INDEPENDENT BANK CORP
Form 10-Q
August 07, 2012
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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 June 30, 2012

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	**(I.R.S. Employer**

incorporation or organization)	**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 x No ¨

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

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

Large Accelerated Filer	¨	Accelerated Filer	x
Non-accelerated Filer	¨	Smaller Reporting Company	¨

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

As of August 1, 2012, there were 21,654,707 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)

	June 30, 2012	December 31, 2011
ASSETS		
CASH AND DUE FROM BANKS	$ 65,826	$ 58,301
INTEREST EARNING DEPOSITS WITH BANKS	121,029	179,203
FEDERAL FUNDS SOLD	1,524	
SECURITIES:		
Trading Securities		8,240
Securities Available for Sale	338,331	305,332
Securities Held to Maturity (fair value $196,199 and $211,494)	188,450	204,956
TOTAL SECURITIES	526,781	518,528
LOANS HELD FOR SALE (at fair value)	22,310	20,500
LOANS:		
Commercial and Industrial	625,695	575,716
Commercial Real Estate	1,912,563	1,847,654
Commercial Construction	149,990	128,904
Small Business	79,738	78,509
Residential Real Estate	389,053	416,570
Residential Construction	14,960	9,631
Home Equity 1st Position	466,136	381,766
Home Equity 2nd Position	310,717	314,297
Consumer Other	31,937	41,343
TOTAL LOANS	3,980,789	3,794,390
Less: Allowance for Loan Losses	(48,403)	(48,260)
NET LOANS	3,932,386	3,746,130
FEDERAL HOME LOAN BANK STOCK	33,564	35,854
BANK PREMISES AND EQUIPMENT, NET	49,384	48,252
GOODWILL	130,074	130,074
IDENTIFIABLE INTANGIBLE ASSETS	9,850	10,648
CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES	87,525	86,137
OTHER REAL ESTATE OWNED & OTHER FORECLOSED ASSETS	11,275	6,924
OTHER ASSETS	133,036	129,689
TOTAL ASSETS	$ 5,124,564	$ 4,970,240
LIABILITIES AND STOCKHOLDERS EQUITY		
DEPOSITS:		
Demand Deposits	$ 1,070,279	$ 992,418

Savings and Interest Checking Accounts	1,560,523	1,473,812
Money Market	807,796	780,437
Time Certificates of Deposit Over $100,000	249,293	225,099
Other Time Certificates of Deposits	390,242	405,063
TOTAL DEPOSITS	4,078,133	3,876,829
BORROWINGS:		
Federal Home Loan Bank and Other Borrowings	189,522	229,701
Wholesale Repurchase Agreements	50,000	50,000
Customer Repurchase Agreements	144,838	166,128
Junior Subordinated Debentures	61,857	61,857
Subordinated Debentures	30,000	30,000
TOTAL BORROWINGS	476,217	537,686
OTHER LIABILITIES	86,622	86,668
TOTAL LIABILITIES	4,640,972	4,501,183
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: 21,627,710 Shares at June 30, 2012 and 21,499,768 Shares at December 31, 2011 (includes 263,124 and 235,540 shares of unvested participating restricted stock awards, respectively)	214	213
Shares Held in Rabbi Trust at Cost 176,981 Shares at June 30, 2012 and 180,058 Shares at December 31, 2011	(3,078)	(2,980)
Deferred Compensation Obligation	3,078	2,980
Additional Paid in Capital	236,279	233,878
Retained Earnings	251,429	239,452
Accumulated Other Comprehensive Loss, Net of Tax	(4,330)	(4,486)
TOTAL STOCKHOLDERS EQUITY	483,592	469,057
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 5,124,564	$ 4,970,240

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

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INDEPENDENT BANK CORP.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited Dollars in Thousands, Except Per Share Data)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
INTEREST INCOME:				
Interest on Loans	$ 43,813	$ 43,938	$ 86,891	$ 87,154
Taxable Interest and Dividends on Securities	4,415	5,357	8,942	10,850
Nontaxable Interest and Dividends on Securities	23	95	52	208
Interest on Loans Held for Sale	156	70	286	189
Interest on Federal Funds Sold	19	14	51	31
TOTAL INTEREST AND DIVIDEND INCOME	48,426	49,474	96,222	98,432
INTEREST EXPENSE:				
Interest on Deposits	2,687	3,544	5,426	7,029
Interest on Borrowings	3,111	3,854	6,316	7,854
TOTAL INTEREST EXPENSE	5,798	7,398	11,742	14,883
NET INTEREST INCOME	42,628	42,076	84,480	83,549
PROVISION FOR LOAN LOSSES	8,500	3,482	10,100	5,682
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	34,128	38,594	74,380	77,867
NONINTEREST INCOME:				
Service Charges on Deposit Accounts	3,923	4,192	7,812	8,151
Interchange and ATM Fees	2,399	1,974	4,767	3,676
Investment Management	3,827	3,603	7,390	6,819
Mortgage Banking Income	1,463	683	2,793	1,730
Increase in Cash Surrender Value of Life Insurance Policies	741	860	1,454	1,566
Net Gain on Sales of Securities		723		723
Gross Change on OTTI Securities	(106)	170	168	419
Less: Portion of OTTI Losses Recognized in OCI	30	(306)	(244)	(595)
Net Impairment Losses Recognized in Earnings on Securities	(76)	(136)	(76)	(176)
Other Noninterest Income	2,706	1,575	4,753	3,583
TOTAL NONINTEREST INCOME	14,983	13,474	28,893	26,072
NONINTEREST EXPENSES:				
Salaries and Employee Benefits	19,775	19,762	41,211	40,014
Occupancy and Equipment Expenses	4,234	4,263	8,534	8,838
Advertising Expense	1,473	1,606	2,210	2,544
Data Processing & Facilities Management	1,099	1,038	2,274	2,676
FDIC Assessment	830	778	1,579	2,069
Merger and Acquisition Expenses	672		672	

Telecommunications	666	534	1,284	1,061
Consulting Expense	583	512	1,209	1,029
Legal Fees	447	647	1,095	1,066
Foreclosure Expenses	124	594	323	1,021
Other Non-Interest Expenses	7,096	7,122	13,965	13,020
TOTAL NONINTEREST EXPENSES	36,999	36,856	74,356	73,338
INCOME BEFORE INCOME TAXES	12,112	15,212	28,917	30,601
PROVISION FOR INCOME TAXES	3,238	4,092	7,860	8,293
NET INCOME	$ 8,874	$ 11,120	$ 21,057	$ 22,308
BASIC EARNINGS PER SHARE	$ 0.41	$ 0.52	$ 0.98	$ 1.04
DILUTED EARNINGS PER SHARE	$ 0.41	$ 0.52	$ 0.97	$ 1.04
WEIGHTED AVERAGE COMMON SHARES (BASIC)	21,623,827	21,441,864	21,592,416	21,370,457
COMMON SHARE EQUIVALENTS	20,377	39,159	22,251	43,775
WEIGHTED AVERAGE COMMON SHARES (DILUTED)	21,644,204	21,481,023	21,614,667	21,414,232
CASH DIVIDENDS DECLARED PER COMMON SHARE	$ 0.21	$ 0.19	$ 0.42	$ 0.38

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

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INDEPENDENT BANK CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited Dollars in Thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
NET INCOME	$ 8,874	$ 11,120	$ 21,057	$ 22,308
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
UNREALIZED GAINS (LOSSES) ON SECURITIES				
Change in Fair Value of Securities Available for Sale	(139)	1,436	(300)	772
Less: Net Security Losses (Gains) Reclassified into Earnings	45	(357)	45	(333)
Net Change in Fair Value of Securities Available for Sale	(94)	1,079	(255)	439
UNREALIZED GAINS (LOSSES) ON CASH FLOW HEDGES				
Change in Fair Value of Cash Flow Hedges	(1,227)	(2,711)	(1,196)	(2,407)
Less: Net Cash Flow Hedge Losses Reclassified into Earnings	796	807	1,561	1,497
Net Change in Fair Value of Cash Flow Hedges	(431)	(1,904)	365	(910)
AMORTIZATION OF CERTAIN COSTS INCLUDED IN NET PERIODIC RETIREMENT COSTS	23	91	46	252
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(502)	(734)	156	(219)
TOTAL COMPREHENSIVE INCOME	$ 8,372	$ 10,386	$ 21,213	$ 22,089

The accompanying notes are an integral part of these consolidated financials statements

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INDEPENDENT BANK CORP.

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, 2011	21,499,768	$ 213	$ (2,980)	$ 2,980	$ 233,878	$ 239,452	$ (4,486)	$ 469,057
NET INCOME						21,057		21,057
OTHER COMPREHENSIVE INCOME							156	156
COMMON DIVIDEND DECLARED ($0.42 PER SHARE)						(9,080)		(9,080)
PROCEEDS FROM EXERCISE OF STOCK OPTIONS	21,658				459			459
TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY					59			59
EQUITY BASED COMPENSATION					1,551			1,551
RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS SURRENDERED	85,254	1			(345)			(344)
SHARES ISSUED UNDER DIRECT STOCK PURCHASE PLAN	21,030				591			591
DEFERRED COMPENSATION OBLIGATION			(98)	98				
TAX BENEFIT RELATED TO DEFERRED COMPENSATION DISTRIBUTIONS					86			86
BALANCE JUNE 30, 2012	21,627,710	$ 214	$ (3,078)	$ 3,078	$ 236,279	$ 251,429	$ (4,330)	$ 483,592
BALANCE DECEMBER 31, 2010	21,220,801	$ 210	$ (2,738)	$ 2,738	$ 226,708	$ 210,320	$ (766)	$ 436,472
NET INCOME						22,308		22,308
OTHER COMPREHENSIVE LOSS							(219)	(219)
COMMON DIVIDEND DECLARED ($0.38 PER SHARE)						(8,140)		(8,140)
PROCEEDS FROM EXERCISE OF STOCK OPTIONS	162,875	2			3,699			3,701
TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY					253			253
EQUITY BASED COMPENSATION					1,352			1,352
RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS SURRENDERED	60,495				(361)			(361)
SHARES ISSUED UNDER DIRECT STOCK PURCHASE PLAN	10,018				262			262
DEFERRED COMPENSATION OBLIGATION			(119)	119				
					74			74

TAX BENEFIT RELATED TO DEFERRED COMPENSATION DISTIBUTIONS															
BALANCE JUNE 30, 2011	21,454,189	$	212	$	(2,857)	$	2,857	$	231,987	$	224,488	$	(985)	$	455,702

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

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INDEPENDENT BANK CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited Dollars In Thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 21,057	$ 22,308
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and Amortization	5,346	4,896
Provision for Loan Losses	10,100	5,682
Deferred Income Tax Benefit	(19)	(21)
Net Gain on Sale of Investments		(723)
Loss on Write-Down of Investments in Securities Available for Sale	76	176
(Gain)Loss on Sale of Fixed Assets	(16)	5
Loss on Sale of Other Real Estate Owned and Foreclosed Assets	290	953
Gain Realized from Early Termination of Hedging Relationship	(22)	
Realized Gain on Sale Leaseback Transaction	(517)	(517)
Stock Based Compensation	1,551	1,352
Increase in Cash Surrender Value of Life Insurance Policies	(1,451)	(1,551)
Change in Fair Value on Loans Held for Sale	(112)	(647)
Net Change In:		
Trading Assets	(265)	(942)
Loans Held for Sale	(1,698)	16,309
Other Assets	(5,034)	(6,428)
Other Liabilities	831	(1,789)
TOTAL ADJUSTMENTS	9,060	16,755
NET CASH PROVIDED BY OPERATING ACTIVITIES	30,117	39,063
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Proceeds from Sales of Securities Available For Sale		14,639
Proceeds from Maturities and Principal Repayments of Securities Available For Sale	46,434	58,018
Purchase of Securities Available For Sale	(71,699)	
Proceeds from Maturities and Principal Repayments of Securities Held to Maturity	25,944	15,130
Purchase of Securities Held to Maturity	(9,975)	(45,946)
Redemption of Federal Home Loan Bank Stock	2,290	
Proceeds from (Purchase of) Life Insurance Policies	63	(101)
Net Increase in Loans	(202,505)	(180,011)
Cash Used In Business Combinations		(457)
Purchase of Bank Premises and Equipment	(3,889)	(3,214)
Proceeds from the Sale of Bank Premises and Equipment	30	
Proceeds Resulting from Early Termination of Hedging Relationship	22	
Proceeds from the Sale of Other Real Estate Owned and Foreclosed Assets	1,801	3,573
NET CASH USED IN INVESTING ACTIVITIES	(211,484)	(138,369)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Net Increase(Decrease) in Time Deposits	9,373	(22,173)

Net Increase in Other Deposits	191,931	180,952
Net (Decrease) Increase in Wholesale and Customer Repurchase Agreements	(21,290)	15,047
Net (Decrease) Increase in Short Term Federal Home Loan Bank Advances	(40,000)	856
Net Decrease in Long Term Federal Home Loan Bank Advances		(45,000)
Net Decrease in Treasury Tax & Loan Notes		(409)
Proceeds from Exercise of Stock Options	459	3,701
Tax Benefit from Stock Option Exercises	59	253
Restricted Shares Surrendered	(344)	(361)
Tax Benefit from Deferred Compensation Distribution	86	74
Shares Issued Under Direct Stock Purchase Plan	591	262
Common Dividends Paid	(8,623)	(7,882)
NET CASH PROVIDED BY FINANCING ACTIVITIES	132,242	125,320
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(49,125)	26,014
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	237,504	161,282
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 188,379	$ 187,296
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of Loans to Foreclosed Assets	$ 5,136	$ 4,233
Transfer of Securities from Trading to Available for Sale	$ 8,505	$

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.

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 June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 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, 2011, filed with the Securities and Exchange Commission.

NOTE 2 RECENT ACCOUNTING STANDARDS

FASB ASC Topic No. 220 Comprehensive Income Update No. 2011-05 and Update no. 2011-12. Update No. 2011-05 was issued in June 2011, and provided amendments to Topic No. 220, Comprehensive Income , stating 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. Update 2011-12 deferred the component of Update 2011-05 which required entities to present separately on the income statement, reclassification adjustments between other comprehensive income and

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net income. The amendments in these updates 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 adoption of this standard did not have an impact on the Company s consolidated financial position.

FASB ASC Topic No. 820 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in United States Generally Accepted Accounting Principles (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 IFRS. 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 adoption of this standard did not have an 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:

	June 30, 2012					December 31, 2011				
	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)					
AVAILABLE FOR SALE SECURITIES:										
U.S. Government Agency Securities	$ 20,057	$ 394	$	$	$ 20,451	$	$	$	$	$
Agency Mortgage-Backed Securities	223,851	14,621			238,472	222,349	16,042			238,391
Agency Collateralized Mortgage Obligations	56,566	639			57,205	52,927	874			53,801
Private Mortgage-Backed Securities	4,612			127	4,739	6,215			(105)	6,110
Single Issuer Trust Preferred Securities Issued by Banks	5,000	8			5,008	5,000		(790)		4,210
Pooled Trust Preferred Securities Issued by Banks and Insurers	8,485		(2,577)	(3,154)	2,754	8,505		(2,518)	(3,167)	2,820
Marketable Equity Securities	9,780	17	(95)		9,702					
TOTAL AVAILABLE FOR SALE SECURITIES	$ 328,351	$ 15,679	$ (2,672)	$ (3,027)	$ 338,331	$ 294,996	$ 16,916	$ (3,308)	$ (3,272)	$ 305,332
HELD TO MATURITY SECURITIES:										
U.S. Treasury Securities	$ 1,014	$ 124	$	$	$ 1,138	$ 1,014	$ 103	$	$	$ 1,117
Agency Mortgage-Backed Securities	91,385	4,888			96,273	109,553	4,406			113,959
Agency Collateralized Mortgage Obligations	81,147	2,567			83,714	77,804	2,494			80,298
State, County, and Municipal Securities	1,939	14			1,953	3,576	34			3,610
Single Issuer Trust Preferred Securities Issued by Banks	7,957	18	(38)		7,937	8,000	15	(669)		7,346
Corporate Debt Securities	5,008	176			5,184	5,009	155			5,164
TOTAL HELD TO MATURITY SECURITIES	$ 188,450	$ 7,787	$ (38)	$	$ 196,199	$ 204,956	$ 7,207	$ (669)	$	$ 211,494
TOTAL	$ 516,801	$ 23,466	$ (2,710)	$ (3,027)	$ 534,530	$ 499,952	$ 24,123	$ (3,977)	$ (3,272)	$ 516,826

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 realized on available for sale securities for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)			
GROSS GAINS REALIZED ON AVAILABLE FOR SALE SECURITIES	$	$ 723	$	$ 723

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 as of June 30, 2012 is presented below:

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	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)			
DUE IN ONE YEAR OR LESS	$ 10	$ 11	$	$
DUE AFTER ONE YEAR TO FIVE YEARS	2,015	2,154	7,247	7,518
DUE AFTER FIVE TO TEN YEARS	71,487	75,389	1,658	1,785
DUE AFTER TEN YEARS	245,059	251,075	179,545	186,896
TOTAL DEBT SECURITIES	$ 318,571	$ 328,629	$ 188,450	$ 196,199
MARKETABLE EQUITY SECURITIES	$ 9,780	$ 9,702	$	$
TOTAL	$ 328,351	$ 338,331	$ 188,450	$ 196,199

Inclusive in the table above is $11.3 million and $13.0 million, respectively, of callable securities in the Company s investment portfolio at June 30, 2012 and December 31, 2011.

At June 30, 2012 and December 31, 2011 investment securities carried at $369.8 million and $389.7 million, respectively, were pledged to secure public deposits, assets sold under repurchase agreements, letters of credit, and for other purposes.

At June 30, 2012 and December 31, 2011, 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 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 is 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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		June 30, 2012					
		Less than 12 months		12 months or longer		Total	
	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars In Thousands)					
SINGLE ISSUER TRUST PREFERRED SECURITIES ISSUED BY BANKS AND INSURERS	1	$	$	$ 5,000	$ (38)	$ 5,000	$ (38)
POOLED TRUST PREFERRED SECURITIES ISSUED BY BANKS AND INSURERS	2			2,039	(2,577)	2,039	(2,577)
MARKETABLE EQUITY SECURITIES	33	7,111	(95)			7,111	(95)
TOTAL TEMPORARILY IMPAIRED SECURITIES	36	$ 7,111	$ (95)	$ 7,039	$ (2,615)	$ 14,150	$ (2,710)

		December 31, 2011					
		Less than 12 months		12 months or longer		Total	
	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars In Thousands)					
SINGLE ISSUER TRUST PREFERRED SECURITIES ISSUED BY BANKS AND INSURERS	2	$	$	$ 8,617	$ (1,459)	$ 8,617	$ (1,459)
POOLED TRUST PREFERRED SECURITIES ISSUED BY BANKS AND INSURERS	2			2,117	(2,518)	2,117	(2,518)
TOTAL TEMPORARILY IMPAIRED SECURITIES	4	$	$	$ 10,734	$ (3,977)	$ 10,734	$ (3,977)

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 June 30, 2012:

Single Issuer Trust Preferred Securities: This portfolio currently consists of one security, which is below investment grade. The unrealized loss on this security is attributable to the illiquid nature of the trust preferred market in the current economic environment. Management evaluates various financial metrics for this issuer, including regulatory capital ratios.

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. 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.

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Marketable Equity Securities: This portfolio consists of mutual funds and other equity investments. During some periods, the mutual funds in the Company s investment portfolio may have unrealized losses resulting from market fluctuations as well as the risk premium associated with that particular asset class. For example, emerging market equities tend to trade at a higher risk premium than U.S. government bonds and thus, will fluctuate to a greater degree on both the upside and the downside. In the context of a well-diversified portfolio, however, the correlation amongst the various asset classes represented by the funds serves to minimize downside risk. The Company evaluates each mutual fund in the portfolio regularly and measures performance on both an absolute and relative basis. A reasonable recovery period for positions with an unrealized loss is based on management s assessment of general economic data, trends within a particular asset class, valuations, earnings forecasts and bond durations.

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 these securities possess characteristics which in the current economic environment could lead to further credit related OTTI charges. The following tables summarize pertinent information as of June 30, 2012, that was considered by management in determining if OTTI existed:

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	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	$	$ (1,088)	$ 195	$ (3,676)	$ (4,764)
Pooled Trust Preferred Security B	D					(3,481)	(3,481)
Pooled Trust Preferred Security C	C1	506		(412)	94	(482)	(894)
Pooled Trust Preferred Security D	D					(990)	(990)
Pooled Trust Preferred Security E	C1	2,080		(1,654)	426	(1,368)	(3,022)
Pooled Trust Preferred Security F	B	1,892	(1,348)		544		
Pooled Trust Preferred Security G	A1	2,724	(1,229)		1,495		
TOTAL POOLED TRUST PREFERRED SECURITIES		$ 8,485	$ (2,577)	$ (3,154)	$ 2,754	$ (9,997)	$ (13,151)
PRIVATE MORTGAGE BACKED SECURITIES:							
Private Mortgage-Backed Securities One	2A1	$ 2,767	$	$ 67	$ 2,834	$ (765)	$ (698)
Private Mortgage-Backed Securities Two	A19	1,845		60	1,905	(85)	(25)
TOTAL PRIVATE MORTGAGE-BACKED SECURITIES		$ 4,612	$	$ 127	$ 4,739	$ (850)	$ (723)
TOTAL		$ 13,097	$ (2,577)	$ (3,027)	$ 7,493	$ (10,847)	$ (13,874)

(1) The amortized cost reflects previously recorded OTTI charges recognized in earnings for the applicable 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)
POOLED TRUST PREFERRED SECURITIES:						
Trust Preferred Security A	C1	57	32.96%	20.76%	0.00%	C (Fitch)
Trust Preferred Security B	D	57	32.96%	20.76%	0.00%	C (Fitch)
Trust Preferred Security C	C1	48	30.90%	20.87%	0.00%	C (Fitch)
Trust Preferred Security D	D	48	30.90%	20.87%	0.00%	C (Fitch)
Trust Preferred Security E	C1	48	27.54%	15.37%	0.92%	C (Fitch)
Trust Preferred Security F	B	33	28.14%	24.88%	28.46%	CC (Fitch)
Trust Preferred Security G	A1	33	28.14%	24.88%	53.29%	CCC+ (S&P)
PRIVATE MORTGAGE BACKED SECURITIES:						
Private Mortgage-Backed Securities One	2A1	N/A	4.50%	13.44%	0.00%	C (Fitch)
Private Mortgage-Backed Securities Two	A19	N/A	3.15%	6.22%	0.00%	CC (Fitch)

(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 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.

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Dollars in Thousands)			
BALANCE AT BEGINNING OF PERIOD	$ (10,771)	$ (10,568)	$ (10,771)	$ (10,528)
ADD:				
Incurred on Securities not Previously Impaired				
Incurred on Securities Previously Impaired	(76)	(136)	(76)	(176)
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	$ (10,847)	$ (10,704)	$ (10,847)	$ (10,704)

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NOTE 4 LOANS, ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following tables bifurcates the amount of allowance allocated to each loan category based on collective impairment analysis or evaluated individually for impairment as of the periods indicated:

	June 30, 2012 (Dollars in Thousands)							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	Total
FINANCING RECEIVALBES:								
Ending Balance: Total Loans by Group	$ 625,695	$ 1,912,563	$ 149,990	$ 79,738	$ 404,013	$ 776,853	$ 31,937	$ 3,980,789(1)
Ending Balance: Individually Evaluated for Impairment	$ 7,648	$ 35,666	$	$ 2,489	$ 12,913	$ 339	$ 1,835	$ 60,890
Ending Balance: Collectively Evaluated for Impairment	$ 618,047	$ 1,876,897	$ 149,990	$ 77,249	$ 391,100	$ 776,514	$ 30,102	$ 3,919,899

	December 31, 2011 (Dollars in Thousands)							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	Total
FINANCING RECEIVALBES:								
Ending Balance: Total Loans by Group	$ 575,716	$ 1,847,654	$ 128,904	$ 78,509	$ 426,201	$ 696,063	$ 41,343	$ 3,794,390(1)
Ending Balance: Individually Evaluated for Impairment	$ 5,608	$ 37,476	$ 843	$ 2,326	$ 12,984	$ 326	$ 2,138	$ 61,701
Ending Balance: Collectively Evaluated for Impairment	$ 570,108	$ 1,810,178	$ 128,061	$ 76,183	$ 413,217	$ 695,737	$ 39,205	$ 3,732,689

(1) The amount of deferred fees included in the ending balance was $3.0 million and $2.9 million at June 30, 2012 and December 31, 2011, respectively.

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The following tables summarize changes in allowance for loan losses by loan category for the periods indicated:

Three Months Ended June 30, 2012
(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	$ 11,454	$ 22,829	$ 2,233	$ 1,459	$ 3,072	$ 6,077	$ 1,216	$ 48,340
Charge-offs	(4,707)	(2,133)		(136)	(105)	(1,391)	(296)	(8,768)
Recoveries	113			46		18	154	331
Provision	4,698	680	(13)	(49)	14	3,150	20	8,500
Ending Balance	$ 11,558	$ 21,376	$ 2,220	$ 1,320	$ 2,981	$ 7,854	$ 1,094	$ 48,403

Three Months Ended June 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	$ 10,843	$ 22,353	$ 1,993	$ 3,387	$ 2,856	$ 3,395	$ 1,617	$ 46,444
Charge-offs	(818)	(492)	(769)	(318)	(280)	(501)	(409)	(3,587)
Recoveries	69		25	26		13	165	298
Provision	989	1,134	822	(1,042)	666	806	107	3,482
Ending Balance	$ 11,083	$ 22,995	$ 2,071	$ 2,053	$ 3,242	$ 3,713	$ 1,480	$ 46,637

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Six Months Ended June 30, 2012
(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	$ 11,682	$ 23,514	$ 2,076	$ 1,896	$ 3,113	$ 4,597	$ 1,382	$ 48,260
Charge-offs	(4,722)	(2,737)		(306)	(214)	(2,141)	(593)	(10,713)
Recoveries	313			98		31	314	756
Provision	4,285	599	144	(368)	82	5,367	(9)	10,100
Ending Balance	$ 11,558	$ 21,376	$ 2,220	$ 1,320	$ 2,981	$ 7,854	$ 1,094	$ 48,403
Ending Balance: Individually Evaluated for Impairment	$ 278	$ 445	$	$ 140	$ 1,209	$ 30	$ 178	$ 2,280
Ending Balance: Collectively Evaluated for Impairment	$ 11,280	$ 20,931	$ 2,220	$ 1,180	$ 1,772	$ 7,824	$ 916	$ 46,123

Six Months Ended June 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	(1,706)	(1,144)	(769)	(584)	(402)	(579)	(887)	(6,071)
Recoveries	271		75	54		17	354	771
Provision	2,095	2,200	620	(1,157)	729	906	289	5,682
Ending Balance	$ 11,083	$ 22,995	$ 2,071	$ 2,053	$ 3,242	$ 3,713	$ 1,480	$ 46,637
Ending Balance: Individually Evaluated for Impairment	$ 60	$ 478	$	$ 181	$ 1,281	$ 23	$ 255	$ 2,278
Ending Balance: Collectively Evaluated for Impairment	$ 11,023	$ 22,517	$ 2,071	$ 1,872	$ 1,961	$ 3,690	$ 1,225	$ 44,359

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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Commercial Real Estate 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 Construction Loans in this category consist of short-term construction loans, revolving and nonrevolving 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 nonamortizing 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 guarantees for payment from individuals holding material ownership interests of the borrowing entities.

Consumer Portfolio:

Residential Real Estate 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 nonowner 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. These loans may be secured or unsecured.

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 portfolio, 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, currently these borrowers are marginally acceptable; no loss of principal or interest is envisioned.

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8 Rating Definite Weakness

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 portfolio:

		June 30, 2012				
Category	**Risk Rating**	**Commercial and Industrial**	**Commercial Real Estate**	**Commercial Construction**	**Small Business**	**Total**
				(Dollars in Thousands)		
PASS	1 - 6	$ 580,396	$ 1,715,824	$ 138,288	$ 71,923	$ 2,506,431
POTENTIAL WEAKNESS	7	25,862	94,459	6,112	3,824	130,257
DEFINITE WEAKNESS LOSS UNLIKELY	8	18,258	100,926	5,590	3,893	128,667
PARTIAL LOSS PROBABLE	9	1,179	1,354		98	2,631
DEFINITE LOSS	10					
TOTAL		$ 625,695	$ 1,912,563	$ 149,990	$ 79,738	$ 2,767,986

		December 31, 2011				
Category	**Risk Rating**	**Commercial and Industrial**	**Commercial Real Estate**	**Commercial Construction**	**Small Business**	**Total**
				(Dollars in Thousands)		
PASS	1 - 6	$ 528,798	$ 1,626,745	$ 114,633	$ 70,543	$ 2,340,719
POTENTIAL WEAKNESS	7	33,313	124,661	7,859	4,041	169,874
DEFINITE WEAKNESS LOSS UNLIKELY	8	12,683	93,438	6,412	3,762	116,295
PARTIAL LOSS PROBABLE	9	922	2,810		163	3,895
DEFINITE LOSS	10					
TOTAL		$ 575,716	$ 1,847,654	$ 128,904	$ 78,509	$ 2,630,783

For the Company s consumer portfolio, 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. At June 30, 2012 and December 31, 2011, 60.0% and 54.8% of the home equity loans were in first lien position, respectively. In addition, for all second lien position home equity loans, management reviews the performance of the first position lien, which is often held at another institution, when determining the performing status of the loan. The following table shows the weighted average FICO scores and the weighted average combined LTV ratio as of the periods indicated below:

	June 30, 2012	December 31, 2011
RESIDENTIAL PORTFOLIO:		
FICO Score (re-scored) (1)	729	731
Combined LTV (re-valued) (2)	67.0%	67.0%
HOME EQUITY PORTFOLIO:		
FICO Score (re-scored) (1)	763	762
Combined LTV (re-valued) (2)	55.0%	55.0%

(1) The average FICO scores for June 30, 2012 are based upon rescores available from May 2012 , and actual score data for loans booked between June 1 and June 30, 2012. The average FICO scores for December 31, 2011 are based upon rescores available from November 2011 and actual score data for loans booked between December 1 and December 31.

(2) The combined LTV ratios for June 30, 2012 are based upon updated automated valuations as of May 31, 2012. The combined LTV ratios for December 31, 2011 are based upon updated automated valuations as of November 30, 2011.

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:

	June 30, 2012	December 31, 2011
	(Dollars In Thousands)	
COMMERCIAL AND INDUSTRIAL	$ 4,404	$ 1,883
COMMERCIAL REAL ESTATE	9,371	12,829
COMMERCIAL CONSTRUCTION		280
SMALL BUSINESS	588	542
RESEDENTIAL REAL ESTATE	9,939	9,867
HOME EQUITY	6,730	3,130
CONSUMER OTHER	211	381
TOTAL NONACCRUAL LOANS (1)	$ 31,243	$ 28,912

(1) Included in these amounts were $4.6 million and $9.2 million nonaccruing TDRs at June 30, 2012 and December 31, 2011, respectively.

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

	June 30, 2012										
	30-59 days		60-89 days		90 days or more		Total Past Due				
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
						(Dollars in Thousands)					
LOAN PORTFOLIO:											
Commercial and Industrial	15	$ 2,016	11	$ 1,336	16	$ 2,070	42	$ 5,422	$ 620,273	$ 625,695	$
Commercial Real Estate	12	3,171	5	1,497	24	5,350	41	10,018	1,902,545	1,912,563	
Commercial Construction									149,990	149,990	
Small Business	14	603	3	25	8	64	25	692	79,046	79,738	
Residential Real Estate	18	2,944	5	1,352	30	7,663	53	11,959	377,094	389,053	
Residential Construction									14,960	14,960	
Home Equity	11	541	11	786	22	1,754	44	3,081	773,772	776,853	38
Consumer Other	189	1,207	45	199	36	226	270	1,632	30,305	31,937	41
TOTAL	259	$ 10,482	80	$ 5,195	136	$ 17,127	475	$ 32,804	$ 3,947,985	$ 3,980,789	$ 79

	December 31, 2011										
	30-59 days		60-89 days		90 days or more		Total Past Due				
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
						(Dollars in Thousands)					
LOAN PORTFOLIO:											
Commercial and Industrial	21	$ 2,143	10	$ 2,709	20	$ 1,279	51	$ 6,131	$ 569,585	$ 575,716	$
Commercial Real Estate	7	3,684	7	2,522	29	6,737	43	12,943	1,834,711	1,847,654	
Commercial Construction					3	280	3	280	128,624	128,904	
Small Business	19	320	3	21	12	148	34	489	78,020	78,509	

Residential Real Estate	14	2,770	10	3,208	31	6,065	55	12,043	404,527	416,570	
Residential Construction									9,631	9,631	
Home Equity	28	1,483	19	1,139	19	1,502	66	4,124	691,939	696,063	
Consumer Other	260	1,821	57	303	58	374	375	2,498	38,845	41,343	41
TOTAL	349	$ 12,221	106	$ 9,902	172	$ 16,385	627	$ 38,508	$ 3,755,882	$ 3,794,390	$ 41

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.

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

	June 30, 2012	December 31, 2011
	(Dollars in Thousands)	
TDRS ON ACCRUAL STATUS	$ 40,184	$ 37,151
TDRS ON NONACCRUAL	4,561	9,230
TOTAL TDR S	$ 44,745	$ 46,381
AMOUNT OF SPECIFIC RESERVES INCLUDED IN THE ALLOWANCE FOR LOAN LOSSES ASSOCIATED WITH TDRS:	$ 2,025	$ 1,887
ADDITIONAL COMMITMENTS TO LEND TO A BORROWER WHO HAS BEEN A PARTY TO A TDR:	$ 398	$ 693

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 to reflect the changes in value of the recorded investment in the loan, if any, resulting from the granting of a concession. For all residential loan modifications, the borrower must perform during a 90 day trial period before the modification is finalized.

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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, June 30, 2012			Six Months Ended, June 30, 2012		
	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)			
TROUBLED DEBT RESTRUCTURINGS:						
Commercial & Industrial	7	$ 1,115	$ 1,115	11	$ 1,273	$ 1,273
Commercial Real Estate	7	3,839	3,839	9	4,907	4,907
Small Business	1	17	17	8	360	360
Residential Real Estate	1	261	261	2	378	378
Consumer Home Equity	1	64	66	1	64	66
Consumer Other	2	65	65	4	150	150
TOTAL	19	$ 5,361	$ 5,363	35	$ 7,132	$ 7,134

(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.

	Three Months Ended, June 30, 2011			Six Months Ended, June 30, 2011		
	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)			
TROUBLED DEBT RESTRUCTURINGS:						
Commercial & Industrial	4	$ 210	$ 210	4	$ 210	$ 210
Commercial Real Estate	2	3,831	3,831	5	4,995	4,995
Small Business	10	395	395	20	787	787
Residential Real Estate	7	2,715	2,761	9	2,880	2,927
Consumer Home Equity	2	101	101	2	101	101
Consumer Other	17	246	246	46	528	528
TOTAL	42	$ 7,498	$ 7,544	86	$ 9,501	$ 9,548

(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.

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Dollars in Thousands)		(Dollars in Thousands)	
EXTENDED MATURITY	$ 313	$ 1,633	$ 354	$ 3,188
ADJUSTED INTEREST RATE	2,119		3,557	25
COMBINATION RATE & MATURITY	2,931	5,911	3,223	6,335
TOTAL	$ 5,363	$ 7,544	$ 7,134	$ 9,548

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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.

	Three Months Ended June 30,					
	2012			2011		
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment	
	(Dollars in Thousands)					
TROUBLED DEBT RESTRUCTURINGS THAT SUBSEQUENTLY DEFAULTED:						
Commercial & Industrial		$		1	$	12
Commercial Real Estate						
Small Business				1		7
Residential Real Estate				1		452
Consumer Home Equity				1		67
Consumer Other				1		15
TOTAL		$		5	$	553

	Six Months Ended June 30,					
	2012			2011		
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment	
	(Dollars in Thousands)					
TROUBLED DEBT RESTRUCTURINGS THAT SUBSEQUENTLY DEFAULTED:						
Commercial & Industrial		$		2	$	211
Commercial Real Estate	1		250			
Small Business				1		7
Residential Real Estate				2		745
Consumer Home Equity				1		67
Consumer Other	1		6	1		15
TOTAL	2	$	256	7	$	1,045

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, 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 Bank 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. In the limited circumstances that a loan is removed from TDR classification it is the Company s policy to continue to base its measure of loan impairment on the contractual terms specified by the loan agreement.

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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 tables below set forth information regarding the Company s impaired loans by loan portfolio as of the dates indicated:

	June 30, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in Thousands)		
WITH NO RELATED ALLOWANCE RECORDED:			
Commercial & Industrial	$ 6,312	$ 6,555	$
Commercial Real Estate	20,024	20,636	
Commercial Construction			
Small Business	1,443	1,499	
Residential Real Estate			
Consumer Home Equity	99	99	
Consumer Other	74	74	
Subtotal	27,952	28,863	
WITH AN ALLOWANCE RECORDED:			
Commercial & Industrial	$ 1,336	$ 1,651	$ 278
Commercial Real Estate	15,642	15,826	445
Commercial Construction			
Small Business	1,046	1,090	140
Residential Real Estate	12,913	13,781	1,209
Consumer Home Equity	240	311	30
Consumer Other	1,761	1,773	178
Subtotal	32,938	34,432	2,280
TOTAL	$ 60,890	$ 63,295	$ 2,280

	December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in Thousands)		
WITH NO RELATED ALLOWANCE RECORDED:			
Commercial & Industrial	$ 3,380	$ 4,365	$
Commercial Real Estate	19,433	20,010	
Commercial Construction	843	843	
Small Business	1,131	1,193	
Residential Real Estate			
Consumer Home Equity	22	22	
Consumer Other	31	32	
Subtotal	24,840	26,465	
WITH AN ALLOWANCE RECORDED:			
Commercial & Industrial	$ 2,228	$ 2,280	$ 562
Commercial Real Estate	18,043	19,344	457
Commercial Construction			

Small Business	1,195	1,218	148
Residential Real Estate	12,984	13,651	1,245
Consumer Home Equity	304	349	31
Consumer Other	2,107	2,125	239
Subtotal	36,861	38,967	2,682
TOTAL	$ 61,701	$ 65,432	$ 2,682

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The following tables set forth information regarding interest income recognized on impaired loans, by portfolio, for the periods indicated:

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)			
WITH NO RELATED ALLOWANCE RECORDED:				
Commercial & Industrial	$ 6,401	$ 85	$ 6,490	$ 172
Commercial Real Estate	20,214	350	20,407	707
Commercial Construction				
Small Business	1,474	25	1,517	52
Residential Real Estate				
Consumer Home Equity	100	2	100	3
Consumer Other	72	1	56	1
Subtotal	28,261	463	28,570	935
WITH AN ALLOWANCE RECORDED:				
Commercial & Industrial	$ 1,343	$ 28	$ 1,398	$ 60
Commercial Real Estate	15,685	229	16,432	473
Commercial Construction				
Small Business	1,043	16	1,082	32
Residential Real Estate	12,958	157	13,053	296
Consumer Home Equity	240	4	241	8
Consumer Other	1,781	16	1,822	34
Subtotal	33,050	450	34,028	903
TOTAL	$ 61,311	$ 913	$ 62,598	$ 1,838

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)			
WITH NO RELATED ALLOWANCE RECORDED:				
Commercial & Industrial	$ 3,206	$ 58	$ 3,306	$ 117
Commercial Real Estate	18,291	334	18,474	645
Commercial Construction	554	10	564	21
Small Business	1,841	33	1,873	65
Residential Real Estate				
Consumer Home Equity	22		22	1
Consumer Other	12		17	1
Subtotal	23,926	435	24,256	850
WITH AN ALLOWANCE RECORDED:				
Commercial & Industrial	$ 342	$ 7	$ 343	$ 13

Commercial Real Estate	7,326	91	7,377	215
Commercial Construction				
Small Business	1,383	19	1,428	39
Residential Real Estate	12,674	154	12,556	246
Consumer Home Equity	464	7	465	13
Consumer Other	2,137	21	2,049	40
Subtotal	24,326	299	24,218	566
TOTAL	$ 48,252	$ 734	$ 48,474	$ 1,416

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NOTE 5 EARNINGS PER SHARE

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(Dollars in Thousands)		(Dollars in Thousands)	
NET INCOME	$ 8,874	$ 11,120	$ 21,057	$ 22,308
	Weighted Average Shares		Weighted Average Shares	
BASIC SHARES	21,623,827	21,441,864	21,592,416	21,370,457
EFFECT OF DILUTIVE SECURITIES	20,377	39,159	22,251	43,775
DILUTIVE SHARES	21,644,204	21,481,023	21,614,667	21,414,232
NET INCOME PER SHARE:				
BASIC EPS	$ 0.41	$ 0.52	$ 0.98	$ 1.04
EFFECT OF DILUTIVE SECURITIES			0.01	
DILUTIVE EPS	$ 0.41	$ 0.52	$ 0.97	$ 1.04

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:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
STOCK OPTIONS	804,249	808,918	807,147	793,675

NOTE 6 STOCK BASED COMPENSATION

During 2012, the Company made the following awards of restricted stock:

Date	Shares Granted	Plan	Fair Value	Vesting Period
2/16/2012	89,800	2005 Employee Stock Plan	$ 27.81	Ratably over 5 years from grant date
4/5/2012	1,000	2005 Employee Stock Plan	$ 28.16	Ratably over 5 years from grant date
5/22/2012	14,000	2010 Non-Employee Director Stock Plan	$ 27.63	At the end of 5 years from grant date

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The fair value of the 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 restricted stock awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights.

The Company has not issued any awards of options to purchase shares of common stock during 2012.

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 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 seven years.

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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:

June 30, 2012

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value
			(Dollars in Thousands)				
$ 25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.47%	5.04%	$ (4,688)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.47%	5.04%	(4,690)
25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.47%	2.65%	(773)
25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.47%	2.59%	(753)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.47%	2.94%	(2,755)
50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.47%	3.04%	(3,056)
25,000	5-May-11	10-Jun-11	10-Jun-15	3 Month LIBOR	0.47%	1.71%	(808)
$ 200,000							$ (17,523)

December 31, 2011

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value
			(Dollars in Thousands)				
$ 25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.55%	5.04%	$ (4,745)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.55%	5.04%	(4,745)
25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.54%	2.65%	(941)
25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.54%	2.59%	(913)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.54%	2.94%	(2,349)
50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.56%	3.04%	(3,316)
25,000	5-May-11	10-Jun-11	10-Jun-15	3 Month LIBOR	0.54%	1.71%	(704)
40,000	18-Aug-11	2-Apr-12	10-Mar-19	3 Month LIBOR	TBD	1.89%	(550)
$ 240,000							$ (18,263)

During 2011, the Company had entered into a forward starting swap with a notional amount of $40.0 million, with the intention of hedging a future federal home loan advance. Subsequently, during the quarter ending March 31, 2012, the Company exited the forward starting swap. At the time of exit, the derivative instrument had a fair value of $22,000, which was received in cash and recognized in other income.

For derivative instruments that are designated and qualify as hedging instruments, the effective portion of the gains or losses is reported as a component of OCI, and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately $5.3 million (pre-tax), to be reclassified to interest expense from OCI, related to the Company s cash flow hedges in the next twelve months. This reclassification is due to anticipated payments that will be made and/or received on the swaps based upon the forward curve as of June 30, 2012.

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The table below presents the net amortization income recognized as an offset to interest expense related to previously terminated swaps for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
	(Dollars in Thousands)		(Dollars in Thousands)	
NET AMORTIZATION INCOME	$ 61	$ 61	$ 122	$ 122

Customer Related Positions

Interest rate derivatives, primarily interest rate swaps, offered to commercial borrowers through the Bank s loan level derivative program do not qualify as hedges for accounting purposes. The Bank believes that its exposure to commercial customer derivatives is limited because these contracts are simultaneously matched at inception with an offsetting dealer transaction. The commercial customer derivative program allows the Bank to retain variable-rate commercial loans while allowing the customer to synthetically fix the loan rate by entering into a variable-to-fixed interest rate swap.

Foreign exchange contracts offered to commercial borrowers through the Bank s derivative program do not qualify as hedges for accounting purposes. The Bank acts as a seller and buyer of foreign exchange contracts to accommodate its customers. To mitigate the market and liquidity risk associated with these derivatives, the Bank enters into similar offsetting positions.

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The following table reflects the Company s customer related derivative positions for the periods indicated below for those derivatives not designated as hedging:

	# of Positions (1)	2012	2013	2014	2015	Thereafter	Total	Fair Value
				Notional Amount Maturing				
				June 30, 2012 (Dollars in Thousands)				
LOAN LEVEL SWAPS:								
Receive fixed, pay variable	129	$	17,982	73,109	108,542	231,217	$ 430,850	$ 28,554
Pay fixed, receive variable	123	$	17,982	73,109	108,542	231,217	$ 430,850	$ (28,563)
FOREIGN EXCHANGE CONTRACTS:								
Buys foreign exchange, sells US currency	16	$ 10,014	20,058				$ 30,072	$ (752)
Buys US currency, sells foreign exchange	16	$ 10,014	20,058				$ 30,072	$ 775
				December 31, 2011 (Dollars in Thousands)				
LOAN LEVEL SWAPS:								
Receive fixed, pay variable	101	$	19,197	80,234	112,458	171,533	$ 383,422	$ 24,478
Pay fixed, receive variable	101	$	19,197	80,234	112,458	171,533	$ 383,422	$ (24,535)
FOREIGN EXCHANGE CONTRACTS:								
Buys foreign exchange, sells US currency	15	$ 21,657					$ 21,657	$ (1,081)
Buys US currency, sells foreign exchange	15	$ 21,657					$ 21,657	$ 1,098

(1) The Company may enter into one swap agreement which offsets multiple reverse swap agreements. The positions will offset and the terms will be identical.

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The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the Balance Sheet at the periods indicated:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value at June 30, 2012	Fair Value at December 31, 2011	Balance Sheet Location	Fair Value at June 30, 2012	Fair Value at December 31, 2011
			(Dollars in Thousands)			
DERIVATIVES DESIGNATED AS HEDGES:						
Interest rate swaps	Other Assets	$	$	Other Liabilities	$ 17,523	$ 18,263
DERIVATIVES NOT DESIGNATED AS HEDGES:						
Customer Related Positions:						
Loan level swaps	Other Assets	$ 28,554	$ 24,478	Other Liabilities	$ 28,563	$ 24,535
Foreign exchange contracts	Other Assets	775	1,098	Other Liabilities	752	1,081
TOTAL		$ 29,329	$ 25,576		$ 29,315	$ 25,616

The table below presents the effect of the Company s derivative financial instruments included in OCI and current earnings for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
DERIVATIVES DESIGNATED AS HEDGES:				
Loss in OCI on Derivative (Effective Portion), Net of Tax	$ (1,227)	$ (2,711)	$ (1,196)	$ (2,407)
Loss Reclassified from OCI into Interest Expense (Effective Portion):	$ (1,346)	$ (1,366)	$ (2,638)	$ (2,692)
Loss Recognized in Income on Derivative				
(Ineffective Portion & Amount Excluded from Effectiveness Testing):				
Interest Expense	$	$	$	$
Other Expense				
TOTAL	$	$	$	$
DERIVATIVES NOT DESIGNATED AS HEDGES:				
Changes in Fair Value of Customer Related Positions:				
Other Income	$ 51	$ 49	$ 73	$ 70
Other Expense	(9)	(17)	(19)	(17)
TOTAL	$ 42	$ 32	$ 54	$ 53

Derivative contracts involve the risk of dealing with derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have an investment grade credit rating and be approved by the Company s Board of Directors. The Company s credit exposure on interest rate swaps is limited to the net positive fair value and accrued interest of

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all swaps with each counterparty. The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well capitalized institution, then the Company could be required to terminate any outstanding derivatives with the counterparty. The Company had no exposure relating to interest rate swaps with institutional counterparties at June 30, 2012 and December 31, 2011, as all such swaps were in a liability position. The Company s exposure relating to customer related positions was approximately $29.1 million and $25.1 million at June 30, 2012 and December 31, 2011, respectively. Credit exposure may be reduced by the amount of collateral pledged by the counterparty.

The Company currently holds derivative instruments that contain credit-risk related contingent features that are in a net liability position, which require the Company to assign collateral. The table below presents information relating to credit-risk contingent instruments as of the dates indicated:

	June 30, 2012	December 31, 2011
	(Dollars in Thousands)	
NOTIONAL AMOUNT	$ 630.8	$ 623.4
AGGREGATE FAIR VALUE	$ 46.1	$ 42.8
COLLATERAL ASSIGNED	$ 47.9	$ 47.6

Collateral legally required to be maintained at dealer banks by the Company is monitored and adjusted as necessary. Per a review completed by management of these instruments at June 30, 2012 it was determined that no additional collateral would have to be posted to immediately settle these instruments.

The Company does not offset fair value amounts recognized for derivative instruments. The Company does net the amount recognized for the right to reclaim cash collateral against the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Mortgage Derivatives

Forward sale contracts of residential mortgage loans, considered derivative instruments for accounting purposes, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans intended for sale. Prior to closing and funding certain one-to-four family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver

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whole mortgage loans to various investors. The interest rate lock commitments and forward sales commitments are recorded at fair value, with changes in fair value recorded in current period earnings. The Company elects to carry newly originated closed loans held for sale at fair value. As such, the change in fair value of loans held for sale is recorded in current period earnings.

The table below summarizes the fair value of residential mortgage loans commitments, forward sales agreements, and loans held for sale at the periods indicated:

	June 30, 2012	December 31, 2011
	(Dollars in Thousands)	
INTEREST RATE LOCK COMMITMENTS	$ 366	$ 265
FORWARD SALES AGREEMENTS	$ (740)	$ (528)
LOANS HELD FOR SALE FAIR VALUE ADJUSTMENTS	$ 374	$ 263

The table below summarizes the changes in the fair value of residential mortgage loans commitments, forward sales agreements, and loans held for sale at the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
INTEREST RATE LOCK COMMITMENTS	$ 385	$ (3)	$ 101	$ 432
FORWARD SALES AGREEMENTS	(766)	(5)	(213)	(1,079)
LOANS HELD FOR SALE FAIR VALUE ADJUSTMENT	381	8	112	647
TOTAL CHANGE IN FAIR VALUE	$	$	$	$

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NOTE 8 FAIR VALUE MEASUREMENTS

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company s own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. If there has been a significant decrease in the volume and level of activity for the asset or liability, regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from one level to another.

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value and 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 the Fair Value Measurements and Disclosures Topic of the FASB ASC are described below:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation Techniques

There have been no changes in the valuation techniques used during the current period.

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Securities:

U.S. Government Agency Securities

Fair value is estimated using either multi-dimensional spread tables or benchmarks. The inputs used include benchmark yields, reported trades, and broker/dealer quotes. These securities are classified as Level 2.

Agency Mortgage-Backed Securities

Fair value is estimated using either a matrix or benchmarks. The inputs used include benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. These securities are categorized as Level 2.

Agency Collateralized Mortgage Obligations and Private Mortgage-Backed Securities

The valuation model for these securities is volatility-driven and ratings based, and uses multi-dimensional spread tables. The inputs used include benchmark yields, recent reported trades, new issue data, broker and dealer quotes, and collateral performance. If there is at least one significant model assumption or input that is not observable, these securities are categorized as Level 3 within the fair value hierarchy; otherwise, they are classified as Level 2.

Single and Pooled Issuer Trust Preferred Securities

The fair value of trust preferred securities, including pooled and single issuer preferred securities, is estimated using external pricing models, discounted cash flow methodologies or similar techniques. The inputs used in these valuations include benchmark yields, recent reported trades, new issue data, broker and dealer quotes and collateral performance. If there is at least one significant model assumption or input that is not observable, these securities are categorized as Level 3 within the fair value hierarchy; otherwise, they are classified as Level 2.

Marketable Equity Securities

These equity and fixed income securities are valued based on market quoted prices. These securities are categorized in Level 1 as they are actively traded and no valuation adjustments have been applied.

Derivative Instruments:

Derivatives

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings. Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of June 30, 2012 and December 31, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. Additionally, in conjunction with fair value measurement guidance, the Company has made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2.

Residential Mortgage Loan Commitments and Forward Sales Agreements

The fair value of the commitments and agreements are estimated using the anticipated market price based on pricing indications provided from syndicate banks. These commitments and agreements are categorized as Level 2.

Loans Held for Sale

The Company elects to account for new originations of loans held for sale at fair value, which is measured using quoted market prices when available. If quoted market prices are not available, comparable market values or discounted cash flow analysis may be utilized. These assets are typically categorized as Level 2.

Impaired Loans

Loans that are deemed to be impaired are valued based upon the lower of cost or fair value of the underlying collateral. The inputs used in the appraisals of the collateral are not always observable, and therefore the loans may be categorized as Level 3 within the fair value hierarchy; otherwise, they are classified as Level 2.

Other Real Estate Owned

The fair values are estimated based upon recent appraisal values of the property less costs to sell the property. Certain inputs used in appraisals are not always observable, and therefore Other Real Estate Owned may be categorized as Level 3 within the fair value hierarchy. When inputs in appraisals are observable, they are classified as Level 2.

Goodwill and Other Intangible Assets

Goodwill and identified intangible assets are subject to impairment testing. The Company conducts an annual impairment test of goodwill in the third quarter of each year and more frequently if necessary. To estimate the fair value of goodwill and other intangible assets the Company utilizes both a comparable analysis of relevant price multiples in recent market

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transactions and discounted cash flow analysis. Both valuation models require a significant degree of management judgment. In the event the fair value as determined by the valuation model is less than the carrying value, the intangibles may be impaired. If the impairment testing resulted in impairment, the Company would classify the impaired goodwill and other intangible assets subjected to nonrecurring fair value adjustments as Level 3.

Assets and Liabilities Measured at Fair Value at the periods indicated were as follows:

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	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
		Fair Value Measurements at the End of the Reporting Period Using:			
		June 30, 2012 (Dollars in Thousands)			
RECURRING FAIR VALUE MEASUREMENTS:					
ASSETS					
SECURITIES AVAILABLE FOR SALE:					
U.S. Government Agency Securities	$ 20,451	$	$ 20,451	$	
Agency Mortgage-Backed Securities	238,472		238,472		
Agency Collateralized Mortgage Obligations	57,205		57,205		
Private Mortgage-Backed Securities	4,739			4,739	
Single Issuer Trust Preferred Securities Issued by Banks	5,008		5,008		
Pooled Trust Preferred Securities Issued by Banks and Insurers	2,754			2,754	
Marketable Equity Securities	9,702	9,702			
LOANS HELD FOR SALE	22,310		22,310		
DERIVATIVE INSTRUMENTS	29,695		29,695		
LIABILIITIES					
DERIVATIVE INSTRUMENTS	47,578		47,578		
TOTAL RECURRING FAIR VALUE MEASUREMENTS	$ 342,758	$ 9,702	$ 420,719	$ 7,493	
NONRECURRING FAIR VALUE MEASUREMENTS:					
ASSETS					
COLATERAL DEPENDENT IMPAIRED LOANS	$ 7,472	$	$	$ 7,472	$ (369)
OTHER REAL ESTATE OWNED	11,275			11,275	
TOTAL NONREUCRRING FAIR VALUE MEASUREMENTS	$ 18,747	$	$	$ 18,747	$ (369)

	December 31, 2011 (Dollars in Thousands)			
RECURRING FAIR VALUE MEASUREMENTS:				
ASSETS				
TRADING SECURITIES	$ 8,240	$ 8,240	$	$
SECURITIES AVAILABLE FOR SALE:				
Agency Mortgage-Backed Securities	238,391		238,391	
Agency Collateralized Mortgage Obligations	53,801		53,801	
Private Mortgage-Backed Securities	6,110			6,110
Single Issuer Trust Preferred Securities Issued by Banks	4,210			4,210
Pooled Trust Preferred Securities Issued by Banks and Insurers	2,820			2,820
LOANS HELD FOR SALE	20,500		20,500	
DERIVATIVE INSTRUMENTS	25,841		25,841	
LIABILIITIES				
DERIVATIVE INSTRUMENTS	44,407		44,407	

TOTAL RECURRING FAIR VALUE MEASUREMENTS	$ 315,506	$ 8,240	$ 382,940	$ 13,140	
NONRECURRING FAIR VALUE MEASUREMENTS:					
ASSETS					
COLATERAL DEPENDENT IMPAIRED LOANS	$ 36,861	$	$	$ 36,861	$ (2,682)
OTHER REAL ESTATE OWNED	6,658			6,658	
TOTAL NONREUCRRING FAIR VALUE MEASUREMENTS	$ 43,519	$	$	$ 43,519	$ (2,682)

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3). These instruments were valued using pricing models and discounted cash flow methodologies.

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	Securities Available for Sale:			
	Pooled Trust Preferred Securities	Single Trust Preferred Securities	Private Mortgage-Backed Securities	Total
	(Dollars in Thousands)			
BALANCE AT MARCH 31, 2012	$ 2,939	$	$ 5,354	$ 8,293
GAINS AND LOSSES (REALIZED/UNREALIZED):				
Included in Earnings			(76)	(76)
Included in Other Comprehensive Income	(174)		78	(96)
SETTLEMENTS	(11)		(617)	(628)
TRANSFERS INTO(OUT OF) OF LEVEL 3				
BALANCE AT JUNE 30, 2012	$ 2,754	$	$ 4,739	$ 7,493
BALANCE AT JANUARY 1, 2011	$ 2,828	$ 4,221	$ 10,254	$ 17,303
GAINS AND LOSSES (REALIZED/UNREALIZED):				
Included in Earnings	(8)		(235)	(243)
Included in Other Comprehensive Income	37	(11)	49	75
SETTLEMENTS	(37)		(3,958)	(3,995)
BALANCE AT DECEMBER 31, 2011	$ 2,820	$ 4,210	$ 6,110	$ 13,140
GAINS AND LOSSES (REALIZED/UNREALIZED):				
Included in Earnings			(76)	(76)
Included in Other Comprehensive Income	(46)	703	231	888
SETTLEMENTS	(20)		(1,526)	(1,546)
TRANSFERS INTO(OUT OF) OF LEVEL 3		(4,913)		(4,913)
BALANCE AT JUNE 30, 2012	$ 2,754	$	$ 4,739	$ 7,493

During the first quarter of 2012 the Company transferred the Single Issuer Trust Preferred Security from Level 3 to Level 2. This reason for this transfer was based upon increased trading of the security, enabling the use of more observable inputs. It is the Company s policy to recognize the transfers as of the end of the reporting period. There were no transfers between the Levels of the fair value hierarchy for any assets or liabilities measured at fair value on a recurring basis during the second quarter of 2012 or the year ended December 31, 2011.

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The following table sets forth information regarding the Company s investments in securities that are classified as Level 3:

	Fair Value at June 30, 2012	Valuation Technique(s)	Unobservable Inputs (Dollars in Thousands)	Range	Weighted Average
POOLED TRUST PREFERRRED SECURITIES	$ 2,754	Discounted cash flow methodology	Cumulative Prepayment	0%-58%	(3.5%)
			Cumulative Default	5.7%-100%	(21.2%)
			Loss Given Default	85% - 100%	(94.7%)
			Cure Given Default	0% - 90%	(29.4%)
PRIVATE MORTGAGE-BACKED SECURITIES	$ 4,739	Multi-dimensional spread tables	Constant Prepayment Rate	10.3%-14.5%	(13.9%)
			Constant Default Rate	0.8% -20.5%	(3.6%)
			Severity	25.0% -62.5%	(38.8%)
IMPAIRED LOANS	$ 7,472	Appraisals of collateral (1)			
OTHER REAL ESTATE OWNED	$ 11,275	Appraisals of collateral (1)			

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments may vary.

For the fair value measurements in the table above, which are classified as Level 3 within the fair value hierarchy, the Company s Treasury and Finance groups determine the valuation policies and procedures. For the pricing of the securities, the Company uses third-party pricing information, without adjustment. Depending on the type of the security, management employs various techniques to analyze the pricing it receives from third-parties, such as analyzing changes in market yields and in certain instances reviewing the underlying collateral of the security. Management reviews changes in fair value from period to period and performs testing to ensure that prices received from the third parties are consistent with their expectation of the market. For the securities categorized as Level 3, the market is deemed to be inactive, the fair value models are calibrated and to the extent possible, significant inputs are back tested on a quarterly basis. This testing is done by the third party service provider, who performs this testing by comparing anticipated inputs to actual results. For example, modeled default and prepayment rates for private mortgage-backed securities will be compared to actual rates for the previous period. Significant changes in fair value from period to period are closely scrutinized to ensure fair value models are not flawed. The driver(s) of the respective change in fair value and the method for forecasting the driver(s) is closely considered by management.

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The significant unobservable inputs used in the fair value measurement of the Company s pooled trust preferred securities are cumulative prepayment rates, cumulative defaults, loss given defaults and cure given defaults. Significant increases (decreases) in deferrals or defaults, in isolation would result in a significantly lower (higher) fair value measurement. Alternatively, significant increases (decreases) in cure rates, in isolation would result in a significantly higher (lower) fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Company s private mortgage-backed securities are constant prepayment rates, constant default rates, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Additionally, the Company has financial instruments which are marked to fair value on a nonrecurring basis which are categorized within Level 3. These instruments include collateral dependent impaired loans and OREO. The determination of the fair value amount is derived from the use of independent third party appraisals and evaluations, prepared by firms from a predetermined list of qualified and approved appraisers or evaluators. Upon receipt of an appraisal or evaluation, the internal Commercial Real Estate Appraisal Department will review the report for compliance with regulatory and Bank standards, as well as reasonableness and acceptance of the value conclusions. Any issues or concerns regarding compliance or value conclusions will be addressed with the engaged firm and the report may be adjusted or revised. If a disagreement cannot be resolved, the Commercial Real Estate Appraisal Department will either address the key issues and modify the report for acceptance or reject the report and re-order a new report. Ultimately the Company s Commercial Real Estate Appraisal Department will confirm the collateral value as part of its review process. Once it is determined that an impaired loan is collateral dependent, a new appraisal or evaluation is obtained to determine the fair value of the collateral.

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The estimated fair values and related carrying amounts for assets and liabilities for which fair value is only disclosed are shown below as of the periods indicated:

			Fair Value Measurements at Reporting Date Using		
	Book Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			June 30, 2012 (Dollars in Thousands)		
FINANCIAL ASSETS					
SECURITIES HELD TO MATURITY (a):					
U.S. Treasury Securities	$ 1,014	$ 1,138		$ 1,138	
Agency Mortgage-Backed Securities	91,385	96,273		96,273	
Agency Collateralized Mortgage Obligations	81,147	83,714		83,714	
State, County, and Municipal Securities	1,939	1,953		1,953	
Single Issuer trust preferred Securities Issued by Banks	7,957	7,937		7,937	
Corporate Debt Securities	5,008	5,184		5,184	
LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (b)	3,932,386	3,938,702			3,938,702
FINANCIAL LIABILITIES					
TIME CERTIFICATES OF DEPOSITS (c)	$ 639,535	$ 644,674		$ 644,674	
FEDERAL HOME LOAN BANK ADVANCES (c)	189,522	185,902		185,902	
WHOLESALE AND CUSTOMER REPURCHASE AGREEMENTS (c)	194,838	197,095			197,095
JUNIOR SUBORDINATED DEBENTURES (d)	61,857	57,218		57,218	
SUBORDINATED DEBENTURES (c)	30,000	25,954			25,954

			December 31, 2011 (Dollars in Thousands)		
FINANCIAL ASSETS					
SECURITIES HELD TO MATURITY (a):					
U.S. Treasury Securities	$ 1,014	$ 1,117	$	$ 1,117	$
Agency Mortgage-Backed Securities	109,553	113,959		113,959	
Agency Collateralized Mortgage Obligations	77,804	80,298		80,298	
State, County, and Municipal Securities	3,576	3,610		3,610	
Single Issuer trust preferred Securities Issued by Banks	8,000	7,346		7,346	
Corporate Debt Securities	5,009	5,164		5,164	
LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (b)	3,746,130	3,807,938			3,807,938
FINANCIAL LIABILITIES					
TIME CERTIFICATES OF DEPOSITS (c)	$ 630,162	$ 639,333	$	$ 639,333	$
FEDERAL HOME LOAN BANK ADVANCES (c)	229,701	233,880		233,880	
WHOLESALE AND CUSTOMER REPURCHASE AGREEMENTS (c)	216,128	219,857			219,857
JUNIOR SUBORDINATED DEBENTURES (d)	61,857	60,620		60,620	
SUBORDINATED DEBENTURES (c)	30,000	27,217			27,217

(a) The fair values presented are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments and/or discounted cash flow analyses.

(b) Fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities or cash flows.

(c) Fair value was determined by discounting anticipated future cash payments using rates currently available for instruments with similar remaining maturities.

(d) Fair value was determined based upon market prices of securities with similar terms and maturities.

This summary excludes financial assets and liabilities for which the carrying value approximates fair value. For financial assets, these include cash and due from banks, federal funds sold, short-term investments, Federal Home Loan Bank stock, and cash surrender value of life insurance policies. For financial liabilities, these include demand, savings, money market deposits, and federal funds purchased . The estimated fair value of demand, savings and money market deposits is the amount payable at the reporting date. These instruments would all be considered to be classified within Level 1 of the fair value hierarchy. Also excluded from the summary are financial instruments measured at fair value on a recurring and nonrecurring basis, as previously described.

The Company believes its financial instruments current use is considered to be the highest and best use of the instrument.

NOTE 9 COMPREHENSIVE INCOME

Information on the Company s comprehensive income, presented net of taxes, is set forth below for the three and six months ended June 30, 2012 and 2011:

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	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Pre Tax Amount	Tax (Expense) Benefit (Dollars in Thousands)	After Tax Amount	Pre Tax Amount	Tax (Expense) Benefit (Dollars in Thousands)	After Tax Amount
CHANGE IN FAIR VALUE OF SECURITIES AVAILABLE FOR SALE	$ (186)	$ 47	$ (139)	$ (432)	$ 132	$ (300)
LESS: NET SECURITY LOSSES RECLASSIFED INTO EARNINGS	76(1)	(31)	45	76(1)	(31)	45
NET CHANGE IN FAIR VALUE OF SECURITIES AVAILABLE FOR SALE	(110)	16	(94)	(356)	101	(255)
CHANGE IN FAIR VALUE OF CASH FLOW HEDGES	(2,074)(2)	847	(1,227)	(2,021)(2)	825	(1,196)
LESS: NET SECURITY LOSSES RECLASSIFED INTO EARNINGS	1,346	(550)	796	2,638	(1,077)	1,561
NET CHANGE IN FAIR VALUE OF CASH FLOW HEDGES	(728)	297	(431)	617	(252)	365
AMORTIZATION OF CERTAIN COSTS INCLUDED IN NET PERIODIC RETIREMENT COSTS	39	(16)	23	77	(31)	46
TOTAL OTHER COMPREHENSIVE INCOME	$ (799)	$ 297	$ (502)	$ 338	$ (182)	$ 156

	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	Pre Tax Amount	Tax (Expense) Benefit (Dollars in Thousands)	After Tax Amount	Pre Tax Amount	Tax (Expense) Benefit (Dollars in Thousands)	After Tax Amount
CHANGE IN FAIR VALUE OF SECURITIES AVAILABLE FOR SALE	$ 2,343	$ (907)	$ 1,436	$ 1,292	$ (520)	$ 772
LESS: NET SECURITY GAINS RECLASSIFED INTO EARNINGS	(587)(1)	230	(357)	(547)(1)	214	(333)
NET CHANGE IN FAIR VALUE OF SECURITIES AVAILABLE FOR SALE	1,756	(677)	1,079	745	(306)	439
CHANGE IN FAIR VALUE OF CASH FLOW HEDGES	(4,583)(2)	1,872	(2,711)	(4,069)(2)	1,662	(2,407)
LESS: NET SECURITY LOSSES RECLASSIFED INTO EARNINGS	1,365	(558)	807	2,597	(1,100)	1,497
NET CHANGE IN FAIR VALUE OF CASH FLOW HEDGES	(3,218)	1,314	(1,904)	(1,472)	562	(910)
AMORTIZATION OF CERTAIN COSTS INCLUDED IN NET PERIODIC RETIREMENT COSTS	154	(63)	91	341	(89)	252
TOTAL OTHER COMPREHENSIVE INCOME	$ (1,308)	$ 574	$ (734)	$ (386)	$ 167	$ (219)

(1) Net security losses represent pre-tax OTTI credit related losses of $76,000 and $136,000 for the three months ended June 30, 2012 and 2011, respectively and gains on sales of securities of $0 and $723,000 for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, net security losses represent pre-tax OTTI credit related losses of $76,000 and $176,000 and gains on sales of securities of $0 and $723,000, respectively.

(2) Includes the remaining balance of a realized but unrecognized gain, net of tax, from the termination of interest rate swaps in June 2009. The original gain of $1.4 million, net of tax will be recognized in earnings through December 2018, the original maturity date of the swap. The balance of this gain has amortized to $931,000 and $1.1 million at June 30, 2012 and 2011, respectively.

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Information on the Company s accumulated other comprehensive loss, net of tax is comprised of the following components as of the periods indicated:

	Unrealized Gain on Securities	Unrealized Loss on Cash Flow Hedge	Deferred Gain on Hedge Transactions	Defined Benefit Pension Plans	Total
			(Dollars in Thousands)		
			2012		
ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS) MARCH 31, 2012	$ 6,413	$ (9,972)	$ 968	$ (1,237)	$ (3,828)
NET CHANGE IN OTHER COMPREHENSIVE INCOME(LOSS)	(94)	(394)	(37)	23	(502)
ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS) JUNE 30, 2012	$ 6,319	$ (10,366)	$ 931	$ (1,214)	$ (4,330)
ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS) JANUARY 1, 2012	$ 6,574	$ (10,804)	$ 1,004	$ (1,260)	$ (4,486)
NET CHANGE IN OTHER COMPREHENSIVE INCOME(LOSS)	(255)	438	(73)	46	156
ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS) JUNE 30, 2012	$ 6,319	$ (10,366)	$ 931	$ (1,214)	$ (4,330)
			2011		
ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS) MARCH 31, 2011	$ 5,665	$ (6,095)	$ 1,112	$ (933)	$ (251)
NET CHANGE IN OTHER COMPREHENSIVE INCOME(LOSS)	1,079	(1,868)	(36)	91	(734)
ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS) JUNE 30, 2011	$ 6,744	$ (7,963)	$ 1,076	$ (842)	$ (985)
ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS) JANUARY 1, 2011	$ 6,305	$ (7,125)	$ 1,148	$ (1,094)	$ (766)
NET CHANGE IN OTHER COMPREHENSIVE INCOME(LOSS)	439	(838)	(72)	252	(219)
ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS) JUNE 30, 2011	$ 6,744	$ (7,963)	$ 1,076	$ (842)	$ (985)

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

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission.

Cautionary Statement Regarding Forward-Looking Statements

A number of the presentations and disclosures in this Form 10-Q, including, without limitation, statements regarding the level of allowance for loan losses, the rate of delinquencies and amounts of charge-offs, and the rates of loan growth, and any statements preceded by, followed by, or which include the words may, could, should, will, would, hope, might, believe, expect, anticipate, estimate, intend, pla
expressions constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to the beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business, of the Company including the Company s expectations and estimates with respect to the Company s revenues, expenses, earnings, return on average equity, return on average assets, asset quality and other financial data and capital and performance ratios.

Although the Company believes that the expectations reflected in the Company s forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors (some of which are beyond the Company s control). The following factors, among others, could cause the Company s financial performance to differ materially from the Company s goals, plans, objectives, intentions, expectations and other forward-looking statements:

a weakening in the United States economy in general and the regional and local economies within the New England region and the Company s market area, which could result in a deterioration of credit quality, a change in the allowance for loan losses, or a reduced demand for the Company s credit or fee-based products and services;

adverse changes in the local real estate market could result in a deterioration of credit quality and an increase in the allowance for loan losses, as most of the Company s loans are concentrated within the Bank s primary market area, and a substantial portion of these loans have real estate as collateral;

the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, could affect the Company s business environment or affect the Company s operations;

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the effects of, any changes in, and any failure by the Company to comply with tax laws generally and requirements of the federal New Markets Tax Credit program in particular could adversely affect the Company s tax provision and its financial results;

inflation, interest rate, market and monetary fluctuations could reduce net interest income and could increase credit losses;

adverse changes in asset quality could result in increasing credit risk-related losses and expenses;

changes in the deferred tax asset valuation allowance in future periods may adversely affect financial results;

competitive pressures could intensify and affect the Company s profitability, including continued industry consolidation, the increased financial services provided by nonbanks and banking reform;

a deterioration in the conditions of the securities markets could adversely affect the value or credit quality of the Company s assets, the availability and terms of funding necessary to meet the Company s liquidity needs, and the Company s ability to originate loans and could lead to impairment in the value of securities in the Company s investment portfolios, having an adverse effect on the Company s earnings;

a further deterioration of the credit rating for U.S. long-term sovereign debt could adversely impact the Company. On August 5, 2011, Standard and Poor s downgraded the U.S. long-term sovereign debt from AAA, the highest rating, to AA+, the second highest rating. This downgrade does not directly impact the immediate current financial position or outlook for the Company, but a further downgrade could result in a re-evaluation of the risk-free rate used in many accounting models, other-than-temporary-impairment of securities and/or impairment of goodwill and other intangibles;

the potential need to adapt to changes in information technology could adversely impact the Company s operations and require increased capital spending;

the risk of electronic fraudulent activity within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting bank accounts and other customer information, which could adversely impact the Company s operations, damage its reputation and require increased capital spending;

- changes in consumer spending and savings habits could negatively impact the Company s financial results;

- acquisitions may not produce results at levels or within time frames originally anticipated and may result in unforeseen integration issues or impairment of goodwill and/or other intangibles;

- new laws and regulations regarding the financial services industry including, but not limited to, the Dodd-Frank Wall Street Reform and Consumer Protection Act, may have a significant affects on the financial services industry in general, and/or the Company in particular, the exact nature and extent of which is uncertain;

- changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) generally applicable to the Company s business could adversely affect the Company s operations; and

- changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters, could negatively impact the Company s financial results.

If one or more of the factors affecting the Company s forward-looking information and statements proves incorrect, then the Company s actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Form 10-Q. Therefore, the Company cautions you not to place undue reliance on the Company s forward-looking information and statements.

The Company does not intend to update the Company s forward-looking information and statements, whether written or oral, to reflect change. All forward-looking statements attributable to the Company are expressly qualified by these cautionary statements.

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Selected Quarterly Financial Data

The selected consolidated financial and other data of the Company set forth below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including the Consolidated Financial Statements and related notes, appearing elsewhere herein.

	Three Months Ended				
	June 30, 2012	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**
	(Dollars in Thousands, Except Per Share Data)				
FINANCIAL CONDITION DATA:					
Securities Available for Sale	$ 338,331	$ 362,109	$ 305,332	$ 293,073	$ 305,895
Securities Held to Maturity	188,450	200,921	204,956	220,552	233,109
Loans	3,980,789	3,869,756	3,794,390	3,723,125	3,725,231
Allowance for Loan Losses	48,403	48,340	48,260	47,278	46,637
Goodwill and Core Deposit Intangibles	139,924	140,323	140,722	141,103	141,489
Total Assets	5,124,564	4,985,739	4,970,240	4,899,766	4,842,943
Total Deposits	4,078,133	3,945,713	3,876,829	3,787,533	3,786,562
Total Borrowings	476,217	484,115	537,686	568,264	535,670
Stockholders Equity	483,592	478,863	469,057	461,066	455,702
Nonperforming Loans	31,322	31,646	28,953	26,625	21,926
Nonperforming Assets	43,857	40,736	37,149	36,647	30,963
OPERATING DATA:					
Interest Income	$ 48,426	$ 47,796	$ 48,382	$ 48,935	$ 49,474
Interest Expense	5,798	5,943	6,528	7,261	7,398
Net Interest Income	42,628	41,853	41,854	41,674	42,076
Provision for Loan Losses	8,500	1,600	3,800	2,000	3,482
Noninterest Income	14,983	13,909	14,315	12,315	13,474
Noninterest Expenses	36,999	37,358	36,952	35,423	36,856
Net Income	8,874	12,183	11,169	11,959	11,120
PER SHARE DATA:					
Net Income Basic	$ 0.41	$ 0.57	$ 0.52	$ 0.56	$ 0.52
Net Income Diluted	0.41	0.56	0.52	0.56	0.52
Cash Dividends Declared	0.21	0.21	0.19	0.19	0.19
Book Value	22.36	22.16	21.82	21.48	21.24
OPERATING RATIOS:					
Return on Average Assets	0.71%	1.00%	0.91%	0.99%	0.95%
Return on Average Common Equity	7.34%	10.31%	9.45%	10.28%	9.78%
Net Interest Margin (on a Fully Tax Equivalent Basis)	3.80%	3.82%	3.78%	3.84%	3.97%
Equity to Assets	9.44%	9.60%	9.44%	9.41%	9.41%
Dividend Payout Ratio	51.19%	37.26%	36.57%	34.10%	36.65%
ASSET QUALITY RATIOS:					
Nonperforming Loans as a Percent of Gross Loans	0.79%	0.82%	0.76%	0.72%	0.59%
Nonperforming Assets as a Percent of Total Assets	0.86%	0.82%	0.75%	0.75%	0.64%
Allowance for Loan Losses as a Percent of Total Loans	1.22%	1.25%	1.27%	1.27%	1.25%
Allowance for Loan Losses as a Percent of Nonperforming Loans	154.53%	152.75%	166.68%	177.57%	212.70%
CAPITAL RATIOS:					
Tier 1 Leverage Capital Ratio	8.68%	8.77%	8.61%	8.59%	8.54%

Tier 1 Risk-Based Capital Ratio	10.64%	10.71%	10.74%	10.62%	10.46%
Total Risk-Based Capital Ratio	12.63%	12.73%	12.78%	12.67%	12.52%

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Executive Level Overview

During the second quarter of 2012 the Company continued to experience robust business volume growth, as indicated by the notable growth rates in the commercial and home equity loan portfolios. The Company s deposits also continued to grow nicely in the second quarter with core deposits comprising 83.8% of total deposits. Additionally, the Company s customer base continues to enjoy organic growth, growing at an annualized rate of 7.2% in the quarter. Despite this momentum and strong operating fundamentals, the results of the second quarter were hindered by a $4.0 million charge-off taken in connection with a working capital loan to a commercial borrower that was unexpectedly placed into receivership in late June. Management charged-off the loan upon receipt of information indicating material misstatements and potential borrower fraud that included an overstatement of accounts receivable and inventory collateral, as well as evidence of invalid and/or altered borrower records. The result of this charge-off was a decrease of $0.11 to diluted earnings per share.

The following table illustrates key performance measures for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
NET INCOME	$ 8,874	$ 11,120	$ 21,057	$ 22,308
DILUTED EARNINGS PER SHARE	$ 0.41	$ 0.52	$ 0.97	$ 1.04
RETURN ON AVERAGE ASSETS	0.71%	0.95%	0.86%	0.96%
RETURN ON COMMON AVERAGE EQUITY	7.34%	9.78%	8.81%	10.01%
NET INTEREST MARGIN	3.80%	3.97%	3.81%	3.99%

The Company s net interest margin of 3.80% was well managed in the second quarter but has decreased when compared to the 3.97% of the year ago period as a result of the prolonged low rate environment. Management continues to counter this ongoing pressure on earning asset yields by continuing to decrease it costs of funds, which decreased to 0.27% at June 30, 2012, down from 0.39% as of June 30, 2011. Management anticipates maintaining the net interest margin at this level to be challenging and expects the net interest margin to be in the 3.70 s% in the third quarter of this year.

Consistent with the Company s strategic emphasis, the commercial loan portfolio was a driver of loan growth during the three months ended June 30, 2012, as evidenced by annualized growth for the quarter of 13.0%. The home equity portfolio also experienced annualized growth of 22.4%, driven largely by the demand for first position mortgage refinancing fueled by historically low interest rates.

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Deposits increased to $4.1 billion, an increase of $132.4 million, or 13.5% on an annualized basis, for the three months ended June 30, 2012. The Company continues to focus on improving the mix of deposits with core deposits increasing by $107.8 million, to $3.4 billion while time deposits increased slightly by $14.6 million.

In terms of asset quality, the Company continues to experience strong credit metrics as compared to peers in the industry. Loan delinquency measures range from stable to improving and nonperforming assets remain in a manageable position, despite an increase in the current quarter. A substantial portion of the increase in nonperforming assets is due to the recently issued regulatory guidance pertaining to income recognition practices on performing junior lien mortgages, which contributed $4.2 million to the increase. While these loans are currently performing, they were placed on nonaccrual as a result of delinquency with respect to the first position, which is held by another financial institution. This increase represented only 1.4% of the second position junior lien portfolio.

Nonperforming assets are comprised of nonperforming loans, nonperforming securities, other real estate owned, and other assets in possession, and are closely managed to ensure an expedient workout. The following table shows the roll-forward of nonperforming assets for the periods indicated:

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	(Dollars in Thousands)			
NONPERFORMING ASSETS BEGINNING BALANCE		$ 40,736		$ 37,149
NEW TO NONPERFORMING		18,895		27,698
LOANS CHARGED-OFF		(8,768)		(10,712)
LOANS PAID-OFF		(2,934)		(4,106)
LOANS TRANSFERRED TO OTHER REAL ESTATE OWNED AND FORECLOSED ASSETS		(3,579)		(5,082)
LOANS RESTORED TO ACCRUAL STATUS		(3,946)		(5,816)
CHANGE TO OTHER REAL ESTATE OWNED:				
New to Other Real Estate Owned	$ 3,579		$ 5,082	
Valuation Write Down	(200)		(200)	
Sale of Other Real Estate Owned	(293)		(1,880)	
Development of Other Real Estate Owned	548		1,572	
Other	43		43	
TOTAL CHANGE TO OTHER REAL ESTATE OWNED	3,677	3,677	4,617	4,617
CHANGE IN FAIR VALUE ON NONACCRUAL SECURITIES		(141)		(13)
OTHER		(83)		122
NONPERFORMING ASSETS ENDING BALANCE		$ 43,857		$ 43,857

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The following table shows the levels of the Company s nonperforming loans over the trailing five quarters:

The Company considers a loan to be in early stage delinquency when it is between 30-89 days past due and a loan is considered to be in late stage delinquency when it is 90 days or more past due. Loan delinquency, both early and late stage, remained well contained as of June 30, 2012.

The chart below shows the level of delinquencies over the trailing five quarters:

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In the course of resolving problem loans, the Bank may choose to restructure the contractual terms of certain loans. Any loans that are modified are reviewed to determine if a troubled debt restructuring (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. The following table shows the roll-forward of TDRs for the periods indicated:

	Three Months Ended June 30, 2012 (Dollars in Thousands)	Six Months Ended June 30, 2012 (Dollars in Thousands)
TDRS BEGINNING BALANCE	$ 47,195	$ 46,381
NEW TO TDR STATUS	4,268	8,462
PAYDOWNS	(6,558)	(9,764)
CHARGE OFFS	(160)	(334)
LOANS REMOVED FROM TDR STATUS		
TDRs ENDING BALANCE	$ 44,745	$ 44,745
% OF TDRS PERFORMING AND ACCRUING INTEREST	89.81%	89.81%

Net loan charge-off activity increased on a quarter-to-quarter basis due largely to the aforementioned $4.0 million charge-off related to a commercial borrower who was placed into receivership in June of 2012. The Company s net loan charge-offs over the last five quarters are shown in the table below:

The provision for loan losses was $8.5 million, $3.8 million, and $3.5 million for the three months ended June 30, 2012, December 31, 2011, and June 30, 2011, respectively, and exceeded net charge-offs in all quarters. The allowance for loan losses as a percent of loans was 1.22%, 1.27%, and 1.25% at June 30, 2012, December 31, 2011, and at June 30, 2011.

The Company s organic customer growth continued to be strong in the second quarter of 2012 providing deposit, loan and fee income opportunities. Noninterest income increased over the prior quarter by 7.7% to $15.0 million. The largest increase in noninterest income is due to an increase in loan level derivative fees associated with the Company s commercial borrowers. The increase was also driven by investment management revenue, which increased by $264,000, due to tax preparation fees earned during the second quarter combined with an increase in assets under administration and mortgage banking income which increased by $133,000, due to higher volumes of mortgage originations.

Noninterest expense decreased over the prior quarter by 1.0% to $37.0 million. The decrease is mainly due to decreases in payroll taxes driven by the timing of incentive compensation payouts in the first quarter coupled with a decrease in incentive compensation accruals in 2012, offset by increases in merger and acquisition expenses of $672,000 relating to the previously announced acquisition of Central Bancorp, Inc., which is expected to close in the fourth quarter of this year.

Looking forward for the remainder of the year management anticipates further opportunity for balance sheet growth, continuing to fund loan growth with core deposits, while growing noninterest income and managing expenses in order to achieve expected results. Management anticipates that the continuation of solid fundamentals and strong asset quality metrics will continue to drive the Company s results. The Company s net charge-offs likely peaked in the second quarter and management now expects net charge-offs for the year to be in the range of $15-$17 million. Management is also focused on integration planning for the upcoming acquisition in the fourth quarter and anticipates a seamless transaction. In the beginning of 2012 management had provided diluted earnings per share estimates of $2.05 to $2.15 for the year as compared to the diluted earnings per share of $2.12 for 2011. Management now anticipates being in the lower to middle end of that 2012 range.

Non-GAAP Measures

When management assesses the Company s financial performance for purposes of making day-to-day and strategic decisions, it does so based upon the performance of its core banking business, which is primarily derived from the combination of net interest income and noninterest or fee income, reduced by operating expenses, the provision for loan losses, and the impact of income taxes. The Company s financial performance is determined in accordance with Generally Accepted Accounting Principles (GAAP) which sometimes includes gains or losses due to items that management does not believe are related to its core banking business, such as gains or losses on the sales of securities, merger and acquisition expenses, and other items. Management, therefore, also computes the Company s non-GAAP operating earnings, which excludes these items, to measure the strength of the Company s core banking business and to identify trends that may to some extent be obscured by gains or losses which management deems not to be core to the Company s operations. Management believes that the financial impact of the items excluded when computing non-GAAP operating earnings will disappear or become immaterial within a near-term finite period.

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Management s computation of the Company s non-GAAP operating earnings information is set forth because management believes it may be useful for investors to have access to the same analytical tool used by management to evaluate the Company s core operational performance so that investors may assess the Company s overall financial health and identify business and performance trends that may be more difficult to identify and evaluate when noncore items are included. Management also believes that the computation of non-GAAP operating earnings may facilitate the comparison of the Company to other companies in the financial services industry.

Non-GAAP operating earnings should not be considered a substitute for GAAP operating results. An item which management deems to be noncore and excludes when computing non-GAAP operating earnings can be of substantial importance to the Company s results for any particular quarter or year. The Company s non-GAAP operating earning information set forth is not necessarily comparable to non-GAAP information which may be presented by other companies.

The following table summarizes the impact of noncore items recorded for the time periods indicated below and reconciles them in accordance with GAAP:

	Three Months Ended June 30,			
	Net Income Available to Common Shareholders		Diluted Earnings Per Share	
	2012	2011	2012	2011
	(Dollars in Thousands)			
AS REPORTED (GAAP)				
Net Income available to Common Shareholders (GAAP)	$ 8,874	$ 11,120	$ 0.41	$ 0.52
Non-GAAP Measures:				
Non-Interest Income Components:				
Net Loss on Sale of Securities, net of tax		(428)		(0.02)
Non-Interest Expense Components:				
Merger and Acquisition Expenses	397		0.02	
TOTAL IMPACT OF NON-CORE ITEMS	397	(428)	0.02	(0.02)
AS ADJUSTED (NON-GAAP)	$ 9,271	$ 10,692	$ 0.43	$ 0.50

	Six Months Ended June 30,			
	Net Income Available to Common Shareholders		Diluted Earnings Per Share	
	2012	2011	2012	2011
	(Dollars in Thousands)			
AS REPORTED (GAAP)				
Net Income available to Common Shareholders (GAAP)	$ 21,057	$ 22,308	$ 0.97	$ 1.04
Non-GAAP Measures:				
Non-Interest Income Components:				
Net Gain on Sale of Securities, net of tax		(428)		(0.02)
Non-Interest Expense Components:				
Merger and Acquisition Expenses	397		0.02	
TOTAL IMPACT OF NON-CORE ITEMS	397	(428)	0.02	(0.02)
AS ADJUSTED (NON-GAAP)	$ 21,454	$ 21,880	$ 0.99	$ 1.02

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The following non-GAAP financial measure is used by the Company to provide information that management believes is useful to investors in understanding the Company s operating performance. The following table reconciles the calculation of this non-GAAP measure:

	As of June 30, 2012	As of June 30, 2011
	(Dollars in Thousands)	
Total Stockholders Equity (GAAP)	$ 483,592	$ 455,702
Less: Goodwill	130,074	130,074
Less: Identifiable Intangible Assets	9,850	11,415
Tangible Equity	$ 343,668	$ 314,213
Plus: Tax Benefit of Deductible Portion of Goodwill	16,126	16,126
Plus: Tax Benefit of Deductible Portion of Intangible Assets	3,650	4,244
Tangible Equity As adjusted (Non-GAAP)	$ 363,445	$ 334,583
Total Assets (GAAP)	$ 5,124,564	$ 4,842,943
Less: Goodwill	130,074	130,074
Less: Identifiable Intangible Assets	9,850	11,415
Tangible Assets	$ 4,984,640	$ 4,701,454
Plus: Tax Benefit of Deductible Portion of Goodwill	16,126	16,126
Plus: Tax Benefit of Deductible Portion of Intangible Assets	3,650	4,244
Tangible Assets As Adjusted (Non-GAAP)	$ 5,004,417	$ 4,721,824
Tangible Equity/Tangible Assets	6.89%	6.68%
Tangible Equity/Tangible Assets As Adjusted (Non-GAAP)	7.26%	7.09%

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that the Company s most critical accounting policies are those which the Company s financial condition depends upon, and which involve the most complex or subjective decisions or assessments.

There have been no material changes in critical accounting policies during the first half of 2012. Please refer to the 2011 Form 10-K for a complete listing of critical accounting policies.

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FINANCIAL POSITION

Securities Portfolio The Company s securities portfolio consists of securities available for sale and securities which management intends to hold until maturity. Securities increased by $8.3 million, or 1.6%, at June 30, 2012 as compared to December 31, 2011. The ratio of securities to total assets as of June 30, 2012 was 10.3%, compared to 10.4% at December 31, 2011.

The Company continually reviews investment securities for the presence of other-than-temporary impairment (OTTI). Further analysis of the Company s OTTI can be found in Note 3 Securities within Notes to Consolidated Financial Statements included in Item 1 hereof.

As of December 31, 2011 securities classified as trading were $8.2 million and were comprised of a community development mutual fund investment and securities that are held solely for the purpose of funding certain executive nonqualified retirement obligations. During the first quarter of 2012, management reclassified these securities to be available for sale.

Residential Mortgage Loan Sales The Company s primary loan sale activity arises from the sale of government sponsored enterprise eligible residential mortgage loans to other financial institutions. During 2012 and 2011, the Bank originated residential loans with the intention of selling them in the secondary market. Loans may be sold with servicing rights released or with servicing rights retained. A mortgage servicing asset is recognized when a loan is sold with servicing rights retained. During the three and six months ended June 30, 2012 the Company sold $76.2 million and $139.3 million of mortgage loans compared to $42.7 million and $125.5 million for the three and six months ended June 30, 2011. The majority of these loans are sold with servicing rights released.

When a loan is sold, the Company enters into agreements that contain representations and warranties about the characteristics of the loans sold and their origination. The Company may be required to either repurchase mortgage loans or to indemnify the purchaser from losses if representations and warranties are breached. During the six months ended June 30, 2012 and 2011, the Company made payments of $136,000 and $905,000, respectively, relating to repurchases and loss indemnified on these loans. The Company has not at this time established a reserve for loan repurchases as it believes future material losses are not probable.

Forward sale contracts of mortgage loans, considered derivative instruments for accounting purposes, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain one-to-four residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to various investors. See Note 7, *Derivative and Hedging Activities* within Notes to Consolidated Financial statements included in Item 1 hereof for more information on mortgage loan commitments and forward sales agreements.

Loan Portfolio Management continues to focus on growth in the commercial and home equity lending categories, while placing less emphasis on the other lending categories. Management believes this emphasis is prudent, given the prevailing interest rate and economic environment, as well as strategic priorities. At June 30, 2012, the Bank s loan portfolio amounted to $4.0 billion, an increase of $186.4 million, or 4.9%, from December 31, 2011. The commercial loan portfolio continued its strong trend and is benefiting from recent expansion initiatives in that business. Robust growth was also sustained in the first position home equity portfolio due to excellent customer response to the Company s attractive product offerings and marketing efforts. This has all resulted in total commercial portfolio growth of 5.2%, or 10.5% annualized growth for the six months ended June 30, 2012 and home equity growth of 11.6%, or 23.3% annualized growth for the six months ended June 30, 2012.

The Bank s commercial and industrial portfolio has shown growth of 8.7% for the six months ended June 30, 2012. This portfolio is well-diversified with loans to various types of industries. The following pie chart shows the diversification of the commercial and industrial portfolio as of June 30, 2012:

Avg Loan Size	$ 186,000
Largest Individual C&I Loan	$ 16.9 million
C&I Nonperforming Loans/ Loans	0.71%

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The Bank s commercial real estate portfolio, inclusive of commercial construction, is the Bank s largest loan type concentration. This portfolio is also well-diversified with loans secured by a variety of property types, such as owner-occupied and nonowner-occupied commercial, retail, office, industrial, warehouse, industrial development bonds, and other special purpose properties, such as hotels, motels, nursing homes, restaurants, churches, recreational facilities, marinas, and golf courses. Commercial real estate also includes loans secured by certain residential-related property types including multi-family apartment buildings, residential development tracts and condominiums. The following pie chart shows the diversification of the commercial real estate portfolio as of June 30, 2012:

Average Loan Size	$ 669,000
Largest Individual CRE Mortgage	$ 17.5 million
CRE Nonperforming Loans/ Loans	0.45%
Owner Occupied	20.7%

Asset 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 TDR.

Delinquency 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. The Bank considers a loan to have defaulted when it reaches 90 days past due. The Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. Generally, the Bank requires that a delinquency notice be mailed to a borrower upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices may be sent and telephone calls may be made prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of a delinquency notice, the Bank s personnel charged with managing its loan portfolios, contact the borrower to ascertain the reasons for delinquency and the prospects for payment. Any subsequent actions taken to resolve the delinquency will depend upon the nature of the loan and the length of time that the loan has been delinquent. The borrower s needs are considered as much as reasonably possible without jeopardizing the Bank s position. A late charge is usually assessed on loans upon expiration of the grace period.

Nonaccrual Loans As a general rule, within commercial real estate or home equity categories, 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 continue to accrue interest. In addition, certain commercial and real estate loans that are more than 90 days past due may be kept on an accruing status if the loans are well secured and in the process of collection. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. A loan remains on nonaccrual status until it becomes current with respect to principal and interest (and in certain instances remains current for up to six months), when the loan is liquidated, or when the loan is determined to be uncollectible and is charged-off against the allowance for loan losses.

Troubled Debt Restructurings In the course of resolving problem 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 or cure a default. 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. If such efforts by the Bank do not result in satisfactory performance, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Bank may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Bank s policy to have any restructured loans which are 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. Loans that are considered TDRs are classified as performing, unless they are on nonaccrual status or greater than 90 days delinquent. All TDRs are

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considered impaired by the Company, for the life of the loan, unless it is determined that the borrower is performing under modified terms and the restructuring agreement specified an interest rate greater than or equal to an acceptable rate for a comparable new loan at the time of the restructuring.

Nonperforming Assets Nonperforming assets are comprised of nonperforming loans, nonperforming securities, Other Real Estate Owned (OREO), and other assets in possession. Nonperforming loans consist of nonaccrual loans and loans that are more than 90 days past due but still accruing interest.

Nonperforming securities consist of securities that are on nonaccrual status. The Company holds six collateralized debt obligation securities (CDOs) comprised of pools of trust preferred securities issued by banks and insurance companies, which are currently deferring interest payments on certain tranches within the bonds structures including the tranches held by the Company. The bonds are anticipated to continue to defer interest until cash flows are sufficient to satisfy certain collateralization levels designed to protect more senior tranches. As a result the Company has placed the six securities on nonaccrual status and has reversed any previously accrued income related to these securities.

OREO consists of properties, which when deemed to be controlled by the Bank, are recorded at fair value less cost to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated cost to sell) of the foreclosed asset is charged-off to the allowance for loan losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value are recorded as reductions in the allowance, but not below zero. All costs incurred thereafter in maintaining the property are charged to noninterest expense. In the event the real estate is utilized as a rental property, rental income and expenses are recorded as incurred and included in noninterest income and noninterest expense, respectively.

Other assets in possession primarily consist of foreclosed assets and other nonreal-estate assets deemed to be in control of the Company.

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The following table sets forth information regarding nonperforming assets held by the Bank at the dates indicated:

Table 1 Nonperforming Assets/Loans

	June 30, 2012	December 31, 2011	June 30, 2011
		(Dollars In Thousands)	
LOANS ACCOUNTED FOR ON A NONACCRUAL BASIS			
Commercial and Industrial	$ 4,404	$ 1,883	$ 2,674
Commercial Real Estate	9,371	13,109	7,007
Small Business	588	542	1,130
Residential Real Estate	9,939	9,867	8,546
Home Equity	6,730	3,130	1,867
Consumer Other	211	381	447
TOTAL (1)	$ 31,243	$ 28,912	$ 21,671
LOANS PAST DUE 90 DAYS OR MORE BUT STILL ACCRUING			
Home Equity	$ 38	$	$ 110
Consumer Other	41	41	145
TOTAL	$ 79	$ 41	$ 255
TOTAL NONPERFORMING LOANS	$ 31,322	$ 28,953	$ 21,926
NONACCRUAL SECURITIES (2)	1,259	1,272	1,587
OTHER REAL ESTATE OWNED AND FORECLOSED ASSETS	11,276	6,924	7,450
TOTAL NONPERFORMING ASSETS	$ 43,857	$ 37,149	$ 30,963
NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS	0.79%	0.76%	0.59%
NONPERFORMING ASSETS AS A PERCENT OF TOTAL ASSETS	0.86%	0.75%	0.64%

(1) Inclusive of TDRs on nonaccrual of $4.6 million, $9.2 million, and $5.9 million, at June 30, 2012, December 31, 2011, and June 30, 2011, respectively.

(2) Amounts represent the fair value of nonaccrual securities. The Company has six nonaccrual securities at June 30, 2012, December 31, 2011, and June 30, 2011.

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The following table sets forth information regarding troubled debt restructured loans as of the dates indicated:

Table 2 Troubled Debt Restructurings

	June 30, 2012	December 31, 2011
	(Dollars In Thousands)	
PERFORMING TROUBLED DEBT RESTUCTURINGS	$ 40,184	$ 37,151
NONACCRUAL TROUBLED DEBT RESTRUCTURINGS	4,561	9,230
TOTAL	$ 44,745	$ 46,381
PERFORMING TROUBLED DEBT RESTRUCTURINGS AS A % OF TOTAL LOANS	1.01%	0.98%
NONACCRUAL TROUBLED DEBT RESTRUCTURINGS AS A % OF TOTAL LOANS	0.11%	0.24%
TOTAL TROUBLED DEBT RESTRUCTURINGS AS A % OF TOTAL LOANS	1.12%	1.22%

Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. The table below shows interest income that was recognized or collected on all nonaccrual loans and performing TDRs as of the dates indicated:

Table 3 Interest Income Recognized/Collected on

Nonaccrual Loans and Troubled Debt Restructurings

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
INTEREST INCOME THAT WOULD HAVE BEEN RECOGNIZED IF NONACCRUING LOANS HAD BEEN PERFORMING	$ 480	$ 501	$ 1,022	$ 819
INTEREST INCOME RECOGNIZED ON TDRS STILL ACCRUING	$ 644	$ 434	$ 1,296	$ 857
INTEREST COLLECTED ON THESET NONACCRUAL AND TDRS AND INCUDED IN INTEREST INCOME	$ 896	$ 857	$ 1,600	$ 1,350

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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Impairment is measured on a loan by loan basis for commercial and industrial, commercial real estate, commercial construction, and small business categories and for all loans identified as a troubled debt restructuring by comparing the loan s value to either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. For impaired loans deemed collateral dependent, where impairment is measured using the fair value of the collateral, the Bank will either order a new appraisal or use another available source of collateral assessment such as a broker s opinion of value to determine a reasonable estimate of the fair value of the collateral.

At June 30, 2012, impaired loans included all commercial and industrial loans, commercial real estate loans, commercial construction, and small business loans that are on nonaccrual status, TDRs, and other loans that have been categorized as impaired. Total impaired loans at June 30, 2012 and December 31, 2011 were $60.9 million and $61.7 million, respectively. For additional information regarding the Bank s asset quality, including delinquent loans, nonaccruals, TDRs, and impaired loans, see *Note 4, Loans, Allowance for Loan Losses, and Credit Quality* within Notes to Consolidated Financial Statements included in Item 1 hereof.

Potential problem loans are any loans which are not included in nonaccrual or nonperforming loans, where known information about possible credit problems of the borrowers causes management to have concerns as to the ability of such borrowers to comply with present loan repayment terms. The table below shows the potential problem commercial loans at the time periods indicated:

Table 4 Potential Problem Commercial Loans

	June 30, 2012	December 31, 2011
	(Dollars in Thousands)	
NUMBER OF LOAN RELATIONSHIPS	62	64
AGGREGATE OUTSTANDING BALANCE	$ 111,572	$ 113,641

At June 30, 2012, these potential problem loans continued to perform with respect to payments. Management actively monitors these loans and strives to minimize any possible adverse impact to the Bank.

Allowance for Loan Losses The allowance for loan losses is maintained at a level that management considers adequate to provide for probable loan losses based upon evaluation of known and inherent risks in the loan portfolio. The allowance is increased by providing for loan losses through a charge to expense and by recoveries of loans previously charged-off and is reduced by loans being charged-off.

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While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on increases in nonperforming loans, changes in economic conditions, or for other reasons. Additionally, various regulatory agencies, as an integral part of the Bank's examination process, periodically assess the adequacy of the allowance for loan losses and may require it to increase its provision for loan losses or recognize further loan charge-offs.

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The following table summarizes changes in the allowance for loan losses and other selected statistics for the periods presented:

Table 5 Summary of Changes in the Allowance for Loan Losses

	Three Months Ended				
	June 30, 2012	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**
	(Dollars in Thousands)				
AVERAGE LOANS	$ 3,947,785	$ 3,827,187	$ 3,744,958	$ 3,709,864	$ 3,678,019
ALLOWANCE FOR LOAN LOSSES, BEGINNING OF PERIOD	$ 48,340	$ 48,260	$ 47,278	$ 46,637	$ 46,444
CHARGED-OFF LOANS:					
Commercial and Industrial	4,707	15	434	749	818
Commercial Real Estate	2,133	604	1,245	242	492
Commercial Construction					769
Small Business	136	170	220	386	318
Residential Real Estate	105	109	69	88	280
Consumer Home Equity	1,391	750	714	333	501
Consumer Other	296	297	417	374	409
TOTAL CHARGED-OFF LOANS	8,768	1,945	3,099	2,172	3,587
RECOVERIES ON LOANS PREVIOUSLY CHARGED-OFF:					
Commercial and Industrial	113	200	72	77	69
Commercial Real Estate				98	
Commercial Construction				425	25
Small Business	46	52	88	18	26
Residential Real Estate					
Consumer Home Equity	18	13	22	13	13
Consumer Other	154	160	99	182	165
TOTAL RECOVERIES:	331	425	281	813	298
NET LOANS CHARGED-OFF:					
Commercial and Industrial	4,594	(185)	362	672	749
Commercial Real Estate	2,133	604	1,245	144	492
Commercial Construction				(425)	744
Small Business	90	118	132	368	292
Residential Real Estate	105	109	69	88	280
Consumer Home Equity	1,373	737	692	320	488
Consumer Other	142	137	318	192	244
TOTAL NET LOANS CHARGED-OFF	8,437	1,520	2,818	1,359	3,289
PROVISION FOR LOAN LOSSES	8,500	1,600	3,800	2,000	3,482
TOTAL ALLOWANCES FOR LOAN LOSSES, END OF PERIOD	$ 48,403	$ 48,340	$ 48,260	$ 47,278	$ 46,637
NET LOANS CHARGED-OFF AS A PERCENT OFAVERAGE TOTAL LOANS (ANNUALIZED)	0.86%	0.16%	0.30%	0.15%	0.36%

TOTAL ALLOWANCE LOR LOAN LOSSES AS A PERCENT OF TOTAL LOANS	1.22%	1.25%	1.27%	1.27%	1.25%
TOTAL ALLOWANCE FOR LOAN LOSSES AS A PERCENT OF NONPERFORMING LOANS	154.53%	152.75%	166.68%	177.57%	212.70%
NET LOANS CHARGED-OFF AS A PERCENT OF ALLOWANCE FOR LOAN LOSSES (ANNUALIZED)	70.11%	12.65%	23.42%	11.40%	28.29%
RECOVERIES AS A PERCENT OF CHARGE-OFFS	3.78%	21.85%	9.07%	37.43%	8.31%

For purposes of the allowance for loan losses, management segregates the loan portfolio into the portfolio segments detailed in the table below. The allocation of the allowance for loan losses is made to each loan category using the analytical techniques and estimation methods described herein. While these amounts represent management s best estimate of the distribution of probable losses at the evaluation dates, they are not necessarily indicative of either the categories in which actual losses may occur or the extent of such actual losses that

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may be recognized within each category. Each of these loan categories possess unique risk characteristics that are considered when determining the appropriate level of allowance for each segment. The total allowance is available to absorb losses from any segment of the loan portfolio.

The following table sets forth the allocation of the allowance for loan losses by loan category at the dates indicated:

Table 6 Summary of Allocation of Allowance for Loan Losses

	June 30, 2012		December 31, 2011	
	(Dollars in Thousands)			
	Allowance Amount	Percent of Loans In Category To Total Loans	Allowance Amount	Percent of Loans In Category To Total Loans
COMMERCIAL AND INDUSTRIAL	$ 11,558	15.7%	$ 11,682	15.2%
COMMERCIAL REAL ESTATE	21,376	48.1%	23,514	48.6%
COMMERCIAL CONSTRUCTION	2,220	3.8%	2,076	3.4%
SMALL BUSINESS	1,320	2.0%	1,896	2.1%
RESIDENTIAL REAL ESTATE	2,981	10.1%	3,113	11.3%
HOME EQUITY	7,854	19.5%	4,597	18.3%
CONSUMER OTHER	1,094	0.8%	1,382	1.1%
TOTAL ALLOWANCE FOR LOAN LOSSES	$ 48,403	100.0%	$ 48,260	100.0%

To determine if a loan should be charged-off, all possible sources of repayment are analyzed. Possible sources of repayment include the potential for future cash flows, the value of the Bank s collateral, and the strength of co-makers or guarantors. When available information confirms that specific loans or portions thereof are uncollectible, these amounts are promptly charged-off against the allowance for loan losses and any recoveries of such previously charged-off amounts are credited to the allowance. Regardless of whether a loan is unsecured or collateralized, the Company charges off the amount of any confirmed loan loss in the period when the loans, or portions of loans, are deemed uncollectible. For troubled, collateral-dependent loans, loss-confirming events may include an appraisal or other valuation that reflects a shortfall between the value of the collateral and the book value of the loan or receivable, or a deficiency balance following the sale of the collateral.

For additional information regarding the Bank s allowance for loan losses, see *Note 4, Loans, Allowance for Loan Losses, and Credit Quality* within Notes to Consolidated Financial Statements included in Item 1hereof.

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Federal Home Loan Bank Stock The Bank held an investment in Federal Home Loan Bank (FHLB) of Boston of $33.6 million and $35.9 million at June 30, 2012 and December 31, 2011, respectively. The Company s investment in FHLB stock decreased by $2.3 million during the first half of 2012, as the FHLB began to repurchase excess capital stock in 2012. The FHLB is a cooperative that provides services to its member banking institutions. The primary reason for the FHLB of Boston membership is to gain access to a reliable source of wholesale funding, particularly term funding, as a tool to manage interest rate risk. The purchase of stock in the FHLB is a requirement for a member to gain access to funding. The Company purchases FHLB stock proportional to the volume of funding received and views the purchases as a necessary long-term investment for the purposes of balance sheet liquidity and not for investment return.

Goodwill and Identifiable Intangible Assets Goodwill and identifiable intangible assets were $139.9 million and $140.7 million at June 30, 2012 and December 31, 2011, respectively. The Company performed its annual goodwill impairment testing during the third quarter of 2011, concluding that the Company s goodwill was not impaired. Goodwill is subject to impairment tests annually, or more frequently if necessary, and is evaluated using a two step impairment approach. The first step (Step 1) of the impairment testing compares book value to the market value of the Company s stock, or to the fair value of the reporting unit. If Step 1 is failed, a more detailed analysis is performed, which involves measuring the excess of the fair value of the reporting unit, as determined in Step 1, over the aggregate fair value of the individual assets, liabilities, and identifiable intangibles by utilizing a comparable analysis of relevant price multiples in recent market transactions. The vast majority of the Company s goodwill relates to acquisitions that are fully integrated into the retail banking operations, which management does not consider to be at risk of failing Step 1 in the near future. Goodwill totaling $2.2 million dollars, associated with the asset purchase of Compass Exchange Advisors on January 1, 2007, has the potential of failing Step 1 in future periods. Compass business model success is closely correlated to the volume of U.S. commercial real estate transactions and the interest rate spread that can be obtained on short-term funds among other factors. A low level of commercial real estate sales activity, or a continued period of low rates could result in future impairment being recognized. Impairment testing for the current year will be done in the third quarter of 2012.

Cash Surrender Value of Life Insurance Policies The bank holds life insurance policies for the purpose of offsetting the Bank s future obligations to its employees under its retirement and benefits plans. The cash surrender value of life insurance policies was $87.5 million and $86.1 million at June 30, 2012 and December 31, 2011, respectively. The Bank recorded tax exempt income from the life insurance policies of $741,000 and $1.5 million for the three and six months ended June 30, 2012, respectively, a decrease of 13.8% and 7.2%, respectively, compared to the year ago periods.

Deposits As of June 30, 2012, deposits of $4.1 billion were $201.3 million, or 5.2%, higher than December 31, 2011. Core deposits, which the Company defines as nontime and nonbrokered deposits, increased by $181.9 million, or 5.6%, during the six months ended June 30, 2012 and now comprise 83.8% of total deposits.

The Bank also participates in the Certificate of Deposit Registry Service (CDARS) program, allowing the Bank to provide easy access to multi-million dollar FDIC deposit insurance protection on certificate of deposits investments for consumers, businesses and public entities. The economic downturn and subsequent flight to safety makes CDARS an attractive product for customers. In addition, the Bank may occasionally raise funds through brokered certificates of deposit. This channel allows the Bank to seek additional funding in potentially large quantities by attracting deposits from outside the Bank s core market.

Borrowings The Company s borrowings consist of both short-term and long-term borrowings and provide the Bank with one of its primary sources of funding. The borrowings also serve the Bank by providing a contingent source of liquidity.

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The Company s borrowings consisted of the following as of the periods indicated:

Table 7 Borrowings

	June 30, 2012	December 31, 2011
	(Dollars in Thousands)	
SHORT-TERM BORROWINGS:		
FHLB Borrowings	$ 150,000	$ 190,091
Customer Repurchase Agreements	144,838	166,128
TOTAL SHORT-TERM BORROWINGS	$ 294,838	$ 356,219
LONG-TERM BORROWINGS:		
Federal Home Loan Bank Borrowings	$ 39,522	$ 39,610
Wholesale Repurchase Agreements	50,000	50,000
Junior Subordinated Debentures:		
Capital Trust V	51,547	51,547
Slades Ferry Trust I	10,310	10,310
Subordinated Debentures	30,000	30,000
TOTAL LONG-TERM BORROWINGS	$ 181,379	$ 181,467
TOTAL BORROWINGS	$ 476,217	$ 537,686

As of June 30, 2012 and December 31, 2011, the Bank had $2.5 billion and $2.6 billion, respectively, of assets pledged as collateral against borrowings. These assets are primarily pledged to the FHLB of Boston and the Federal Reserve Bank of Boston.

Capital Resources The Federal Reserve, the FDIC, and other regulatory agencies have established capital guidelines for banks and bank holding companies. Risk-based capital guidelines issued by the federal regulatory agencies require banks to meet a minimum Tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0%. A minimum requirement of 4.0% Tier 1 leverage capital is also mandated. At June 30, 2012, the Company and the Bank exceeded the minimum requirements for Tier 1 risk-based, total risk-based capital, and Tier 1 leverage capital.

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The Company s and the Bank s actual capital amounts and ratios are also presented in the following table:

Table 8 Company and Bank's Capital Amounts and Ratios

	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
			June 30, 2012 (Dollars in Thousands)					
COMPANY (CONSOLIDATED):								
Total Capital (to Risk Weighted Assets)	$501,963	12.63%	$318,042	³	8.0%	N/A		N/A
Tier 1 Capital (to Risk Weighted Assets)	423,012	10.64	$159,021	³	4.0	N/A		N/A
Tier 1 Capital (to Average Assets)	423,012	8.68	194,848	³	4.0	N/A		N/A
BANK:								
Total Capital (to Risk Weighted Assets)	$474,107	11.93%	$317,990	³	8.0%	$397,488	³	10.0%
Tier 1 Capital (to Risk Weighted Assets)	395,156	9.94	$158,995	³	4.0	$238,493	³	6.0
Tier 1 Capital (to Average Assets)	395,156	8.11	194,964	³	4.0	243,705	³	5.0
			December 31, 2011 (Dollars in Thousands)					
COMPANY (CONSOLIDATED):								
Total Capital (to Risk Weighted Assets)	$485,688	12.78%	$304,097	³	8.0%	N/A		N/A
Tier 1 Capital (to Risk Weighted Assets)	408,157	10.74	152,049	³	4.0	N/A		N/A
Tier 1 Capital (to Average Assets)	408,157	8.61	189,576	³	4.0	N/A		N/A
BANK:								
Total Capital (to Risk Weighted Assets)	$462,715	12.17%	$304,066	³	8.0%	$380,082	³	10.0%
Tier 1 Capital (to Risk Weighted Assets)	385,189	10.13	152,033	³	4.0	228,049	³	6.0
Tier 1 Capital (to Average Assets)	385,189	8.12	189,698	³	4.0	237,123	³	5.0

On June 21, 2012 the Company s Board of Directors declared a cash dividend of $0.21 per share to stockholders of record as of the close of business on July 2, 2012. This dividend was paid on July 13, 2012. For the quarter ended June 30, 2012, the dividend payout ratio amounted to 51.2%.

Investment Management As of June 30, 2012, the Rockland Trust Investment Management Group had assets under administration of $2.0 billion representing approximately 3,812 trust, fiduciary, and agency accounts. At December 31, 2011, assets under administration were $1.7 billion, representing approximately 3,607 trust, fiduciary, and agency accounts. Included in these amounts as of June 30, 2012 and December 31, 2011 are assets under administration of $129.5 million and $119.1 million, respectively, relating to the Company s registered investment advisor, Bright Rock Capital Management, LLC, which provides institutional quality investment management services to institutional and high net worth clients. Revenue from the Investment Management Group amounted to $3.4 million and $6.6 million for the three and six months ended June 30, 2012 and 2011, respectively, compared to $3.3 million and $6.1 million for the three and six months ended June 30, 2011, respectively.

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Additionally, for the three and six months ended June 30, 2012, retail investments and insurance revenue was $401,000 and $832,000 respectively, compared to $348,000 and $698,000 for the three and six months ended June 30, 2011. Retail investments and insurance includes revenue from LPL Financial and its affiliates, LPL Insurance Associates, Inc., Savings Bank Life Insurance of Massachusetts, and Smith Companies LTD, a division of Capitas Financial, LLC.

Mortgage Banking The Bank originates residential loans for both its portfolio and with the intention of selling them in the secondary market. The Bank s mortgage banking income consists primarily of revenue from premiums received on loans sold with servicing released, origination fees, and gains and losses on sold mortgages less related commission expense. The gains and losses resulting from the sales of loans with servicing retained are adjusted to recognize the present value of future servicing fee income over the estimated lives of the related loans. The following table shows the total residential loans that were closed and the amounts which were held in the portfolio and sold or held for sale in the secondary market during the periods indicated:

Table 9 Closed Residential Real Estate Loans

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
HELD IN PORTFOLIO	$ 19,485	$ 16,207	$ 32,590	$ 35,518
SOLD OR HELD FOR SALE IN THE SECONDARY MARKET	76,217	47,530	141,870	109,943
TOTAL CLOSED LOANS	95,702	63,737	174,460	145,461

Included in the mortgage banking income results is the impact of the Bank s mortgage servicing assets. Servicing assets are recognized as separate assets when rights are acquired through sale of loans with servicing rights retained. The principal balance of loans serviced by the Bank on behalf of investors amounted to $204.5 million at June 30, 2012 and $229.1 million at December 31, 2011. Upon sale, the mortgage servicing asset is established, which represents the then current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Impairment is determined by stratifying the rights based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. Servicing rights are recorded in other assets in the consolidated balance sheets, are amortized in proportion to and over the period of estimated net servicing income, and are assessed for impairment based on fair value at each reporting date. The following table shows fair value of the servicing rights associated with these loans and the changes for the periods indicated:

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Table 10 Mortgage Servicing Asset

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
BALANCE AT BEGINNING OF PERIOD	$ 1,034	$ 1,551	$ 1,098	$ 1,619
ADDITIONS	48	12	77	45
AMORTIZATION	(132)	(139)	(256)	(278)
CHANGE IN VALUATION ALLOWANCE	(46)	(22)	(15)	16
BALANCE AT END OF PERIOD	$ 904	$ 1,402	$ 904	$ 1,402

RESULTS OF OPERATIONS

The Company s results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and the interest paid on deposits and borrowings. The results of operations are also affected by the level of income/fees from loans, deposits, mortgage banking and investment management, as well as the level of operating expenses, provision for loan losses, provision for income taxes, and the relative levels of interest rates and economic activity.

The following table provides a summary of results of operations:

Table 11 Summary of Results of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
NET INCOME	$ 8,874	$ 11,120	$ 21,057	$ 22,308
DILUTED EARNINGS PER SHARE	$ 0.41	$ 0.52	$ 0.97	$ 1.04
RETURN ON AVERAGE ASSETS	0.71%	0.95%	0.86%	0.96%
RETURN ON AVERAGE EQUITY	7.34%	9.78%	8.81%	10.01%
STOCKHOLDERS EQUITY AS % OF ASSETS	9.44%	9.41%	9.44%	9.41%

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Net Interest Income The amount of net interest income is affected by changes in interest rates and by the volume and mix of interest earning assets and interest bearing liabilities.

On a fully tax equivalent basis, net interest income for the second quarter of 2012 increased $498,000, or 1.2%, to $42.9 million, when compared to the second quarter of 2011. The Company s net interest margin was 3.80% for the quarter ended June 30, 2012 as compared to 3.97% for the quarter ended June 30, 2011. The Company s interest rate spread was 3.63% and 3.76% for the second quarters of 2012 and 2011, respectively. The decline in the net interest margin is primarily the result of assets re-pricing in a lower rate environment without the ability to fully offset this impact through a reduction in funding costs.

The following tables present the Company s daily average balances, net interest income, interest rate spread, and net interest margin for the three and six months ending June 30, 2012 and 2011. For purposes of the table and the following discussion, income from interest-earning assets and net interest income are presented on a fully-taxable equivalent basis by adjusting income and yields earned on tax-exempt interest received on securities and loans, to make them equivalent to income and yields on fully-taxable earning assets. The fully-taxable equivalent was calculated using the blended federal and state statutory tax rate:

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Table 12 Average Balance, Interest Earned/Paid & Average Yields

	Three Months Ended June 30, 2012			2011		
	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate
	(Dollars in Thousands)					
INTEREST-EARNING ASSETS						
INTEREST EARNING DEPOSITS WITH BANKS, FEDERAL FUNDS SOLD, AND SHORT-TERM INVESTMENTS SECURITIES	$ 30,890	$ 19	0.25%	$ 23,049	$ 14	0.24%
Trading Assets				8,600	71	3.31%
Taxable Investment Securities	544,822	4,415	3.26%	556,301	5,286	3.81%
Nontaxable Investment Securities (1)	1,938	39	8.09%	8,610	161	7.50%
TOTAL SECURITIES	546,760	4,454	3.28%	573,511	5,518	3.86%
LOANS HELD FOR SALE	20,079	156	3.12%	8,659	70	3.24%
LOANS						
Commercial and Industrial	620,364	6,294	4.08%	535,764	5,710	4.27%
Commercial Real Estate (1)	1,896,941	22,973	4.87%	1,787,364	23,618	5.30%
Commercial Construction	149,627	1,578				