INDEPENDENT BANK CORP
Form 10-Q
November 06, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
Commission File Number: 1-9047

Independent Bank Corp.
(Exact name of registrant as specified in its charter)

Massachusetts	04-2870273
(State or other jurisdiction of 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 x 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 x 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	x
Non-accelerated Filer	o	Smaller Reporting Company	o

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

As of November 1, 2012, there were 21,680,218 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)

	September 30, 2012	December 31, 2011
ASSETS		
CASH AND DUE FROM BANKS	$66,690	$58,301
INTEREST EARNING DEPOSITS WITH BANKS	111,703	179,203
SECURITIES:		
Trading Securities	—	8,240
Securities Available for Sale	323,156	305,332
Securities Held to Maturity (fair value $195,454 and $211,494)	186,842	204,956
TOTAL SECURITIES	509,998	518,528
LOANS HELD FOR SALE (at fair value)	42,393	20,500
LOANS:		
Commercial and Industrial	653,861	575,716
Commercial Real Estate	1,939,245	1,847,654
Commercial Construction	175,731	128,904
Small Business	78,794	78,509
Residential Real Estate	375,660	416,570
Residential Construction	9,288	9,631
Home Equity—1st Position	485,605	381,766
Home Equity—2nd Position	308,770	314,297
Consumer—Other	29,181	41,343
TOTAL LOANS	4,056,135	3,794,390
Less: Allowance for Loan Losses	(49,746)	(48,260)
NET LOANS	4,006,389	3,746,130
FEDERAL HOME LOAN BANK STOCK	33,564	35,854
BANK PREMISES AND EQUIPMENT, NET	49,100	48,252
GOODWILL	127,847	130,074
IDENTIFIABLE INTANGIBLE ASSETS	9,446	10,648
CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES	86,980	86,137
OTHER REAL ESTATE OWNED & OTHER FORECLOSED ASSETS	8,927	6,924
OTHER ASSETS	139,057	129,689
TOTAL ASSETS	$5,192,094	$4,970,240
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Demand Deposits	$1,110,266	$992,418
Savings and Interest Checking Accounts	1,536,439	1,473,812
Money Market	840,723	780,437
Time Certificates of Deposit Over $100,000	248,061	225,099
Other Time Certificates of Deposits	382,358	405,063
TOTAL DEPOSITS	4,117,847	3,876,829
BORROWINGS:		
Federal Home Loan Bank and Other Borrowings	189,464	229,701

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Wholesale Repurchase Agreements	50,000	50,000
Customer Repurchase Agreements	158,578	166,128
Junior Subordinated Debentures	61,857	61,857
Subordinated Debentures	30,000	30,000
TOTAL BORROWINGS	489,899	537,686
OTHER LIABILITIES	91,383	86,668
TOTAL LIABILITIES	4,699,129	4,501,183
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred Stock, $.01 par value. Authorized: 1,000,000 Shares, Outstanding: None	—	—
Common Stock, $.01 par value. Authorized: 75,000,000 Shares, Issued and Outstanding: 21,666,926 Shares at September 30, 2012 and 21,499,768 Shares at December 31, 2011 (includes 263,124 and 235,540 shares of unvested participating restricted stock awards, respectively)	214	213
Shares Held in Rabbi Trust at Cost 179,004 Shares at September 30, 2012 and 180,058 Shares at December 31, 2011	(3,103)	(2,980)
Deferred Compensation Obligation	3,103	2,980
Additional Paid in Capital	237,859	233,878
Retained Earnings	258,481	239,452
Accumulated Other Comprehensive Loss, Net of Tax	(3,589)	(4,486)
TOTAL STOCKHOLDERS' EQUITY	492,965	469,057
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,192,094	$4,970,240

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
INTEREST INCOME:				
Interest on Loans	$44,251	$43,763	$131,142	$130,917
Taxable Interest and Dividends on Securities	3,995	4,929	12,938	15,779
Nontaxable Interest and Dividends on Securities	20	78	72	286
Interest on Loans Held for Sale	255	116	541	305
Interest on Federal Funds Sold	34	49	85	80
TOTAL INTEREST AND DIVIDEND INCOME	48,555	48,935	144,778	147,367
INTEREST EXPENSE:				
Interest on Deposits	2,619	3,419	8,045	10,448
Interest on Borrowings	3,098	3,842	9,413	11,696
TOTAL INTEREST EXPENSE	5,717	7,261	17,458	22,144
NET INTEREST INCOME	42,838	41,674	127,320	125,223
PROVISION FOR LOAN LOSSES	3,606	2,000	13,706	7,682
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	39,232	39,674	113,614	117,541
NONINTEREST INCOME:				
Service Charges on Deposit Accounts	3,959	4,223	11,771	12,374
Interchange and ATM Fees	2,422	2,005	7,189	5,681
Investment Management	3,723	3,491	11,113	10,310
Mortgage Banking Income	1,445	907	4,238	2,637
Increase in Cash Surrender Value of Life Insurance Policies	757	757	2,211	2,323
Proceeds from Life Insurance Policies	1,307	—	1,307	—
Loan Level Derivative Income	1,047	295	2,747	1,241
Net Gain on Sales of Securities	—	—	—	723
Gross Change on OTTI Securities	403	(318)	571	101
Less: Portion of OTTI Losses Recognized in OCI	(403)	290	(647)	(305)
Net Impairment Losses Recognized in Earnings on Securities	—	(28)	(76)	(204)
Other Noninterest Income	1,448	665	4,500	3,301
TOTAL NONINTEREST INCOME	16,108	12,315	45,000	38,386
NONINTEREST EXPENSES:				
Salaries and Employee Benefits	20,704	20,568	61,915	60,582
Occupancy and Equipment Expenses	4,218	4,107	12,752	12,946
Goodwill Impairment	2,227	—	2,227	—
Advertising Expense	1,267	703	3,478	3,247
Data Processing & Facilities Management	1,144	1,152	3,418	3,828
FDIC Assessment	775	691	2,354	2,760
Consulting Expense	691	685	1,900	1,715
Merger and Acquisition Expenses	595	—	1,267	—
Legal Fees	503	580	1,598	1,647
Telecommunications	479	522	1,763	1,584
Other Non-Interest Expenses	7,449	6,415	21,738	20,451
TOTAL NONINTEREST EXPENSES	40,052	35,423	114,410	108,760
INCOME BEFORE INCOME TAXES	15,288	16,566	44,204	47,167

PROVISION FOR INCOME TAXES	3,687	4,607	11,546	12,900
NET INCOME	$11,601	$11,959	$32,658	$34,267
BASIC EARNINGS PER SHARE	0.54	0.56	1.51	1.60
DILUTED EARNINGS PER SHARE	0.53	0.56	1.51	1.60
WEIGHTED AVERAGE COMMON SHARES (BASIC)	21,654,188	21,463,714	21,613,157	21,401,885
COMMON SHARE EQUIVALENTS	52,116	13,077	31,300	32,452
WEIGHTED AVERAGE COMMON SHARES (DILUTED)	21,706,304	21,476,791	21,644,457	21,434,337
CASH DIVIDENDS DECLARED PER COMMON SHARE	0.21	0.19	0.63	0.57

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

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INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited—Dollars in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
NET INCOME	$11,601	$11,959	$32,658	$34,267
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
UNREALIZED GAINS (LOSSES) ON SECURITIES				
Change in Fair Value of Securities Available for Sale	837	(228)	537	545
Less: Net Security Losses (Gains) Reclassified into Earnings	—	17	45	(317)
Net Change in Fair Value of Securities Available for Sale	837	(211)	582	228
UNREALIZED GAINS (LOSSES) ON CASH FLOW HEDGES				
Change in Fair Value of Cash Flow Hedges	(929)	(4,110)	(2,125)	(6,518)
Less: Net Cash Flow Hedge Losses Reclassified into Earnings	810	868	2,371	2,366
Net Change in Fair Value of Cash Flow Hedges	(119)	(3,242)	246	(4,152)
AMORTIZATION OF CERTAIN COSTS INCLUDED IN NET PERIODIC RETIREMENT COSTS	23	78	69	330
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	741	(3,375)	897	(3,594)
TOTAL COMPREHENSIVE INCOME	$12,342	$8,584	$33,555	$30,673

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

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INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited—Dollars in Thousands, Except Per Share Data)

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	Common Stock Outstanding	Common Stock	Value of Shares Held in Rabbi Trust at Cost	Deferred Compensation Obligation	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	TOTAL
BALANCE DECEMBER 31, 2011	21,499,768	$213	$ (2,980)	$ 2,980	$233,878	$239,452	$ (4,486)	$469,057
NET INCOME	—	—	—	—	—	32,658	—	32,658
OTHER COMPREHENSIVE INCOME	—	—	—	—	—	—	897	897
COMMON DIVIDEND DECLARED ($0.63 PER SHARE)	—	—	—	—	—	(13,629)	—	(13,629)
PROCEEDS FROM EXERCISE OF STOCK OPTIONS	48,976	—	—	—	953	—	—	953
TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY	—	—	—	—	153	—	—	153
EQUITY BASED COMPENSATION	—	—	—	—	2,178	—	—	2,178
RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS SURRENDERED	85,254	1	—	—	(345)	—	—	(344)
SHARES ISSUED UNDER DIRECT STOCK PURCHASE PLAN	32,928	—	—	—	953	—	—	953
DEFERRED COMPENSATION OBLIGATION	—	—	(123)	123	—	—	—	—
TAX BENEFIT RELATED TO DEFERRED COMPENSATION DISTRIBUTIONS	—	—	—	—	89	—	—	89
BALANCE SEPTEMBER 30, 2012	21,666,926	$214	$ (3,103)	$ 3,103	$237,859	$258,481	$ (3,589)	$492,965
BALANCE DECEMBER 31, 2010	21,220,801	$210	$ (2,738)	$ 2,738	$226,708	$210,320	$ (766)	$436,472
NET INCOME	—	—	—	—	—	34,267	—	34,267

OTHER COMPREHENSIVE LOSS	—	—	—	—	—	—	(3,594)	(3,594)
COMMON DIVIDEND DECLARED ($0.57 PER SHARE)	—	—	—	—	—	(12,218)	—	(12,218)
PROCEEDS FROM EXERCISE OF STOCK OPTIONS	164,100	2	—	—	3,711	—	—	3,713
TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY	—	—	—	—	251	—	—	251
EQUITY BASED COMPENSATION	—	—	—	—	1,917	—	—	1,917
RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS SURRENDERED	60,495	—	—	—	(361)	—	—	(361)
SHARES ISSUED UNDER DIRECT STOCK PURCHASE PLAN	19,713	—	—	—	540	—	—	540
DEFERRED COMPENSATION OBLIGATION	—	—	(146)	146	—	—	—	—
TAX BENEFIT RELATED TO DEFERRED COMPENSATION DISTIBUTIONS	—	—	—	—	79	—	—	79
BALANCE SEPTEMBER 30, 2011	21,465,109	$212	$ (2,884)	$ 2,884	$232,845	$232,369	$ (4,360)	$461,066

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)

	Nine Months Ended September 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$32,658	$34,267
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and Amortization	7,900	7,178
Goodwill Impairment	2,227	—
Provision for Loan Losses	13,706	7,682
Deferred Income Tax Benefit	(28)	(32)
Net Gain on Sale of Investments	—	(723)
Loss on Write-Down of Investments in Securities Available for Sale	76	204
(Gain)Loss on Sale of Fixed Assets	(29)	302
Loss on Sale of Other Real Estate Owned and Foreclosed Assets	796	1,308
Gain Realized from Early Termination of Hedging Relationship	(22)	—
Realized Gain on Sale Leaseback Transaction	(775)	(775)
Stock Based Compensation	2,178	1,917
Increase in Cash Surrender Value of Life Insurance Policies	(3,515)	(2,308)
Change in Fair Value on Loans Held for Sale	(788)	(929)
Proceeds from Bank Owned Life Insurance	2,891	—
Net Change In:		
Trading Assets	(265)	(387)
Loans Held for Sale	(21,105)	6,690
Other Assets	(12,136)	(29,778)
Other Liabilities	5,740	11,075
TOTAL ADJUSTMENTS	(3,149)	1,424
NET CASH PROVIDED BY OPERATING ACTIVITIES	29,509	35,691
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Proceeds from Sales of Securities Available For Sale	—	14,639
Proceeds from Maturities and Principal Repayments of Securities Available For Sale	74,524	80,416
Purchase of Securities Available For Sale	(83,384)	(10,072)
Proceeds from Maturities and Principal Repayments of Securities Held to Maturity	41,620	27,442
Purchase of Securities Held to Maturity	(24,287)	(45,946)
Redemption of Federal Home Loan Bank Stock	2,290	—
Proceeds from (Purchase of) Life Insurance Policies	(219)	(220)
Net Increase in Loans	(280,861)	(181,160)
Cash Used in Business Combinations	—	(457)
Purchase of Bank Premises and Equipment	(4,951)	(5,933)
Proceeds from the Sale of Bank Premises and Equipment	67	—
Proceeds Resulting from Early Termination of Hedging Relationship	22	—
Proceeds from the Sale of Other Real Estate Owned and Foreclosed Assets	4,451	3,919

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NET CASH USED IN INVESTING ACTIVITIES	(270,728)	(117,372)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Net Increase(Decrease) in Time Deposits	257	(51,708)
Net Increase in Other Deposits	240,761	211,458
Net (Decrease) Increase in Wholesale and Customer Repurchase Agreements	(7,550)	48,212
Net Decrease in Short Term Federal Home Loan Bank Advances	(40,000)	—
Net Decrease in Long Term Federal Home Loan Bank Advances	—	(44,144)
Net Decrease in Treasury Tax & Loan Notes	—	(841)
Proceeds from Exercise of Stock Options	953	3,713
Tax Benefit from Stock Option Exercises	153	251
Restricted Shares Surrendered	(344)	(361)
Tax Benefit from Deferred Compensation Distribution	89	79
Shares Issued Under Direct Stock Purchase Plan	953	540
Common Dividends Paid	(13,164)	(11,960)
NET CASH PROVIDED BY FINANCING ACTIVITIES	182,108	155,239
NET (DECREASE)INCREASE IN CASH AND CASH EQUIVALENTS	(59,111)	73,558
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	237,504	161,282
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$178,393	$234,840
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of Loans to Foreclosed Assets	$5,429	$5,691
Transfer of Securities from Trading to Available for Sale	$8,505	$—

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

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 or any other interim period.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission.

NOTE 2 – RECENT ACCOUNTING STANDARDS UPDATES

FASB ASC Topic No. 350 "Intangibles - Goodwill and Other" Update No. 2012-02. Update No. 2012-02 was issued in July 2012, stating that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, the entity is not required to take further action, However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this standard did not have an impact on the Company's consolidated financial position.

FASB ASC Topic No. 220 “Comprehensive Income” Update No. 2011-05 and Update no. 2011-12. Update No. 2011-05 was issued in June 2011, and provided amendments to Topic No. 220, “Comprehensive Income”, stating that an entity has the option to present total comprehensive income, the components of net income, and the components of other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The entity is no longer permitted to present the components of other comprehensive income within the statement of stockholders’ equity. Update 2011-12 deferred the component of Update 2011-05 which required entities to present separately on the income statement, reclassification adjustments between other comprehensive income and net income. The amendments in these updates should be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The adoption of this standard did not have an impact on the Company’s consolidated financial position.

NOTE 3 – SECURITIES

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

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	September 30, 2012					December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses Other	Other-Than-Temporary Impairment	Fair Value	Amortized Cost	Gross Unrealized Gains	Unrealized Losses Other	Other-Than-Temporary Impairment	Fair Value
	(Dollars In Thousands)									
AVAILABLE FOR SALE SECURITIES:										
U.S. Government Agency Securities	$20,055	$852	$—	$—	$20,907	$—	$—	$—	$—	$—
Agency Mortgage-Backed Securities	196,930	14,833	(18)	—	211,745	222,349	16,042	—	—	238,391
Agency Collateralized Mortgage Obligations	72,621	826	(75)	—	73,372	52,927	874	—	—	53,801
Private Mortgage-Backed Securities	3,935	—	—	177	4,112	6,215	—	—	(105)	6,110
Single Issuer Trust Preferred Securities Issued by Banks	—	—	—	—	—	5,000	—	(790)	—	4,210
Pooled Trust Preferred Securities Issued by Banks and Insurers	8,451	—	(2,464)	(2,935)	3,052	8,505	—	(2,518)	(3,167)	2,820
Marketable Equity Securities	9,764	219	(15)	—	9,968	—	—	—	—	—
TOTAL AVAILABLE FOR SALE SECURITIES	$311,756	$16,730	$(2,572)	$(2,758)	$323,156	$294,996	$16,916	$(3,308)	$(3,272)	$305,332
HELD TO MATURITY SECURITIES:										
U.S. Treasury Securities	$1,013	$130	$—	$—	$1,143	$1,014	$103	$—	$—	$1,117
Agency Mortgage-Backed Securities	81,523	5,239	—	—	86,762	109,553	4,406	—	—	113,959
Agency Collateralized Mortgage Obligations	91,845	2,924	—	—	94,769	77,804	2,494	—	—	80,298
State, County, and Municipal	915	14	—	—	929	3,576	34	—	—	3,610

Securities										
Single Issuer Trust Preferred Securities Issued by Banks	6,538	63	—	—	6,601	8,000	15	(669)	—	7,346
Corporate Debt Securities	5,008	242	—	—	5,250	5,009	155	—	—	5,164
TOTAL HELD TO MATURITY SECURITIES	$186,842	$8,612	$—	$—	$195,454	$204,956	$7,207	$(669)	$—	$211,494
TOTAL	$498,598	$25,342	$(2,572)	$(2,758)	$518,610	$499,952	$24,123	$(3,977)	$(3,272)	$516,826

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

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

The actual maturities of certain securities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. A schedule of the contractual maturities of securities available for sale and securities held to maturity as of September 30, 2012 is presented below:

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	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)			
DUE IN ONE YEAR OR LESS	$340	$357	$239	$241
DUE AFTER ONE YEAR TO FIVE YEARS	1,414	1,521	6,548	6,877
DUE AFTER FIVE TO TEN YEARS	71,549	75,974	1,013	1,143
DUE AFTER TEN YEARS	228,689	235,336	179,042	187,193
TOTAL DEBT SECURITIES	$301,992	$313,188	$186,842	$195,454
MARKETABLE EQUITY SECURITIES	$9,764	$9,968	$—	$—
TOTAL	$311,756	$323,156	$186,842	$195,454

Inclusive in the table above is $10.5 million and $13.0 million, respectively, of callable securities in the Company's investment portfolio at September 30, 2012 and December 31, 2011.

At September 30, 2012 and December 31, 2011, investment securities carried at $380.3 million and $389.7 million, respectively, were pledged to secure public deposits, assets sold under repurchase agreements, letters of credit, and for other purposes.

At September 30, 2012 and December 31, 2011, the Company had no investments in obligations of individual states, counties, or municipalities, which exceeded 10% of Stockholders' Equity.

Other-Than-Temporary Impairment

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

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

	September 30, 2012						
		Less than 12 months		12 months or longer		Total	
	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars In Thousands)						
AGENCY MORTGAGE-BACKED SECURITIES	1	$3,843	$(18)	$—	$—	$3,843	$(18)
AGENCY COLLATERALIZED MORTGAGE OBLIGATIONS	1	9,888	(75)	—	—	9,888	(75)
POOLED TRUST PREFERRED SECURITIES ISSUED BY BANKS AND INSURERS	2	—	—	2,118	(2,464)	2,118	(2,464)
MARKETABLE EQUITY SECURITIES	11	531	(15)	—	—	531	(15)
TOTAL TEMPORARILY IMPAIRED SECURITIES	15	$14,262	$(108)	$2,118	$(2,464)	$16,380	$(2,572)

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

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

As a result of the Company's review of these qualitative and quantitative factors, the causes of the impairments listed in the table above by category are as follows at September 30, 2012:

- Agency Mortgage-Backed Securities and Collateralized Mortgage Obligations: This portfolio has contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The decline in market value of these securities is attributable to changes in interest rates and not credit quality. Additionally, these securities are implicitly guaranteed by the U.S. Government or one of its agencies.
- 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.
- Marketable Equity Securities: This portfolio consists of mutual funds and other equity investments. During some periods, the mutual funds in the Company's investment portfolio may have unrealized losses resulting from market fluctuations as well as the risk premium associated with that particular asset class. For example, emerging market equities tend to trade at a higher risk premium than U.S. government bonds and thus, will fluctuate to a greater degree on both the upside and the downside. In the context of a well-diversified portfolio, however, the correlation amongst the various asset classes represented by the funds serves to minimize downside risk. The Company evaluates each mutual fund in the portfolio regularly and measures performance on both an absolute and relative basis. A reasonable recovery period for positions with an unrealized loss is based on management's assessment of general economic data, trends within a particular asset class, valuations, earnings forecasts and bond durations.

Management monitors the following issuances closely for impairment due to the history of OTTI losses recorded within these classes of securities. Management has determined that these securities possess characteristics which in the current economic environment could lead to further credit related OTTI charges. The following tables summarize pertinent information as of September 30, 2012, that was considered by management in determining if OTTI existed:

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	Class	Amortized Cost (1)	Gross Unrealized Gain/(Loss)	Non-Credit Related Other-Than-Temporary Impairment	Fair Value	Total Cumulative Credit Related Other-Than-Temporary Impairment	Total Cumulative Other-Than-Temporary impairment to Date
	(Dollars in Thousands)						
POOLED TRUST PREFERRED SECURITIES:							
Pooled Trust Preferred Security A	C1	$1,283	$—	$ (1,040)	$243	$ (3,676)	$ (4,716)
Pooled Trust Preferred Security B	D	—	—	—	—	(3,481)	(3,481)
Pooled Trust Preferred Security C	C1	506	—	(361)	145	(482)	(843)
Pooled Trust Preferred Security D	D	—	—	—	—	(990)	(990)
Pooled Trust Preferred Security E	C1	2,080	—	(1,534)	546	(1,368)	(2,902)
Pooled Trust Preferred Security F	B	1,893	(1,306)	—	587	—	—
Pooled Trust Preferred Security G	A1	2,689	(1,158)	—	1,531	—	—
TOTAL POOLED TRUST PREFERRED SECURITIES		$8,451	$(2,464)	$ (2,935)	$3,052	$ (9,997)	$ (12,932)
PRIVATE MORTGAGE BACKED SECURITIES:							
Private Mortgage-Backed Securities—One	2A1	$2,599	$—	$ 95	$2,694	$ (765)	$ (670)
Private Mortgage-Backed Securities—Two	A19	1,336	—	82	1,418	(85)	(3)
TOTAL PRIVATE MORTGAGE-BACKED SECURITIES		$3,935	$—	$ 177	$4,112	$ (850)	$ (673)
TOTAL		$12,386	$(2,464)	$ (2,758)	$7,164	$ (10,847)	$ (13,605)

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

	Class	Number of Performing Banks and Insurance Cos. in Issuances (Unique)	Current Deferrals/ Defaults/Losses (As a % of Original Collateral)	Total Projected Defaults/Losses (as a % of Performing Collateral)	Excess Subordination (After Taking into Account Best Estimate of Future Deferrals/ Defaults/Losses) (1)	Lowest credit Ratings to date (2)
POOLED TRUST PREFERRED SECURITIES:						
Trust Preferred Security A	C1	56	33.25%	20.88%	—%	C (Fitch)

Trust Preferred Security B	D	56	33.25%	20.88%	—%	C (Fitch)
Trust Preferred Security C	C1	48	31.00%	18.89%	0.71%	C (Fitch)
Trust Preferred Security D	D	48	31.00%	18.89%	—%	C (Fitch)
Trust Preferred Security E	C1	47	27.54%	16.93%	2.54%	C (Fitch)
Trust Preferred Security F	B	34	26.61%	22.84%	28.51%	CC (Fitch)
Trust Preferred Security G	A1	34	26.61%	22.84%	52.56%	CCC+ (S&P)
PRIVATE MORTGAGE BACKED SECURITIES:						
Private Mortgage-Backed Securities—One	2A1	N/A	5.59%	13.49%	—%	C (Fitch)
Private Mortgage-Backed Securities—Two	A19	N/A	3.42%	6.44%	—%	CC (Fitch)

(1) Excess subordination represents the additional default/losses in excess of both current and projected defaults/losses that the security can absorb before the security experiences any credit impairment.
(2) The Company reviewed credit ratings provided by S&P, Moody’s and Fitch in its evaluation of issuers.

Per review of the factors outlined above, seven of the securities shown in the table above were deemed to be OTTI. The remaining securities were not deemed to be OTTI as the Company does not intend to sell these investments and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell the security before the recovery of its amortized cost basis.

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)			
BALANCE AT BEGINNING OF PERIOD	$(10,847)	$(10,704)	$(10,771)	$(10,528)
ADD:				
Incurred on Securities not Previously Impaired	—	—	—	—
Incurred on Securities Previously Impaired	—	(28)	(76)	(204)
LESS:				
Realized Gain/Loss on Sale of Securities	—	—	—	—
Reclassification Due to Changes in Company's Intent	—	—	—	—
Increases in Cash Flow Expected to be Collected	—	—	—	—
BALANCE AT END OF PERIOD	$(10,847)	$(10,732)	$(10,847)	$(10,732)

NOTE 4 – LOANS, ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

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

	September 30, 2012 (Dollars in Thousands)								
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	Total	
FINANCING RECEIVABLES:									
Ending Balance: Total Loans by Group	$653,861	$1,939,245	$175,731	$78,794	$384,948	$794,375	$29,181	$4,056,135	(1)
Ending Balance: Individually Evaluated for Impairment	$8,451	$35,653	$—	$2,636	$16,273	$4,284	$2,293	$69,590	
Ending Balance: Collectively Evaluated for Impairment	$645,410	$1,903,592	$175,731	$76,158	$368,675	$790,091	$26,888	$3,986,545	

	December 31, 2011 (Dollars in Thousands)								
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	Total	
FINANCING RECEIVABLES:									
Ending Balance: Total Loans by Group	$575,716	$1,847,654	$128,904	$78,509	$426,201	$696,063	$41,343	$3,794,390	(1)
Ending Balance: Individually Evaluated for	$5,608	$37,476	$843	$2,326	$12,984	$326	$2,138	$61,701	

Impairment Ending Balance: Collectively Evaluated for Impairment	$570,108	$1,810,178	$128,061	$76,183	$413,217	$695,737	$39,205	$3,732,689

(1) The amount of deferred fees included in the ending balance was $3.2 million and $2.9 million at September 30, 2012 and December 31, 2011, respectively.

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

Three Months Ended September 30, 2012
(Dollars in Thousands)

	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	Total
ALLOWANCE FOR LOAN LOSSES:								
Beginning Balance	$11,558	$21,376	$2,220	$1,320	$2,981	$7,854	$1,094	$48,403
Charge-offs	(1,267)	(621)	—	(98)	(227)	(365)	(247)	(2,825)
Recoveries	122	188	—	21	79	36	116	562
Provision	1,555	962	359	128	101	443	58	3,606
Ending Balance	$11,968	$21,905	$2,579	$1,371	$2,934	$7,968	$1,021	$49,746

Three Months Ended September 30, 2011
(Dollars in Thousands)

	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	Total
ALLOWANCE FOR LOAN LOSSES:								
Beginning Balance	$11,083	$22,995	$2,071	$2,053	$3,242	$3,713	$1,480	$46,637
Charge-offs	(749)	(242)	—	(386)	(88)	(333)	(374)	(2,172)
Recoveries	77	98	425	18	—	13	182	813
Provision	1,191	134	(605)	312	27	723	218	2,000
Ending Balance	$11,602	$22,985	$1,891	$1,997	$3,181	$4,116	$1,506	$47,278

Nine Months Ended September 30, 2012
(Dollars in Thousands)

	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	Total
ALLOWANCE FOR LOAN LOSSES:								
Beginning Balance	$11,682	$23,514	$2,076	$1,896	$3,113	$4,597	$1,382	$48,260
Charge-offs	(5,989)	(3,358)	—	(404)	(441)	(2,506)	(840)	(13,538)
Recoveries	435	188	—	119	79	67	430	1,318
Provision	5,840	1,561	503	(240)	183	5,810	49	13,706
Ending Balance	$11,968	$21,905	$2,579	$1,371	$2,934	$7,968	$1,021	$49,746
Ending Balance: Individually Evaluated for Impairment	$281	$737	$—	$201	$1,326	$36	$174	$2,755
Ending Balance: Collectively Evaluated for Impairment	$11,687	$21,168	$2,579	$1,170	$1,608	$7,932	$847	$46,991

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Nine Months Ended September 30, 2011
(Dollars in Thousands)

	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	Total
ALLOWANCE FOR LOAN LOSSES:								
Beginning Balance	$ 10,423	$21,939	$2,145	$3,740	$2,915	$3,369	$1,724	$46,255
Charge-offs	(2,455)	(1,386)	(769)	(970)	(490)	(912)	(1,261)	(8,243)
Recoveries	348	98	500	72	—	30	536	1,584
Provision	3,286	2,334	15	(845)	756	1,629	507	7,682
Ending Balance	$ 11,602	$22,985	$1,891	$1,997	$3,181	$4,116	$1,506	$47,278
Ending Balance: Individually Evaluated for Impairment	$ 558	$306	$—	$299	$1,258	$24	$240	$2,685
Ending Balance: Collectively Evaluated for Impairment	$ 11,044	$22,679	$1,891	$1,698	$1,923	$4,092	$1,266	$44,593

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

Commercial Portfolio:

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

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

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

Small Business—Loans in this category consist of revolving, term loan and mortgage obligations extended to sole proprietors and small businesses for purposes of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to: accounts receivable, inventory, plant &

equipment, or real estate if applicable. Repayment sources consist of: primarily, operating cash flows, and secondarily, liquidation of assets.

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

Consumer Portfolio:

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

Home Equity—Home equity loans and lines are made to qualified individuals for legitimate purposes secured by senior

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or junior mortgage liens on owner-occupied 1-4 family homes, condominiums or vacation homes or on nonowner occupied 1-4 family homes with more restrictive loan to value requirements. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan to value ratios within established policy guidelines.

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

Credit Quality:

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

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

1- 6 Rating – Pass

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

7 Rating – Potential Weakness

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

8 Rating – Definite Weakness

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

9 Rating – Partial Loss Probable

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

10 Rating – Definite Loss

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

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

The Company utilizes a comprehensive strategy for monitoring commercial credit quality. Borrowers are required to provide updated financial information at least annually which is carefully evaluated for any changes in credit quality. Larger loan relationships are subject to a full annual credit review by an experienced credit analysis group. Additionally, the Company

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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.

The following table details the internal risk-rating categories for the Company's commercial portfolio:

		September 30, 2012				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in Thousands)				
PASS	1 - 6	$615,349	$1,759,857	$164,545	$ 71,340	$2,611,091
POTENTIAL WEAKNESS	7	19,584	77,791	6,159	3,673	107,207
DEFINITE WEAKNESS—LOSS UNLIKELY	8	17,541	100,602	5,027	3,697	126,867
PARTIAL LOSS PROBABLE	9	1,387	995	—	84	2,466
DEFINITE LOSS	10	—	—	—	—	—
TOTAL		$653,861	$1,939,245	$175,731	$ 78,794	$2,847,631

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

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For the Company’s consumer portfolio, the quality of the loan is best indicated by the repayment performance of an individual borrower. However, the Company does supplement performance data with current Fair Isaac Corporation (“FICO”) and Loan to Value (“LTV”) estimates. Current FICO data is purchased and appended to all consumer loans on a quarterly basis. In addition, automated valuation services and broker opinions of value are used to supplement original value data for the residential and home equity portfolios, periodically, typically twice per annum. At September 30, 2012 and December 31, 2011, 61.1% and 54.8% of the home equity loans were in first lien position, respectively. In addition, for all second position home equity loans, management reviews the performance of the first position lien, which is often held at another institution, when determining the performing status of the loan. The following table shows the weighted average FICO scores and the weighted average combined LTV ratios as of the periods indicated below:

	September 30, 2012		December 31, 2011	
RESIDENTIAL PORTFOLIO:				
FICO Score (re-scored) (1)	727		731	
Combined LTV (re-valued) (2)	67.0	%	67.0	%
HOME EQUITY PORTFOLIO:				
FICO Score (re-scored) (1)	763		762	
Combined LTV (re-valued) (2)	55.0	%	55.0	%

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

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

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

The following table shows nonaccrual loans at the dates indicated:

	September 30, 2012	December 31, 2011
	(Dollars In Thousands)	
COMMERCIAL AND INDUSTRIAL	$2,981	$1,883
COMMERCIAL REAL ESTATE	9,249	12,829
COMMERCIAL CONSTRUCTION	—	280
SMALL BUSINESS	604	542
RESIDENTIAL REAL ESTATE	10,383	9,867
HOME EQUITY	7,608	3,130
CONSUMER—OTHER	181	381
TOTAL NONACCRUAL LOANS (1)	$31,006	$28,912

(1) Included in these amounts were $6.0 million and $9.2 million of nonaccruing TDRs at September 30, 2012 and December 31, 2011, respectively.

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

	September 30, 2012										
	30-59 days		60-89 days		90 days or more		Total Past Due				
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
	(Dollars in Thousands)										
LOAN PORTFOLIO:											
Commercial and Industrial	11	$ 1,266	10	$ 987	25	$ 1,783	46	$ 4,036	$ 649,825	$ 653,861	$ —
Commercial Real Estate	12	2,375	7	1,319	27	6,580	46	10,274	1,928,971	1,939,245	—
Commercial Construction	1	155	—	—	—	—	1	155	175,576	175,731	—
Small Business	9	410	3	46	8	315	20	771	78,023	78,794	—
Residential Real Estate	15	3,352	9	2,698	30	6,365	54	12,415	363,245	375,660	—
Residential Construction	—	—	—	—	—	—	—	—	9,288	9,288	—
Home Equity	17	993	8	327	20	1,696	45	3,016	791,359	794,375	35
Consumer—Other	144	972	40	196	30	154	214	1,322	27,859	29,181	41
TOTAL	209	$ 9,523	77	$ 5,573	140	$ 16,893	426	$ 31,989	$ 4,024,146	$ 4,056,135	$ 76

	December 31, 2011										
	30-59 days		60-89 days		90 days or more		Total Past Due				
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
	(Dollars in Thousands)										
LOAN PORTFOLIO:											
Commercial and Industrial	21	$ 2,143	10	$ 2,709	20	$ 1,279	51	$ 6,131	$ 569,585	$ 575,716	$ —
Commercial Real Estate	7	3,684	7	2,522	29	6,737	43	12,943	1,834,711	1,847,654	—
Commercial Construction	—	—	—	—	3	280	3	280	128,624	128,904	—
Small Business	19	320	3	21	12	148	34	489	78,020	78,509	—
Residential Real Estate	14	2,770	10	3,208	31	6,065	55	12,043	404,527	416,570	—
Residential Construction	—	—	—	—	—	—	—	—	9,631	9,631	—
Home Equity	28	1,483	19	1,139	19	1,502	66	4,124	691,939	696,063	—
Consumer—Other	260	1,821	57	303	58	374	375	2,498	38,845	41,343	41
TOTAL	349	$ 12,221	106	$ 9,902	172	$ 16,385	627	$ 38,508	$ 3,755,882	$ 3,794,390	$ 41

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

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

	September 30, 2012	December 31, 2011
	(Dollars in Thousands)	
TDRs ON ACCRUAL STATUS	$46,823	$37,151
TDRs ON NONACCRUAL	5,962	9,230
TOTAL TDRs	$52,785	$46,381
AMOUNT OF SPECIFIC RESERVES INCLUDED IN THE ALLOWANCE FOR LOAN LOSSES ASSOCIATED WITH TDRs:	$2,189	$1,887
ADDITIONAL COMMITMENTS TO LEND TO A BORROWER WHO HAS BEEN A PARTY TO A TDR:	$896	$693

The Bank's policy is to have any restructured loan which is on nonaccrual status prior to being modified remain on nonaccrual status for six months, subsequent to being modified, before management considers its return to accrual status. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. Additionally, loans classified as TDRs are adjusted to reflect the changes in value of the recorded investment in the loan, if any, resulting from the granting of a concession. For all residential loan modifications, the borrower must perform during a 90 day trial period before the modification is finalized.

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

	Three Months Ended, September 30, 2012			Nine Months Ended September 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)
			(Dollars in Thousands)			
TROUBLED DEBT RESTRUCTURINGS:						
Commercial & Industrial	4	$ 329	$329	15	$ 1,602	$ 1,602
Commercial Real Estate	5	1,624	1,624	13	6,274	6,274
Small Business	8	327	327	16	724	724
Residential Real Estate	5	889	893	9	1,539	1,543
Home Equity	3	111	113	12	767	769
Consumer—Other	8	57	57	30	459	459
TOTAL	33	$ 3,337	$3,343	95	$ 11,365	$ 11,371

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

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	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)
			(Dollars in Thousands)			
TROUBLED DEBT RESTRUCTURINGS:						
Commercial & Industrial	1	$ 200	$200	5	$ 410	$ 410
Commercial Real Estate	2	872	872	8	6,151	6,151
Small Business	14	480	480	34	1,267	1,267
Residential Real Estate	2	203	203	11	3,082	3,130
Consumer—Home Equity	—	—	—	3	127	127
Consumer—Other	26	302	302	71	816	816
TOTAL	45	$ 2,057	$2,057	132	$ 11,853	$ 11,901

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
EXTENDED MATURITY	$721	$481	$4,058	$3,978
ADJUSTED INTEREST RATE	1,207	622	1,561	647
COMBINATION RATE & MATURITY	1,136	954	4,358	7,276
COURT ORDERED CONCESSION	279	—	1,394	—
TOTAL	$3,343	$2,057	$11,371	$11,901

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

	Three Months Ended September 30,			
	2012		2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in Thousands)			
TROUBLED DEBT RESTRUCTURINGS THAT SUBSEQUENTLY DEFAULTED:				
Commercial & Industrial	—	$—	—	$—
Commercial Real Estate	1	202	—	—
Small Business	—	—	2	66
Residential Real Estate	1	190	1	378
Consumer—Home Equity	—	—	—	—
Consumer—Other	—	—	2	11

TOTAL	2	$392	5	$455

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	Nine Months Ended September 30,			
	2012		2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in Thousands)			
TROUBLED DEBT RESTRUCTURINGS THAT SUBSEQUENTLY DEFAULTED:				
Commercial & Industrial	—	$—	—	$—
Commercial Real Estate	1	202	—	—
Small Business	—	—	2	66
Residential Real Estate	1	190	1	378
Consumer—Home Equity	—	—	—	—
Consumer—Other	—	—	2	11
TOTAL	2	$392	5	$455

All TDR loans are considered impaired and therefore are subject to a specific review for impairment. The impairment analysis appropriately discounts the present value of the anticipated cash flows by the loan's contractual rate of interest in effect prior to the loan's modification. The amount of impairment, if any, is recorded as a specific loss allocation to each individual loan in the allowance for loan losses. Commercial loans (commercial and industrial, commercial construction, commercial real estate and small business loans) and residential loans that have been classified as TDRs and which subsequently default are reviewed to determine if the loan should be deemed collateral dependent. In such an instance, any shortfall between the value of the collateral and the book value of the loan is determined by measuring the recorded investment in the loan against the fair value of the collateral less costs to sell. The Bank charges off the amount of any confirmed loan loss in the period when the loans, or portion of loans, are deemed uncollectible. Smaller balance consumer TDR loans are reviewed to determine when a charge-off is appropriate. In the limited circumstances that a loan is removed from TDR classification it is the Company's policy to continue to base its measure of loan impairment on the contractual terms specified by the loan agreement.

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

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

	September 30, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in Thousands)		
WITH NO RELATED ALLOWANCE RECORDED:			
Commercial & Industrial	$7,434	$8,427	$—
Commercial Real Estate	18,387	19,054	—
Commercial Construction	—	—	—
Small Business	1,439	1,506	—
Residential Real Estate	2,702	2,755	—
Consumer—Home Equity	3,485	3,576	—
Consumer—Other	74	75	—
Subtotal	33,521	35,393	—
WITH AN ALLOWANCE RECORDED:			
Commercial & Industrial	$1,017	$1,517	$281
Commercial Real Estate	17,266	17,645	737
Commercial Construction	—	—	—
Small Business	1,197	1,229	201
Residential Real Estate	13,571	14,480	1,326
Consumer—Home Equity	799	874	36
Consumer—Other	2,219	2,220	174
Subtotal	36,069	37,965	2,755
TOTAL	$69,590	$73,358	$2,755

	December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in Thousands)		
WITH NO RELATED ALLOWANCE RECORDED:			
Commercial & Industrial	$3,380	$4,365	$—
Commercial Real Estate	19,433	20,010	—
Commercial Construction	843	843	—
Small Business	1,131	1,193	—
Residential Real Estate	—	—	—
Consumer—Home Equity	22	22	—
Consumer—Other	31	32	—
Subtotal	24,840	26,465	—
WITH AN ALLOWANCE RECORDED:			
Commercial & Industrial	$2,228	$2,280	$562
Commercial Real Estate	18,043	19,344	457
Commercial Construction	—	—	—
Small Business	1,195	1,218	148
Residential Real Estate	12,984	13,651	1,245
Consumer—Home Equity	304	349	31

Consumer—Other	2,107	2,125	239
Subtotal	36,861	38,967	2,682
TOTAL	$61,701	$65,432	$2,682

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

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)			
WITH NO RELATED ALLOWANCE RECORDED:				
Commercial & Industrial	$8,181	$107	$8,584	$323
Commercial Real Estate	18,625	329	19,033	1,005
Commercial Construction	—	—	—	—
Small Business	1,461	25	1,543	79
Residential Real Estate	2,709	81	2,730	84
Consumer—Home Equity	3,527	39	3,571	117
Consumer—Other	81	1	78	3
Subtotal	34,584	582	35,539	1,611
WITH AN ALLOWANCE RECORDED:				
Commercial & Industrial	$1,077	$23	$1,487	$74
Commercial Real Estate	17,444	255	18,103	790
Commercial Construction	—	—	—	—
Small Business	1,176	16	1,171	49
Residential Real Estate	13,592	168	13,720	434
Consumer—Home Equity	803	14	815	41
Consumer—Other	2,283	30	2,447	98
Subtotal	36,375	506	37,743	1,486
TOTAL	$70,959	$1,088	$73,282	$3,097

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	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)			
WITH NO RELATED ALLOWANCE RECORDED:				
Commercial & Industrial	$2,236	$46	$2,527	$143
Commercial Real Estate	19,391	345	19,600	1,020
Commercial Construction	551	11	560	32
Small Business	1,641	28	1,627	82
Residential Real Estate	2	—	5	—
Consumer—Home Equity	22	—	22	1
Consumer—Other	90	2	113	5
Subtotal	23,933	432	24,454	1,283
WITH AN ALLOWANCE RECORDED:				
Commercial & Industrial	$756	$12	$926	$41
Commercial Real Estate	13,247	183	13,304	569
Commercial Construction	—	—	—	—
Small Business	1,401	21	1,505	67
Residential Real Estate	12,721	132	12,744	378
Consumer—Home Equity	457	8	480	22
Consumer—Other	2,043	20	1,919	56
Subtotal	30,625	376	30,878	1,133
TOTAL	$54,558	$808	$55,332	$2,416

NOTE 5 – GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

Goodwill and identifiable intangible assets were $137.3 million and $140.7 million at September 30, 2012 and December 31, 2011, respectively. The Company performed its annual impairment testing during the third quarter of 2012, and concluded that $2.2 million of goodwill was impaired. This amount represents the total amount of goodwill relating to Compass Exchange Advisors, LLC ("Compass"). Compass is a wholly-owned subsidiary of the Bank that provides like-kind exchange services pursuant of section 1031 of the Internal Revenue Code. While Compass remains in business and continues to operate, the Company determined the goodwill associated with the Compass purchase to be impaired due to the prolonged low rate environment and the anticipated continued low rates into the near future. The remainder of the Company's goodwill was not impaired.

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NOTE 6 – EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
NET INCOME	$11,601	$11,959	$32,658	$34,267
	Weighted Average Shares		Weighted Average Shares	
BASIC SHARES	21,654,188	21,463,714	21,613,157	21,401,885
EFFECT OF DILUTIVE SECURITIES	52,116	13,077	31,300	32,452
DILUTIVE SHARES	21,706,304	21,476,791	21,644,457	21,434,337
NET INCOME PER SHARE:				
BASIC EPS	0.54	0.56	1.51	1.60
EFFECT OF DILUTIVE SECURITIES	0.01	—	—	—
DILUTIVE EPS	0.53	0.56	1.51	1.60

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
STOCK OPTIONS	357,459	888,963	614,181	820,871

NOTE 7 – STOCK BASED COMPENSATION

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

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

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

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

NOTE 8 – DERIVATIVES AND HEDGING ACTIVITIES

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

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

Interest Rate Positions

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The Company currently utilizes interest rate swap agreements as hedging instruments against interest rate risk associated with the Company's borrowings. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount, for a predetermined period of time, from a second party. The amounts relating to the notional principal amount are not actually exchanged. The maximum length of time over which the Company is currently hedging its exposure to the variability in future cash flows for forecasted transactions related to the payment of variable interest on existing financial instruments is six years.
The following table reflects the Company's derivative positions for the periods indicated below for interest rate swaps which qualify as cash flow hedges for accounting purposes:

September 30, 2012

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value
(Dollars in Thousands)							
$25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.39 %	5.04 %	$(4,715)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.39 %	5.04 %	(4,716)
25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.41 %	2.65 %	(693)
25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.41 %	2.59 %	(676)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.41 %	2.94 %	(3,000)
50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.38 %	3.04 %	(2,980)
25,000	5-May-11	10-Jun-11	10-Jun-15	3 Month LIBOR	0.41 %	1.71 %	(884)
$200,000							$(17,664)

December 31, 2011

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

During 2011, the Company had entered into a forward starting swap with a notional amount of $40 million, with the intention of hedging a future federal home loan advance. Subsequently, during the quarter ending March 31, 2012, the Company exited the forward starting swap. At the time of exit, the derivative instrument had a fair value of $22,000, which was received in cash and recognized in other income.
For derivative instruments that are designated and qualify as hedging instruments, the effective portion of the gains or losses is reported as a component of OCI, and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately $5.7 million (pre-tax), to be reclassified to interest expense from OCI, related to the Company's cash flow hedges in the next twelve months. This reclassification is due to anticipated payments that will be made and/or received on the swaps based upon the forward curve as of September 30, 2012.
The table below presents the net amortization income recognized as an offset to interest expense related to previously terminated swaps for the periods indicated:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
NET AMORTIZATION INCOME	$61	$61	$183	$183

Customer Related Positions

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

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

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

	# of Positions (1)	Notional Amount Maturing 2012	2013	2014	2015	Thereafter	Total	Fair Value
	September 30, 2012 (Dollars in Thousands)							
LOAN LEVEL SWAPS:								
Receive fixed, pay variable	137	$—	17,374	65,939	107,243	278,381	$468,937	$30,691
Pay fixed, receive variable	131	$—	17,374	65,939	107,243	278,381	$468,937	$(30,697)
FOREIGN EXCHANGE CONTRACTS:								
Buys foreign exchange, sells US currency	22	$9,272	29,548	—	—	—	$38,820	$(1,120)
Buys US currency, sells foreign exchange	22	$9,272	29,548	—	—	—	$38,820	$1,149
	December 31, 2011 (Dollars in Thousands)							
LOAN LEVEL SWAPS:								
Receive fixed, pay variable	101	$—	19,197	80,234	112,458	171,533	$383,422	$24,478
Pay fixed, receive variable	101	$—	19,197	80,234	112,458	171,533	$383,422	$(24,535)
FOREIGN EXCHANGE CONTRACTS:								
Buys foreign exchange, sells US currency	15	$21,657	—	—	—	—	$21,657	$(1,081)
Buys US currency, sells foreign exchange	15	$21,657	—	—	—	—	$21,657	$1,098

(1)

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

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:

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	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value at September 30, 2012	Fair Value at December 31, 2011	Balance Sheet Location	Fair Value at September 30, 2012	Fair Value at December 31, 2011
	(Dollars in Thousands)					
DERIVATIVES DESIGNATED AS HEDGES:						
Interest rate swaps	Other Assets	$ —	$ —	Other Liabilities	$ 17,664	$ 18,263
DERIVATIVES NOT DESIGNATED AS HEDGES:						
Customer Related Positions:						
Loan level swaps	Other Assets	$ 30,691	$ 24,478	Other Liabilities	$ 30,697	$ 24,535
Foreign exchange contracts	Other Assets	1,149	1,098	Other Liabilities	1,120	1,081
TOTAL		$ 31,840	$ 25,576		$ 31,817	$ 25,616

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
DERIVATIVES DESIGNATED AS HEDGES:				
Loss in OCI on Derivative (Effective Portion), Net of Tax	$ (929)	$ (4,110)	$ (2,125)	$ (6,518)
Loss Reclassified from OCI into Interest Expense (Effective Portion):	$ (1,370)	$ (1,467)	$ (4,008)	$ (4,065)
Loss Recognized in Income on Derivative (Ineffective Portion & Amount Excluded from Effectiveness Testing):				
Interest Expense	$ —	$ —	$ —	$ —
Other Expense	—	—	—	—
TOTAL	$ —	$ —	$ —	$ —
DERIVATIVES NOT DESIGNATED AS HEDGES:				
Changes in Fair Value of Customer Related Positions:				
Other Income	$ 12	$ 52	$ 85	$ 122
Other Expense	(4)	—	(23)	(17)
TOTAL	$ 8	$ 52	$ 62	$ 105

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 has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well capitalized institution, then the Company could be required to terminate any outstanding derivatives with the counterparty. The Company had no exposure relating to interest rate swaps with institutional counterparties at September 30, 2012 and December 31, 2011, as all such swaps were in a liability position. The Company’s exposure relating to customer related positions was approximately $31.2 million and $25.1 million at September 30, 2012 and December 31, 2011, respectively. Credit exposure may be reduced by the amount of collateral pledged by the counterparty.

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

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	September 30, 2012	December 31, 2011
	(Dollars in Thousands)	
NOTIONAL AMOUNT	$668.9	$623.4
AGGREGATE FAIR VALUE	$48.4	$42.8
COLLATERAL ASSIGNED	$50.3	$47.6

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

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

Mortgage Derivatives

Forward sale contracts of residential mortgage loans, considered derivative instruments for accounting purposes, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans intended for sale. Prior to closing and funding certain one-to-four family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver 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 as a component of mortgage banking income. The Company elects to carry newly originated closed loans held for sale at fair value. The Company has chosen to carry these at fair vale as changes in the fair value marks on loans held for sale offset changes in interest rate lock and forward sales commitments. The change in fair value of loans held for sale is recorded in current period earnings as a component of mortgage banking income.

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

	September 30, 2012	December 31, 2011
	(Dollars in Thousands)	
INTEREST RATE LOCK COMMITMENTS	$831	$265
FORWARD SALES AGREEMENTS	$(1,882)	$(528)
LOANS HELD FOR SALE FAIR VALUE ADJUSTMENTS	$1,051	$263

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in Thousands)		(Dollars in Thousands)	
INTEREST RATE LOCK COMMITMENTS	$465	$468	$566	$900
FORWARD SALES AGREEMENTS	(1,141)	(750)	(1,354)	(1,829)
LOANS HELD FOR SALE FAIR VALUE ADJUSTMENT	676	282	788	929
TOTAL CHANGE IN FAIR VALUE	$—	$—	$—	$—

NOTE 9 – 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

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significant decrease in the volume and level of activity for the asset or liability, regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from one level to another.

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the Fair Value Measurements and Disclosures Topic of the FASB ASC are described below:

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

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

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

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

Valuation Techniques

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

Securities:

U.S. Government Agency Securities

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

Agency Mortgage-Backed Securities

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

Agency Collateralized Mortgage Obligations and Private Mortgage-Backed Securities

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

Single and Pooled Issuer Trust Preferred Securities

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

Marketable Equity Securities

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

Loans Held for Sale

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

Derivative Instruments:

Derivatives

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

Residential Mortgage Loan Commitments and Forward Sales Agreements

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

Impaired Loans

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

Other Real Estate Owned

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

Goodwill and Other Intangible Assets

Goodwill and identified intangible assets are subject to impairment testing. The Company conducts an annual impairment test of goodwill in the third quarter of each year and more frequently, if necessary. To estimate the fair value of goodwill and other intangible assets the Company utilizes both a comparable analysis of relevant price multiples in recent market transactions and discounted cash flow analysis. Both valuation models require a significant degree of management judgment. In the event the fair value as determined by the valuation model is less than the carrying value, the intangibles may be impaired. If the impairment testing resulted in impairment, the Company would classify the impaired goodwill and other intangible assets subjected to nonrecurring fair value adjustments as Level 3.

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

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	Balance	Fair Value Measurements at the End of the Reporting Period Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
	September 30, 2012 (Dollars in Thousands)				
RECURRING FAIR VALUE MEASUREMENTS:					
ASSETS					
SECURITIES AVAILABLE FOR SALE:					
U.S. Government Agency Securities	$20,907	$—	$20,907	$—	
Agency Mortgage-Backed Securities	211,745	—	211,745	—	
Agency Collateralized Mortgage Obligations	73,372	—	73,372	—	
Private Mortgage-Backed Securities	4,112	—	—	4,112	
Pooled Trust Preferred Securities Issued by Banks and Insurers	3,052	—	—	3,052	
Marketable Equity Securities	9,968	9,968	—	—	
LOANS HELD FOR SALE	42,393	—	42,393	—	
DERIVATIVE INSTRUMENTS	32,672	—	32,672	—	
LIABILITIES					
DERIVATIVE INSTRUMENTS	51,364	—	51,364	—	
TOTAL RECURRING FAIR VALUE MEASUREMENTS	$346,857	$9,968	$420,719	$7,164	
NONRECURRING FAIR VALUE MEASUREMENTS:					
ASSETS					
COLLATERAL DEPENDENT IMPAIRED LOANS	$7,450	$—	$—	$7,450	$(676)
OTHER REAL ESTATE OWNED	8,751	—	—	8,751	—
TOTAL NONRECURRING FAIR VALUE MEASUREMENTS	$16,201	$—	$—	$16,201	$(676)

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	December 31, 2011 (Dollars in Thousands)				
RECURRING FAIR VALUE MEASUREMENTS:					
ASSETS					
TRADING SECURITIES	$8,240	$8,240	$—	$—	
SECURITIES AVAILABLE FOR SALE:					
Agency Mortgage-Backed Securities	238,391	—	238,391	—	
Agency Collateralized Mortgage Obligations	53,801	—	53,801	—	
Private Mortgage-Backed Securities	6,110	—	—	6,110	
Single Issuer Trust Preferred Securities Issued by Banks	4,210	—	—	4,210	
Pooled Trust Preferred Securities Issued by Banks and Insurers	2,820	—	—	2,820	
LOANS HELD FOR SALE	20,500	—	20,500	—	
DERIVATIVE INSTRUMENTS	25,841	—	25,841	—	
LIABILITIES					
DERIVATIVE INSTRUMENTS	44,407	—	44,407	—	
TOTAL RECURRING FAIR VALUE MEASUREMENTS	$315,506	$8,240	$294,126	$13,140	
NONRECURRING FAIR VALUE MEASUREMENTS:					
ASSETS					
IMPAIRED LOANS (1)	$36,861	$—	$—	$36,861	$(2,682)
OTHER REAL ESTATE OWNED	6,658	—	—	6,658	—
TOTAL NONRECURRING FAIR VALUE MEASUREMENTS	$43,519	$—	$—	$43,519	$(2,682)

(1) Represents all impaired loans with an associated specific reserve at December 31, 2011. Included in this amount are $9.0 million of collateral dependent loans

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

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	Securities Available for Sale:			
	Pooled Trust Preferred Securities	Single Trust Preferred Securities	Private Mortgage-Backed Securities	Total
	(Dollars in Thousands)			
BALANCE AT JUNE 30, 2012	$2,754	$—	$4,739	$7,493
GAINS AND LOSSES (REALIZED/UNREALIZED):				
Included in Earnings	—	—	—	—
Included in Other Comprehensive Income	332	—	50	382
SETTLEMENTS	(34)	—	(677)	(711)
TRANSFERS INTO(OUT OF) OF LEVEL 3	—	—	—	—
BALANCE AT SEPTEMBER 30, 2012	$3,052	$—	$4,112	$7,164
BALANCE AT JANUARY 1, 2011	$2,828	$4,221	$10,254	$17,303
GAINS AND LOSSES (REALIZED/UNREALIZED):				
Included in Earnings	(8)	—	(235)	(243)
Included in Other Comprehensive Income	37	(11)	49	75
SETTLEMENTS	(37)	—	(3,958)	(3,995)
BALANCE AT DECEMBER 31, 2011	$2,820	$4,210	$6,110	$13,140
GAINS AND LOSSES (REALIZED/UNREALIZED):				
Included in Earnings	—	—	(76)	(76)
Included in Other Comprehensive Income	286	703	280	1,269
SETTLEMENTS	(54)	—	(2,202)	(2,256)
TRANSFERS INTO(OUT OF) OF LEVEL 3	—	(4,913)	—	(4,913)
BALANCE AT SEPTEMBER 30, 2012	$3,052	$—	$4,112	$7,164

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

The following table sets forth certain unobservable inputs regarding the Company's investment in securities that are classified as Level 3:

	Fair Value at September 30, 2012	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
			(Dollars in Thousands)		
POOLED TRUST PREFERRRED SECURITIES	$3,052	Discounted cash flow methodology	Cumulative Prepayment	0%-100%	4.3%
			Cumulative Default	4.0%-100%	20.0%
			Loss Given Default	85% - 100%	94.9%
			Cure Given Default	0% - 75%	31.9%
PRIVATE MORTGAGE-BACKED SECURITIES	$4,112	Multi-dimensional spread tables	Cumulative Prepayment Rate	10.3%-14.5%	13.9%
			Constant Default Rate	0.8% -20.5%	3.6%

			Severity	25.0% -62.5%	38.9%
IMPAIRED LOANS	$7,450	Appraisals of collateral (1)			
OTHER REAL ESTATE OWNED	$8,751	Appraisals of collateral (1)			

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

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

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

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

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

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

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			Fair Value Measurements at Reporting Date Using		
	Book Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	September 30, 2012 (Dollars in Thousands)				
FINANCIAL ASSETS					
SECURITIES HELD TO MATURITY (a):					
U.S. Treasury Securities	$1,013	$1,143	—	$ 1,143	—
Agency Mortgage-Backed Securities	81,523	86,762	—	86,762	—
Agency Collateralized Mortgage Obligations	91,845	94,769	—	94,769	—
State, County, and Municipal Securities	915	929	—	929	—
Single Issuer trust preferred Securities Issued by Banks	6,538	6,601	—	6,601	—
Corporate Debt Securities	5,008	5,250			