INDEPENDENT BANK CORP
Form 10-Q
November 04, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011
Commission File Number: 1-9047
Independent Bank Corp.
(Exact name of registrant as specified in its charter)

Massachusetts	04-2870273
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Office Address: 2036 Washington Street, Hanover Massachusetts 02339
Mailing Address: 288 Union Street, Rockland, Massachusetts 02370
(Address of principal executive offices, including zip code)
(781) 878-6100
(Registrant s telephone number, including area code)

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o	Accelerated Filer þ	Non-accelerated Filer o	Smaller Reporting Company o

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

Yes o No þ

As of November 1, 2011, there were 21,484,437 shares of the issuer s common stock outstanding, par value $0.01 per share.

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

INDEPENDENT BANK CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited Dollars in Thousands, Except Share and Per Share Amounts)

	September 30, 2011	December 31, 2010
ASSETS		
CASH AND DUE FROM BANKS	$ 53,821	$ 42,112
INTEREST EARNING DEPOSITS WITH BANKS	180,352	119,170
FED FUNDS SOLD	667	
SECURITIES		
Trading Assets	7,984	7,597
Securities Available for Sale	293,073	377,457
Securities Held to Maturity (fair value $228,755 and $201,234 at September 30, 2011 and December 31, 2010, respectively)	220,552	202,732
TOTAL SECURITIES	521,609	587,786
LOANS HELD FOR SALE (at fair value)	22,156	27,917
LOANS		
Commercial and Industrial	567,552	502,952
Commercial Real Estate	1,815,063	1,717,118
Commercial Construction	119,309	129,421
Small Business	77,230	80,026
Residential Real Estate	441,600	473,936
Residential Construction	6,306	4,175
Home Equity	648,475	579,278
Consumer Other	47,590	68,773
TOTAL LOANS	3,723,125	3,555,679
Less: Allowance for Loan Losses	(47,278)	(46,255)
NET LOANS	3,675,847	3,509,424
FEDERAL HOME LOAN BANK STOCK	35,854	35,854
BANK PREMISES AND EQUIPMENT, NET	47,646	45,712
GOODWILL	130,074	129,617
IDENTIFIABLE INTANGIBLE ASSETS	11,029	12,339
BANK OWNED LIFE INSURANCE	85,239	82,711
OTHER REAL ESTATE OWNED & FORECLOSED ASSETS	8,767	7,333
OTHER ASSETS	126,705	95,763
TOTAL ASSETS	$ 4,899,766	$ 4,695,738

LIABILITIES AND STOCKHOLDERS EQUITY		
DEPOSITS		
Demand Deposits	$ 977,323	$ 842,067
Savings and Interest Checking Accounts	1,424,060	1,375,254
Money Market	744,682	717,286
Time Certificates of Deposit Over $100,000	226,464	219,480
Other Time Certificates of Deposits	415,004	473,696
TOTAL DEPOSITS	3,787,533	3,627,783
BORROWINGS		
Federal Home Loan Bank Borrowings	257,873	302,414
Federal Funds Purchased and Assets Sold Under Repurchase Agreements	216,331	168,119
Junior Subordinated Debentures	61,857	61,857
Subordinated Debentures	30,000	30,000
Other Borrowings	2,203	3,044
TOTAL BORROWINGS	568,264	565,434
OTHER LIABILITIES	82,903	66,049
TOTAL LIABILITIES	4,438,700	4,259,266
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred Stock, $.01 par value. Authorized: 1,000,000 Shares Outstanding: None		
Common Stock, $.01 par value. Authorized: 75,000,000 Issued and Outstanding : 21,465,109 shares at September 30, 2011 and 21,220,801 shares at December 31, 2010 (Includes 235,540 and 219,900 shares of unvested fully participating restricted stock awards, respectively)	212	210
Shares Held in Rabbi Trust at Cost 178,986 shares in September 30, 2011 and 178,382 shares at December 31, 2010	(2,884)	(2,738)
Deferred Compensation Obligation	2,884	2,738
Additional Paid in Capital	232,845	226,708
Retained Earnings	232,369	210,320
Accumulated Other Comprehensive Loss, Net of Tax	(4,360)	(766)
TOTAL STOCKHOLDERS EQUITY	461,066	436,472
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 4,899,766	$ 4,695,738

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

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INDEPENDENT BANK CORP.

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited Dollars in Thousands, Except Share and Per Share Data)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
INTEREST INCOME				
Interest on Loans	$ 43,763	$ 44,436	$ 130,917	$ 133,267
Interest on Loans Held for Sale	116	174	305	390
Taxable Interest and Dividends on Securities	4,929	5,679	15,779	18,277
Non-taxable Interest and Dividends on Securities	78	164	286	553
Interest on Federal Funds Sold	49	135	80	267
TOTAL INTEREST AND DIVIDEND INCOME	48,935	50,588	147,367	152,754
INTEREST EXPENSE				
Interest on Deposits	3,419	4,801	10,448	16,225
Interest on Borrowings	3,842	4,590	11,696	13,955
TOTAL INTEREST EXPENSE	7,261	9,391	22,144	30,180
NET INTEREST INCOME	41,674	41,197	125,223	122,574
PROVISION FOR LOAN LOSSES	2,000	3,500	7,682	15,081
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	39,674	37,697	117,541	107,493
NON-INTEREST INCOME				
Service Charges on Deposit Accounts	4,223	3,178	12,374	9,566
Interchange and ATM Fees	2,005	1,263	5,681	3,611
Investment Management	3,491	2,851	10,310	8,768
Mortgage Banking Income, Net	907	1,469	2,637	3,091
Bank Owned Life Insurance Income	757	901	2,323	2,353
Net Gain(Loss) on Sales of Securities Available for Sale		(22)	723	458
Gross Change on Write-Down of Certain Investments to Fair Value	(318)	207	101	325
Less: Portion of Other-Than-Temporary Impairment Losses Recognized in Other Comprehensive Income	290	(214)	(305)	(594)
Net Loss on Write-Down of Certain Investments to Fair Value	(28)	(7)	(204)	(269)

Other Non-Interest Income	960	2,021	4,542	5,065
TOTAL NON-INTEREST INCOME	12,315	11,654	38,386	32,643
NON-INTEREST EXPENSE				
Salaries and Employee Benefits	20,568	19,792	60,582	56,662
Occupancy and Equipment Expenses	4,107	3,839	12,946	12,068
Data Processing and Facilities Management	1,152	1,404	3,828	4,195
Advertising Expense	703	469	3,247	1,699
FDIC Assessment	691	1,352	2,760	3,944
Consulting Expense	685	803	1,715	1,600
OREO Valuation Write-Off	656	189	1,461	272
Legal	580	720	1,647	2,575
Telephone	522	513	1,584	1,591
Other Non-Interest Expense	5,759	5,459	18,990	18,452
TOTAL NON-INTEREST EXPENSE	35,423	34,540	108,760	103,058
INCOME BEFORE INCOME TAXES	16,566	14,811	47,167	37,078
PROVISION FOR INCOME TAXES	4,607	3,666	12,900	8,676
NET INCOME	$ 11,959	$ 11,145	$ 34,267	$ 28,402
BASIC EARNINGS PER SHARE	$ 0.56	$ 0.53	$ 1.60	$ 1.35
DILUTED EARNINGS PER SHARE	$ 0.56	$ 0.53	$ 1.60	$ 1.35
WEIGHTED AVERAGE COMMON SHARES (BASIC)	21,463,714	20,981,372	21,401,885	20,961,378
Common Share Equivalents	13,077	52,793	32,452	74,536
WEIGHTED AVERAGE COMMON SHARES (DILUTED)	21,476,791	21,034,165	21,434,337	21,035,914

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

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(Unaudited Dollars in Thousands, Except Per Share Data)

	Common Stock Outstanding	Common Stock	Value of Shares Held in Rabbi Trust at Cost	Deferred Compensation Obligation	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)Income	TOTAL
BALANCE DECEMBER 31, 2010	21,220,801	$ 210	$ (2,738)	$ 2,738	$ 226,708	$ 210,320	$ (766)	$ 436,472
COMPREHENSIVE INCOME:								
Net Income						34,267		34,267
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)							228	
Change in Fair Value of Cash Flow Hedges, Net of Tax and Realized Gains/(Losses)							(4,152)	
Amortization of Prior Service Cost, net of tax							330	
Other Comprehensive Loss							(3,594)	(3,594)
TOTAL COMPREHENSIVE INCOME								30,673
COMMON DIVIDEND DECLARED ($0.57 PER SHARE)						(12,218)		(12,218)
PROCEEDS FROM EXERCISE OF STOCK OPTIONS	164,100	2			3,711			3,713
TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY					251			251
EQUITY BASED COMPENSATION					1,917			1,917

RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS	60,495				(361)			(361)
SHARES ISSUED UNDER DIRECT STOCK PURCHASE PLAN	19,713				540			540
DEFERRED COMPENSATION OBLIGATION			(146)	146				
TAX BENEFIT RELATED TO DEFERRED COMPENSATION DISTRIBUTIONS					79			79
BALANCE SEPTEMBER 30, 2011	21,465,109	$ 212	$ (2,884)	$ 2,884	$ 232,845	$ 232,369	$ (4,360)	$ 461,066
BALANCE DECEMBER 31, 2009	21,072,196	$ 209	$ (2,482)	$ 2,482	$ 225,088	$ 184,599	$ 2,753	$ 412,649
COMPREHENSIVE INCOME:								
Net Income						28,402		28,402
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)							3,013	
Change in Fair Value of Cash Flow Hedges, Net of Tax and Realized Gains/(Losses)							(8,590)	
Amortization of Prior Service Cost, net of tax							70	
Other Comprehensive Loss							(5,507)	(5,507)
TOTAL COMPREHENSIVE INCOME								22,895
DIVIDENDS DECLARED:								
						(11,443)		(11,443)

COMMON DECLARED ($0.54 PER SHARE)								
PROCEEDS FROM EXERCISE OF STOCK OPTIONS	27,229	1				392		393
TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY					70			70
EQUITY BASED COMPENSATION					1,206			1,206
RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS	103,843				(109)			(109)
DEFERRED COMPENSATION OBLIGATION			(150)	150				
BALANCE SEPTEMBER 30, 2010	21,203,268	$ 210	$ (2,632)	$ 2,632	$ 226,255	$ 201,950	$ (2,754)	$ 425,661

The accompanying condensed notes are an integral part of these unaudited consolidated financial statements

INDEPENDENT BANK CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited Dollars In Thousands)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 34,267	$ 28,402
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and Amortization	7,178	7,109
Provision for Loan Losses	7,682	15,081
Deferred Income Tax Benefit	(32)	(5)
Net Gain on Sale of Investments	(723)	(458)
Loss on Write-Dow n of Investments in Securities Available for Sale	204	269
Loss on Sale of Fixed Assets	302	280
Loss on Sale of Other Real Estate Ow ned and Foreclosed Assets	1,308	74
Realized Gain on Sale Leaseback Transaction	(775)	(775)
Stock Based Compensation	1,917	1,206
Increase in Cash Surrender Value of Bank Ow ned Life Insurance	(2,308)	(2,353)
Change in Fair Value on Loans Held for Sale	(929)	(227)
Net Change In:		
Trading Assets	(387)	(1,247)
Loans Held for Sale	6,690	(7,628)
Other Assets	(29,778)	(24,154)
Other Liabilities	11,075	25,847
TOTAL ADJUSTMENTS	1,424	13,019
NET CASH PROVIDED BY OPERATING ACTIVITIES	35,691	41,421
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Proceeds from Sales of Securities Available For Sale	14,639	6,423
Proceeds from Maturities and Principal Repayments of Securities Available For Sale	80,416	116,142
Purchase of Securities Available For Sale	(10,072)	(46,349)
Proceeds from Maturities and Principal Repayments of Securities Held to Maturity	27,442	14,501
Purchase of Securities Held to Maturity	(45,946)	(101,927)
Purchase of Bank Ow ned Life Insurance	(220)	(219)
Net Increase in Loans	(181,160)	(35,452)
Cash Used In Business Combinations	(457)	(269)
Purchase of Bank Premises and Equipment	(5,933)	(5,142)
Proceeds from the Sale of Bank Premises and Equipment		37
Proceeds from the Sale of Other Real Estate Ow ned and Foreclosed Assets	3,919	4,834
NET CASH USED IN INVESTING ACTIVITIES	(117,372)	(47,421)

CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Net Decrease in Time Deposits	(51,708)	(151,478)
Net Increase in Other Deposits	211,458	393,342
Net Increase(Decrease) in Federal Funds Purchased and Assets Sold Under Repurchase Agreements	48,212	(10,126)
Net Increase(Decrease) in Short Term Federal Home Loan Bank Advances		(60,002)
Net Decrease in Long Term Federal Home Loan Bank Advances	(44,144)	
Net (Decrease)Increase in Treasury Tax & Loan Notes	(841)	549
Proceeds from Exercise of Stock Options	3,713	393
Tax Benefit from Stock Option Exercises	251	70
Restricted Shares Surrendered	(361)	(109)
Tax Benefit from Deferred Compensation Distribution	79	
Shares Issued Under Direct Stock Purchase Plan	540	
Common Dividends Paid	(11,960)	(11,419)
NET CASH PROVIDED BY FINANCING ACTIVITIES	155,239	161,220
NET INCREASE IN CASH AND CASH EQUIVALENTS	73,558	155,220
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	161,282	121,905
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 234,840	$ 277,125
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of Loans to Foreclosed Assets	$ 5,691	$ 9,925

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

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

Independent Bank Corp. (the Company) is a state chartered, federally registered bank holding company, incorporated in 1985. The Company is the sole stockholder of Rockland Trust Company (Rockland Trust or the Bank), a Massachusetts trust company chartered in 1907.

In the first quarter of 2011, Goddard Avenue Securities Corp. a Massachusetts security corporation, was formed as a wholly owned subsidiary of Rockland Trust to hold securities and other qualifying assets. In the second quarter of 2011, Rockland Trust established Rockland MHEF Fund LLC, a Delaware limited liability company, as a wholly-owned subsidiary of Rockland Trust. Massachusetts Housing Equity Fund, Inc. is the third party non-member manager of Rockland MHEF Fund LLC which was established in connection with a low-income housing tax credit investment. There have been no other changes to the structure of the Company subsequent to December 31, 2010.

All material intercompany balances and transactions have been eliminated in consolidation. Certain previously reported amounts may have been reclassified to conform to the current year s presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or any other interim period.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission.

NOTE 2 RECENT ACCOUNTING STANDARDS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 715 Compensation Retirement Benefits Multiemployer Plans Update No. 2011-09. Issued in September 2011, this update requires additional separate quantitative and qualitative disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. The amended disclosures provide users with more detailed information about an employer s involvement in multiemployer pension plans. The amendments in this update are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. The amendments should be applied retrospectively for all prior periods presented. The Company does not anticipate the adoption of this standard to have a material impact on the Company s consolidated financial position.

FASB ASC Topic No. 350 Intangibles Goodwill and Other Update No. 2011-08. Issued in September 2011, this update gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the two-step impairment test. Additionally, under the amendments in this update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company does not anticipate the adoption of this standard to have a material impact on the Company s consolidated financial position.

FASB ASC Topic No. 220 Comprehensive Income Update No. 2011-05. Issued in June 2011, this update provides amendments to Topic No. 220, Comprehensive Income , which states that an entity has the option to present total comprehensive income, the components of net income, and the components of other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The entity is no longer permitted to present the components of other comprehensive income within the statement of stockholders equity. Furthermore, entities must present separately on the income statement, reclassification adjustments between other comprehensive income and net income. The amendments in this update should be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company does not anticipate the adoption of this standard to have a material impact on the Company s consolidated financial position. Subsequent to issuing this update, the FASB has proposed deferring the new requirement to present reclassifications of other comprehensive income on the income statement. All other elements of the update would remain effective for periods beginning after December 15, 2011.

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FASB ASC Topic No. 820 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Report Standards (IFRS) Update No. 2011-04. Issued in May 2011, the amendments in this update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. This update does require additional disclosures pertaining to transfers between Level 1 and Level 2 investments, sensitivity analysis on Level 3 investments, and additional categorization of disclosed fair value amounts. The amendments in this update are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The Company does not anticipate the adoption of this standard to have a material impact on the Company s consolidated financial position.

FASB ASC Topic No. 860, Reconsideration of Effective Control for Repurchase Agreements Update No. 2011-03. Issued in April 2011, the amendments in this update remove, from the assessment of effective control, the criterion relating to the transferor s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The amendments in this update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all of the cost of purchasing replacement financial assets. The amendments in this update are effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company does not anticipate the adoption of this standard to have a material impact on the Company s consolidated financial position.

FASB ASC Topic No. 310, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring Update No. 2011-02. Issued in April 2011, this update provides guidance and clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. In addition, the previously deferred disclosure requirements originally included in Update No. 2010-20 are effective upon adoption of this standard. The amendments in this update were effective the quarter ended September 30, 2011 and did not have a material impact on the Company s consolidated financial position.

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NOTE 3 SECURITIES

The following table presents a summary of the amortized cost, gross unrealized holding gains and losses, other-than-temporary impairment recorded in other comprehensive income and fair value of securities available for sale and securities held to maturity for the periods below:

	September 30, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses Other	Other-Than-Temporary Impairment	Fair Value	Amortized Cost	Gross Unrealized Gains	Unrealized Losses Other	Other-Than-Temporary Impairment	Fair Value
			(Dollars In Thousands)					*(Dollars In Thousands)*		
Available for Sale Securities										
U.S. Treasury Securities	$	$	$	$	$	$ 715	$ 2	$	$	$ 717
Agency Mortgage-Backed Securities	226,216	16,853	(2)		243,067	296,821	16,481			313,302
Agency Collateralized Mortgage Obligations	35,550	607	(2)		36,155	45,426	779	(70)		46,135
Private Mortgage-Backed Securities	6,892			(67)	6,825	10,408			(154)	10,254
Single Issuer Trust Preferred Securities Issued by Banks	5,000		(862)		4,138	5,000		(779)		4,221
Pooled Trust Preferred Securities Issued by Banks and Insurers	8,517		(2,433)	(3,196)	2,888	8,550		(2,309)	(3,413)	2,828
Total Available for Sale Securities	$ 282,175	$ 17,460	$ (3,299)	$ (3,263)	$ 293,073	$ 366,920	$ 17,262	$ (3,158)	$ (3,567)	$ 377,457
Held to Maturity Securities										
U.S. Treasury Securities	$ 1,014	$ 96	$	$	$ 1,110	$	$	$	$	$
Agency Mortgage-Backed Securities	122,264	4,809			127,073	95,697	1,348	(1,778)		95,267
Agency Collateralized Mortgage	81,191	3,333			84,524	89,823	600	(1,691)		88,732

Obligations										
State, County, and Municipal Securities	4,450	50			4,500	10,562	167			10,729
Single Issuer Trust Preferred Securities Issued by Banks	6,623	21	(171)		6,473	6,650	19	(163)		6,506
Corporate Debt Securities	5,010	65			5,075					
Total Held to Maturity Securities	$ 220,552	$ 8,374	$ (171)	$	$ 228,755	$ 202,732	$ 2,134	$ (3,632)	$	$ 201,234
TOTAL	$ 502,727	$ 25,834	$ (3,470)	$ (3,263)	$ 521,828	$ 569,652	$ 19,396	$ (6,790)	$ (3,567)	$ 578,691

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale. The following table shows the gross gains and losses on available for sale securities for the periods indicated:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2011	**2010**	**2011**	**2010**
	(Dollars in Thousands)		(Dollars in Thousands)	
Gross Gains on Available for Sale Securities	$	$	$ 723	$ 480
Gross Losses on Available for Sale Securities		(22)		(22)
NET GAINS (LOSSES) ON AVAILABLE FOR SALE SECURITIES	$	$ (22)	$ 723	$ 458

The actual maturities of certain securities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. A schedule of the contractual maturities of securities available for sale and securities held to maturity is presented below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)		(Dollars in Thousands)	
Due in One Year or Less	$	$	$ 720	$ 724
Due from One Year to Five Years	2,995	3,151	8,095	8,204
Due from Five to Ten Years	64,263	68,414	3,051	3,268
Due after Ten Years	214,917	221,508	208,686	216,559
TOTAL	$ 282,175	$ 293,073	$ 220,552	$ 228,755

Inclusive in the table above is $13.2 million and $24.3 million, respectively, of callable securities in the Company s investment portfolio at September 30, 2011 and December 31, 2010.

At September 30, 2011 and December 31, 2010 investment securities carried at $352.5 million and $350.3 million, respectively, were pledged to secure public deposits, assets sold under repurchase agreements, treasury tax and loan notes, letters of credit, and for other purposes.

At September 30, 2011 and December 31, 2010, the Company had no investments in obligations of individual states, counties, or municipalities, which exceeded 10% of stockholders equity.

Other-Than-Temporary Impairment

The Company continually reviews investment securities for the existence of other-than-temporary impairment (OTTI), taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, the credit worthiness of the obligor of the security, volatility of earnings, current analysts evaluations, the Company s intent to sell the security or whether it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery, as well as other qualitative factors. The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment.

The following tables show the gross unrealized losses and fair value of the Company s investments in an unrealized loss position, which the Company has not deemed to be OTTI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

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		September 30, 2011					
		Less than 12 months		12 months or longer		Total	
		Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Description of Securities	# of holdings	Value	Losses	Value	Losses	Value	Losses
				(Dollars In Thousands)			
Agency Mortgage-Backed Securities	1	$ 135	$ (2)	$	$	$ 135	$ (2)
Agency Collateralized Mortgage Obligations	1	228	(2)			228	(2)
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	2	4,922	(171)	4,138	(862)	9,060	(1,033)
Pooled Trust Preferred Securities Issued by Banks and Insurers	2			2,214	(2,433)	2,214	(2,433)
TOTAL TEMPORARILY IMPAIRED SECURITIES	6	$ 5,285	$ (175)	$ 6,352	$ (3,295)	$ 11,637	$ (3,470)

		December 31, 2010					
		Less than 12 months		12 months or longer		Total	
		Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Description of Securities	# of holdings	Value	Losses	Value	Losses	Value	Losses
				(Dollars In Thousands)			
Agency Mortgage-Backed Securities	4	$ 48,956	$ (1,778)	$	$	$ 48,956	$ (1,778)
Agency Collateralized Mortgage Obligations	6	72,631	(1,761)			72,631	(1,761)
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	2	4,950	(163)	4,221	(779)	9,171	(942)
Pooled Trust Preferred Securities Issued by Banks and Insurers	2			2,364	(2,309)	2,364	(2,309)
TOTAL TEMPORARILY IMPAIRED SECURITIES	14	$ 126,537	$ (3,702)	$ 6,585	$ (3,088)	$ 133,122	$ (6,790)

The Company does not intend to sell these investments and has determined based upon available evidence that it is more likely than not that the Company will not be required to sell the security before the recovery of its amortized cost basis. As a result, the Company does not consider these investments to be OTTI. The Company made this determination by reviewing various qualitative and quantitative factors regarding each investment category, such as current market conditions, extent and nature of changes in fair value, issuer rating changes and trends, volatility of earnings, and current analysts evaluations.

As a result of the Company s review of these qualitative and quantitative factors, the causes of the impairments listed in the table above by category are as follows at September 30, 2011:

Agency Mortgage-Backed Securities and Collateralized Mortgage Obligations: This portfolio has contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The decline in market value of these securities is attributable to changes in interest rates and not credit quality. Additionally, these securities are implicitly guaranteed by the U.S. Government or one of its agencies.

Single Issuer Trust Preferred Securities: This portfolio consists of two securities, both of which are below investment grade. The unrealized loss on these securities is attributable to the illiquid nature of the trust preferred market in the current economic environment. Management evaluates various financial metrics for each of the issuers, including capitalization rates.

Pooled Trust Preferred Securities: This portfolio consists of two below investment grade securities of which one is performing while the other is deferring payments as contractually allowed. The unrealized loss on these securities is attributable to the illiquid nature of the trust preferred market and the significant risk premiums required in the current economic environment.

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Management evaluates collateral credit and instrument structure, including current and expected deferral and default rates and timing. In addition, discount rates are determined by evaluating comparable spreads observed currently in the market for similar instruments.

Management monitors the following issuances closely for impairment due to the history of OTTI losses recorded within these classes of securities. Management has determined that the securities possess characteristics which in the current economic environment could lead to further OTTI charges. The following tables summarize pertinent information as of September 30, 2011, that was considered by management in determining if OTTI existed:

	Class	Amortized Cost (1)	Gross Unrealized Gain/(Loss)	Non-Credit Related Other-Than-Temporary Impairment	Fair Value	Total Cumulative Credit Related Other-Than-Temporary Impairment	Total Cumulative Other-Than-Temporary impairment to date
				(Dollars in Thousands)			
Pooled Trust Preferred Securities							
Pooled Trust Preferred Security A	C1	$ 1,283	$	$ (1,179)	$ 104	$ (3,676)	$ (4,855)
Pooled Trust Preferred Security B	D					(3,481)	(3,481)
Pooled Trust Preferred Security C	C1	506		(435)	71	(482)	(917)
Pooled Trust Preferred Security D	D					(990)	(990)
Pooled Trust Preferred Security E	C1	2,081		(1,582)	499	(1,368)	(2,950)
Pooled Trust Preferred Security F	B	1,891	(1,310)		581		
Pooled Trust Preferred Security G	A1	2,756	(1,123)		1,633		
TOTAL POOLED TRUST PREFERRED SECURITIES		$ 8,517	$ (2,433)	$ (3,196)	$ 2,888	$ (9,997)	$ (13,193)
Private Mortgage-Backed Securities							
Private Mortgage-Backed Securities One	2A1	$ 3,285	$	$ (104)	$ 3,181	$ (650)	$ (754)
Private Mortgage-Backed Securities Two	A19	3,607		37	3,644	(85)	(48)

TOTAL PRIVATE MORTGAGE-BACKED SECURITIES	$ 6,892	$	$ (67)	$ 6,825	$ (735)	$ (802)
TOTAL	$ 15,409	$ (2,433)	$ (3,263)	$ 9,713	$ (10,732)	$ (13,995)

(1) The amortized cost reflects previously recorded OTTI charges recognized in earnings for the applicable securities.

Pooled Trust Preferred Securities	**Class**	**Number of Performing Banks and Insurance Cos. in Issuances (Unique)**	**Current Deferrals/ Defaults/Losses (As a % of Original Collateral)**	**Total Projected Defaults/ Losses (as a % of Performing Collateral)**	**Excess Subordination (After Taking into Account Best Estimate of Future Deferrals/ Defaults/Losses) (1)**	**Lowest credit Ratings to date (2)**
Trust Preferred Security A	C1	57	36.96%	22.19%	0.00%	C (Fitch & Moody s)
Trust Preferred Security B	D	57	36.96%	22.19%	0.00%	C (Fitch & Moody s)
Trust Preferred Security C	C1	50	34.09%	21.13%	0.00%	C (Fitch & Moody s)
Trust Preferred Security D	D	50	34.09%	21.13%	0.00%	C (Fitch & Moody s)
Trust Preferred Security E	C1	50	28.26%	17.57%	0.00%	C (Fitch & Moody s)

Trust Preferred Security F		B	33	28.14%	23.52%	24.56%	CC (Fitch)
Trust Preferred Security G		A1	33	28.14%	23.52%	48.68%	CCC+ (S&P)
Private Mortgage-Backed Securities							
Private Mortgage-Backed Securities	One	2A1	N/A	4.14%	12.63%	0.00%	C (Fitch)
Private Mortgage-Backed Securities	Two	A19	N/A	2.39%	6.12%	0.00%	B3 (Moody s)

(1) Excess subordination represents the additional default/losses in excess of both current and projected defaults/losses that the security can absorb before the security experiences any credit impairment.

(2) The Company reviewed credit ratings provided by S&P, Moody s and Fitch in its evaluation of issuers.

Per review of the factors outlined above, seven of the securities shown in the table above were deemed to be OTTI. The remaining securities were not deemed to be OTTI as the Company does not intend to sell these investments and has determined, based upon available

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evidence, that it is more likely than not that the Company will not be required to sell the securities before the recovery of their amortized cost basis.

During 2011 and 2010, the Company recorded OTTI credit losses on certain securities. The following table shows the total OTTI that the Company recorded for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in Thousands)		(Dollars in Thousands)	
Total OTTI Gains (Losses)	$ (318)	$ 207	$ 101	$ 325
Less: Non-credit Related OTTI Gains (Losses) Recognized in OCI	(290)	214	305	594
CREDIT RELATED OTTI LOSSES	$ (28)	$ (7)	$ (204)	$ (269)

The following table shows the cumulative credit related component of OTTI for the periods indicated:

	Credit Related Component of Other-Than-Temporary Impairment			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Dollars in Thousands)		(Dollars in Thousands)	
Balance at Beginning of Period	$ (10,704)	$ (10,456)	$ (10,528)	$ (10,194)
Add:				
Incurred on Securities not Previously Impaired		(7)		(41)
Incurred on Securities Previously Impaired	(28)		(204)	(228)
Less:				
Realized Gain/Loss on Sale of Securities				
Reclassification Due to Changes in Company s Intent				
Increases in Cash Flow Expected to be Collected				
BALANCE AT END OF PERIOD	$ (10,732)	$ (10,463)	$ (10,732)	$ (10,463)

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NOTE 4 LOANS, ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following table summarizes changes in the allowance for loan losses by loan category and bifurcates the amount of allowance allocated to each loan category based on collective impairment analysis and loans evaluated individually for impairment:

As of September 30, 2011

(Dollars in Thousands)

	Commercial and Industrial	**Commercial Real Estate**	**Commercial Construction**	**Small Business**	**Residential Real Estate**	**Consumer Home Equity**	**Consumer Other**	**Total**
Allowance for Loan Losses:								
Beginning Balance	$ 10,423	$ 21,939	$ 2,145	$ 3,740	$ 2,915	$ 3,369	$ 1,724	$ 46,255
Charge-offs	(2,455)	(1,386)	(769)	(970)	(490)	(912)	(1,261)	(8,243)
Recoveries	348	98	500	72		30	536	1,584
Provision	3,286	2,334	15	(845)	756	1,629	507	7,682
Ending Balance	$ 11,602	$ 22,985	$ 1,891	$ 1,997	$ 3,181	$ 4,116	$ 1,506	$ 47,278
Ending Balance: individually evaluated for impairment	$ 558	$ 306	$	$ 299	$ 1,258	$ 24	$ 240	$ 2,685
Ending Balance: collectively evaluated for impairment	$ 11,044	$ 22,679	$ 1,891	$ 1,698	$ 1,923	$ 4,092	$ 1,266	$ 44,593
Financing Receivables:								
Ending Balance: total loans by group	$ 567,552	$ 1,815,063	$ 119,309	$ 77,230	$ 447,906	$ 648,475	$ 47,590	$ 3,723,125(1)
Ending Balance: individually evaluated for impairment	$ 2,956	$ 32,611	$ 551	$ 3,025	$ 12,699	$ 474	$ 2,146	$ 54,462

Ending Balance: collectively evaluated for impairment	$ 564,596	$ 1,782,452	$ 118,758	$ 74,205	$ 435,207	$ 648,001	$ 45,444	$ 3,668,663

As of December 31, 2010

(Dollars in Thousands)

	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	Total
Allowance for Loan Losses:								
Beginning Balance	$ 7,545	$ 19,451	$ 2,457	$ 3,372	$ 2,840	$ 3,945	$ 2,751	$ 42,361
Charge-offs	(5,170)	(3,448)	(1,716)	(2,279)	(557)	(939)	(2,078)	(16,187)
Recoveries	361	1		217	59	131	657	1,426
Provision	7,687	5,935	1,404	2,430	573	232	394	18,655
Ending Balance	$ 10,423	$ 21,939	$ 2,145	$ 3,740	$ 2,915	$ 3,369	$ 1,724	$ 46,255
Ending Balance: individually evaluated for impairment	$ 511	$ 411	$ 151	$ 221	$ 991	$ 17	$ 245	$ 2,547
Ending Balance: collectively evaluated for impairment	$ 9,912	$ 21,528	$ 1,994	$ 3,519	$ 1,924	$ 3,352	$ 1,479	$ 43,708
Financing Receivables:								
Ending Balance: total loans by group	$ 502,952	$ 1,717,118	$ 129,421	$ 80,026	$ 478,111	$ 579,278	$ 68,773	$ 3,555,679(1)
Ending Balance: individually evaluated for impairment	$ 3,823	$ 26,665	$ 1,999	$ 2,494	$ 9,963	$ 428	$ 2,014	$ 47,386

Ending Balance: collectively evaluated for impairment	$ 499,129	$ 1,690,453	$ 127,422	$ 77,532	$ 468,148	$ 578,850	$ 66,759	$ 3,508,293

(1) The amount of deferred fees included in the ending balance was $2.8 million at September 30, 2011 and December 31, 2010, respectively.

For the purpose of estimating the allowance for loan losses, management segregates the loan portfolio into the portfolio segments detailed in the above tables. Each of these loan categories possesses unique risk characteristics that are considered when determining the appropriate level of allowance for each segment. Some of the risk characteristics unique to each loan category include:

Commercial Portfolio:

Commercial & Industrial Loans in this category consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to: accounts receivable, inventory, plant & equipment, or real estate, if applicable. Repayment sources consist of: primarily, operating cash flow, and secondarily, liquidation of assets.

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Real Estate Commercial Loans in this category consist of mortgage loans to finance investment in real property such as multi-family residential, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans are typically written with amortizing payment structures. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources consist of: primarily, cash flow from operating leases and rents, and secondarily, liquidation of assets.

Commercial Real Estate Construction Loans in this category consist of short-term construction loans, revolving and non-revolving credit lines and construction/permanent loans to finance the acquisition, development and construction or rehabilitation of real property. Project types include: residential 1-4 family condominium and multi-family homes, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans may be written with non-amortizing or hybrid payment structures depending upon the type of project. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources vary depending upon the type of project and may consist of: sale or lease of units, operating cash flows or liquidation of other assets.

Small Business Loans in this category consist of revolving, term loan and mortgage obligations extended to sole proprietors and small businesses for purposes of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to: accounts receivable, inventory, plant & equipment, or real estate (if applicable). Repayment sources consist of: primarily, operating cash flows, and secondarily, liquidation of assets.

For the commercial portfolio it is the Bank s policy to obtain personal guaranties for payment from individuals holding material ownership interests of the borrowing entities.

Consumer Portfolio:

Consumer Real Estate Residential Residential mortgage loans held in the Bank s portfolio are made to borrowers who demonstrate the ability to make scheduled payments with full consideration to underwriting factors such as current and expected income, employment status, current assets, other financial resources, credit history and the value of the collateral. Collateral consists of mortgage liens on 1-4 family residential properties. The Company does not originate sub-prime loans.

Consumer Home Equity Home equity loans and lines are made to qualified individuals for legitimate purposes secured by senior or junior mortgage liens on owner-occupied 1-4 family homes, condominiums or vacation homes or on non-owner occupied 1-4 family homes with more restrictive loan to value requirements. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan to value ratios within established policy guidelines.

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Consumer Other Other consumer loan products including personal lines of credit and amortizing loans made to qualified individuals for various purposes such as education, auto loans, debt consolidation, personal expenses or overdraft protection. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines. Consumer Other loans may be secured or unsecured. Auto loans collateral consists of liens on motor vehicles.

Credit Quality

The Company continually monitors the asset quality of the loan portfolio using all available information. Based on this information, loans demonstrating certain payment issues or other weaknesses may be categorized as delinquent, impaired, nonperforming and/or put on nonaccrual status. Additionally, in the course of resolving such loans, the Company may choose to restructure the contractual terms of certain loans to match the borrower s ability to repay the loan based on their current financial condition. If a restructured loan meets certain criteria, it may be categorized as a troubled debt restructuring (TDR). The Company reviews numerous credit quality indicators when assessing the risk in its loan portfolio.

For the commercial and industrial, commercial real estate, commercial construction and small business portfolios, the Company utilizes a 10-point commercial risk-rating system, which assigns a risk-grade to each borrower based on a number of quantitative and qualitative factors associated with a commercial loan transaction. Factors considered include industry and market conditions, position within the industry, earnings trends, operating cash flow, asset/liability values, debt capacity, guarantor strength, management and controls, financial reporting, collateral, and other considerations. The risk-ratings categories are defined as follows:

1- 6 Rating Pass

Risk-rating grades 1 through 6 comprise those loans ranging from Substantially Risk Free which indicates borrowers are of unquestioned credit standing and the pinnacle of credit quality, well established companies with a very strong financial condition, and loans fully secured by cash collateral, through Acceptable Risk , which indicates borrowers may exhibit declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average or below average asset quality, margins and market share. Collateral coverage is protective.

7 Rating Potential Weakness

Borrowers exhibit potential credit weaknesses or downward trends deserving management s close attention. If not checked or corrected, these trends will weaken the Bank s asset and position. While potentially weak, these borrowers are currently marginally acceptable; no loss of principal or interest is envisioned.

8 Rating — Definite Weakness — Loss Unlikely

Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt. Loan may be inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy, although no loss of principal is envisioned. However, there is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Collateral coverage may be inadequate to cover the principal obligation.

9 Rating — Partial Loss Probable

Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt with the added provision that the weaknesses make collection of the debt in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely.

10 Rating — Definite Loss

Borrowers deemed incapable of repayment. Loans to such borrowers are considered uncollectible and of such little value that continuation as active assets of the Bank is not warranted.

The credit quality of the commercial loan portfolio is actively monitored and any changes in credit quality are reflected in risk-rating changes. Risk-ratings are assigned or reviewed for all new loans, when advancing significant additions to existing relationships (over $50,000), at least quarterly for all actively managed loans, and any time a significant event occurs, including at renewal of the loan.

The Company utilizes a comprehensive strategy for monitoring commercial credit quality. Borrowers are required to provide updated financial information at least annually which is carefully evaluated for any changes in credit quality. Larger loan relationships are subject to a full annual credit review by an experienced credit analysis group. Additionally, the Company retains an independent loan review firm to evaluate the credit quality of the commercial loan portfolio. The independent loan review process achieves significant penetration into the commercial loan portfolio and reports the results of these reviews to the Audit Committee of the Board of Directors on a quarterly basis.

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The following table details the internal risk-rating categories for the Company s commercial and industrial, commercial real estate, commercial construction and small business portfolios:

		September 30, 2011				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in Thousands)				
Pass	1-6	$ 521,319	$ 1,605,283	$ 107,524	$ 69,108	$ 2,303,234
Potential Weakness	7	25,585	111,349	5,546	4,336	146,816
Definite Weakness Loss Unlikely	8	19,020	97,083	6,239	3,640	125,982
Partial Loss Probable	9	1,628	1,348		146	3,122
Definite Loss	10					
TOTAL		$ 567,552	$ 1,815,063	$ 119,309	$ 77,230	$ 2,579,154

		December 31, 2010				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in Thousands)				
Pass	1-6	$ 445,116	$ 1,496,822	$ 110,549	$ 70,987	$ 2,123,474
Potential Weakness	7	30,250	99,400	6,311	5,252	141,213
Definite Weakness Loss Unlikely	8	25,864	117,850	12,561	3,533	159,808
Partial Loss Probable	9	1,722	3,046		254	5,022
Definite Loss	10					
TOTAL		$ 502,952	$ 1,717,118	$ 129,421	$ 80,026	$ 2,429,517

For the Company s residential real estate, residential construction, home equity and other consumer portfolios, the quality of the loan is best indicated by the repayment performance of an individual borrower. However, the Company does supplement performance data with current Fair Isaac Corporation (FICO) and Loan to Value (LTV) estimates. Current FICO data is purchased and appended to all consumer loans on a quarterly basis. In addition, automated valuation services and broker opinions of value are used to supplement original value data for the residential and home equity portfolios, periodically, typically twice per annum. The following table shows the weighted average FICO scores and the weighted average combined LTV ratio for the periods indicated below:

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	As of	
	September 30, 2011	**December 31, 2010**
Residential Portfolio		
FICO Score (re-scored) (1)	734	738
Combined LTV (re-valued) (2)	66.0%	64.0%
Home Equity Portfolio		
FICO Score (re-scored) (1)	761	760
Combined LTV (re-valued) (2)	55.0%	55.0%

(1) The average FICO scores above for September 30, 2011 are based upon rescores available from August 2011, and actual score data for loans booked between September 1 and September 30, 2011. The average FICO scores above for December 31, 2010 are based upon re-scores available from November 2010 and actual score data for loans booked between December 1 and December 31, 2010.

(2) The combined LTV ratios for September 30, 2011 are based upon updated automated valuations as of May 31, 2011. The combined LTV ratios at December 31, 2010 are based upon updated automated valuations as of November 30, 2010.

The Bank s philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. Delinquent loans are managed by a team of seasoned collection specialists and the Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. As a general rule, loans more than 90 days past due with respect to principal or interest are classified as nonaccrual loans. As permitted by banking regulations, certain consumer loans past due 90 days or more may continue to accrue interest. The Company also may use discretion regarding other loans over 90 days delinquent if the loan is well secured and in process of collection. Set forth is information regarding the Company s nonperforming loans at the period shown.

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The following table shows nonaccrual loans at the dates indicated:

	September 30, 2011	December 31, 2010
	(Dollars In Thousands)	
Loans accounted for on a nonaccrual basis (1)		
Commercial and Industrial	$ 1,836	$ 3,123
Commercial Real Estate	10,121	7,837
Commercial Construction	552	1,999
Small Business	1,032	887
Residential Real Estate	10,420	6,728
Home Equity	2,009	1,752
Consumer Other	327	505
TOTAL NONACCRUAL LOANS	$ 26,297	$ 22,831

(1) Included in these amounts w ere $8.5 million and $4.0 million nonaccruing TDRs at September 30, 2011 and December 31, 2010, respectively.

The following table shows the age analysis of past due financing receivables as of the dates indicated:

September 30, 2011

	30-59 days		60-89 days		90 days or more		Total Past Due				Recorded
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Investment >90 Days and Accruing
					(Dollars in Thousands)						
Commercial and Industrial	12	$ 775	1	$ 85	19	$ 1,129	32	$ 1,989	$ 565,563	$ 567,552	$
Commercial Real Estate	19	6,268	4	1,123	29	5,452	52	12,843	1,802,220	1,815,063	
Commercial Construction	1	133			3	551	4	684	118,625	119,309	
Small Business	18	335	8	146	24	174	50	655	76,575	77,230	
Residential Real Estate	8	1,596	9	3,226	32	5,511	49	10,333	431,267	441,600	
Residential Construction									6,306	6,306	
Home Equity	30	1,808	10	425	19	1,329	59	3,562	644,913	648,475	
Consumer -Other	269	1,947	51	609	72	447	392	3,003	44,587	47,590	328
TOTAL	357	$ 12,862	83	$ 5,614	198	$ 14,593	638	$ 33,069	$ 3,690,056	$ 3,723,125	$ 328

December 31, 2010

	30-59 days		60-89 days		90 days or more		Total Past Due				Recorded
	Number of Loans	**Principal Balance**	**Number of Loans**	**Principal Balance**	**Number of Loans**	**Principal Balance**	**Number of Loans**	**Principal Balance**	**Current**	**Total Financing Receivables**	**Investment >90 Days and Accruing**
						(Dollars in Thousands)					
Commercial and Industrial	16	$ 1,383	8	$ 910	18	$ 2,207	42	$ 4,500	$ 498,452	$ 502,952	$
Commercial Real Estate	13	2,809	7	4,820	29	6,260	49	13,889	1,703,229	1,717,118	
Commercial Construction					9	1,999	9	1,999	127,422	129,421	
Small Business	23	1,071	11	302	19	420	53	1,793	78,233	80,026	
Residential Real Estate	14	4,793	6	865	21	4,050	41	9,708	464,228	473,936	
Residential Construction									4,175	4,175	
Home Equity	31	1,737	8	878	12	1,095	51	3,710	575,568	579,278	4
Consumer -Other	402	2,986	89	478	85	564	576	4,028	64,745	68,773	273
TOTAL	499	$ 14,779	129	$ 8,253	193	$ 16,595	821	$ 39,627	$ 3,516,052	$ 3,555,679	$ 277

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In the course of resolving nonperforming loans, the Bank may choose to restructure the contractual terms of certain loans. The Bank attempts to work-out an alternative payment schedule with the borrower in order to avoid foreclosure actions. Any loans that are modified are reviewed by the Bank to identify if a TDR has occurred, which is when, for economic or legal reasons related to a borrower s financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two.

The following table shows the Company s total TDRs and other pertinent information as of the dates indicated:

	As of September 30, 2011 (Dollars in Thousands)		As of December 31, 2010 (Dollars in Thousands)	
TDRs on Accrual Status	$	35,633	$	26,091
TDRs on Nonaccrual		8,520		3,982
TOTAL TDR S	$	44,153	$	30,073
Amount of specific reserves included in the allowance for loan loss associated with TDRs:	$	1,921	$	1,658
Additional commitments to lend to a borrower who has been a party to a TDR:	$	1,668	$	1,240

The Bank s policy is to have any restructured loan which is on nonaccrual status prior to being modified remain on nonaccrual status for six months, subsequent to being modified, before management considers its return to accrual status. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. Additionally, loans classified as TDRs are adjusted accordingly to reflect the changes in value of the recorded investment in the loan, if any, resulting from the granting of a concession.

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The following table shows the modifications which occurred during the periods indicated and the change in the recorded investment subsequent to the modifications occurring:

	Three Months Ended, September 30, 2011			Three Months Ended, September 30, 2010		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in Thousands)			(Dollars in Thousands)	
Troubled Debt Restructurings						
Commercial & Industrial	1	$ 200	$ 200	9	$ 118	$ 118
Commercial Real Estate	2	872	872	5	4,506	4,506
Small Business	14	480	480	14	460	460
Residential Real Estate (2)	2	203	203	8	2,436	2,514
Consumer Home Equity				1	68	68
Consumer Other	26	302	302	12	159	159
SUBTOTAL	45	$ 2,057	$ 2,057	49	$ 7,747	$ 7,825

	Nine Months Ended, September 30, 2011			Nine Months Ended, September 30, 2010		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in Thousands)			(Dollars in Thousands)	
Troubled Debt Restructurings						
Commercial & Industrial	5	$ 410	$ 410	10	$ 952	$ 952
Commercial Real Estate	8	6,151	6,151	11	11,522	11,522
Small Business	34	1,267	1,267	47	1,518	1,518
Residential Real Estate (1)	11	3,082	3,130	14	4,780	4,886
	3	127	127	4	296	296

Consumer	Home Equity									
Consumer	Other	71		816		816	71		863	863
SUBTOTAL		132	$	11,853	$	11,901	157	$	19,931	$ 20,037

(1) The post-modification balances represent the balance of the loan on the date of modifications. These amounts may show an increase when modifications include a capitalization of interest.

(2) Residential real estate includes residential construction.

The following table shows the Company s post-modification balance of TDRs listed by type of modification as of the periods indicated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
	(Dollars in Thousands)		(Dollars in Thousands)	
Extended Maturity	$ 481	$ 687	$ 3,978	$ 9,403
Adjusted Interest Rate	622	5	647	52
Combination Rate & Maturity	954	7,133	7,276	10,582
TOTAL	$ 2,057	$ 7,825	$ 11,901	$ 20,037

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The following table shows the loans that have been modified during the past twelve months which have subsequently defaulted during the periods indicated. The Company considers a loan to have defaulted when it reaches 90 days past due.

	For the Three Months Ended September 30,					
	2011			2010		
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment	
	(Dollars in Thousands)			(Dollars in Thousands)		
Troubled Debt Restructurings That Subsequently Defaulted (1)						
Commercial & Industrial		$			$	
Commercial Real Estate						
Small Business	2		66	2		22
Residential Real Estate (2)	1		378	2		951
Consumer Home Equity						
Consumer Other	2		11	2		11
SUBTOTAL	5	$	455	6	$	984

	For the Nine Months Ended September 30,					
	2011			2010		
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment	
	(Dollars in Thousands)			(Dollars in Thousands)		
Troubled Debt Restructurings That Subsequently Defaulted						
Commercial & Industrial		$			$	
Commercial Real Estate						
Small Business	2		66	2		22
Residential Real Estate (2)	1		378	2		951
Consumer Home Equity						
Consumer Other	2		11	2		11
SUBTOTAL	5	$	455	6	$	984

(1) This table does not reflect any TDRs which were charged off during the periods indicated. The amount of TDRs that were modified in the past twelve months that were charged off were $358,000 for the three and nine months ended September 30, 2011 and $20,000 and $29,000 for the three and nine months ended September 30, 2010.

(2) Residential real estate includes residential construction.

All TDR loans are considered impaired and therefore are subject to a specific review for impairment. The impairment analysis appropriately discounts the present value of the anticipated cash flows by the loan s contractual rate of interest in effect prior to the loan s modification. The amount of impairment, if any, is recorded as a specific loss allocation to each individual loan in the allowance for loan losses. Commercial loans (commercial and industrial, commercial construction, commercial real estate and small business loans) and residential loans that have been classified as TDRs and which subsequently default are reviewed to determine if the loan should be deemed collateral dependent. In such an instance,

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any shortfall between the value of the collateral and the book value of the loan is determined by measuring the recorded investment in the loan against the fair value of the collateral less costs to sell. The Company charges off the amount of any confirmed loan loss in the period when the loans, or portion of loans, are deemed uncollectible. Smaller balance consumer TDR loans are reviewed to determine when a charge-off is appropriate.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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The table below sets forth information regarding the Company s impaired loans as of the dates indicated:

	As of September 30, 2011			For the Three Months Ended September 30, 2011		For the Nine Months Ended September 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)						
With no Related Allowance Recorded:							
Commercial & Industrial	$ 2,182	$ 2,783	$	$ 2,236	$ 46	$ 2,527	$ 143
Commercial Real Estate	19,317	19,644		19,391	345	19,600	1,020
Commercial Construction	551	551		551	11	560	32
Small Business	1,621	1,674		1,641	28	1,627	82
Residential Real Estate (1)	1	1		2		5	
Consumer Home Equity	22	22		22		22	1
Consumer Other	44	84		90	2	113	5
Subtotal	23,738	24,759		23,933	432	24,454	1,283
With an Allowance Recorded:							
Commercial & Industrial	$ 774	$ 777	$ 558	$ 756	$ 12	$ 926	$ 41
Commercial Real Estate	13,294	13,637	306	13,247	183	13,304	569
Commercial Construction							
Small Business	1,404	1,430	299	1,401	21	1,505	67
Residential Real Estate (1)	12,698	13,316	1,258	12,721	132	12,744	378
Consumer Home Equity	452	492	24	457	8	480	22
Consumer Other	2,102	2,116	240	2,043	20	1,919	56
Subtotal	30,724	31,768	2,685	30,625	376	30,878	1,133
TOTAL	$ 54,462	$ 56,527	$ 2,685	$ 54,558	$ 808	$ 55,332	$ 2,416

				For the Three Months Ended		For the Nine Months Ended	

	As of September 30, 2010			September 30, 2010		September 30, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)						
With no Related Allowance Recorded:							
Commercial & Industrial	$ 2,904	$ 3,756	$	$ 2,996	$ 58	$ 2,944	$ 169
Commercial Real Estate	15,785	16,367		16,024	275	16,367	834
Commercial Construction							
Small Business	719	835		747	15	821	43
Residential Real Estate (1)	205	205		205		206	10
Consumer Home Equity							
Consumer Other							
Subtotal	19,613	21,163		19,972	348	20,338	1,056
With an Allowance Recorded:							
Commercial & Industrial	$ 1,631	$ 2,399	$ 864	$ 1,641	$ 31	$ 2,181	$ 91
Commercial Real Estate	7,247	7,502	444	7,256	104	7,543	346
Commercial Construction							
Small Business	1,880	2,010	307	1,994	31	1,942	90
Residential Real Estate (1)	9,106	9,469	855	9,075	130	9,186	267
Consumer Home Equity	409	415	14	410	6	411	14
Consumer Other	1,554	1,572	188	1,521	16	1,253	42
Subtotal	21,827	23,367	2,672	21,897	318	22,516	850
TOTAL	$ 41,440	$ 44,530	$ 2,672	$ 41,869	$ 666	$ 42,854	$ 1,906

(1) Includes residential construction loans.

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NOTE 5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of participating common shares outstanding. Unvested restricted shares are considered outstanding in the computation of basic earnings per share as holders of unvested restricted stock awards participate fully in the awards of stock ownership of the Company, including voting and dividend rights. Diluted earnings per share is calculated in a manner similar to that of basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares (such as those resulting from the exercise of stock options) were issued during the period, computed using the treasury stock method.

During 2011, the Company issued performance-based restricted stock awards to non-executive bank employees which will vest if certain performance measures are met. These performance-based restricted stock awards do not participate in the rewards of stock ownership of the Company until vested. As a result, these awards are not considered in the calculation of basic earnings per share. To the extent the performance measures outlined in the performance-based restricted stock award agreements are met in advance of vesting, the shares will be included in the diluted earnings per share calculation, computed using the treasury stock method.

Earnings per share consisted of the following components for the periods indicated:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Dollars in Thousands)		(Dollars in Thousands)	
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 11,959	$ 11,145	$ 34,267	$ 28,402
	Weighted Average Shares		Weighted Average Shares	
BASIC SHARES	21,463,714	20,981,372(1)	21,401,885	20,961,378(1)
Effect of Dilutive Securities	13,077	52,793	32,452	74,536
DILUTIVE SHARES	21,476,791	21,034,165	21,434,337	21,035,914
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS PER SHARE				
BASIC EPS	$ 0.56	$ 0.53	$ 1.60	$ 1.35
Effect of Dilutive Securities				
DILUTIVE EPS	$ 0.56	$ 0.53	$ 1.60	$ 1.35

(1) Unvested restricted stock awards were not considered outstanding in the computation of basic earnings per share due to the immaterial balance for the three and nine months ended September 30, 2010.

The following table illustrates the options to purchase common stock that were excluded from the calculation of diluted earnings per share because they were anti-dilutive:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Stock Options	888,963	1,007,005	820,871	797,564

NOTE 6- STOCK BASED COMPENSATION

Restricted Stock Awards

During 2011 the Company has made the following restricted stock award grants:

Date	Shares Granted	Plan	Fair Value	Vesting Period
2/10/2011	27,750	2005 Employee Stock Plan	$ 27.58	Ratably over 5 years from grant date
2/17/2011	33,000	2005 Employee Stock Plan	$ 27.43	Ratably over 5 years from grant date
5/3/2011	3,000	2005 Employee Stock Plan	$ 29.00	Ratably over 5 years from grant date
5/24/2011	9,800	2010 Non-Employee Director Stock Plan	$ 28.88	At the end of 5 years from grant date (1)

(1) These restricted stock grants issued out of the 2010 Non-Employee Director Stock Plan will vest at the end of a five year period, or earlier if the director ceases to be a director for any reason other than cause, such as, for example, by retirement. If a non-employee director is removed from the Board for cause, the Company has ninety (90) days within which to exercise a right to repurchase any unvested portion of any restricted stock award from the non-employee director for the aggregate price of one dollar ($1.00).

The fair value of the restricted stock awards are based upon the average of the high and low price at which the Company s common stock traded on the date of grant. The holders of these awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights.

Performance-Based Restricted Stock Awards

On August 8, 2011, the Company granted 3,637 performance-based restricted stock awards to certain non-executive Bank employees. These performance-based restricted stock awards were issued from the 2005 Employee Stock Plan, were determined to have a fair value per share of $23.81 and vest on December 31, 2014. The number of shares vested as of December 31, 2014 may be adjusted in accordance with the attainment of certain performance measures outlined in the award agreement. These awards will be accounted for as equity awards due to the nature of these awards and the fact that these shares will not be settled in cash.

The fair value of the performance-based restricted stock awards is based upon the average of the high and low price at which the Company s common stock traded on the date of grant. The holders of these awards do not participate in the rewards of stock ownership of the Company until vested.

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Stock Options

During 2011 the Company made the following awards of non-qualified options to purchase shares of common stock:

Date	Shares Granted	Plan	Fair Value	Vesting Period (Ratably)	Expiration Date
2/10/2011	40,000	2005 Employee Stock Plan	$ 6.81	3 years from grant date	2/10/2021
2/17/2011	54,000	2005 Employee Stock Plan	$ 6.39	3 years from grant date	2/17/2021
5/24/2011	7,000	2010 Non-Employee Director Stock Plan	$ 6.72	3 year period ending 1/1/2013	5/24/2021

The following table shows the assumptions used to determine the fair value of the granted options:

	February 10, 2011	February 17, 2011	May 24, 2011
Volatility	32.38%	32.11%	32.95%
Expected Life	5.5 Years	5 Years	5 Years
Dividend Yield	2.90%	2.89%	2.87%
Risk Free Interest Rate	2.57%	2.27%	1.81%

NOTE 7 DERIVATIVES AND HEDGING ACTIVITIES

The Company s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company s known or expected cash receipts and its known or expected cash payments principally to manage the Company s interest rate risk. Additionally, the Company enters into interest rate derivatives and foreign exchange contracts to accommodate the business requirements of its customers (customer related positions). The Company minimizes the market and liquidity risks of customer-related positions by entering into similar offsetting positions with broker-dealers. Derivative instruments are carried at fair value in the Company s financial statements. The accounting for changes in the fair value of a derivative instrument is dependent upon whether or not it qualifies as a hedge for accounting purposes, and further, by the type of hedging relationship.

The Company does not enter into proprietary trading positions for any derivatives.

Asset Liability Management

The Company currently utilizes interest rate swap agreements as hedging instruments against interest rate risk associated with the Company s borrowings. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount, for a predetermined period of time, from a second party. The amounts relating to the notional principal amount are not actually exchanged. The maximum length of time over

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which the Company is currently hedging its exposure to the variability in future cash flows for forecasted transactions related to the payment of variable interest on existing financial instruments is eight years.

The following table reflects the Company s derivative positions for the periods indicated below for interest rate swaps which qualify as hedges for accounting purposes:

As of September 30, 2011

Notional Amount	**Trade Date**	**Effective Date**	**Maturity Date**	**Receive (Variable) Index**	**Current Rate Received**	**Pay Fixed Swap Rate**	**Fair Value at September 30, 2011**
			(Dollars in Thousands)				
$ 25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.35%	5.04%	$ (4,883)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.35%	5.04%	(4,884)
25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.34%	2.65%	(1,132)
25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.34%	2.59%	(1,101)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.34%	2.94%	(2,280)
50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.35%	3.04%	(3,665)
25,000	5-May-11	10-Jun-11	10-Jun-15	3 Month LIBOR	0.34%	1.71%	(761)
40,000	18-Aug-11	2-Apr-12	10-Mar-19	3 Month LIBOR	TBD	1.89%	(174) (1)
$ 240,000							$ (18,880)