes and strategies it pursues, but also by factors beyond its control and that can be difficult to predict such as macro and/or regional economic trends. Management continues to see improvement in certain key drivers of the Company s operational performance such as credit, pricing, and expenses. However, the general economic conditions, while showing continued signs of improvement, remain adverse with elevated unemployment and uncertainty related to the future interest rate environment and real estate values in its primary markets. As a result, the Company s net DTA of \$17.1 million as of June 30, 2011, could require a partial or full valuation allowance in future periods to the extent future taxable income does not occur at levels sufficient to support the amounts projected to be needed to realize the net DTA and Projections of future taxable income are required to be revised. The deferred tax asset balance was \$16.6 million at December 31, 2010 and \$11.2 million at June 30, 2010.

Financial Condition

Total assets were $2.044 billion at June 30, 2011, compared to $1.945 billion at December 31, 2010, an increase of $99.0 million, or 5.1%. This increase was due to an increase of $147.2 million in cash and cash equivalents and a $55.3 million increase in loans, somewhat offset by a $111.6 million decrease in loans held-for-sale.

Cash and cash equivalents increased $147.2 million or 308.3% to $195.0 million at June 30, 2011, compared to December 31, 2010. This balance varies with the Bank s liquidity needs and is influenced by scheduled loan closings, investment purchases, timing of customer deposits, and loan sales. The Bank settled on $56.1 million in investment sales and calls during the last two weeks of June 2011.

Loans increased $55.3 million or 3.9% to $1.459 billion at June 30, 2011, compared to $1.403 billion at December 31, 2010. The increase in loans was primarily the result of an increase in consumer loans of $77.0 million or 10.8% to $793.2 million. Consumer installment loans increased as the Bank grew its indirect automobile loan portfolio by expanding its lending area. Somewhat offsetting these increases was a decrease in real estate construction loans of $12.8 million or 11.2% to $102.4 million. As the slow real estate market continued during the first six months of 2011, demand for construction loans continued to be limited and the portfolio balance continued to decrease including $6.4 million in loans that were transferred to other real estate.

Loans held-for-sale decreased $111.6 million or 53.2% to $98.3 million at June 30, 2011, compared to December 31, 2010. The decrease was due primarily to a decrease in mortgage loans held-for-sale as a result of an increase in mortgage interest rates during the first quarter of 2011 which slowed down loan volume related to refinancing activity.

The following schedule summarizes our total loans at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
	(In thousands)	
Loans:		
Commercial	**$ 386,365**	$ 384,220
SBA loans	**83,172**	94,282
Total commercial loans	**469,537**	478,502
Construction	**102,377**	115,224
Indirect loans	**773,859**	695,754
Installment loans	**19,291**	20,431
Total consumer loans	**793,150**	716,185
First mortgage loans	**36,036**	34,367
Second mortgage loans	**57,558**	59,094
Total mortgage loan	**93,594**	93,461
Loans	**1,458,658**	1,403,372
Allowance for loan losses	**(29,801)**	(28,082)
Loans, net of allowance	**$ 1,428,857**	$ 1,375,290

Total Loans:		
Loans	**$ 1,458,658**	$ 1,403,372
Loans Held-for-Sale:		
Residential mortgage	**47,503**	155,029
Indirect	**30,000**	30,000
SBA	**20,830**	24,869
	98,333	209,898
	$ 1,556,991	$ 1,613,270

Asset Quality

The following schedule summarizes our asset quality at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
	(Dollars in thousands)	
Nonperforming assets:		
Nonaccrual loans	**$ 69,654**	$ 76,545
Repossessions	**932**	1,119
Other real estate	**21,026**	20,525
Total nonperforming assets	**91,612**	98,189
Other classified assets	**30,884**	39,221
Total classified assets	**$ 122,496**	$ 137,410
Includes SBA guaranteed loans of approximately	**$ 6,669**	$ 7,818
Loans 90 days past due and still accruing	**$**	$
Allowance for loan losses	**$ 29,801**	$ 28,082
Ratio of loans past due and still accruing to loans	**%**	%
Ratio of nonperforming assets to total loans, ORE, and repossessions	**4.34%**	6.01%
Allowance to period-end loans	**2.04%**	2.00%
Allowance to nonaccrual loans and repossessions (coverage ratio)	**.42x**	.36x
Classified assets to tier one capital and allowance for loan losses	**51.06%**	66.56%

The $69.7 million in nonaccrual loans at June 30, 2011, included $45.9 million in residential construction related loans, $18.4 million in commercial and SBA loans and $5.4 million in retail and consumer loans. Of the $45.9 million in residential construction related loans on nonaccrual, $13.4 million was related to 95 single family construction loans with completed homes and homes in various stages of completion, $22.5 million was related to 736 single family developed lots, and $10.0 million related to other loans.

The $21.0 million in other real estate at June 30, 2011, was made up of eight commercial properties with a balance of $6.0 million and the remainder were residential construction related balances which consisted of $4.4 million in 46 residential single family homes completed or substantially completed, $10.1 million in 431 single family developed lots, and $490,000 in one parcel of undeveloped land.

The Bank makes standard representations and warranties in the normal course of selling mortgage loans in the secondary market. We have not experienced any material repurchase requests as a result of these obligations related to the representations and warranties. The Bank does not securitize the mortgages it originates.

Deposits

	June 30, 2011		December 31, 2010	
	$	%	$	%
	(Dollars in millions)			
Core deposits[1]	**$ 1,363.5**	**79.8%**	$ 1,304.5	80.9%
Time deposits greater than $100,000	**302.5**	**17.7**	246.3	15.2
Brokered deposits	**42.4**	**2.5**	62.5	3.9
Total deposits	**$ 1,708.4**	**100.0%**	$ 1,613.3	100.0%

(1) Core deposits include noninterest-bearing demand, money market and interest-bearing demand, savings deposits, and time deposits less than $100,000.

Total deposits at June 30, 2011, were $1.708 billion compared to $1.613 billion at December 31, 2010, a $95.2 million or 5.9% increase. Along with the increase in total deposits, the designed change to the deposit mix and interest rate paid on deposits demonstrates the Company s commitment to improved net interest margin and liquidity. Time deposits greater than $100,000 increased $56.1 million or 22.8% to $302.5 million. Savings deposits increased $22.1 million or 5.6% to $420.1 million. Noninterest-bearing demand deposits increased $29.4 million or 15.8% to $215.0 million. Time deposits greater than $100,000 increased as management began to prepare for future increases in interest rates by lengthening deposit maturities. Savings accounts increased as customers sought higher yields while still maintaining liquidity. Noninterest-bearing demand accounts increased primarily due to unlimited protection from the FDIC under the Temporary Liquidity Guarantee Program as well as increases in deposits associated with mortgage and SBA escrow accounts.

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Other Long-Term Debt

Other long-term debt decreased $22.5 million or 30.0% to $52.5 million at June 30, 2011, compared to $75.0 million at December 31, 2010. The decrease is a result of the reclassification of three FHLB advances totaling $22.5 million from long-term borrowings to short-term borrowings. A $5.0 million 3.29% FHLB advance maturing March 12, 2012, a $2.5 million 3.25% FHLB advances maturing April 2, 2012, and a $15.0 million 2.56% FHLB advance maturing April 13, 2012 were reclassified during the first half of 2011.

	June 30, 2011	December 31, 2010
	(In thousands)	
Long-Term Debt		
FHLB three year Fixed Rate Advance with interest at 1.76% maturing July 16, 2013	**$ 25,000**	$ 25,000
FHLB four year Fixed Rate Advance with interest at 3.2875% maturing March 12, 2012		5,000
FHLB five year European Convertible Advance with interest at 2.395% maturing March 12, 2013, with a one-time FHLB conversion option to reprice to a three-month LIBOR-based floating rate at the end of two years	**5,000**	5,000
FHLB five year European Convertible Advance with interest at 2.79% maturing March 12, 2013, with a one-time FHLB conversion option to reprice to a three-month LIBOR-based floating rate at the end of three years	**5,000**	5,000
FHLB four year Fixed Rate Credit Advance with interest at 3.24% maturing April 2, 2012		2,500
FHLB five year European Convertible Advance with interest at 2.40% maturing April 3, 2013, with a one-time FHLB conversion option to reprice to a three-month LIBOR-based floating rate at the end of two years	**2,500**	2,500
FHLB four year Fixed Rate Credit Advance with interest at 2.90% maturing March 11, 2013	**15,000**	15,000
FHLB three year Fixed Rate Credit Advance with interest at 2.56% maturing April 13, 2012		15,000
Total long-term debt	**$ 52,500**	$ 75,000

Subordinated Debt

The Company has five unconsolidated business trust (trust preferred) subsidiaries that are variable interest entities. The Company s subordinated debt consists of the outstanding obligations of the five trust preferred issues and the amounts to fund the investments in the common stock of those entities.

The following schedule summarizes our subordinated debt at June 30, 2011:

Type	Issued[1]	Subordinated Debt	Interest Rate	
		(Dollars in thousands)		
Trust Preferred	March 8, 2000	$ 10,825	Fixed	@ 10.875%
Trust Preferred	July 19, 2000	10,309	Fixed	@ 11.045%
Trust Preferred	June 26, 2003	15,464	Variable	@ 3.346%[2]
Trust Preferred	March 17, 2005	10,310	Variable	@ 2.135%[3]
Trust Preferred	August 20, 2007	20,619	Fixed	@ 6.620%[4]
		$ 67,527		

(1) Each trust preferred security has a final maturity thirty years from the date of issuance.

(2) Reprices quarterly at a rate 310 basis points over three month LIBOR and is subject to refinancing or repayment at par with regulatory approval.

(3) Reprices quarterly at a rate 189 basis points over three month LIBOR.

(4) Five year fixed rate, and then reprices quarterly at a rate 140 basis points over three month LIBOR.

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Liquidity and Capital Resources

Market and public confidence in our financial strength and that of financial institutions in general will largely determine the access to appropriate levels of liquidity. This confidence is significantly dependent on our ability to maintain sound credit quality and the ability to maintain appropriate levels of capital resources.

Liquidity is defined as the ability to meet anticipated customer demands for funds under credit commitments and deposit withdrawals at a reasonable cost and on a timely basis. Management measures the liquidity position by giving consideration to both on-balance sheet and off-balance sheet sources of and demands for funds on a daily and weekly basis. In addition, because FSC is a separate entity and apart from the Bank, it must provide for its own liquidity. FSC is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on any outstanding debt or trust preferred securities.

Sources of the Bank s liquidity include cash and cash equivalents, net of Federal requirements to maintain reserves against deposit liabilities; investment securities eligible for sale or pledging to secure borrowings from dealers and customers pursuant to securities sold under agreements to repurchase (repurchase agreements); loan repayments; loan sales; deposits and certain interest-sensitive deposits; brokered deposits; a collateralized line of credit at the Federal Reserve Bank of Atlanta (FRB) Discount Window; a collateralized line of credit from the Federal Home Loan Bank of Atlanta (FHLB); and borrowings under unsecured overnight Federal funds lines available from correspondent banks. Substantially all of FSC s liquidity is obtained from subsidiary service fees and dividends from the Bank, which is limited by applicable law. The principal demands for liquidity are new loans, anticipated fundings under credit commitments to customers and deposit withdrawals.

Management seeks to maintain a stable net liquidity position while optimizing operating results, as reflected in net interest income, the net yield on interest-earning assets and the cost of interest-bearing liabilities in particular. Our Asset/Liability Management Committee (ALCO) meets regularly to review the current and projected net liquidity positions and to review actions taken by management to achieve this liquidity objective. Managing the levels of total liquidity, short-term liquidity, and short-term liquidity sources continues to be an important exercise because of the coordination of the projected mortgage, SBA and indirect automobile loan production and sales, loans held-for-sale balances, and individual loans and pools of loans sold anticipated to increase from time to time during the year.

In addition to the ability to increase brokered deposits and retail deposits, as of June 30, 2011, we had the following sources of available unused liquidity:

	June 30, 2011 *(In thousands)*
Unpledged securities	**$ 40,000**
FHLB advances	**9,000**
FRB lines	**189,000**
Unsecured Federal funds lines	**47,000**
Additional FRB line based on eligible but unpledged collateral	**187,000**
Total sources of available unused liquidity	**$ 472,000**

The Company s net liquid asset ratio, defined as federal funds sold, investments maturing within 30 days, unpledged securities, available unsecured federal funds lines of credit, FHLB borrowing capacity and available brokered certificates of deposit divided by total assets was 16.6% at June 30, 2010, 16.1% at December 31, 2010 and 23.6% at June 30, 2011.

Shareholders Equity

Shareholders equity was $159.8 million at June 30, 2011, and $140.5 million at December 31, 2010. The increase in shareholders equity in the first six months of 2011 was the result of a private placement of common stock in May 2011 of $14.4 million and net income for the first half of 2011.

At June 30, 2011 and December 31, 2010, the Company exceeded all minimum capital ratios required by the FRB, as reflected in the following schedule:

Capital Ratios:	**FRB Minimum Capital Ratio**	**June 30, 2011**	**December 31, 2010**
Leverage	4.00%	**10.47%**	9.36%
Risk-Based Capital			
Tier I	4.00	**12.78**	10.87
Total	8.00	**14.80**	13.28

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The following table sets forth the capital requirements for the Bank under FDIC regulations and the Bank s capital ratios at June 30, 2011 and December 31, 2010, respectively:

Capital Ratios:	FDIC Regulations Well Capitalized	June 30, 2011	December 31, 2010
Leverage	5.00%	**9.64%**	9.49%
Risk-Based Capital			
Tier I	6.00	**11.75**	11.02
Total	10.00	**13.61**	12.89

On October 14, 2008, the U.S. Treasury announced the Troubled Asset Relief Program (TARP) Capital Purchase Program (the Program). On December 19, 2008, as part of the Program, Fidelity entered into a Letter Agreement (Letter Agreement) and a Securities Purchase Agreement Standard Terms with the Treasury, pursuant to which Fidelity agreed to issue and sell, and the Treasury agreed to purchase (1) 48,200 shares of Fidelity s Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share, and (2) a ten-year warrant to purchase up to 2,266,458 shares of the Company s common stock at an exercise price of $3.19 per share, for an aggregate purchase price of $48.2 million in cash. Pursuant to the terms of the Letter Agreement, the ability of Fidelity to declare or pay dividends or distributions of its common stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share ($.01) declared on the common stock prior to December 19, 2008, as adjusted for subsequent stock dividends and other similar actions. In addition, as long as the preferred shares are outstanding, dividends payments are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions. This restriction will terminate on the third anniversary of the date of issuance, December 19, 2011, of the preferred shares or, if earlier, the date on which the preferred shares have been redeemed in whole or the Treasury has transferred all of the preferred shares to third parties.

During the first six months of 2011 and 2010, we did not pay any cash dividends on our common stock. On July 21, 2011, the Board of Directors reinstated the cash dividend by declaring a $.01 dividend per share on common stock payable on August 16, 2011, to shareholders of record on August 1, 2011. Dividends for the remainder of 2011 will be reviewed quarterly, with the declared and paid dividend consistent with current earnings, capital requirements and forecasts of future earnings.

Market Risk

Our primary market risk exposures are credit risk and interest rate risk and, to a lesser extent, liquidity risk. We have little or no risk related to trading accounts, commodities, or foreign exchange.

Interest rate risk is the exposure of a banking organization s financial condition and earnings ability to withstand adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value; however, excessive levels of interest rate risk can pose a significant threat to assets, earnings, and capital. Accordingly, effective risk management that maintains interest rate risk at prudent levels is essential to our success. ALCO, which includes senior management representatives, monitors and considers methods of managing the rate and sensitivity repricing characteristics of the balance sheet components consistent with maintaining acceptable levels of changes in portfolio values and net interest income with changes in interest rates. The primary purposes of ALCO are to manage interest rate risk consistent with earnings and liquidity, to effectively invest our capital, and to preserve the value created by our core business operations. Our exposure to interest rate risk compared to established tolerances is reviewed on at least a quarterly basis by our Board of Directors.

Evaluating a financial institution s exposure to changes in interest rates includes assessing both the adequacy of the management process used to control interest rate risk and the organization s quantitative levels of exposure. When assessing the interest rate risk management process, we seek to ensure that appropriate policies, procedures, management information systems, and internal controls are in place to maintain interest rate risk at prudent levels with consistency and continuity. Evaluating the quantitative level of interest rate risk exposure requires us to assess the existing and potential future effects of changes in interest rates on our consolidated financial condition, including capital adequacy, earnings, liquidity, and, where appropriate, asset quality.

Interest rate sensitivity analysis, referred to as equity at risk, is used to measure our interest rate risk by computing estimated changes in earnings and the net present value of our cash flows from assets, liabilities, and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net present value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in the market risk sensitive instruments in the event of a sudden and sustained 200, 300 and 400 basis point increase or decrease in market interest rates.

Our policy states that a negative change in net present value (equity at risk) as a result of an immediate and sustained 200 basis point increase or decrease in interest rates should not exceed the lesser of 2% of total assets or 15% of total regulatory capital. It also states that a similar increase or decrease in interest rates should not negatively impact net interest income or net income by more than 5% or 15%, respectively.

The most recent rate shock analysis indicated that the effects of an immediate and sustained increase or decrease of 200 basis points in market rates of interest would fall within policy parameters and approved tolerances for equity at risk, net interest income, and net income.

Rate shock analysis provides only a limited, point in time view of interest rate sensitivity. The gap analysis also does not reflect factors such as the magnitude (versus the timing) of future interest rate changes and asset prepayments. The actual impact of interest rate changes upon earnings and net present value may differ from that implied by any static rate shock or gap measurement. In addition, net interest income and net present value under various future interest rate scenarios are affected by multiple other factors not embodied in a static rate shock or gap analysis, including competition, changes in the shape of the Treasury yield curve, divergent movement among various interest rate indices, and the speed with which interest rates change.

Interest Rate Sensitivity

The major elements used to manage interest rate risk include the mix of fixed and variable rate assets and liabilities and the maturity and repricing patterns of these assets and liabilities. We perform a quarterly review of assets and liabilities that reprice and the time bands within which the repricing occurs. Balances generally are reported in the time band that corresponds to the instrument s next repricing date or contractual maturity, whichever occurs first. However, fixed rate indirect automobile loans, mortgage-backed securities, and residential mortgage loans are primarily included based on scheduled payments with a prepayment factor incorporated. Through such analyses, we monitor and manage our interest sensitivity gap to minimize the negative effects of changing interest rates.

The interest rate sensitivity structure within our balance sheet at June 30, 2011, indicated a cumulative net interest sensitivity asset gap of 18.61% when projecting out six months. When projecting forward one year, there was a cumulative net interest sensitivity asset gap of 13.71%. This information represents a general indication of repricing characteristics over time; however, the sensitivity of certain deposit products may vary during extreme swings in the interest rate cycle. Since all interest rates and yields do not adjust at the same velocity, the interest rate sensitivity gap is only a general indicator of the potential effects of interest rate changes on net interest income. Our policy states that the cumulative gap at six months and one year should generally not exceed 15% and 10%, respectively. The primary reason the Bank exceeded the policy is the temporary excess liquidity and cash equivalents. The policy exception has been reviewed and approved by the Asset Liability Committee after reviewing the current and projected interest rate environment.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

See Item 2 Market Risk and Interest Rate Sensitivity for quantitative and qualitative discussion about our market risk.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, Fidelity s management supervised and participated in an evaluation, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on, or as of the date of, that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in the Company s internal control over financial reporting during the three months ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

We are a party to claims and lawsuits arising in the course of normal business activities. Although the ultimate outcome of all claims and lawsuits outstanding as of June 30, 2011, cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on our results of operations or financial condition.

Item 1A. *Risk Factors*

While the Company attempts to identify, manage, and mitigate risks and uncertainties associated with its business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our cash flows, results of operations, and financial condition. We do not believe that there have been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 6. *Exhibits*

(a) Exhibits. The following exhibits are filed as part of this Report.

3(a)	Amended and Restated Articles of Incorporation of Fidelity Southern Corporation, as amended effective December 16, 2008 (incorporated by reference from Exhibit 3(a) to Fidelity Southern Corporation s Annual Report on Form 10-K for the year ended December 31, 2009)
3(b)	By-Laws of Fidelity Southern Corporation, as amended (incorporated by reference from Exhibit 3.2 to Fidelity Southern Corporation s Form 8-k filed November 18, 2010)
31.1	Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIDELITY SOUTHERN CORPORATION

(Registrant)

Date: August 8, 2011	BY: /s/ James B. Miller, Jr. James B. Miller, Jr. Chief Executive Officer
Date: August 8, 2011	BY: /s/ Stephen H. Brolly Stephen H. Brolly Chief Financial Officer