INDEPENDENT BANK CORP
Form 10-Q
May 05, 2011

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 March 31, 2011
Commission File Number: 1-9047
Independent Bank Corp.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Yes o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No þ

As of May 1, 2011, there were 21,433,666 shares of the issuer s common stock outstanding, par value $0.01 per share

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	March 31, 2011	December 31, 2010
ASSETS		
CASH AND DUE FROM BANKS	$ 49,242	$ 42,112
INTEREST EARNING DEPOSITS WITH BANKS	17,042	119,170
FED FUNDS SOLD AND SHORT TERM INVESTMENTS	417	
SECURITIES		
Trading Assets	8,521	7,597
Securities Available for Sale	341,362	377,457
Securities Held to Maturity (fair value $237,828 and $201,234 at March 31, 2011 and December 31, 2010, respectively)	239,305	202,732
TOTAL SECURITIES	589,188	587,786
LOANS HELD FOR SALE	8,643	27,917
LOANS		
Commercial and Industrial	508,839	502,952
Commercial Real Estate	1,770,324	1,717,118
Commercial Construction	123,428	129,421
Small Business	80,817	80,026
Residential Real Estate	462,110	473,936
Residential Construction	3,256	4,175
Home Equity	619,727	579,278
Consumer Other	59,873	68,773
TOTAL LOANS	3,628,374	3,555,679
Less: Allowance for Loan Losses	(46,444)	(46,255)
NET LOANS	3,581,930	3,509,424
FEDERAL HOME LOAN BANK STOCK	35,854	35,854
BANK PREMISES AND EQUIPMENT, NET	46,481	45,712
GOODWILL	130,074	129,617
IDENTIFIABLE INTANGIBLE ASSETS	11,877	12,339
BANK OWNED LIFE INSURANCE	83,511	82,711
OTHER REAL ESTATE OWNED & FORECLOSED ASSETS	9,406	7,333
OTHER ASSETS	82,118	95,763
TOTAL ASSETS	$ 4,645,783	$ 4,695,738

LIABILITIES AND STOCKHOLDERS EQUITY

DEPOSITS		
Demand Deposits	$ 837,705	$ 842,067
Savings and Interest Checking Accounts	1,348,242	1,375,254
Money Market	724,203	717,286
Time Certificates of Deposit Over $100,000	224,178	219,480
Other Time Certificates of Deposits	450,598	473,696
TOTAL DEPOSITS	3,584,926	3,627,783
BORROWINGS		
Federal Home Loan Bank Borrowings	277,285	302,414
Federal Funds Purchased and Assets Sold Under Repurchase Agreements	184,738	168,119
Junior Subordinated Debentures	61,857	61,857
Subordinated Debentures	30,000	30,000
Other Borrowings	2,838	3,044
TOTAL BORROWINGS	556,718	565,434
OTHER LIABILITIES	56,154	66,049
TOTAL LIABILITIES	4,197,798	4,259,266
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred Stock, $.01 par value. Authorized: 1,000,000 Shares Outstanding: None		
Common Stock, $.01 par value. Authorized: 75,000,000 Issued and Outstanding : 21,407,211 shares at March 31, 2011 and 21,220,801 shares at December 31, 2010 (Includes 245,340 and 219,900 shares of unvested fully participating restricted stock awards, respectively)	212	210
Shares Held in Rabbi Trust at Cost 174,537 shares in March 31, 2011 and 178,382 shares at December 31, 2010	(2,752)	(2,738)
Deferred Compensation Obligation	2,752	2,738
Additional Paid in Capital	230,581	226,708
Retained Earnings	217,443	210,320
Accumulated Other Comprehensive Loss, Net of Tax	(251)	(766)
TOTAL STOCKHOLDERS EQUITY	447,985	436,472
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 4,645,783	$ 4,695,738

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

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
INTEREST INCOME		
Interest on Loans	$ 43,216	$ 44,047
Interest on Loans Held for Sale	119	106
Taxable Interest and Dividends on Securities	5,493	6,469
Non-taxable Interest and Dividends on Securities	113	202
Interest on Federal Funds Sold and Short-Term Investments	17	24
TOTAL INTEREST AND DIVIDEND INCOME	48,958	50,848
INTEREST EXPENSE		
Interest on Deposits	3,485	5,939
Interest on Borrowings	4,000	4,699
TOTAL INTEREST EXPENSE	7,485	10,638
NET INTEREST INCOME	41,473	40,210
PROVISION FOR LOAN LOSSES	2,200	4,650
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	39,273	35,560
NON-INTEREST INCOME		
Service Charges on Deposit Accounts	3,959	3,131
Interchange and ATM Fees	1,702	1,090
Investment Management	3,216	2,728
Mortgage Banking Income, Net	1,047	1,000
Bank Owned Life Insurance Income	706	721
Gross Change on Write-Down of Certain Investments to Fair Value	249	180
Less: Non-Credit Related Other-Than-Temporary Impairment	(289)	(358)
Net Loss on Write-Down of Certain Investments to Fair Value	(40)	(178)
Other Non-Interest Income	2,008	1,558
TOTAL NON-INTEREST INCOME	12,598	10,050
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	20,252	18,464
Occupancy and Equipment Expenses	4,575	4,135
Data Processing and Facilities Management	1,638	1,294
FDIC Assessment	1,291	1,321
Advertising Expense	938	441

Telephone	527	546
Software Maintenance	463	495
Legal	419	803
Other Non-Interest Expense	6,379	6,089
TOTAL NON-INTEREST EXPENSE	36,482	33,588
INCOME BEFORE INCOME TAXES	15,389	12,022
PROVISION FOR INCOME TAXES	4,201	2,795
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 11,188	$ 9,227
BASIC EARNINGS PER SHARE	$ 0.53	$ 0.44
DILUTED EARNINGS PER SHARE	$ 0.52	$ 0.44
WEIGHTED AVERAGE COMMON SHARES (BASIC)	21,298,257	20,937,589
Common Share Equivalents	46,082	70,833
WEIGHTED AVERAGE COMMON SHARES (DILUTED)	21,344,339	21,008,422

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited Dollars in Thousands, Except Per Share Data)

	Common Stock Outstanding	Common Stock	Shares Held in Rabbi Trust at Cost	Deferred Compensation Obligation	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	TOTAL
BALANCE DECEMBER 31, 2010	$ 21,220,801	$ 210	$ (2,738)	$ 2,738	$ 226,708	$ 210,320	$ (766)	$ 436,472
COMPREHENSIVE INCOME:								
Net Income						11,188		11,188
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)							(640)	
Change in Fair Value of Cash Flow Hedges, Net of Tax and Realized Gains/(Losses)							994	
Amortization of Prior Service Cost, net of tax							161	
Other Comprehensive Income							515	515
TOTAL COMPREHENSIVE INCOME								11,703
COMMON DIVIDEND DECLARED ($0.19 PER SHARE)						(4,065)		(4,065)
PROCEEDS FROM EXERCISE OF STOCK OPTIONS	133,627	2			3,065			3,067
TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY					231			231
EQUITY BASED COMPENSATION					716			716

RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS SURRENDERED	52,670				(216)			(216)
SHARES ISSUED UNDER DIRECT STOCK PURCHASE PLAN	113				3			3
DEFERRED COMPENSATION OBLIGATION			(14)	14				
TAX BENEFIT RELATED TO DEFERRED COMPENSATION DISTRIBUTIONS					74			74
BALANCE MARCH 31, 2011	$ 21,407,211	$ 212	$ (2,752)	$ 2,752	$ 230,581	$ 217,443	$ (251)	$ 447,985
BALANCE DECEMBER 31, 2009	$ 21,072,196	$ 209	$ (2,482)	$ 2,482	$ 225,088	$ 184,599	$ 2,753	$ 412,649
COMPREHENSIVE INCOME:								
Net Income						9,227		9,227
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)							1,523	
Change in Fair Value of Cash Flow Hedges, Net of Tax and Realized Gains							(1,721)	
Amortization of Prior Service Cost, net of tax							23	
Other Comprehensive Income							(175)	(175)
TOTAL COMPREHENSIVE INCOME								9,052
DIVIDENDS DECLARED:								
						(3,809)		(3,809)

COMMON DECLARED ($0.18 PER SHARE)								
PROCEEDS FROM EXERCISE OF STOCK OPTIONS	4,050					47		47
TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY					27			27
EQUITY BASED COMPENSATION					276			276
RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS SURRENDERED	90,749				(18)			(18)
DEFERRED COMPENSATION OBLIGATION			(14)	14				
BALANCE MARCH 31, 2010	$ 21,166,995	$ 209	$ (2,496)	$ 2,496	$ 225,373	$ 190,064	$ 2,578	$ 418,224

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)

	Three Months Ended March 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 11,188	$ 9,227
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and Amortization	2,378	1,120
Provision for Loan Losses	2,200	4,650
Deferred Income Tax Provision	(11)	(7)
Net Gain on Sale of Investments		
Loss on Write-Down of Investments in Securities Available for Sale	40	178
Loss on Sale of Fixed Assets		279
Gain on Sale of Other Real Estate Owned	(56)	(13)
Loss on Write-Down of Other Real Estate Owned	530	
Gain Resulting from Early Termination of Hedging Relationship		
Realized Gain on Sale Leaseback Transaction	(258)	(258)
Stock Based Compensation	716	276
Increase in Cash Surrender Value of Bank Owned Life Insurance	(706)	(722)
Change in Fair Value on Loans Held for Sale	(639)	
Proceeds from Bank Owned Life Insurance		
Net Change In:		
Trading Assets	(924)	(1,228)
Loans Held for Sale	19,913	5,896
Other Assets	13,378	5,218
Other Liabilities	(8,097)	332
TOTAL ADJUSTMENTS	28,464	15,721
NET CASH PROVIDED BY OPERATING ACTIVITIES	39,652	24,948
CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES:		
Proceeds from Sales of Securities Available For Sale		
Proceeds from Maturities and Principal Repayments of Securities Available For Sale	34,932	37,258
Purchase of Securities Available For Sale		
Proceeds from Maturities and Principal Repayments of Securities Held to Maturity	8,130	2,355
Purchase of Securities Held to Maturity	(44,931)	
Purchase of Federal Home Loan Bank Stock, net		
Purchase of Bank Owned Life Insurance	(94)	(93)
Net Increase in Loans	(78,228)	(20,340)
Cash Used In Business Combinations	(457)	(269)
Purchase of Bank Premises and Equipment	(1,995)	(2,108)
Proceeds from the Sale of Bank Premises and Equipment		36

Proceeds Resulting from Early Termination of Hedging Relationship		
Proceeds from the Sale of Other Real Estate Owned and Foreclosed Assets	514	836
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(82,129)	17,675
CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES:		
Net Decrease in Time Deposits	(18,400)	(54,129)
Net (Decrease)/Increase in Other Deposits	(24,457)	152,688
Net Increase/(Decrease) in Federal Funds Purchased and Assets Sold Under Repurchase Agreements	16,619	(6,016)
Net Increase/(Decrease) in Short Term Federal Home Loan Bank Advances	20,000	(35,000)
Net Decrease in Long Term Federal Home Loan Bank Advances	(45,000)	
Net (Decrease)/Increase in Treasury Tax & Loan Notes	(206)	721
Proceeds from Exercise of Stock Options	3,067	47
Tax Benefit from Stock Option Exercises	231	27
Restricted Shares Surrendered	(216)	(18)
Deferred Compensation Obligation	74	
Shares Issued Under Direct Stock Purchase Plan	3	
Common Dividends Paid	(3,819)	(3,793)
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES	(52,104)	54,527
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(94,581)	97,150
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	161,282	121,905
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 66,701	$ 219,055
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of Loans to Foreclosed Assets	$ 3,061	$ 2,819

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

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

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

In the first quarter of 2011, the Company formed Goddard Avenue Securities Corp., a Massachusetts corporation and wholly owned subsidiary of Rockland Trust Company. This entity was formed in order to hold investment securities for Rockland Trust Company. Subsequent to March 31, 2011, Rockland Trust established Rockland MHEF Fund LLC, a Delaware limited liability company, as a wholly-owned subsidiary of Rockland Trust Company. Massachusetts Housing Equity Fund, Inc. is a third party non-member manager of Rockland MHEF Fund LLC. This entity was established to accommodate the Company s investments in low income housing tax projects. There have been no other changes to the entity structure of the Company subsequent to December 31, 2010.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or any other interim period.

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

NOTE 2 RECENT ACCOUNTING STANDARDS

FASB ASC Topic No. 310, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring Update No. 2011-02. Issued in April 2011, this update provides guidance and clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring, in addition the previously deferred disclosure requirements originally included in Update No. 2010-20 are

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effective upon adoption of this standard. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. The Company does not anticipate the adoption of this standard to have a material impact on the Company s consolidated financial position.

NOTE 3 SECURITIES

The following table presents a summary of the cost and fair value of the Company s investment securities.

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 for the periods below were as follows:

	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses Other	Other-Than-Temporary Impairment	Fair Value	Amortized Cost	Gross Unrealized Gains	Unrealized Losses Other	Other-Than-Temporary Impairment	Fair Value
			(Dollars In Thousands)					*(Dollars In Thousands)*		
U.S. Treasury Securities	$ 707	$ 2	$	$	$ 709	$ 715	$ 2	$	$	$ 717
Agency Mortgage-Backed Securities	267,853	14,883			282,736	296,821	16,481			313,302
Agency Collateralized Mortgage Obligations	40,737	617	(47)		41,307	45,426	779	(70)		46,135
Private Mortgage-Backed Securities (1) (2)	9,005			7	9,012	10,408			(154)	10,254
Single Issuer Trust Preferred Securities Issued by Banks	5,000		(538)		4,462	5,000		(779)		4,221
Pooled Trust Preferred Securities Issued by Banks and Insurers(1)	8,533		(2,112)	(3,285)	3,136	8,550		(2,309)	(3,413)	2,828
TOTAL	$331,835	$15,502	$(2,697)	$(3,278)	$341,362	$366,920	$17,262	$(3,158)	$(3,567)	$377,457

The amortized cost, gross unrealized holding gains and losses, other-than-temporary impairment recorded in other comprehensive income, and fair value of securities held to maturity for the periods below were as follows:

	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses Other	Other-Than-Temporary Impairment	Fair Value	Amortized Cost	Gross Unrealized Gains	Unrealized Losses Other	Other-Than-Temporary Impairment	Fair Value

			(Dollars In Thousands)					*(Dollars In Thousands)*		
Agency Mortgage-Backed Securities	$131,262	$1,204	$ (2,034)	$	$130,432	$ 95,697	$1,348	$ (1,778)	$	$ 95,267
Agency Collateralized Mortgage Obligations	86,934	561	(1,337)		86,158	89,823	600	(1,691)		88,732
State, County, and Municipal Securities	9,454	137			9,591	10,562	167			10,729
Single Issuer Trust Preferred Securities Issued by Banks	11,655	15	(23)		11,647	6,650	19	(163)		6,506
TOTAL	$239,305	$1,917	$ (3,394)	$	$237,828	$202,732	$2,134	$ (3,632)	$	$201,234

(1) During the quarter ended March 31, 2011 and the year ended December 31, 2010, the Company recorded gross changes on other-than-temporarily impaired (OTTI) securities of $249,000 and $497,000. Included in these amounts were losses of $289,000 and $831,000 which were reclassed to OCI as they were deemed to be non-credit related.

(2) Included in the non-credit component of OTTI for this class of securities is an unrealized gain of $89,000, which resulted from the Company having previously recognized credit losses in excess of the unrealized losses in OCI. In such instances, credit losses recognized in earnings have been offset by an unrealized gain.

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale. There were no recorded gross gains and losses on the sales of investment securities for the periods ending March 31, 2011 and 2010.

A schedule of the contractual maturities of securities available for sale and securities held to maturity is presented below:

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	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)		(Dollars in Thousands)	
Due in One Year or Less	$ 707	$ 709	$ 1,850	$ 1,870
Due from One Year to Five Years	20,167	20,799	10,094	10,169
Due from Five to Ten Years	76,609	80,747	4,178	4,347
Due after Ten Years	234,352	239,107	223,183	221,442
TOTAL	$331,835	$341,362	$239,305	$237,828

The actual maturities of agency mortgage-backed securities, collateralized mortgage obligations, private mortgage-backed securities, and corporate debt securities will differ from the contractual maturities, due to the ability of the issuers to prepay underlying obligations. At March 31, 2011 and December 31, 2010, the Bank had $17.8 million and $24.3 million of callable securities in its investment portfolio.

At March 31, 2011 and December 31, 2010 investment securities carried at $369.4 million and $350.3 million, respectively, were pledged to secure public deposits, assets sold under repurchase agreements, treasury tax and loan notes, letters of credit, and for other purposes.

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

Other-Than-Temporary Impairment

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

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

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		March 31, 2011					
		Less than 12 months		12 months or longer		Total	
Description of Securities	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(Dollars In Thousands)			
Agency Mortgage-Backed Securities	5	$ 62,411	$ (2,034)	$	$	$ 62,411	$ (2,034)
Agency Collateralized Mortgage Obligations	6	71,312	(1,384)			71,312	(1,384)
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	3	10,096	(23)	4,462	(538)	14,558	(561)
Pooled Trust Preferred Securities Issued by Banks and Insurers	2			2,552	(2,112)	2,552	(2,112)
TOTAL TEMPORARILY IMPAIRED SECURITIES	16	$ 143,819	$ (3,441)	$ 7,014	$ (2,650)	$ 150,833	$ (6,091)

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

The Company does not intend to sell these investments and has determined based upon available evidence that it is more likely than not that the Company will not be required to sell the security before the recovery of its amortized cost basis. As a result, the Company does not consider these investments to be OTTI. The Company was able to determine this by reviewing various qualitative and quantitative factors regarding each investment category, information 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 March 31, 2011:

Agency Mortgage-Backed Securities and Collateralized Mortgage Obligations: The unrealized loss on the Company s investment in these securities is attributable to changes in interest rates and not due to credit deterioration, as these securities are implicitly guaranteed by the U.S. Government or one of its agencies.

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

Pooled Trust Preferred Securities: This portfolio consists of two below investment grade securities of which one is performing while the other is deferring payments as contractually allowed. The unrealized loss on these securities is attributable to the illiquid nature of the trust preferred market and the significant risk premiums required in the current economic environment. 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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Management monitors the following issuances closely for impairment due to the history of OTTI losses recorded within these classes of securities. Management has determined that the securities possess characteristics which in the current economic environment could lead to further OTTI charges. The following tables summarize pertinent information that was considered by management in determining if OTTI existed.

	Class	Amortized Cost (1)	Gross Unrealized Gain/(Loss)	Non-Credit Related Other-Than-Temporary Impairment	Fair Value	Total Cumulative Credit Related Other-Than-Temporary Impairment	Total Cumulative Other-Than-Temporary impairment to date
			(Dollars in Thousands)				
Pooled Trust Preferred Securities							
Pooled Trust Preferred Security A	C1	$ 1,283	$	$ (1,155)	$ 128	$ (3,676)	$ (4,831)
Pooled Trust Preferred Security B	D					(3,481)	(3,481)
Pooled Trust Preferred Security C	C1	505		(464)	41	(482)	(946)
Pooled Trust Preferred Security D	D					(990)	(990)
Pooled Trust Preferred Security E	C1	2,081		(1,666)	415	(1,367)	(3,033)
Pooled Trust Preferred Security F	B	1,890	(1,210)		680		
Pooled Trust Preferred Security G	A1	2,774	(902)		1,872		
TOTAL POOLED TRUST PREFERRED SECURITIES		$ 8,533	$ (2,112)	$ (3,285)	$ 3,136	$ (9,996)	$ (13,281)
Private Mortgage-Backed Securities							
Private Mortgage-Backed Securities One	2A1	$ 4,072	$	$ (82)	$ 3,990	$ (487)	$ (569)
Private Mortgage-Backed Securities Two	A19	4,933		89	5,022	(85)	4
TOTAL PRIVATE MORTGAGE-BACKED SECURITIES		$ 9,005	$	$ 7	$ 9,012	$ (572)	$ (565)

TOTAL	$17,538	$ (2,112)	$ (3,278)	$12,148	$ (10,568)	$ (13,846)

(1) For the securities deemed impaired, the amortized cost reflects previously recorded OTTI charges recognized in earnings.

	Class	Number of Performing Banks and Insurance Cos. in Issuance (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	58	38.24%	27.24%	0.00%	C
Trust Preferred Security B	D	58	38.24%	27.24%	0.00%	C
Trust Preferred Security C	C1	48	37.22%	25.63%	0.00%	C
Trust Preferred Security D	D	48	37.22%	25.63%	0.00%	C
Trust Preferred Security E	C1	50	29.56%	20.65%	0.00%	C
Trust Preferred Security F	B	34	27.07%	23.50%	23.24%	CC
Trust Preferred Security G	A1	34	27.07%	23.50%	46.61%	CCC+
Private Mortgage-Backed Securities						
Private Mortgage-Backed Securities One	2A1	N/A	0.00%	9.76%	0.00%	C
Private Mortgage-Backed Securities Two	A19	N/A	1.83%	5.18%	0.00%	B3

(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.

The Company recorded credit related OTTI of $40,000 and $178,000 through earnings for the quarters ended March 31, 2011 and 2010, respectively. The following table shows the cumulative credit related component of OTTI.

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For the Three Months Ended March 31, 2011

	Credit Related Component of Other-Than-Temporary Impairment (Dollars in Thousands)
Balance at Beginning of Period	$ (10,528)
Add:	
Incurred on Securities not Previously Impaired	
Incurred on Securities Previously Impaired	(40)
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	$ (10,568)

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NOTE 4 LOANS, ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

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

As of March 31, 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	888	652		266	122	78	478	2,484
Recoveries	202		50	28		4	189	473
Provision	1,106	1,066	(202)	(115)	63	100	182	2,200
Ending Balance	$ 10,843	$ 22,353	$ 1,993	$ 3,387	$ 2,856	$ 3,395	$ 1,617	$ 46,444
Ending Balance: individually evaluated for impairment	$ 757	$ 105	$	$ 105	$ 916	$ 18	$ 252	$ 2,153
Ending Balance: collectively evaluated for impairment	$ 10,086	$ 22,248	$ 1,993	$ 3,282	$ 1,940	$ 3,377	$ 1,365	$ 44,291
Financing Receivables:								
Ending Balance: total loans by group	$508,839	$1,770,324	$123,428	$80,817	$465,366	$619,727	$59,873	$3,628,374(1)
Ending Balance: individually evaluated for impairment	$ 3,439	$ 26,412	$ 1,336	$ 2,446	$ 10,091	$ 425	$ 2,113	$ 46,262
	$505,400	$1,743,912	$122,092	$78,371	$455,275	$619,302	$57,760	$3,582,112

Ending Balance: collectively evaluated for impairment

	As of December 31, 2010							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	Total
Allowance for Loan Losses:								
Beginning Balance	$ 7,545	$ 19,451	$ 2,457	$ 3,372	$ 2,840	$ 3,945	$ 2,751	$ 42,361
Charge-offs	5,170	3,448	1,716	2,279	557	939	2,078	16,187
Recoveries	361	1		217	59	131	657	1,426
Provision	7,687	5,935	1,404	2,430	573	232	394	18,655
Ending Balance	$ 10,423	$ 21,939	$ 2,145	$ 3,740	$ 2,915	$ 3,369	$ 1,724	$ 46,255
Ending Balance: individually evaluated for impairment	$ 511	$ 411	$ 151	$ 221	$ 991	$ 17	$ 245	$ 2,547
Ending Balance: collectively evaluated for impairment	$ 9,912	$ 21,528	$ 1,994	$ 3,519	$ 1,924	$ 3,352	$ 1,479	$ 43,708
Financing Receivables:								
Ending Balance: total loans by group	$502,952	$1,717,118	$129,421	$80,026	$478,111	$579,278	$68,773	$3,555,679(1)
Ending Balance: individually evaluated for impairment	$ 3,823	$ 26,665	$ 1,999	$ 2,494	$ 9,963	$ 428	$ 2,014	$ 47,386
Ending Balance:	$499,129	$1,690,453	$127,422	$77,532	$468,148	$578,850	$66,759	$3,508,293

collectively
evaluated for
impairment

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

For the purpose of estimating the allowance for loan losses, management segregates the loan portfolio into the portfolio segments detailed in the above tables**.** Each of these loan categories possess 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.

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

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sources consist of: primarily, cash flow from operating leases and rents, and secondarily, liquidation of assets.

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

Business Banking 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 flow, and secondarily, liquidation of assets.

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

Consumer Real Estate Portfolio:

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

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

Consumer Portfolio:

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

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Credit Quality

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

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

1- 6 Rating Pass

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

7 Rating Potential Weakness

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

8 Rating Definite Weakness Loss Unlikely

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

9 Rating Partial Loss Probable

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

10 Rating Definite Loss

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

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

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

In addition to the extensive quantitative approach for monitoring credit quality, the commercial loan officers endeavor to maintain strong, interactive relationships with each customer. These close relationships facilitate the early identification of potential weakness within the loan portfolio. The loan officers proactively work with troubled borrowers to alleviate potential problems and avoid further credit quality deterioration. Adversely-rated credits that demonstrate significant deterioration in credit quality are transferred to a specialized group of seasoned workout officers for individual attention.

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

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		March 31, 2011				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
Pass	1 6	$ 448,098	$ 1,557,074	$ 105,373	$ 72,086	$ 2,182,631
Potential Weakness	7	33,693	98,572	6,642	5,125	144,032
Definite Weakness Loss Unlikely	8	25,680	112,447	11,413	3,459	152,999
Partial Loss Probable	9	1,368	2,231		147	3,746
Definitive Loss	10					
Total		$ 508,839	$ 1,770,324	$ 123,428	$ 80,817	$ 2,483,408

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

For the Company s residential real estate, residential construction, home equity and other consumer portfolios, the quality of the loan is best indicated by the repayment performance of an individual borrower. However, the Company does supplement performance data with current Fair Isaac Corporation (FICO) and Loan to Value (LTV) estimates. Current FICO data is purchased and appended to all consumer loans on a quarterly basis. In addition, automated valuation services and broker opinions of value are used to supplement original value data for the residential and home equity portfolios, periodically, typically twice per annum. Delinquency status is determined using payment performance, while accrual status may be determined using a combination of payment performance, expected borrower viability and collateral value. Nonaccrual consumer loans that have been restructured must perform for a period of 6 months before being removed from nonaccrual status. Delinquent consumer loans are managed by a team of seasoned collection specialists. The following table shows the weighted average FICO scores and the weighted average combined LTV ratio for the periods indicated below:

	As of	
	March 31, 2011	December 31, 2010
Residential Portfolio		
FICO Score (re-scored)	736	738

Combined LTV (re-valued)	65.0%	64.0%
Home Equity Portfolio		
FICO Score (re-scored)	761	760
Combined LTV (re-valued)	55.0%	55.0%

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

31, 2010. The LTV ratios for both periods are based on updated automated valuations as of November 30, 2010.

The Bank s philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. 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 a nonaccrual loan. 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.

The Company considers all nonaccrual loans and any loans over 90 days delinquent to be nonperforming. Set forth is information regarding the Company s nonperforming loans at the period shown.

The following table shows nonaccrual loans at the dates indicated:

	March 31, 2011	**December 31, 2010**
	(Dollars In Thousands)	
Loans accounted for on a nonaccrual basis (1)		
Commercial and Industrial	$ 3,011	$ 3,123
Commercial Real Estate	7,893	7,837
Commercial Construction	1,336	1,999
Small Business	617	887
Residential Real Estate	7,299	6,728
Home Equity	2,589	1,752
Consumer Other	426	505
Total nonaccrual loans	$ 23,171	$ 22,831

(1) Included in these amounts were $4.5 million and $4.0 million nonaccruing TDRs at March 31, 2011 and December 31, 2010, respectively.

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

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	March 31, 2011										
	30-59 days		60-89 days		90 days or more		Total Past Due			Total	Recorded Investment >90 Days and Accruing
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Financing Receivables	
	(Dollars in Thousands)										
Commercial and Industrial	29	$ 1,759	11	$ 1,036	16	$ 2,119	56	$ 4,914	$ 503,925	$ 508,839	$
Commercial Real Estate	18	3,974	8	4,901	27	6,378	53	15,253	1,755,071	1,770,324	
Commercial Construction	1	400			5	1,336	6	1,736	121,692	123,428	
Small Business	53	732	12	612	16	99	81	1,443	79,374	80,817	
Residential Real Estate	15	3,664	11	3,549	25	5,181	51	12,394	449,716	462,110	
Residential Construction									3,256	3,256	
Home Equity	26	1,326	10	1,063	21	1,699	57	4,088	615,639	619,727	
Consumer Other	289	2,353	69	387	85	576	443	3,316	56,557	59,873	226
Total	431	$ 14,208	121	$ 11,548	195	$ 17,388	747	$ 43,144	$ 3,585,230	$ 3,628,374	$ 226

	December 31,2010										
	30-59 days		60-89 days		90 days or more		Total Past Due			Total	Recorded Investment >90 Days and Accruing
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Financing Receivables	
	(Dollars in Thousands)										
Commercial and Industrial	16	$ 1,383	8	$ 910	18	$ 2,207	42	$ 4,500	$ 498,452	$ 502,952	$
Commercial Real Estate	13	2,809	7	4,820	29	6,260	49	13,889	1,703,229	1,717,118	
Commercial Construction					9	1,999	9	1,999	127,422	129,421	
Small Business	23	1,071	11	302	19	420	53	1,793	78,233	80,026	
	14	4,793	6	865	21	4,050	41	9,708	464,228	473,936	

Residential Real Estate											
Residential Construction									4,175	4,175	
Home Equity	31	1,737	8	878	12	1,095	51	3,710	575,568	579,278	4
Consumer Other	402	2,986	89	478	85	564	576	4,028	64,745	68,773	273
Total	499	$ 14,779	129	$ 8,253	193	$ 16,595	821	$ 39,627	$ 3,516,052	$ 3,555,679	$ 277

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

The Bank s policy is to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status for approximately 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.

The following table shows the TDR loans on accrual and nonaccrual status as of the dates indicated:

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	March 31, 2011					
	TDRs on Accrual Status		TDRs on Nonaccrual Status		Total TDRs	
	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans
			(Dollars in Thousands)			
Commercial and Industrial	10	$ 121	2	$ 859	12	$ 980
Commercial Real Estate	17	14,810	3	1,216	20	16,026
Small Business	56	1,761	2	39	58	1,800
Residential Real Estate	26	8,008	7	2,082	33	10,090
Home Equity	4	241	2	184	6	425
Consumer Other	163	2,009	4	104	167	2,113
TOTAL TDRs	276	$26,950	20	$4,484	296	$31,434

	December 31, 2010					
	TDRs on Accrual Status		TDRs on Nonaccrual Status		Total TDRs	
	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans
			(Dollars in Thousands)			
Commercial and Industrial	10	$ 443	1	$ 555	11	$ 998
Commercial Real Estate	14	13,679	4	1,468	18	15,147
Small Business	49	1,523			49	1,523
Residential Real Estate	25	8,329	6	1,634	31	9,963
Home Equity	4	242	2	186	6	428
Consumer Other	138	1,875	4	139	142	2,014
TOTAL TDRs	240	$26,091	17	$3,982	257	$30,073

The amount of the specific reserve associated with the TDRs was $1.3 million and $1.6 million at March 31, 2011 and December 31, 2010, respectively. At March 31, 2011 and December 31, 2010, the amount of additional commitments to lend funds to borrowers who have been a party to a TDR was $710,000 and $1.2 million, respectively. During the quarter ended March 31, 2011, $2.0 million of loans were modified and considered to be a TDR and no TDRs moved from nonaccrual to accrual. During the year ended December 31, 2010, $21.8 million loans were modified and considered to be a TDR and $1.2 million of TDRs moved from nonaccrual to accrual in 2010.

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

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	Three Months Ended March 31, 2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)				
With no Related Allowance Recorded:					
Commercial & Industrial	$ 1,876	$ 2,357	$	$ 2,485	$ 38
Commercial Real Estate	23,484	23,887		23,534	395
Commercial Construction	1,336	1,336		1,344	19
Small Business	1,309	1,421		1,766	28
Residential Real Estate (1)	204	205		205	
Consumer Home Equity					
Consumer Other	9	9		9	
Subtotal	28,218	29,215		29,343	480
With an Allowance Recorded:					
Commercial & Industrial	$ 1,563	$ 1,564	$ 757	$ 2,233	$ 24
Commercial Real Estate	2,929	3,452	105	2,935	42
Commercial Construction					
Small Business	1,137	1,151	105	1,251	16
Residential Real Estate (1)	9,886	10,285	916	9,899	92
Consumer Home Equity	425	433	18	426	6
Consumer Other	2,104	2,157	252	2,036	20
Subtotal	18,044	19,042	2,153	18,780	200
Total	$ 46,262	$ 48,257	$ 2,153	$ 48,123	$ 680

	Year Ended December 31, 2010				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)				
With no Related Allowance Recorded:					
Commercial & Industrial	$ 2,451	$ 2,917	$	$ 2,539	$ 171
Commercial Real Estate	19,538	20,280		20,223	1,394
Commercial Construction	230	230		248	13
Small Business	1,541	1,656		1,689	122
Residential Real Estate (1)	205	205		205	10
Consumer Home Equity					
Consumer Other	10	10		7	

Subtotal	23,975	25,298		24,911	1,710
With an Allowance Recorded:					
Commercial & Industrial	$ 1,372	$ 1,373	$ 511	$ 1,384	$ 94
Commercial Real Estate	7,127	7,379	411	7,346	438
Commercial Construction	1,769	1,769	151	1,762	76
Small Business	953	954	221	956	63
Residential Real Estate (1)	9,758	10,146	991	9,836	396
Consumer Home Equity	428	435	17	432	21
Consumer Other	2,004	2,035	245	1,364	58
Subtotal	23,411	24,091	2,547	23,080	1,146
Total	$ 47,386	$ 49,389	$ 2,547	$ 47,991	$ 2,856

(1) Includes residential construction loans.

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NOTE 5 EARNINGS PER SHARE

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

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

	Three Months Ended March 31,	
	2011	**2010**
	(Dollars in Thousands)	
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$11,188	$9,227
	Weighted Average Shares	
BASIC SHARES	21,298,257	20,937,589(1)
Effect of Dilutive Securities	46,082	70,833
DILUTIVE SHARES	21,344,339	21,008,422
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS PER SHARE		
BASIC EPS	$ 0.53	$ 0.44
Effect of Dilutive Securities	0.01	
DILUTIVE EPS	$ 0.52	$ 0.44

(1) Unvested restricted stock awards were not considered outstanding in the computation of basic earning per share due to the immaterial balance for the three months ended March 31, 2010.

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

	Three Months Ended March 31,	
	2011	**2010**
Stock Options	787,163	792,847
Restricted Stock Awards		21,194

NOTE 6 STOCK BASED COMPENSATION

On February 10, 2011, the Company granted 27,750 restricted stock awards to certain non-executive officers of the Company and/or Bank. On February 17, 2011, the Company granted 33,000 restricted stock awards to certain executive officers of the Company and/or Bank. These restricted stock awards were issued from the 2005 Employee Stock Plan and were determined to have a fair value per share of $27.58 and $27.43, respectively, based upon the average of the high and low price at which the Company s common stock traded on the date of grant. The holders of these awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. The restricted stock awards vest over a five year period.

On February 10, 2011, the Company awarded non-qualified options to purchase 40,000 shares of common stock to certain non-executive officers of the Company and/or Bank. On February 17, 2011 the Company awarded non-qualified options to purchase 54,000 shares of common stock to certain executive officers of the Company and/or Bank. The options have been determined to have a fair value of $6.80 and $6.39 and will vest over a three year period and have a contractual life of ten years from date of grant. The following table shows the assumptions used to determine the fair value of the options:

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

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 has entered into interest rate swap contracts, as part of the Company s interest rate risk management program, which are designated and qualify as cash flow hedges. In addition, the Company has entered into interest rate swap contracts and foreign exchange contracts with commercial banking customers, which are not afforded hedge accounting treatment.

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Asset Liability Management

The Bank 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. At March 31, 2011 and December 31, 2010, the Company had a total notional amount of $175.0 million of interest rate swaps.

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

Derivative Positions

Derivatives Designated as Hedging:

Cash Flow Hedges

As of March 31, 2011

	Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value at March 31, 2011
					(Dollars in Thousands)			
Interest Rate Swaps								
	$ 25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.31%	5.04%	$ (3,309)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.31%	5.04%	(3,311)
	25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.31%	2.65%	(875)
	25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.31%	2.59%	(837)
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.31%	2.94%	210
	50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.31%	3.04%	(2,182)
Total	$ 175,000						Total	$ (10,304)

As of December 31, 2010

	Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value at December 31, 2010
					(Dollars in Thousands)			

Interest Rate Swaps									
	$ 25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.30%	5.04%	$	(3,713)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.30%	5.04%		(3,682)
	25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.30%	2.65%		(1,044)
	25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.30%	2.59%		(1,002)
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.30%	2.94%		(109)
	50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.30%	3.04%		(2,656)
Total	$ 175,000						Total	$	(12,206)

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 $5.1 million (pre-tax), to be reclassified to earnings from OCI, as an increase in interest expense, 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 March 31, 2011.

The ineffective portion of the cash flow hedge is recognized directly in earnings. The Company did not recognize any ineffectiveness for the quarter ending March 31, 2011, and recognized an immaterial amount related to hedge ineffectiveness during the quarter ending March 31, 2010.

During the first quarter of 2010, one of the Company s $25.0 million interest rate swaps failed to qualify for hedge accounting. The Company ceased hedge accounting on January 6, 2010, which was the last date the interest rate swap qualified for hedge accounting. As a result, the Company recognized a loss of $238,000 directly in earnings as part of non-interest expense and reclassified $107,000 from interest expense to non-interest expense within the first quarter of 2010. Additionally, a gain of $191,000 which was previously deferred in OCI was immediately recognized in income during the first quarter, based on the Company s anticipation of the hedged forecasted transaction no longer being probable to occur. The Company terminated the swap in June 2010 as a result of management s decision to pay down the underlying borrowing and recognized $792,000 in earnings through the date of termination.

The Company recognized net amortization income of $61,000 and $37,000, recorded as an offset to interest expense during the quarters ended March 31, 2011 and 2010, respectively, related to previously terminated swaps.

Customer Related Positions

Interest rate derivatives, primarily interest-rate swaps, offered to commercial borrowers through the Bank s loan level derivative program do not quality 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. At March 31, 2011 and December 31, 2010 the Company had eighty-four and seventy-two customer-related positions and offsetting dealer transactions with dealer banks, respectively. At March 31, 2011 and December 31, 2010 the Bank had a total notional amount of $338.8 million and $307.0 million, respectively, of interest rate swap agreements with commercial borrowers and an equal notional amount of dealer transactions.

Foreign exchange contracts offered to commercial borrowers through the Bank s derivative program do not qualify as hedges for accounting purposes. The Company 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 Company enters into similar offsetting positions. At March 31, 2011 and December 31, 2010 the Company had eleven and eighteen foreign exchange contracts and offsetting dealer transactions, respectively. As of March 31, 2011 and December 31, 2010 the Company had a total notional amount of $23.0 million and $41.7 million of foreign exchange contracts with commercial borrowers and an equal notional amount of dealer transactions.

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

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

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Derivative Positions

Derivatives Not Designated as Hedging:

	Notional Amount Maturing						
As of March 31, 2011	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**	**Fair Value**
				(Dollars in Thousands)			
Customer Related Positions							
Loan Level Swaps							
Receive fixed, pay variable	$		21,018	82,352	235,466	$338,836	$ 5,321
Pay fixed, receive variable	$		21,018	82,352	235,466	$338,836	$(5,464)
Foreign Exchange Contracts							
Buys foreign exchange, sells US currency	$22,974					$ 22,974	$ 1,933
Buys US currency, sells foreign exchange	$22,974					$ 22,974	$(1,916)

	Notional Amount Maturing						
As of December 31, 2010	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**	**Fair Value**
				(Dollars in Thousands)			
Customer Related Positions							
Loan Level Swaps							
Receive fixed, pay variable	$		21,624	83,051	202,275	$ 306,950	$ 7,673
Pay fixed, receive variable	$		21,624	83,051	202,275	$ 306,950	$ (7,835)
Foreign Exchange Contracts							
Buys foreign exchange, sells US currency	$ 41,706					$ 41,706	$ 1,301
Buys US currency, sells foreign exchange	$ 41,706					$ 41,706	$ (1,286)

Changes in the fair value of customer related positions are recorded directly in earnings as they are not afforded hedge accounting treatment. The Company recorded a net increase in fair value of $22,000 for the quarter ended March 31, 2011 and a net decrease in fair value of $60,000 for the quarter ended March 31, 2010.

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:

Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	March 31, 2011		December 31, 2010		March 31, 2011		December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(Dollars In Thousands)							
Derivatives designated as hedges:								
Interest rate swaps	Other Assets	$ 210	Other Assets	$	Other Liabilities	$ 10,514	Other Liabilities	$ 12,206
Derivatives not designated as hedges:								
Customer Related Positions:								
Loan level swaps	Other Assets	$ 9,032	Other Assets	$ 9,813	Other Liabilities	$ 9,175	Other Liabilities	$ 9,975
Foreign exchange contracts	Other Assets	1,946	Other Assets	1,655	Other Liabilities	1,929	Other Liabilities	1,640
Total		$ 10,978		$ 11,468		$ 11,104		$ 11,615

The table below presents the effect of the Company s derivative financial instruments included in Other Comprehensive Income and current earnings:

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Amount of Derivative Gain/(Loss) Recognized/Reclassified
(Dollars in Thousands)

	For the Three Months Ended March 31,	
	2011	**2010**
Gain/(Loss) in OCI on Derivative (Effective Portion), Net of Tax	$ 304	$ (2,229)
Gain/(Loss) Reclassified from OCI into Interest Income (Effective Portion)	$ (1,326)	$ (1,068)
Gain/(Loss) Recognized in Interest Income on Derivative (Ineffective Portion & Amount Excluded from Effectiveness Testing)	$	$

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 all swaps with each counterparty. The Company s exposure relating to interest rate swaps with institutional counterparties was $210,000 at March 31, 2011 and the Company had no exposure at December 31, 2010. The Company s exposure relating to customer related positions was approximately $9.5 million and $10.2 million at March 31, 2011 and December 31, 2010, 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 notional amount of these instruments as of March 31, 2011 and December 31, 2010 was $513.8 million and $482.0 million, respectively. The aggregate fair value of these instruments at March 31, 2011 and December 31, 2010 were $15.8 million and $20.0 million, respectively. The Company has collateral assigned to these derivative instruments amounting to $18.6 million and $30.8 million, respectively. 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 March 31, 2011 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.

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 single-family residential mortgage loans, an interest rate lock

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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. The interest rate lock commitments and forward sales commitments are recorded at fair value, with changes in fair value recorded in current period earnings. Effective July 1, 2010, pursuant to FASB ASC Topic No. 825, Financial Instruments, the Company elected 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:

	Fair Value at	
	March 31, 2011	**December 31, 2010**
	(Dollars in Thousands)	
Interest Rate Lock Commitments	$(23)	$ (459)
Forward Sales Agreements	$(22)	$ 1,052
Loans Held for Sale Fair Value Adjustment	$ 46	$ (593)

	Change for the Three Months Ended March 31,	
	2011	**2010**
Interest Rate Lock Commitments	$ 436	$ 587
Forward Sales Agreements	(1,075)	(722)
Loans Held for Sale Fair Value Adjustment	639	
Total Change in Fair Value (1)	$	$ (135)

(1) Changes in these fair values are recorded as a component of Mortgage Banking Income.

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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 in 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 Technique*s

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

Trading 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.

U.S. Treasury 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. Accordingly, these trust preferred securities are categorized as Level 3.

Loans Held for Sale

The Company measures loans held for sale pursuant to the fair value option. The fair value of loans held for sale 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.

Derivative Instruments

Derivatives

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analyses on the expected cash flows of derivatives. These analyses reflect the contractual terms of the derivatives, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s 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 March 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. 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.

Impaired Loans

Loans that are deemed to be impaired are valued based upon the lower of cost or fair value of the underlying collateral or discounted cash flow analyses. 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. The inputs used in performing discounted cash flow analyses are not observable and therefore such loans are classified as Level 3.

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.

Mortgage Servicing Asset

The mortgage servicing asset is amortized in proportion to and over the period of estimated servicing income, and is assessed for impairment based upon fair value at each reporting date. A valuation model, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments, is used for impairment testing. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Company classifies the mortgage servicing asset as Level 3.

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 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 goodwill and other intangible assets subjected to non-recurring fair value adjustments as Level 3.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at the periods indicated were as follows:

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		Fair Value Measurements at Reporting Date Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
March 31, 2011				
Description				
Assets				
Trading Securities	$ 8,521	$ 8,521	$	$
Securities Available for Sale:				
U.S. Treasury Securities	709		709	
Agency Mortgage-Backed Securities	282,736		282,736	
Agency Collateralized Mortgage Obligations	41,307		41,307	
Private Mortgage-Backed Securities	9,012			9,012
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	4,462			4,462
Pooled Trust Preferred Securities Issued by Banks and Insurers	3,136			3,136
Loans Held for Sale	8,643		8,643	
Derivative Instruments	11,188		11,188	
Liabilities				
Derivative Instruments	21,663		21,663	
December 31, 2010				
Description				
Assets				
Trading Securities	$ 7,597	$ 7,597	$	$
Securities Available for Sale:				
U.S. Treasury Securities	717		717	
Agency Mortgage-Backed Securities	313,302		313,302	
Agency Collateralized Mortgage Obligations	46,135		46,135	
Private Mortgage-Backed Securities	10,254			10,254
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	4,221			4,221
Pooled Trust Preferred Securities Issued by Banks and Insurers	2,828			2,828
Loans Held for Sale	27,917		27,917	
Derivative Instruments	12,520		12,520	
Liabilities				
Derivative Instruments	24,280		24,280	

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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	Reconciliation for All Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) Securities Available for Sale			
	Pooled Trust Preferred Securities	Single Trust Preferred Securities	Private Mortgage-Backed Securities	Total
	(Dollars in Thousands)			
Balance at January 1, 2010	$2,595	$3,010	$14,289	$19,894
Gains and Losses (realized/unrealized)				
Included in earnings	(112)		(222)	(334)
Included in Other Comprehensive Income	388	1,211	1,197	2,796
Purchases				
Issuances				
Settlements	(43)		(5,010)	(5,053)
Transfers in to Level 3				
Balance at December 31, 2010	$2,828	$4,221	$10,254	$17,303
Gains and Losses (realized/unrealized)				
Included in earnings	(8)		(32)	(40)
Included in Other Comprehensive Income	325	241	160	726
Purchases				
Issuances				
Settlements	(9)		(1,370)	(1,379)
Transfers in to Level 3				
Balance at March 31, 2011	$3,136	$4,462	$ 9,012	$16,610

Assets and liabilities measured at fair value on a non-recurring basis at the periods indicated were as follows:

		Fair Value Measurements at Reporting Date Using			
	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)**
		(Dollars in Thousands)			
As of March 31, 2011					

Description					
Impaired Loans	$18,044	$	$	$18,044	$(2,153)
Other Real Estate Owned	9,346		4,117	5,229	
Mortgage Servicing Asset	1,564			1,564	

As of December 31, 2010 **Description**					
Impaired Loans	$23,411	$	$	$23,411	$(2,547)
Other Real Estate Owned	7,273		2,933	4,340	
Mortgage Servicing Asset	1,635			1,635	

The estimated fair values and related carrying amounts of the Company s financial instruments are as follows:

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	March 31, 2011		December 31, 2010	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
	(Dollars In Thousands)		(Dollars In Thousands)	
FINANCIAL ASSETS				
Securities Held To Maturity (a)	$ 239,305	$ 237,828	$ 202,732	$ 201,234
Loans, Net of Allowance for Loan Losses (b)	3,581,930	3,557,415	3,509,424	3,554,761
FINANCIAL LIABILITIES				
Time Certificates of Deposits (c)	$ 674,776	$ 677,557	$ 693,176	$ 697,064
Federal Home Loan Bank Advances (c)	277,285	268,299	302,414	297,740
Federal Funds Purchased and Assets Sold Under Repurchase Agreements (c)	184,738	187,921	168,119	171,702
Junior Subordinated Debentures (d)	61,857	60,465	61,857	60,796
Subordinated Debentures (c)	30,000	23,177	30,000	23,655

(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 bank owned life insurance. For financial liabilities, these include demand, savings, money market deposits, and federal funds purchased, and assets sold under repurchase agreements. The estimated fair value of demand, savings and money market deposits is the amount payable at the reporting date. Also excluded from the summary are financial instruments measured at fair value on a recurring and non-recurring basis, as previously described.

NOTE 9 COMPREHENSIVE INCOME/(LOSS)

Information on the Company s comprehensive income/(loss), presented net of taxes, is set forth below for the three months ended March 31, 2011 and 2010:

Three Months Ended March 31, 2011 ***(Dollars in Thousands)***	**Pre Tax Amount**	**Tax Expense (Benefit)**	**After Tax Amount**
Change in Fair Value of Securities Available for Sale	$ 1,051	$ (387)	$ (664)
Net Security Losses Reclassified into Earnings	(40)(1)	16	24
Net Change in Fair Value of Securities Available for Sale	1,011	(371)	(640)
Change in Fair Value of Cash Flow Hedges	(514)(2)	210	304
Net Cash Flow Hedge Gains Reclassified into Earnings	(1,232)	542	690
Net Change in Fair Value of Cash Flow Hedges	(1,746)	752	994
Amortization of Certain Costs Included in Net Periodic Retirement Costs	(187)	26	161
Total Other Comprehensive Income	$ (922)	$ 407	$ 515

Three Months Ended March 31, 2010 ***(Dollars in Thousands)***	**Pre Tax Amount**	**Tax Expense (Benefit)**	**After Tax Amount**
Change in Fair Value of Securities Available for Sale	$ (2,322)	$ 904	$ 1,418
Net Security Losses Reclassified into Earnings	(178)(1)	73	105
Net Change in Fair Value of Securities Available for Sale	(2,500)	977	1,523
Change in Fair Value of Cash Flow Hedges	3,768(2)	(1,539)	(2,229)
Net Cash Flow Hedge Gains Reclassified into Earnings	(877)	369	508
Net Change in Fair Value of Cash Flow Hedges	2,891	(1,170)	(1,721)
Amortization of Certain Costs Included in Net Periodic Retirement Costs	(39)	16	23
Total Other Comprehensive Loss	$ 352	$ (177)	$ (175)

(1) Net security losses represent pre-tax OTTI credit related losses of $40,000 and $178,000 for the three months ended March 31, 2011 and 2010, 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 $1.3 million will be recognized in earnings through December 2018, the original maturity date of the swap. The balance of this gain had amortized to $1.1 million and $1.3 million at March 31, 2011 and 2010, respectively.

Accumulated Other Comprehensive Income (Loss), net of tax, is comprised of the following components:

	At March 31, 2011	At March 31, 2010
Unrealized gain on securities available for sale	$ 5,665	$ 5,917
Net actuarial loss and prior service cost for pension and other post retirement benefit plans	(933)	(1,189)
Unrealized loss on cash flow hedge	(6,095)	(3,406)
Deferred gain on hedge accounting transactions	1,112	1,256
Total	$ (251)	$ 2,578

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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, 2010, 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, plan, assume or similar expressi 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, efficiency ratio, 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 Massachusetts, 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 loss, as most of the Company s loans are concentrated in eastern Massachusetts and Cape Cod, and to a lesser extent, Rhode Island, 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 non-banks 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;

the potential need to adapt to changes in information technology could adversely impact the Company s operations 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 & Consumer Protection Act, may have significant effects 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		
	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	(Dollars in Thousands, Except Per Share Data)				
FINANCIAL CONDITION DATA:					
Securities available for sale	$ 341,362	$ 377,457	$ 436,887	$ 482,989	$ 473,515
Securities held to maturity	239,305	202,732	180,623	103,463	91,059
Loans	3,628,374	3,555,679	3,408,043	3,428,912	3,411,792
Allowance for loan losses	46,444	46,255	45,619	45,291	45,278
Goodwill and Core Deposit Intangibles	141,951	141,956	142,422	142,888	143,371
Total assets	4,645,783	4,695,738	4,703,791	4,740,975	4,547,207
Total deposits	3,584,926	3,627,783	3,617,158	3,679,873	3,473,853
Total borrowings	556,718	565,434	577,429	576,146	606,973
Stockholders equity	447,985	436,472	425,661	422,062	418,224
Non-performing loans	23,397	23,108	24,687	23,678	41,840
Non-performing assets	33,856	31,493	34,789	32,083	48,827
OPERATING DATA:					
Interest income	$ 48,958	$ 49,971	$ 50,588	$ 51,319	$ 50,848
Interest expense	7,485	8,582	9,391	10,152	10,638
Net interest income	41,473	41,389	41,197	41,167	40,210
Provision for loan losses	2,200	3,575	3,500	6,931	4,650
Non-interest income	12,598	14,263	11,654	10,938	10,050
Non-interest expenses	36,482	36,688	34,540	34,929	33,588
Net income available to the common shareholder	11,188	11,838	11,145	8,030	9,227
PER SHARE DATA:					
Net income Basic	$ 0.53	$ 0.56	$ 0.53	$ 0.38	$ 0.44
Net income Diluted	0.52	0.56	0.53	0.38	0.44
Cash dividends declared	0.19	0.18	0.18	0.18	0.18
Book value (1)	20.93	20.57	20.08	19.91	19.76
OPERATING RATIOS:					
Return on average assets	0.98%	1.01%	0.95%	0.70%	0.84%
Return on average common equity	10.24%	10.85%	10.38%	7.60%	8.95%
Net interest margin (on a fully tax equivalent basis)	4.02%	3.91%	3.89%	3.96%	4.08%
Equity to assets	9.64%	9.30%	9.05%	8.90%	9.20%

Dividend payout ratio	36.33%	32.25%	34.26%	47.52%	41.28%
ASSET QUALITY RATIOS:					
Non-performing loans as a percent of gross loans	0.64%	0.65%	0.72%	0.69%	1.23%
Non-performing assets as a percent of total assets	0.73%	0.67%	0.74%	0.68%	1.07%
Allowance for loan losses as a percent of total loans	1.28%	1.30%	1.34%	1.32%	1.33%
Allowance for loan losses as a percent of non-performing loans	198.50%	200.17%	184.79%	191.28%	108.22%
CAPITAL RATIOS:					
Tier 1 leverage capital ratio	8.48%	8.19%	7.99%	7.86%	8.06%
Tier 1 risk-based capital ratio	10.48%	10.28%	10.35%	10.01%	10.02%
Total risk-based capital ratio	12.55%	12.37%	12.47%	12.11%	12.14%

(1) Calculated by dividing total stockholders equity by the total outstanding shares as of the end of each period.

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Executive Level Overview

The first quarter of 2011 was marked by continued positive results. The Company experienced solid loan growth, strong core deposit levels, and favorable asset quality trends, resulting in net income of $11.2 million, or $0.52 on a diluted per share basis for the three months ended March 31, 2011, which represents an increase of 21.3% and 18.2%, respectively as compared to the three months ended March 31, 2010. The Company was able to achieve such strong results by continuing to generate growth in both the commercial and industrial and commercial real estate categories, resulting in total commercial loan portfolio growth of 2.2%, or 9.0% annualized from the prior quarter. The Company s home equity portfolio has also shown solid growth, with an increase of 6.9%, or 28.3% on an annualized basis, as compared to prior quarter. The following table illustrates key performance measures for the periods indicated, highlighting the positive results:

	For the Three Months Ended

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