KEITHLEY INSTRUMENTS INC
Form 10-Q
February 14, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2002

OR

o Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Commission File Number 1-9965

KEITHLEY INSTRUMENTS, INC.

(Exact name of registrant as specified in its charter)

Ohio	**34-0794417**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

28775 Aurora Road, Solon, Ohio 44139
(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (440) 248-0400

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 ü NO __

Indicate by check whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES __ NO ü

As of February 12, 2003 there were outstanding 13,320,856 Common Shares, without par value (net of shares held in treasury), and 2,150,502 Class B Common Shares, without par value.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

KEITHLEY INSTRUMENTS, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands of Dollars)
(Unaudited)

	DECEMBER 31, 2002	DECEMBER 31, 2001	SEPTEMBER 30, 2002
Assets			
Current assets:			
Cash and cash equivalents	$19,482	$20,938	$21,707
Short-term investments	27,832	26,919	28,171
Refundable income taxes	680	6,112	954
Accounts receivable and other, net	13,031	11,953	14,140
Inventories:			
Raw materials	6,592	9,902	7,184
Work in process	871	2,011	1,066
Finished products	1,558	2,355	1,862
Total inventories	9,021	14,268	10,112
Deferred income taxes	4,391	10,251	3,917
Other current assets	1,729	1,415	1,178

Total current assets	76,166	91,856	80,179
Property, plant and equipment, at cost	44,155	42,010	43,171
Less-Accumulated depreciation	30,211	28,283	29,363
Net property, plant and equipment	13,944	13,727	13,808
Deferred income taxes	17,027	5,662	17,013
Other assets	9,782	8,954	9,371
Total assets	$116,919	$120,199	$120,371

Liabilities and Shareholders Equity

Current liabilities:

Short-term debt
$573 $ $539
Accounts payable
6,166 5,731 7,170
Accrued payroll and related expenses
4,124 4,650 4,380
Other accrued expenses
4,950 3,844 4,335
Income taxes payable
4,418 1,609 4,329

Total current liabilities
20,231 15,834 20,753

Long-term debt
3,000
Other long-term liabilities
6,964 5,994 6,632
Deferred income taxes
552 7 538
Shareholders equity:

Paid-in-capital
26,685 26,532 26,766
Earnings reinvested in the business
71,018 75,250 72,087
Accumulated other comprehensive loss
(345) (914) (349)
Unamortized portion of restricted stock
(98) (141) (108)
Common shares held in treasury, at cost
(8,088) (5,363) (5,948)

Total shareholders equity
89,172 95,364 92,448

Total liabilities and shareholders equity	$116,919	$120,199	$120,371

The accompanying notes are an integral part of the financial statements.

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KEITHLEY INSTRUMENTS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands of Dollars Except for Per Share Data)
(Unaudited)

	FOR THE THREE MONTHS ENDED DECEMBER 31,	
	2002	2001
Net sales	$26,199	$20,424
Cost of goods sold	11,557	9,181
Selling, general and administrative expenses	12,384	10,390
Product development expenses	3,210	3,576
Net financing income	(171)	(266)
Loss before income taxes	(781)	(2,457)
Income tax benefit	(274)	(823)
Net loss	$(507)	$(1,634)
Basic loss per share	$(0.03)	$(0.10)
Diluted loss per share	$(0.03)	$(0.10)

Cash dividends per Common Share	$0.0375	$0.0375
Cash dividends per Class B Common Share	$0.0300	$0.0300

The accompanying notes are an integral part of the financial statements.

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KEITHLEY INSTRUMENTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)
(Unaudited)

	FOR THE THREE MONTHS ENDED DECEMBER 31,	
	2002	**2001**
Cash flows from operating activities:		
Net loss	$(507)	$(1,634)
Expenses not requiring outlay of cash	1,112	955
Changes in working capital	969	(1,024)
Other operating activities	(299)	96
Net cash provided by (used in) operating activities	1,275	(1,607)
Cash flows from investing activities:		
Payments for property, plant, and equipment	(1,098)	(969)
Purchase of investments	(5,073)	(6,035)
Sale of investments	5,240	
Other investing activities, net		4

Net cash used in investing activities	(931)	(7,000)
Cash flows from financing activities:		
Increase in short-term debt	26	
Cash dividends	(561)	(570)
Purchase of treasury stock	(2,355)	
Proceeds from employee stock purchase plans	65	54
Other		67
Net cash used in financing activities	(2,825)	(449)
Effect of changes in foreign currency exchange rates	256	(97)
Change in cash and cash equivalents	(2,225)	(9,153)
Cash and cash equivalents at beginning of period	21,707	30,091

Cash and cash equivalents at end of period	$19,482	$20,938

Supplemental disclosures of cash flow information

Cash (refunded) paid during the period for:		
Income taxes	$(6)	$316
Interest	40	27

Disclosure of accounting policy

For purposes of this statement, the Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

The accompanying notes are an integral part of the financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except for share data)

A. **Management Representation**

The consolidated financial statements at December 31, 2002 and 2001, and for the three month periods then ended have not been examined by independent accountants, but in the opinion of the management of Keithley Instruments, Inc., (the Company or Keithley) all adjustments necessary to a fair statement of the consolidated balance sheet, consolidated statement of income and consolidated statement of cash flows for those periods have been included. All adjustments included are of a normal recurring nature.

B. **Earnings Per Share Denominator**

The weighted average number of shares and share equivalents used in determining earnings per share was 15,488,886 for the quarter ended December 31, 2002, and 15,624,502 for the quarter ended December 31, 2001. Both Common Shares and Class B Common Shares are included in calculating the weighted average number of shares outstanding.

C. **Stock Repurchase Programs**

On December 11, 2000, the Company announced its Board of Directors had approved an open market stock repurchase program. Under the terms of the program, the Company may purchase up to 2,000,000 Common Shares, or approximately 13 percent of shares outstanding, over a three-year period. The purpose of the repurchase program is to offset the dilutive effect of stock option and stock purchase plans. Common Shares held in treasury may be reissued in settlement of stock purchases under these plans.

The following table summarizes the Company s stock repurchase activity for the three months ended December 31, 2002:

Total number of shares purchased	Average price paid per share (including commissions)	Identity of broker-dealer used to effect the purchases	Number of shares purchased as part of a publicly announced repurchase program	Maximum number of shares that remain to be purchased under the program
210,711	$11.18	Bear, Sterns Securities Corp	210,711	1,256,300

At December 31, 2002, 523,649 Common Shares purchased under the Company s share repurchase programs remained in treasury at an average cost of $13.60 per share including commissions. Also, included in the Common shares held in treasury, at cost caption of the consolidated balance sheets are shares repurchased to settle non-employee Directors fees deferred pursuant to the Keithley Instruments, Inc. 1996 Outside Directors Deferred Stock Plan. The total number of shares held in treasury at December 31, 2002 was 655,142.

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D. **Accounting for Derivatives and Hedging Activities**

In accordance with the provisions of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities , all of the Company s derivative instruments are recognized on the balance sheet at their fair value. To hedge sales, the Company currently utilizes foreign exchange forward contracts or option contracts to sell foreign currencies to fix the exchange rates related to near-term sales and effectively fix the Company s cost of goods sold. Underlying hedged transactions are recorded at hedged rates, therefore realized and unrealized gains and losses are recorded when the hedged transactions occur. The Company also has an interest rate swap instrument. The estimated fair value of the swap instrument is determined through quotes from the related financial institutions.

On the date the derivative contract is entered into, the Company designates its derivative as either a hedge of the fair value of a recognized asset or liability (fair value hedge), as a hedge of the variability of cash flows to be received (cash flow hedge), or as a foreign-currency cash flow hedge (foreign currency hedge). Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk are recorded in current-period earnings. Changes in the fair value of a derivative that is highly effective and that is designed and qualifies as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the transaction in the underlying asset. Changes in the fair value of derivatives that are highly effective and that qualify as foreign currency hedges are recorded in either current period income or other comprehensive income, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge. At December 31, 2002, the forward exchange forward contracts were designed as cash flow hedges. The interest rate swap instrument was determined to be an ineffective hedge and accordingly, changes in its fair market value are recorded in the Company s records as income or expense.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, the Company discontinues hedge accounting prospectively.

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E. **Comprehensive Income**

Comprehensive income for the three months ended December 31, 2002 and 2001 is as follows:

	December 31,	
	2002	2001
Net loss	$(507)	$(1,634)
Unrealized (losses) gains on value of derivative securities	(177)	91
Net unrealized investment losses	(113)	(108)
Foreign currency translation adjustments	293	(189)
Comprehensive loss	$(504)	$(1,840)

F. **Segment and Geographic Information**

The Company s business is to develop test and measurement-based solutions to verify customers product performance or aid in their product development process. The Company s customers are engineers, technicians and scientists in manufacturing, product development and research functions within a range of industries. Although the Company s products vary in capability, sophistication, use and price, they basically test, measure and analyze electrical and physical properties, and in some cases RF or light. As such, the Company s management has determined that the Company operates in a single industry segment. The operations by geographic area are presented below. The basis for attributing revenues from external customers to a geographic area is the location of the customer.

	For the Three Months Ended December 31,	
	2002	2001
Net sales:		
United States	$8,925	$7,480
Europe	8,600	8,245
Pacific Basin	7,587	3,591
Other	1,087	1,108

	$26,199	$20,424

	At December 31,	
	2002	2001
Long-lived assets:		
United States	$19,458	$19,406
Germany	3,491	2,817
Other	777	458
	$23,726	$22,681

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G. **Guarantor s Disclosure Requirements**

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002.

Guarantee of original lease:

The Company has assigned the lease of its former office space in Reading, Great Britain to a third party. In the event the third party defaults on the monthly lease payments, the Company would be responsible for the payments until the lease expires on July 14, 2009. If the third party were to default, the maximum amount of future payments (undiscounted) the Company would be required to make under the guarantee would be approximately $1,239 through July 14, 2009. The Company has not recorded any liability for this item, as it is does not believe that it is probable that the third party will default on the lease payments.

Product warranties:

Generally, the Company s products are covered under a one-year warranty; however, certain products are covered under a three-year warranty. It is the Company s policy to accrue for all product warranties based upon historical in-warranty repair data. In addition, the Company accrues for specifically identified product performance issues.

A reconciliation of the estimated changes in the aggregated product warranty liability for the first quarter of fiscal 2003 is as follows:

Balance at October 1, 2002	$1,415
Accruals for warranties issued during the period	365
Accruals related to pre-existing warranties (including changes in estimates and expiring warranties)	(208)
Settlements made (in cash or in kind) during the period	(229)
Balance at December 31, 2002	$1,343

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

Critical Accounting Policies and Estimates

Management has identified the Company s critical accounting policies . These policies have the potential to have a significant impact on the Company s financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which will be settled in the future.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reported financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined based on a currently-adjusted standard, which approximates actual cost on a first-in, first-out basis. The Company periodically reviews its recorded inventory and estimates a reserve for obsolete or slow-moving items. Such estimates are difficult to make under current economic conditions. If actual demand and market conditions are less favorable than those projected by management, additional reserves may be required. If actual market conditions are more favorable than anticipated, the Company s cost of sales will be lower than expected in that period.

Income taxes:

The Company s provision for income taxes and the determination of the resulting deferred tax assets and liabilities involves a significant amount of judgment by management. The quarterly provision for income taxes or benefits is based upon an estimate of pretax financial accounting income or loss for the full year in each of the jurisdictions in which the Company operates, and is impacted by various differences between financial accounting income or loss and taxable income or loss. Judgment is also applied in determining whether the deferred tax assets will be realized in full or in part.

Stock compensation plans:

The Company has two active stock option plans and one inactive plan. The two active stock option plans are the 2002 Stock Incentive Plan and the 1997 Directors Stock Option Plan. The Company also has an employee stock purchase plan. The Company has chosen the disclosure provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-based Compensation (SFAS 123), and as such, no compensation cost for the stock option and stock purchase plans has been recognized in the Company s consolidated financial statements. For disclosure purposes, the valuation of stock issued to employees requires management to determine estimates for the expected life of the options, the expected risk-free interest rate during the expected life of the option, the expected volatility of the stock price over the expected life of

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the option, and the expected dividend yield. These estimations are significant factors in the valuation model and actual results could differ materially from these estimates. Currently, management expects to continue to follow the disclosure provisions of SFAS 123 and not record compensation expense related to these stock compensation plans.

Results of Operations In Thousands of Dollars Except for Per Share Data

First Quarter Fiscal 2003 Compared with First Quarter Fiscal 2002

The Company reported a net loss for the first quarter of fiscal 2003 of $507, or $0.03 per share, compared to a net loss of $1,634, or $0.10 per share, in last year s first quarter.

Net sales of $26,199 for the first quarter of fiscal 2003 increased 28 percent from sales of $20,424 in the prior year s first quarter. Sales were higher in all major geographies with sales in the United States up 19 percent, Europe up 4 percent and the Pacific Basin region up 111 percent from the prior year s quarter. Sequentially, sales decreased 8 percent from the fourth quarter of fiscal 2002.

Orders of $23,049 for the first quarter increased 15 percent from last year s orders of $20,080. Geographically, orders were up 14 percent in the United States, up 88 percent in the Pacific Basin, and down 17 percent in Europe when compared to the prior year. Compared to the prior year s first quarter, orders from semiconductor customers increased 57 percent, wireless communications customers increased 41 percent, electronic components and subassembly manufacturers increased 4 percent, and research and education increased 7 percent. For the first quarter, semiconductor orders comprised approximately 20 percent of the total, wireless communications orders were approximately 15 percent, electronic components and subassembly manufacturers orders were approximately 20 percent, research and education made up about 25 percent, while optoelectronics orders made up less than 5 percent. Sequentially, orders decreased 12 percent from the fourth quarter of fiscal 2002. Order backlog decreased $2,467 during the quarter to $12,310 at December 31, 2002.

Cost of goods sold as a percentage of net sales decreased to 44.1 percent from 44.9 percent in the prior year s first quarter. The improvement was due to better gross margins in Japan resulting from the opening of a direct sales office in April 2002, an approximately 12 percent weaker U.S. dollar versus European currencies, and fixed costs being spread over higher sales volumes. This was partially offset by higher start-up costs related to the Company s lean manufacturing initiative. The effect of foreign exchange hedging on cost of goods sold was immaterial in both periods.

Selling, general and administrative expenses of $12,384 increased $1,994, or 19 percent, from last year s first quarter, although such expenses decreased as a percentage of net sales to 47.3 percent from 50.9 percent last year. The increase in dollars was due to one-time costs for building a direct sales force in the United States as the Company paid commissions to sales representatives and salaries to its own sales employees during the quarter, higher costs associated with the Japanese sales office that opened April 1, 2002, costs associated with the ERP/CRM implementation, and slightly higher commissions on higher sales.

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Product development expenses for the quarter were $3,210, or 12.3 percent of sales, down $366, or 10 percent, from last year s $3,576, or 17.5 percent of sales. Much of the decrease was associated with lower costs for consultants and developmental supplies.

The Company generated net financing income during the quarter of $171 versus $266 in the prior year. Lower interest rates caused financing income to decrease from the prior year.

The Company recorded a tax benefit for the quarter at a 35.0 percent rate. Last year s first quarter tax benefit was recorded at a 33.5 percent.

At December 31, 2002, the total number of employees was 624 compared to 612 at September 30, 2002. The increase was primarily due to the hiring of a direct sales force in the United States. Effective January 1, 2003, the Company began selling in the United States using its own employees. The sales force is fully staffed with approximately 30 people.

Liquidity and Capital Resources

During the first quarter, net cash provided by operating activities was $1,275. Cash was used to purchase 210,700 shares of the Company s common stock through its stock repurchase program for $2,355. Additionally, tyle="background: #cceeff">

Net Increase in Loans
(180,011) (48,649)
Cash Used In Business Combinations
(457) (269)
Purchase of Bank Premises and Equipment
(3,214) (3,636)
Proceeds from the Sale of Bank Premises and Equipment
37
Proceeds from the Sale of Other Real Estate Owned and Foreclosed Assets
3,573 4,110
NET CASH USED IN INVESTING ACTIVITIES
(138,369) (25,927)
CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES:

Net Decrease in Time Deposits
(22,173) (92,913)
Net Increase in Other Deposits
180,952 397,492
Net Increase(Decrease) in Federal Funds Purchased and Assets Sold Under Repurchase Agreements
15,047 (11,976)
Net Increase(Decrease) in Short Term Federal Home Loan Bank Advances
856 (60,000)
Net Decrease in Long Term Federal Home Loan Bank Advances
(45,000)
Net (Decrease)Increase in Treasury Tax & Loan Notes
(409) 984
Proceeds from Exercise of Stock Options
3,701 360
Tax Benefit from Stock Option Exercises
253 70
Restricted Shares Surrendered
(361) (109)
Tax Benefit from Deferred Compensation Distribution
74
Shares Issued Under Direct Stock Purchase Plan
262
Common Dividends Paid
(7,882) (7,603)
NET CASH PROVIDED BY FINANCING ACTIVITIES
125,320 226,305
NET INCREASE IN CASH AND CASH EQUIVALENTS
26,014 216,284

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	161,282	121,905
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$187,296	$338,189
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of Loans to Foreclosed Assets	$4,233	$7,411

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

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or any other interim period.

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

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NOTE 2 RECENT ACCOUNTING STANDARDS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 220 Comprehensive Income Update No. 2011-05. Issued in June 2011, this update provides amendments to Topic No. 220, Comprehensive Income , which states that an entity has the option to present total comprehensive income, the components of net income, and the components of other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The amendments in this update should be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The adoption of this standard will not have a material impact on the Company s consolidated financial position.

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

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

FASB ASC Topic No. 310, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring Update No. 2011-02. Issued in April 2011, this update provides guidance and clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of

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determining whether a restructuring constitutes a troubled debt restructuring. In addition, the previously deferred disclosure requirements originally included in Update No. 2010-20 are effective upon adoption of this standard. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. The Company does not anticipate the adoption of this standard to have a material impact on the Company s consolidated financial position.

NOTE 3 SECURITIES

The following table presents a summary of the cost and fair value of the Company s investment securities. The amortized cost, gross unrealized holding gains and losses, other-than-temporary impairment recorded in other comprehensive income, and fair value of securities available for sale for the periods below were as follows:

	June 30, 2011					**December 31, 2010**				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses Other**	**Other-Than-Temporary Impairment**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses Other**	**Other-Than-Temporary Impairment**	**Fair Value**
			(Dollars In Thousands)					*(Dollars In Thousands)*		
U.S. Treasury Securities	$	$	$	$	$	$ 715	$ 2	$	$	$ 717
Agency Mortgage-Backed Securities	235,088	16,288	(4)		251,372	296,821	16,481			313,302
Agency Collateralized Mortgage Obligations	37,888	626			38,514	45,426	779	(70)		46,135
Private Mortgage-Backed Securities (1) (2)	8,116			2	8,118	10,408			(154)	10,254
Single Issuer Trust Preferred Securities Issued by Banks	5,000		(534)		4,466	5,000		(779)		4,221
Pooled Trust Preferred Securities Issued by Banks and Insurers(1)	8,521		(2,122)	(2,974)	3,425	8,550		(2,309)	(3,413)	2,828
TOTAL	$294,613	$16,914	$(2,660)	$(2,972)	$305,895	$366,920	$17,262	$(3,158)	$(3,567)	$377,457

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

	June 30, 2011					**December 31, 2010**				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses Other**	**Other-Than-Temporary Impairment**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses Other**	**Other-Than-Temporary Impairment**	**Fair Value**

			(Dollars In Thousands)					*(Dollars In Thousands)*		
U.S. Treasury Securities	$ 1,015	$	$ (18)	$	$ 997	$	$	$	$	$
Agency Mortgage-Backed Securities	128,122	2,215	(1,069)		129,268	95,697	1,348	(1,778)		95,267
Agency Collateralized Mortgage Obligations	84,150	1,105	(44)		85,211	89,823	600	(1,691)		88,732
State, County, and Municipal Securities	8,175	81			8,256	10,562	167			10,729
Single Issuer Trust Preferred Securities Issued by Banks	11,647	88	(54)		11,681	6,650	19	(163)		6,506
TOTAL	$233,109	$ 3,489	$(1,185)	$	$235,413	$202,732	$ 2,134	$(3,632)	$	$201,234

(1) During the six months ended June 30, 2011 and the year ended December 31, 2010, the Company recorded gross changes on other-than-temporarily impaired (OTTI) securities of $419,000 and $497,000. Included in these amounts were losses of $595,000 and $831,000 which were reclassed to OCI as they were deemed to be non-credit related.

(2) Included in the non-credit component of OTTI for this class of securities is an unrealized gain of $110,000, which resulted from the Company having previously recognized credit losses in excess of the unrealized losses in OCI. In such instances, credit losses recognized in earnings have been offset by an unrealized gain.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
	(Dollars in Thousands)			
Gross Gains on Available for Sale Securities	$723	$481	$723	$481

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

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)		(Dollars in Thousands)	
Due in One Year or Less	$	$	$ 1,100	$ 1,110
Due from One Year to Five Years	3,490	3,620	9,785	9,913
Due from Five to Ten Years	70,425	74,872	4,831	4,956
Due after Ten Years	220,698	227,403	217,393	219,434
TOTAL	$294,613	$305,895	$233,109	$235,413

The actual maturities of agency mortgage-backed securities, collateralized mortgage obligations, private mortgage-backed securities, and corporate debt securities will differ from the contractual maturities, due to the ability of the issuers to prepay underlying obligations. At June 30, 2011 and December 31, 2010, the Bank had $17.5 million and $24.3 million, respectively, of callable securities in its investment portfolio.

At June 30, 2011 and December 31, 2010 investment securities carried at $336.0 million and $350.3 million, respectively, were pledged to secure public deposits, assets sold under repurchase agreements, treasury tax and loan notes, letters of credit, and for other purposes.

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

Other-Than-Temporary Impairment

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

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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:

		June 30, 2011					
		Less than 12 months		12 months or longer		Total	
Description of Securities	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars In Thousands)					
U.S. Treasury Securities	1	$ 997	$ (18)	$	$	$ 997	$ (18)
Agency Mortgage-Backed Securities	6	47,796	(1,073)			47,796	(1,073)
Agency Collateralized Mortgage Obligations	1	13,786	(44)			13,786	(44)
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	2	5,050	(54)	4,466	(534)	9,516	(588)
Pooled Trust Preferred Securities Issued by Banks and Insurers	2			2,530	(2,122)	2,530	(2,122)
TOTAL TEMPORARILY IMPAIRED SECURITIES	12	$ 67,629	$ (1,189)	$ 6,996	$ (2,656)	$ 74,625	$ (3,845)

		December 31, 2010					
		Less than 12 months		12 months or longer		Total	
Description of Securities	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars In Thousands)					
U.S. Treasury Securities	0	$	$	$	$	$	$
Agency Mortgage-Backed Securities	4	48,956	(1,778)			48,956	(1,778)
Agency Collateralized Mortgage Obligations	6	72,631	(1,761)			72,631	(1,761)
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	2	4,950	(163)	4,221	(779)	9,171	(942)
Pooled Trust Preferred Securities Issued by Banks and Insurers	2			2,364	(2,309)	2,364	(2,309)
TOTAL TEMPORARILY IMPAIRED SECURITIES	14	$ 126,537	$ (3,702)	$ 6,585	$ (3,088)	$ 133,122	$ (6,790)

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

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

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

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

Single Issuer Trust Preferred Securities: This portfolio consists of two securities, both of which are below investment grade. The unrealized loss on these

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securities is attributable to the illiquid nature of the trust preferred market in the current economic environment. Management evaluates various financial metrics for each of the issuers, including capitalization rates.

Pooled Trust Preferred Securities: This portfolio consists of two below investment grade securities of which one is performing while the other is deferring payments as contractually allowed. The unrealized loss on these securities is attributable to the illiquid nature of the trust preferred market and the significant risk premiums required in the current economic environment. Management evaluates collateral credit and instrument structure, including current and expected deferral and default rates and timing. In addition, discount rates are determined by evaluating comparable spreads observed currently in the market for similar instruments.

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

	Class	Amortized Cost (1)	Gross Unrealized Gain/(Loss)	Non-Credit Related Other-Than-Temporary Impairment	Fair Value	Total Cumulative Credit Related Other-Than-Temporary Impairment	Total Cumulative Other-Than-Temporary impairment to date
				(Dollars in Thousands)			
Pooled Trust Preferred Securities							
Pooled Trust Preferred Security A	C1	$ 1,283	$	$ (1,094)	$ 189	$ (3,676)	$ (4,770)
Pooled Trust Preferred Security B	D					(3,481)	(3,481)
Pooled Trust Preferred Security C	C1	505		(440)	65	(482)	(922)
Pooled Trust Preferred Security D	D					(990)	(990)
Pooled Trust Preferred Security E	C1	2,081		(1,440)	641	(1,367)	(2,807)
Pooled Trust Preferred Security F	B	1,890	(1,198)		692		
Pooled Trust Preferred Security G	A1	2,762	(924)		1,838		
TOTAL POOLED TRUST PREFERRED SECURITIES		$ 8,521	$ (2,122)	$ (2,974)	$ 3,425	$ (9,996)	$ (12,970)
Private Mortgage-Backed Securities							
Private Mortgage-Backed Securities One	2A1	$ 3,872	$	$ (108)	$ 3,764	$ (623)	$ (731)
Private Mortgage-Backed Securities Two	A19	4,244		110	4,354	(85)	25
TOTAL PRIVATE MORTGAGE-BACKED SECURITIES		$ 8,116	$	$ 2	$ 8,118	$ (708)	$ (706)

TOTAL	$16,637	$ (2,122)	$ (2,972)	$11,543	$ (10,704)	$ (13,676)

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

	Class	Number of Performing Banks and Insurance Cos. in Issuance (Unique)	Current Deferrals/Defaults/Losses (As a % of Original Collateral)	Total Projected Defaults/Losses (as a % of Performing Collateral)	Excess Subordination (After Taking into Account Best Estimate of Future Deferrals/Defaults/Losses) (1)	Lowest credit Ratings to date (2)
Pooled Trust Preferred Securities						
Trust Preferred Security A	C1	59	37.29%	25.54%	0.00%	C
Trust Preferred Security B	D	59	37.29%	25.54%	0.00%	C
Trust Preferred Security C	C1	49	36.65%	23.79%	0.00%	C
Trust Preferred Security D	D	49	36.65%	23.79%	0.00%	C
Trust Preferred Security E	C1	51	27.74%	18.17%	0.00%	C
Trust Preferred Security F	B	33	28.14%	23.73%	23.61%	CC
Trust Preferred Security G	A1	33	28.14%	23.73%	47.72%	CCC+
Private Mortgage-Backed Securities						
Private Mortgage-Backed Securities One	2A1	N/A	3.59%	12.44%	0.00%	C
Private Mortgage-Backed Securities Two	A19	N/A	2.10%	4.94%	0.00%	B3

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

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

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

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in Thousands)			
Credit Related OTTI	$136	$84	$176	$262

The following table shows the cumulative credit related component of OTTI.

For the Six Months Ended June 30, 2011

	Credit Related Component of Other-Than-Temporary Impairment (Dollars in Thousands)
Balance at Beginning of Period	$ (10,528)
Add:	
Incurred on Securities not Previously Impaired	
Incurred on Securities Previously Impaired	(176)
Less:	
Realized Gain/Loss on Sale of Securities	
Reclassification Due to Changes in Company s Intent	
Increases in Cash Flow Expected to be Collected	
BALANCE AT END OF PERIOD	$ (10,704)

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NOTE 4 LOANS, ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

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

As of June 30, 2011
(Dollars in Thousands)

	Commercial and Industrial	**Commercial Real Estate**	**Commercial Construction**	**Small Business**	**Residential Real Estate**	**Consumer Home Equity**	**Consumer Other**	**Total**
Allowance for Loan Losses:								
Beginning Balance	$ 10,423	$ 21,939	$ 2,145	$ 3,740	$ 2,915	$ 3,369	$ 1,724	$ 46,255
Charge-offs	(1,706)	(1,144)	(769)	(584)	(402)	(579)	(887)	(6,071)
Recoveries	271		75	54		17	354	771
Provision	2,095	2,200	620	(1,157)	729	906	289	5,682
Ending Balance	$ 11,083	$ 22,995	$ 2,071	$ 2,053	$ 3,242	$ 3,713	$ 1,480	$ 46,637
Ending Balance: individually evaluated for impairment	$ 60	$ 478	$	$ 181	$ 1,281	$ 23	$ 255	$ 2,278
Ending Balance: collectively evaluated for impairment	$ 11,023	$ 22,517	$ 2,071	$ 1,872	$ 1,961	$ 3,690	$ 1,225	$ 44,359
Financing Receivables:								
Ending Balance: total loans by group	$568,022	$1,801,026	$130,303	$78,905	$461,001	$632,735	$53,239	$3,725,231(1)
Ending Balance: individually evaluated for impairment	$ 3,253	$ 25,189	$ 551	$ 3,172	$ 12,572	$ 484	$ 2,151	$ 47,372
	$564,769	$1,775,837	$129,752	$75,733	$448,429	$632,251	$51,088	$3,677,859

Ending Balance: collectively evaluated for impairment

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

collectively evaluated for impairment

(1) The amount of deferred fees included in the ending balance was $2.7 million and $2.8 million at June 30, 2011 and December 31, 2010, respectively.

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

Commercial Portfolio:

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

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

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

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

Consumer Portfolio:

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

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

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

Credit Quality

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

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

1- 6 Rating Pass

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

7 Rating Potential Weakness

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

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8 Rating Definite Weakness Loss Unlikely

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

9 Rating Partial Loss Probable

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

10 Rating Definite Loss

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

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

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

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

Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	June 30, 2011 Commercial Construction	Small Business	Total
Pass	1 6	$ 516,671	$ 1,594,645	$ 114,847	$ 70,365	$ 2,296,528
Potential Weakness	7	26,064	120,360	9,371	4,751	160,546
Definite Weakness Loss Unlikely	8	23,635	83,491	6,085	3,572	116,783
Partial Loss Probable	9	1,652	2,530		217	4,399
Definitive Loss	10					
Total		$ 568,022	$ 1,801,026	$ 130,303	$ 78,905	$ 2,578,256

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

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

	As of June 30, 2011	As of December 31, 2010
Residential Portfolio		
FICO Score (re-scored)	737	738
Combined LTV (re-valued)	65.0%	64.0%

Home Equity Portfolio		
FICO Score (re-scored)	762	760
Combined LTV (re-valued)	55.0%	55.0%

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The average FICO scores above for June 30, 2011 are based upon rescores available from May 2011, and actual score data for loans booked between June 1 and June 30, 2011. The average FICO scores above for December 31, 2010 are based upon re-scores available from November 2010 and actual score data for loans booked between December 1 and December 31, 2010. The combined LTV ratios for June 30, 2011 for residential is based upon updated automated valuations as of November 30, 2010 and for home equity based upon updated automated valuations as of May 31, 2011. The combined LTV ratios at December 31, 2010 for both residential and home equity are based upon updated automated valuation as of November 30, 2010.

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

The following table shows nonaccrual loans at the dates indicated:

	June 30, 2011	December 31, 2010
	(Dollars In Thousands)	
Loans accounted for on a nonaccrual basis (1)		
Commercial and Industrial	$ 2,674	$ 3,123
Commercial Real Estate	6,455	7,837
Commercial Construction	552	1,999
Small Business	1,130	887
Residential Real Estate	8,546	6,728
Home Equity	1,867	1,752
Consumer Other	447	505
Total nonaccrual loans	$ 21,671	$ 22,831

(1) Included in these amounts were $5.9 million and $4.0 million nonaccruing TDRs at June 30, 2011 and December 31, 2010, respectively.

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

	June 30, 2011										
	30-59 days		60-89 days		90 days or more		Total Past Due			Total	Recorded Investment
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Financing Receivables	>90 Days and Accruing
	(Dollars in Thousands)										
Commercial and Industrial	8	$ 877	7	$ 699	19	$ 1,951	34	$ 3,527	$ 564,495	$ 568,022	$
Commercial Real Estate	16	3,464	6	1,548	25	4,574	47	9,586	1,791,440	1,801,026	
Commercial Construction					3	551	3	551	129,752	130,303	
Small Business	29	1,075	12	190	19	110	60	1,375	77,530	78,905	
Residential Real Estate	13	2,515	8	2,926	27	4,267	48	9,708	444,889	454,597	
Residential Construction									6,404	6,404	
Home Equity	22	845	12	1,145	16	981	50	2,971	629,764	632,735	110
Consumer Other	279	2,247	56	328	82	568	417	3,143	50,096	53,239	145
Total	367	$ 11,023	101	$ 6,836	191	$ 13,002	659	$ 30,861	$ 3,694,370	$ 3,725,231	$ 255

	December 31,2010										
	30-59 days		60-89 days		90 days or more		Total Past Due			Total	Recorded Investment
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Financing Receivables	>90 Days and Accruing
	(Dollars in Thousands)										
Commercial and Industrial	16	$ 1,383	8	$ 910	18	$ 2,207	42	$ 4,500	$ 498,452	$ 502,952	$
Commercial Real Estate	13	2,809	7	4,820	29	6,260	49	13,889	1,703,229	1,717,118	
					9	1,999	9	1,999	127,422	129,421	

Commercial Construction											
Small Business	23	1,071	11	302	19	420	53	1,793	78,233	80,026	
Residential Real Estate	14	4,793	6	865	21	4,050	41	9,708	464,228	473,936	
Residential Construction									4,175	4,175	
Home Equity	31	1,737	8	878	12	1,095	51	3,710	575,568	579,278	4
Consumer Other	402	2,986	89	478	85	564	576	4,028	64,745	68,773	273
Total	499	$ 14,779	129	$ 8,253	193	$ 16,595	821	$ 39,627	$ 3,516,052	$ 3,555,679	$ 277

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

The Bank s policy is to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status for approximately six months, subsequent to being modified, before management considers its return to accrual status. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status.

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

June 30,2011

	TDRs on Accrual Status		TDRs on Nonaccrual Status		Total TDRs	
	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans
	(Dollars in Thousands)					
Commercial and Industrial	3	$ 167	5	$ 782	8	$ 949
Commercial Real Estate	16	17,907	3	1,056	19	18,963
Small Business	64	2,042	4	41	68	2,083
Residential Real Estate	29	8,868	11	3,704	40	12,572
Home Equity	5	300	2	184	7	484
Consumer Other	173	2,009	7	142	180	2,151
TOTAL TDRs	290	$31,293	32	$5,909	322	$37,202

December 31, 2010

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

The amount of the specific reserve associated with the TDRs was $1.8 million and $1.6 million at June 30, 2011 and December 31, 2010, respectively. At June 30, 2011 and December 31, 2010, the amount of additional commitments to lend funds to borrowers who have been a party to a TDR was $1.5 million and $1.2 million, respectively. During the three and six months ended June 30, 2011, $7.7 million and $9.7 million of loans were modified and considered to be a TDR and no TDRs moved from nonaccrual to accrual. During the year ended December 31, 2010, $21.8 million loans were modified and considered to be a TDR and $1.2 million of TDRs moved from nonaccrual to accrual in 2010.

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

	As of June 30, 2011			For the Three Months Ended June 30, 2011		For the Six Months Ended June 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)						
With no Related Allowance Recorded:							
Commercial & Industrial	$ 2,913	$ 3,653	$	$ 3,206	$ 58	$ 3,306	$ 117
Commercial Real Estate	18,018	18,515		18,291	334	18,474	645
Commercial Construction	551	551		554	10	564	21
Small Business	1,884	2,014		1,841	33	1,873	65
Residential Real Estate (1)							
Consumer Home Equity	22	22		22		22	1
Consumer Other	10	10		12		17	1
Subtotal	23,398	24,765		23,926	435	24,256	850
With an Allowance Recorded:							
Commercial & Industrial	$ 340	$ 343	$ 60	$ 342	$ 7	$ 343	$ 13
Commercial Real Estate	7,171	7,911	478	7,326	91	7,377	215
Commercial Construction							
Small Business	1,288	1,320	181	1,383	19	1,428	39
Residential Real Estate (1)	12,572	13,152	1,281	12,674	154	12,556	246
Consumer Home Equity	463	472	23	464	7	465	13
Consumer Other	2,140	2,200	255	2,137	21	2,049	40
Subtotal	23,974	25,398	2,278	24,326	299	24,218	566
Total	$ 47,372	$ 50,163	$ 2,278	$ 48,252	$ 734	$ 48,474	$ 1,416

	As of June 30, 2010			For the Three Months Ended June 30, 2010		For the Six Months Ended June 30, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in Thousands)						
With no Related Allowance Recorded:							
Commercial & Industrial	$ 3,214	$ 4,880	$	$ 3,282	$ 75	$ 3,580	$ 145
Commercial Real Estate	11,951	12,322		12,417	220	12,595	435
Commercial Construction	1,075	2,625		2,583	48	2,604	95
Small Business	1,491	1,537		1,512	24	1,454	46

Residential Real Estate (1)	284	284		284	2	285	5
Consumer Home Equity							
Consumer Other	64	63		64	1	63	2
Subtotal	18,079	21,711		20,142	370	20,581	728
With an Allowance Recorded:							
Commercial & Industrial	$ 1,876	$ 1,883	$ 1,013	$ 1,886	$ 27	$ 1,890	$ 50
Commercial Real Estate	3,906	3,906	201	4,041	46	4,076	92
Commercial Construction							
Small Business	825	873	389	842	13	818	27
Residential Real Estate (1)	8,053	8,054	761	7,893	76	7,954	156
Consumer Home Equity	348	348	14	345	4	346	8
Consumer Other	1,519	1,518	180	1,377	15	1,186	27
Subtotal	16,527	16,582	2,558	16,384	181	16,270	360
Total	$ 34,606	$ 38,293	$ 2,558	$ 36,526	$ 551	$ 36,851	$ 1,088

(1) Includes residential construction loans.

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NOTE 5 EARNINGS PER SHARE

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(Dollars in Thousands)		(Dollars in Thousands)	
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 11,120	$ 8,030	$ 22,308	$ 17,257
	Weighted Average Shares		**Weighted Average Shares**	
BASIC SHARES	21,441,864	20,964,706(1)	21,370,457	20,951,264(1)
Effect of Dilutive Securities	39,159	90,939	43,775	83,289
DILUTIVE SHARES	21,481,023	21,055,645	21,414,232	21,034,553
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS PER SHARE				
BASIC EPS	$ 0.52	$ 0.38	$ 1.04	$ 0.82
Effect of Dilutive Securities				
DILUTIVE EPS	$ 0.52	$ 0.38	$ 1.04	$ 0.82

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Stock Options	808,918	745,581	793,675	744,221

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NOTE 6- STOCK BASED COMPENSATION

Restricted Stock Awarded

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

February 10, 2011 the Company granted 27,750 restricted stock awards to certain non-executive officers of the Company and/or Bank. These restricted stock awards were issued from the 2005 Employee Stock Plan, were determined to have a fair value per share of $27.58 and vest over a five year period.

February 17, 2011 the Company granted 33,000 restricted stock awards to certain executive officers of the Company and/or Bank. These restricted stock awards were issued from the 2005 Employee Stock Plan, were determined to have a fair value per share of $27.43 and vest over a five year period.

May 3, 2011- the Company granted 3,000 restricted stock awards to a non-executive officer of the Company and/or Bank. These restricted stock awards were issued from the 2005 Employee Stock Plan, were determined to have a fair value per share of $29.00 and vest over a five year period.

May 24, 2011 the Company granted 9,800 restricted stock awards to certain directors of the Company and/or Bank. These restricted stock awards were issued from the 2010 Non-Employee Director Stock Plan, were determined to have a fair value per share of $28.875 and vest at the end of a five year period, or earlier if the director ceases to be a director for any reason other than cause, such as, for example, by retirement. If a non-employee director is removed from the Board for cause, the Company has ninety (90) days within which to exercise a right to repurchase any unvested portion of any restricted stock award from the non-employee director for the aggregate price of one dollar ($1.00).

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

Stock Options

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

February 10, 2011 the Company awarded 40,000 non-qualified options to certain non-executive officers of the Company and/or Bank. The options have been determined to have a fair value of $6.80 and will vest over a three year period and have a contractual life of ten years from date of grant.

February 17, 2011 the Company awarded 54,000 non-qualified options to certain executive officers of the Company and/or Bank. The options have been determined to have a fair value of $6.39 and will vest over a three year period and have a contractual life of ten years from date of grant.

On May 24, 2011 the Company awarded 7,000 non-qualified options to certain directors of the Company and/or Bank. The options have been determined to have a fair value of $6.723, will vest over a three year period ending on January 1, 2013 and have a contractual life of ten years from date of grant.

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

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

NOTE 7 DERIVATIVES AND HEDGING ACTIVITIES

The Company s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company s known or expected cash receipts and its known or expected cash payments principally to manage the Company s interest rate risk. Additionally, the Company enters into interest rate derivatives and foreign exchange contracts to accommodate the business requirements of its customers (customer related positions). The Company minimizes the market and liquidity risks of customer-related positions by entering into similar offsetting positions with broker-dealers.

Derivative instruments are carried at fair value in the Company s financial statements. The accounting for changes in the fair value of a derivative instrument is dependent upon whether or not it qualifies as a hedge for accounting purposes, and further, by the type of hedging relationship. The Company has entered into interest rate swap contracts, as part of the Company s interest rate risk management program, which are designated and qualify as cash flow hedges. In addition, the Company has entered into interest rate swap contracts and foreign exchange contracts with commercial banking customers and offsetting positions with banks which are not afforded hedge accounting treatment.

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Asset Liability Management

The Bank currently utilizes interest rate swap agreements as hedging instruments against interest rate risk associated with the Company s borrowings. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount, for a predetermined period of time, from a second party. The amounts relating to the notional principal amount are not actually exchanged. The maximum length of time over which the Company is currently hedging its exposure to the variability in future cash flows for forecasted transactions related to the payment of variable interest on existing financial instruments is seven years. At June 30, 2011 and December 31, 2010, the Company had a total notional amount of $200.0 million and $175.0 million, respectively, of interest rate swaps outstanding.

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

Derivative Positions

Derivatives Designated as Hedging:

Cash Flow Hedges

As of June 30, 2011

	Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value at June 30, 2011
				(Dollars in Thousands)				
Interest Rate Swaps								
	$ 25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.25%	5.04%	$ (3,853)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.25%	5.04%	(3,854)
	25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.25%	2.65%	(1,090)
	25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.25%	2.59%	(1,054)
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.25%	2.94%	(475)
	50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.25%	3.04%	(2,967)
	25,000	5-May-11	10-Jun-11	10-Jun-15	3 Month LIBOR	0.25%	1.71%	(168)
Total	$ 200,000						Total	$ (13,461)

As of December 31, 2010

	Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value at December 31, 2010
				(Dollars in Thousands)				
Interest Rate Swaps								
	$ 25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.30%	5.04%	$ (3,713)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.30%	5.04%	(3,682)

	25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.30%	2.65%	(1,044)
	25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.30%	2.59%	(1,002)
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.30%	2.94%	(109)
	50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.30%	3.04%	(2,656)
Total	$ 175,000						Total	$ (12,206)

For derivative instruments that are designated and qualify as hedging instruments, the effective portion of the gains or losses is reported as a component of OCI, and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately $5.6 million (pre-tax), to be reclassified to earnings from OCI, as an increase in interest expense, related to the Company s cash flow hedges in the next twelve months. This reclassification is due to anticipated payments that will be made and/or received on the swaps based upon the forward curve as of June 30, 2011.

The ineffective portion of the cash flow hedge is recognized directly in earnings. The Company did not recognize any ineffectiveness for the three and six months ending June 30,

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2011, and recognized an immaterial amount related to hedge ineffectiveness during the three and six months ending June 30, 2010.

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

The Company recognized net amortization income of $61,000 and $122,000, respectively, recorded as an offset to interest expense during the three and six months ended June 30, 2011, and $64,000 and $100,000, respectively, of net amortization income for the three and six months ended June 30, 2010, related to previously terminated swaps.

Customer Related Positions

Interest rate derivatives, primarily interest rate swaps, offered to commercial borrowers through the Bank s loan level derivative program do not 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. At June 30, 2011 and December 31, 2010 the Company had eighty-nine and seventy-two customer-related positions and offsetting dealer transactions with dealer banks, respectively. At June 30, 2011 and December 31, 2010 the Bank had a total notional amount of $346.2 million and $307.0 million, respectively, of interest rate swap agreements with commercial borrowers and an equal notional amount of dealer transactions.

Foreign exchange contracts offered to commercial borrowers through the Bank s derivative program do not qualify as hedges for accounting purposes. The Company acts as a seller and buyer of foreign exchange contracts to accommodate its customers. To mitigate the market and liquidity risk associated with these derivatives, the Company enters into similar offsetting positions with bank counterparties. At June 30, 2011 and December 31, 2010 the Company had thirteen and eighteen foreign exchange contracts and offsetting dealer transactions, respectively. As of June 30, 2011 and December 31, 2010 the Company had a total notional amount of $31.2 million and $41.7 million, respectively, of foreign exchange contracts with commercial borrowers and an equal notional amount of dealer transactions.

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

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

Derivative Positions

Derivatives Not Designated as Hedging:

	Notional Amount Maturing						
As of June 30, 2011	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**	**Fair Value**
	(Dollars in Thousands)						
Customer Related Positions							
Loan Level Swaps							
Receive fixed, pay variable	$		20,411	81,649	244,166	$346,226	$ 11,798
Pay fixed, receive variable	$		20,411	81,649	244,166	$346,226	$(11,906)
Foreign Exchange Contracts							
Buys foreign exchange, sells US currency	$23,723	7,509				$ 31,232	$ 778
Buys US currency, sells foreign exchange	$23,723	7,509				$ 31,232	$ (765)

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

Changes in the fair value of customer related positions are recorded directly in earnings as they are not afforded hedge accounting treatment. The Company recorded a net increase in fair value of $32,000 and $53,000, respectively, for the three and six months ended June 30, 2011 and a net decrease in fair value of $86,000 and $146,000 respectively, for the three and six months ended June 30, 2010.

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

Fair Values of Derivative Instruments

	Asset Derivatives				**Liability Derivatives**			
	June 30, 2011		**December 31, 2010**		**June 30, 2011**		**December 31, 2010**	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
				(Dollars In Thousands)				
Derivatives designated as hedges:								
Interest rate swaps	Other Assets	$	Other Assets	$	Other Liabilities	$ 13,461	Other Liabilities	$ 12,206
Derivatives not designated as hedges:								
Customer Related Positions:								
Loan level swaps	Other Assets	$ 12,231	Other Assets	$ 9,813	Other Liabilities	$ 12,339	Other Liabilities	$ 9,975
Foreign exchange contracts	Other Assets	861	Other Assets	1,655	Other Liabilities	847	Other Liabilities	1,640
Total		$ 13,092		$ 11,468		$ 13,186		$ 11,615

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

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

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Gain/(Loss) in OCI on Derivative (Effective Portion), Net of Tax	$ (2,711)	$ 9,172	$ (2,407)	$ 6,943
Gain/(Loss) Reclassified from OCI into Interest Income (Effective Portion)	$ (1,366)	$ 3,046	$ (2,692)	$ 1,978
	$	$	$	$

Gain/(Loss) Recognized in Interest Income on Derivative (Ineffective
Portion & Amount Excluded from Effectiveness Testing)

Derivative contracts involve the risk of dealing with derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have an investment grade credit rating and be approved by the Company s Board of Directors. The Company s credit exposure on interest rate swaps is limited to the net positive fair value and accrued interest of all swaps with each counterparty. The Company had no exposure relating to interest rate swaps with institutional counterparties at June 30, 2011 or December 31, 2010. The Company s exposure relating to customer related positions was approximately $12.8 million and $10.2 million at June 30, 2011 and December 31, 2010, respectively, which is inclusive of exposure to both customers and institutional counter parties. Credit exposure may be reduced by the amount of collateral pledged by the counterparty.

The Company currently holds derivative instruments that contain credit-risk related contingent features that are in a net liability position, which require the Company to assign collateral. The notional amount of these instruments as of June 30, 2011 and December 31,

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2010 was $546.2 million and $482.0 million, respectively. The aggregate fair value of these instruments at June 30, 2011 and December 31, 2010 were $25.4 million and $20.0 million, respectively. The Company has collateral assigned to these derivative instruments amounting to $31.5 million and $30.8 million, respectively. Collateral legally required to be maintained at dealer banks by the Company is monitored and adjusted as necessary. Per a review completed by management of these instruments at June 30, 2011 it was determined that no additional collateral would have to be posted to immediately settle these instruments.

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

Forward sale contracts of residential mortgage loans, considered derivative instruments for accounting purposes, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans intended for sale. Prior to closing and funding certain single-family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to various investors. The interest rate lock commitments and forward sales commitments are recorded at fair value, with changes in fair value recorded in current period earnings. Effective July 1, 2010, pursuant to FASB ASC Topic No. 825, Financial Instruments, the Company elected to carry newly originated closed loans held for sale at fair value. As such, the change in fair value of loans held for sale is recorded in current period earnings.

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

	Fair Value at June 30, 2011	Fair Value at December 31, 2010
	(Dollars in Thousands)	
Interest Rate Lock Commitments	$(27)	$ (459)
Forward Sales Agreements	$(27)	$ 1,052
Loans Held for Sale Fair Value Adjustment	$ 53	$ (593)

	Change for the Three Months Ended June 30,		Change for the Six Months Ended June 30,	
	2011	2010	2011	2010
Interest Rate Lock Commitments	$ (3)	$ 463	$ 432	$ 1,050
Forward Sales Agreements	(5)	(792)	(1,079)	(1,514)
Loans Held for Sale Fair Value Adjustment	8		647	
Total Change in Fair Value (1)	$	$ (329)	$	$ (464)

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

NOTE 8 FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

*Valuation Technique*s

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

Trading Securities

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

U.S. Treasury Securities

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

Agency Mortgage-Backed Securities

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

Agency Collateralized Mortgage Obligations and Private Mortgage-Backed Securities

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

Single and Pooled Issuer Trust Preferred Securities

The fair value of trust preferred securities, including pooled and single issuer preferred securities, is estimated using external pricing models, discounted cash flow methodologies or similar techniques. The inputs used in these valuations include benchmark yields, recent reported trades, new issue data, broker and dealer quotes and collateral performance. Accordingly, these trust preferred securities are categorized as Level 3.

Loans Held for Sale

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

Derivative Instruments

Derivatives

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analyses on the expected cash flows of derivatives. These analyses reflect the contractual terms of the derivatives, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings. Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. However, as of June 30, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2.

Residential Mortgage Loan Commitments and Forward Sales Agreements

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

Impaired Loans

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

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Other Real Estate Owned

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

Mortgage Servicing Asset

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

Goodwill and Other Intangible Assets

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

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

		Fair Value Measurements at Reporting Date Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in Thousands)			
June 30, 2011				
Description				
Assets				
Trading Securities	$ 8,539	$ 8,539	$	$
Securities Available for Sale:				
U.S. Treasury Securities				
Agency Mortgage-Backed Securities	251,372		251,372	
Agency Collateralized Mortgage Obligations	38,514		38,514	
Private Mortgage-Backed Securities	8,118			8,118
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	4,466			4,466
Pooled Trust Preferred Securities Issued by Banks and Insurers	3,425			3,425
Loans Held for Sale	12,255		12,255	
Derivative Instruments	13,092		13,092	
Liabilities				
Derivative Instruments	26,700		26,700	
December 31, 2010				
Description				
Assets				
Trading Securities	$ 7,597	$ 7,597	$	$
Securities Available for Sale:				
U.S. Treasury Securities	717		717	
Agency Mortgage-Backed Securities	313,302		313,302	
Agency Collateralized Mortgage Obligations	46,135		46,135	
Private Mortgage-Backed Securities	10,254			10,254
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	4,221			4,221
Pooled Trust Preferred Securities Issued by Banks and Insurers	2,828			2,828
Loans Held for Sale	27,917		27,917	
Derivative Instruments	12,520		12,520	
Liabilities				
Derivative Instruments	24,280		24,280	

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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.

	Reconciliation for All Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) Securities Available for Sale			
	Pooled Trust Preferred Securities	Single Trust Preferred Securities	Private Mortgage-Backed Securities	Total
	(Dollars in Thousands)			
Balance at March 31, 2011	$3,136	$4,462	$ 9,012	$16,610
Gains and Losses (realized/unrealized)				
Included in earnings			(136)	(136)
Included in Other Comprehensive Income	300	4	(5)	299
Purchases				
Issuances				
Settlements	(11)		(753)	(764)
Transfers in to Level 3				
Balance at June 30, 2011	$3,425	$4,466	$ 8,118	$16,009
Balance at January 1, 2010	$2,595	$3,010	$14,289	$19,894
Gains and Losses (realized/unrealized)				
Included in earnings	(112)		(222)	(334)
Included in Other Comprehensive Income	388	1,211	1,197	2,796
Purchases				
Issuances				
Settlements	(43)		(5,010)	(5,053)
Transfers in to Level 3				
Balance at December 31, 2010	$2,828	$4,221	$10,254	$17,303
Gains and Losses (realized/unrealized)				
Included in earnings	(8)		(168)	(176)
Included in Other Comprehensive Income	625	245	156	1,026
Purchases				
Issuances				
Settlements	(20)		(2,124)	(2,144)
Transfers in to Level 3				
Balance at June 30, 2011	$3,425	$4,466	$ 8,118	$16,009

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

	Balance	Fair Value Measurements at Reporting Date 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)
	(Dollars in Thousands)				
As of June 30, 2011 Description					
Impaired Loans	$23,973	$	$	$23,973	$(2,278)
Other Real Estate Owned	7,410		3,301	4,109	
Mortgage Servicing Asset	1,412			1,412	
As of December 31, 2010 Description					
Impaired Loans	$23,411	$	$	$23,411	$(2,547)
Other Real Estate Owned	7,273		2,933	4,340	
Mortgage Servicing Asset	1,635			1,635	

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

	June 30, 2011 BOOK VALUE	June 30, 2011 FAIR VALUE	December 31, 2010 BOOK VALUE	December 31, 2010 FAIR VALUE
	(Dollars In Thousands)		(Dollars In Thousands)	
FINANCIAL ASSETS				
Securities Held To Maturity (a)	$ 233,109	$ 235,413	$ 202,732	$ 201,234
Loans, Net of Allowance for Loan Losses (b)	3,678,594	3,694,475	3,509,424	3,554,761
FINANCIAL LIABILITIES				
Time Certificates of Deposits (c)	$ 671,003	$ 679,195	$ 693,176	$ 697,064
Federal Home Loan Bank Advances (c)	258,012	251,326	302,414	297,740
Federal Funds Purchased and Assets Sold Under Repurchase Agreements (c)	183,166	186,084	168,119	171,702
Junior Subordinated Debentures (d)	61,857	60,311	61,857	60,796
Subordinated Debentures (c)	30,000	23,329	30,000	23,655

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

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

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

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

This summary excludes financial assets and liabilities for which the carrying value approximates fair value. For financial assets, these include cash and due from banks, federal funds sold, short-term investments, Federal Home Loan Bank stock, and bank owned life insurance. For financial liabilities, these include demand, savings, money market deposits, and federal funds purchased, and assets sold under repurchase agreements. The estimated

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fair value of demand, savings and money market deposits is the amount payable at the reporting date. Also excluded from the summary are financial instruments measured at fair value on a recurring and non-recurring basis, as previously described.

NOTE 9 COMPREHENSIVE INCOME/(LOSS)

Information on the Company s comprehensive income/(loss), presented net of taxes, is set forth below for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	Pre Tax Amount	Tax Expense (Benefit)	After Tax Amount	Pre Tax Amount	Tax Expense (Benefit)	After Tax Amount
	(Dollars in Thousands)			(Dollars in Thousands)		
Change in Fair Value of Securities Available for Sale	$ (2,343)	$ 907	$ 1,436	$ (1,292)	$ 520	$ 772
Net Security Losses Reclassified into Earnings	587(1)	(230)	(357)	547(1)	(214)	(333)
Net Change in Fair Value of Securities Available for Sale	(1,756)	677	1,079	(745)	306	439
Change in Fair Value of Cash Flow Hedges	4,583(2)	(1,872)	(2,711)	4,069(2)	(1,662)	(2,407)
Net Cash Flow Hedge Gains Reclassified into Earnings	(1,365)	558	807	(2,597)	1,100	1,497
Net Change in Fair Value of Cash Flow Hedges	3,218	(1,314)	(1,904)	1,472	(562)	(910)
Amortization of Certain Costs Included in Net Periodic Retirement Costs	(154)	63	91	(341)	89	252
Total Other Comprehensive Income	$ 1,308	$ (574)	$ (734)	$ 386	$ (167)	$ (219)

	Three Months Ended June 30, 2010			Six Months Ended June 30, 2010		
	Pre Tax Amount	Tax Expense (Benefit)	After Tax Amount	Pre Tax Amount	Tax Expense (Benefit)	After Tax Amount
	(Dollars in Thousands)			(Dollars in Thousands)		
	$ 5,207	$ 2,014	$ 3,193	$ 7,530	$ 2,918	$ 4,612

Change in Fair Value of Securities Available for Sale						
Net Security Losses Reclassified into Earnings	(397)(1)	(138)	(259)	(219) (1)	(65)	(154)
Net Change in Fair Value of Securities Available for Sale	(4,810)	1,876	2,934	7,311	2,853	4,458
Change in Fair Value of Cash Flow Hedges	(7,968)(2)	(3,255)	(4,713)	(11,738) (2)	(4,795)	(6,943)
Net Cash Flow Hedge Gains Reclassified into Earnings	1,101	450	651	1,978	819	1,159
Net Change in Fair Value of Cash Flow Hedges	6,867	(2,805)	(4,062)	(9,760)	(3,976)	(5,784)
Amortization of Certain Costs Included in Net Periodic Retirement Costs	39	16	23	78	32	46
Total Other Comprehensive Loss	$ (2,018)	$ (913)	$ (1,105)	$ (2,371)	$ (1,091)	$ (1,280)

(1) Net security losses represent pre-tax OTTI credit related losses of $136,000 and $84,000 for the three months ended June 30, 2011 and 2010, respectively and gains on sales of securities of $723,000 and $481,000 for the three months ended June 30, 2011 and 2010, respectively. For the six months ended June 30, 2011 and 2010, net security losses represent pre-tax OTTI credit related losses of $176,000 and $262,000 and gains on sales of securities of $723,000 and $481,000, respectively.

(2) Includes the remaining balance of a realized but unrecognized gain, net of tax , from the termination of interest rate swaps in June 2009. The original gain of $1.3 million, net of tax will be recognized in earnings through December 2018, the original maturity date of the swap. The balance of this gain had amortized to $1.1 million and $1.2 million at June 30, 2011 and 2010, respectively.

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

	At June 30,	
	2011	**2010**
Unrealized gain on securities available for sale	$ 6,744	$ 8,851
Net actuarial loss and prior service cost for pension and other post retirement benefit plans	(842)	(1,166)
Unrealized loss on cash flow hedge	(7,963)	(7,432)
Deferred gain on hedge accounting transactions	1,076	1,220
Total	$ (985)	$ 1,473

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

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the Securities and Exchange Commission.

Cautionary Statement Regarding Forward-Looking Statements

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

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

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

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

adverse changes in the local real estate market could result in a deterioration of credit quality and an increase in the allowance for loan loss, as most of the Company s loans are concentrated in eastern Massachusetts and Cape Cod, and to a lesser extent, Rhode Island, and a substantial portion of these loans have real estate as collateral;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Selected Quarterly Financial Data

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

	Three Months Ended				
	June 30, 2011	**March 31, 2011**	**December 31, 2010**	**September 30, 2010**	**June 30, 2010**
	(Dollars in Thousands, Except Per Share Data)				
FINANCIAL CONDITION DATA:					
Securities available for sale	$ 305,895	$ 341,362	$ 377,457	$ 436,887	$ 482,989
Securities held to maturity	233,109	239,305	202,732	180,623	103,463
Loans	3,725,231	3,628,374	3,555,679	3,408,043	3,428,912
Allowance for loan losses	46,637	46,444	46,255	45,619	45,291
Goodwill and Core Deposit Intangibles	141,489	141,951	141,956	142,422	142,888
Total assets	4,842,943	4,645,783	4,695,738	4,703,791	4,740,975
Total deposits	3,786,562	3,584,926	3,627,783	3,617,158	3,679,873
Total borrowings	535,670	556,718	565,434	577,429	576,146
Stockholders equity	455,702	447,985	436,472	425,661	422,062
Non-performing loans	21,926	23,397	23,108	24,687	23,678
Non-performing assets	30,963	33,856	31,493	34,789	32,083
OPERATING DATA:					
Interest income	$ 49,474	$ 48,958	$ 49,971	$ 50,588	$ 51,319
Interest expense	7,398	7,485	8,582	9,391	10,152
Net interest income	42,076	41,473	41,389	41,197	41,167
Provision for loan losses	3,482	2,200	3,575	3,500	6,931
Non-interest income	13,474	12,598	14,263	11,654	10,938
Non-interest expenses	36,856	36,482	36,688	34,540	34,929
Net income available to the common shareholder	11,120	11,188	11,838	11,145	8,030
PER SHARE DATA:					
Net income Basic	$ 0.52	$ 0.53	$ 0.56	$ 0.53	$ 0.38
Net income Diluted	0.52	0.52	0.56	0.53	0.38
Cash dividends declared	0.19	0.19	0.18	0.18	0.18
Book value (1)	21.24	20.93	20.57	20.08	19.91
OPERATING RATIOS:					
Return on average assets	0.95%	0.98%	1.01%	0.95%	0.70%
Return on average common equity	9.78%	10.24%	10.85%	10.38%	7.60%
Net interest margin (on a fully tax equivalent basis)	3.97%	4.02%	3.91%	3.89%	3.96%

Equity to assets	9.41%	9.64%	9.30%	9.05%	8.90%
Dividend payout ratio	36.65%	36.33%	32.25%	34.26%	47.52%
ASSET QUALITY RATIOS:					
Non-performing loans as a percent of gross loans	0.59%	0.64%	0.65%	0.72%	0.69%
Non-performing assets as a percent of total assets	0.64%	0.73%	0.67%	0.74%	0.68%
Allowance for loan losses as a percent of total loans	1.25%	1.28%	1.30%	1.34%	1.32%
Allowance for loan losses as a percent of non-performing loans	212.70%	198.50%	200.17%	184.79%	191.28%
CAPITAL RATIOS:					
Tier 1 leverage capital ratio	8.54%	8.48%	8.19%	7.99%	7.86%
Tier 1 risk-based capital ratio	10.46%	10.48%	10.28%	10.35%	10.01%
Total risk-based capital ratio	12.52%	12.55%	12.37%	12.47%	12.11%

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

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Executive Level Overview

During the second quarter of 2011, the Company sustained its positive momentum as its underlying business lines continued to perform well. The Company s performance was marked by robust loan growth, strong core deposit levels, and favorable asset quality trends, resulting in net income of $11.1 million, or $0.52 on a diluted per share basis, an increase of 38.5% and 36.8%, respectively, as compared to three months ended June 30, 2010.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Diluted Earnings Per Share	$0.52	$0.38	$ 1.04	$0.82
Return on Average Assets	0.95%	0.70%	0.96%	0.77%
Return on Average Common Equity	9.78%	7.60%	10.01%	8.26%
Net Interest Margin	3.97%	3.96%	3.99%	4.02%

Commercial banking is a key growth driver for the Company and continued its strong momentum in the second quarter as commercial loans grew by a 15.3% annualized rate in the quarter. Much of this is driven by the commercial and industrial sector where the Company continues to expand existing relationships and add quality names to its client base. The commercial real estate portfolio grew nicely as well with a healthy flow of well-structured deals. Overall loan growth was augmented by ongoing solid growth of the home equity portfolio which grew at an 8.4% annualized rate in the quarter.

Deposit growth in the second quarter was strong across all customer segments. Total deposits rose by 5.6% during the quarter with much of the growth focused in low-cost core deposits which have now reached 82.3% of total deposits. Deposit growth in the quarter was due to a combination of typical seasonality and notable growth in the municipal and commercial deposit base. The Company s increased marketing efforts and new product offerings are beginning to pay dividends, as new consumer DDA openings are well ahead of last year s pace.

Asset quality trends remain excellent and top decile among banks in the nation. Net charge-offs were up somewhat in the second quarter as they increased to $3.3 million or 36 basis points of loans but remain within expectations. Non-performing assets declined to $30.9 million, or 64 basis points of assets, and total loan delinquency fell to a low 83 basis points. Early stage delinquency (30 to 89 days) also decreased to 48 basis points of loans. Management believes delinquency trends and level of non-performing assets bode well for the level of charge-offs and provisioning levels for the remainder of this year.

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The following charts represent a number of important asset quality indicators that management monitors:

The Company s net charge-offs over the trailing five quarters are shown in the table below:

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

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Nonperforming assets are comprised of nonperforming loans, nonperforming securities, other real estate owned, and other assets in possession, and are closely managed to ensure an expedient workout. The following table shows the rollforward of nonperforming assets for the three and six months ended June 30, 2011:

Nonperforming Assets Reconciliation	For the Three Months Ending June 30, 2011		For the Six Months Ending June 30, 2011	
Nonperforming Assets Beginning Balance		$ 33,856		$ 31,493
New to Nonperforming		9,085		18,131
Loans Charged-Off		(3,587)		(6,071)
Loans Paid-Off		(5,130)		(7,064)
Loans Transferred to Other Real Estate Owned and Foreclosed Assets		(1,172)		(4,233)
Loans Restored to Accrual Status		(638)		(1,754)
Change to Other Real Estate Owned:				
New to Other Real Estate Owned	$ 1,172		$ 4,233	
Valuation Write Down	(276)		(806)	
Sale of Other Real Estate Owned	(3,214)		(3,671)	
Other	385		381	
Total Change to Other Real Estate Owned	(1,933)	(1,933)	137	137
Other		482		324
Nonperforming Assets Ending Balance		$ 30,963		$ 30,963

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

The net interest margin decreased slightly to 3.97% in the current quarter from 4.02% in the first quarter of 2011, as a result of the prevailing low rate environment and the consequent pressure placed on new asset origination yields along with the Company s relative inability to

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further reduce the cost of deposits due to competitive factors. The margin remained stable when compared to the 3.96% reported for the quarter ended June 30, 2010.

Non-interest income, excluding securities gains, improved in the second quarter of 2011 when compared to the first quarter of 2011 and the second quarter of 2010 due to improved service charge, interchange and investment management revenue. The latter reflects the steady growth in assets under management which stood at $1.7 billion at the end of the second quarter.

Non-interest expense was up in the second quarter of 2011 when compared to the quarter ended March 31, 2011 and the second quarter of 2010, due to timing-related variances seen in the other expense category, largely attributable to loan workout expenses inclusive of write-downs on other real estate owned (OREO) properties and marketing expenses associated with a major brand marketing campaign. Higher year-to-date expenses also reflect increases in salaries and employee benefits, attributable to salary merit increases, incentive programs and equity compensation plans.

Capital ratios remain strong and in excess of regulatory defined well capitalized levels. In addition, the Company s continued solid performance through the economic downturn, overall quality of assets, low credit costs, and consistent earnings has resulted in an upgrade by Fitch Ratings to the Company s long-term issuer default rating to BBB from BBB- in July 2011.

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The following table summarizes the impact of non-core items recorded for the time periods indicated below and reconciles them to the most comparable amounts calculated in accordance with Generally Accepted Accounting Principles (GAAP):

	Three Months Ended June 30,			
	Net Income Available to Common Shareholders		Diluted Earnings Per Share	
	2011	2010	2011	2010
	(Dollars in Thousands)			
AS REPORTED (GAAP)				
Net Income available to Common Shareholders (GAAP)	$11,120	$8,030	$ 0.52	$ 0.38
Non-GAAP Measures:				
Non-Interest Income Components:				
Net Gain on Sale of Securities, net of tax	(428)	(285)	(0.02)	(0.01)
Non-Interest Expense Components:				
Fair Value Mark on a Terminated Hedging Relationship, net of tax		328		0.01
TOTAL IMPACT OF NON-CORE ITEMS	(428)	43	(0.02)	
AS ADJUSTED (NON-GAAP)	$10,692	$8,073	$ 0.50	$ 0.38

	Six Months Ended June 30,			
	Net Income Available to Common Shareholders		Diluted Earnings Per Share	
	2011	2010	2011	2010
	(Dollars in Thousands)			
AS REPORTED (GAAP)				
Net Income available to Common Shareholders (GAAP)	$22,308	$17,257	$ 1.04	$ 0.82
Non-GAAP Measures:				
Non-Interest Income Components:				
Net Gain on Sale of Securities, net of tax	(428)	(285)	(0.02)	(0.01)
Non-Interest Expense Components:				
Fair Value Mark on a Terminated Hedging Relationship, net of tax		328		0.01
TOTAL IMPACT OF NON-CORE ITEMS	(428)	43	(0.02)	
AS ADJUSTED (NON-GAAP)	$21,880	$17,300	$ 1.02	$ 0.82

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

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

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

Critical Accounting Policies

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

There have been no material changes in critical accounting policies during the first half of 2011. Please refer to the 2010 Form 10-K for a complete listing of critical accounting policies.

FINANCIAL POSITION

Securities Portfolio The Company s securities portfolio consists of trading assets, securities available for sale, and securities which management intends to hold until maturity. Securities decreased by $40.2 million to $547.5 million at June 30, 2011 as compared to December 31, 2010. This decrease is primarily due to paydowns on securities and the sale of $13.9 million of mortgage backed securities during the second quarter of 2011. The ratio of securities to total assets as of June 30, 2011 was 11.3% compared to 12.5% at December 31, 2010.

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

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Residential Mortgage Loan Sales The Company s primary loan sale activity arises from the sale of government sponsored enterprise eligible residential mortgage loans to other financial institutions. During 2011 and 2010, the Bank originated residential loans with the intention of selling them in the secondary market. Loans are sold with servicing rights released and with servicing rights retained. The table below reflects the origination of these loans during the periods indicated:

Table 1 Residential Mortgage Loan Sales

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(Dollars in Thousands)		(Dollars in Thousands)	
Loans originated and sold with servicing rights released	$41,313	$57,327	$120,505	$117,575
Loans originated and sold with servicing rights retained	$ 1,372	$ 1,723	$ 5,042	$ 3,891

The Company recognizes a mortgage servicing asset when it sells a loan with servicing rights retained. When the Company sells a loan the Company enters into agreements that contain representations and warranties about the characteristics of the loans sold and their origination. The Company may be required to either repurchase mortgage loans or to indemnify the purchaser from losses if representations and warranties are breached. The Company has not at this time established a reserve for loan repurchases as it believes material losses are not probable.

Loan Portfolio Management has been focusing on changing the overall composition of the balance sheet by emphasizing growth in commercial and home equity lending categories, while placing less emphasis on the other lending categories. Although changing the composition of the Company s loan portfolio has led to a slower growth rate than what otherwise may have been achieved, management believes the change to be prudent given the prevailing interest rate and economic environment. At June 30, 2011, the Bank s loan portfolio amounted to $3.7 billion, an increase of $169.6 million, or 4.8%, from December 31, 2010. The Company was able to sustain growth by continuing to generate growth in both the commercial and industrial and commercial real estate categories, resulting in total commercial portfolio growth of 6.1%, or 12.3% annualized from December 31, 2010. The Company s home equity portfolio has also shown solid growth, with increases of 9.2%, or 18.6% on an annualized basis, as compared to December 31, 2010.

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

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development tracts and condominiums. The following pie chart shows the diversification of the commercial real estate portfolio as of June 30, 2011:

Average Loan Size	$638.9k	Non-Performing Loans/Loans	0.36%
Largest Individual CRE Mortgage	$10.9 million	Owner Occupied	21.6%

The Bank s commercial and industrial portfolio has shown growth of 12.9% for the six months ended June 30, 2011. The following pie chart shows the diversification of the commercial and industrial portfolio as of June 30, 2011:

Average Loan Size	$172.1k	Non-Performing Loans/Loans	0.47%
Largest Individual C&I Loan	$20.1 million		

Asset Quality The Company continually monitors the asset quality of the loan portfolio using all available information. Based on this information, loans demonstrating certain payment issues or other weaknesses may be categorized as delinquent, impaired, nonperforming and/or put on nonaccrual status. Additionally, in the course of resolving such loans, the Company may choose to restructure the contractual terms of certain loans to match the borrower s ability to repay the loan based on their current financial condition. If a restructured loan meets certain criteria, it may be categorized as a troubled debt restructuring (TDR). When the bank works to resolve loans with any of these issues, the borrower s needs are considered as much as reasonably possible without jeopardizing the Bank s position. If such efforts by the Bank do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Bank may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

Delinquency The Bank s philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. The Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. Generally, the Bank requires that a delinquency notice be mailed to a borrower upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices may be sent and telephone calls may be made prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of a delinquency notice, the Bank s personnel charged with managing its loan portfolios contacts the borrower to ascertain the reasons for delinquency and the prospects for payment. Any subsequent actions taken to resolve the delinquency will depend upon the nature of the loan and the length of time that the loan has been delinquent. A late charge is usually assessed on loans upon expiration of the grace period.

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

Troubled Debt Restructurings In the course of resolving 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.

It is the Bank s policy to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status for approximately six months, subsequent to being modified, before management considers its return to accrual status. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. Loans that are considered TDRs are classified as performing, unless they are on nonaccrual status. All TDRs are considered impaired by the Company, unless it is determined that the borrower is performing under modified terms and the restructuring agreement specified an interest rate greater than or equal to an acceptable rate for a comparable new loan.

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

Nonperforming securities consist of securities that are on nonaccrual status. The Company holds six collateralized debt obligation securities comprised of pools of trust preferred securities issued by banks and insurance companies, which are currently deferring interest payments on certain tranches within the bonds structure, including the tranches held

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by the Company. The bonds are anticipated to continue to defer interest until cash flows are sufficient to satisfy certain collateralization levels designed to protect more senior tranches. As a result, the Company has placed these securities on nonaccrual status and has reversed any previously accrued income related to these securities.

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

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

Table 2 Nonperforming Assets/Loans

	June 30, 2011	December 31, 2010	June 30, 2010
		(Dollars In Thousands)	
Loans Past Due 90 Days or More but Still Accruing			
Home Equity	$ 110	$ 4	$
Consumer Other	145	273	206
Total	$ 255	$ 277	$ 206
Loans Accounted for on a Nonaccrual Basis (1)			
Commercial and Industrial	$ 2,674	$ 3,123	$ 5,083
Commercial Real Estate	6,455	7,837	6,937
Commercial Construction	552	1,999	1,075
Small Business	1,130	887	728
Residential Real Estate	8,546	6,728	8,007
Home Equity	1,867	1,752	1,218
Consumer Other	447	505	424
Total	$ 21,671	$ 22,831	$ 23,472
Total Nonperforming Loans	$ 21,926	$ 23,108	$ 23,678
Nonaccrual Securities	1,587	1,051	969
Other Real Estate Owned and Foreclosed Assets	7,450	7,334	7,436
Total Nonperforming Assets	$ 30,963	$ 31,493	$ 32,083
Nonperforming Loans as a Percent of Gross Loans	0.59%	0.65%	0.69%
Nonperforming Assets as a Percent of Total Assets	0.64%	0.67%	0.68%

(1) Inclusive of $5.9 million, $4.0 million, and $160,000 TDRs on nonaccrual at June 30, 2011, December 31, 2010, and June 30, 2010, respectively.

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

Table 3 Potential Problem Commercial Loans

	June 30, 2011	December 31, 2010
	(Dollars in Thousands)	
Number of Loan Relationships	56	62
Aggregate Outstanding Balance	$113,395	$126,167

At June 30, 2011, these potential problem loans continued to perform with respect to payments. Management actively monitors these loans and strives to minimize any possible adverse impact to the Bank.

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

Table 4 Interest Income Recognized/Collected on Nonaccrual Loans and Troubled Debt Restructurings

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in Thousands)		(Dollars in Thousands)	
Interest income that would have been recognized if nonaccruing loans had been performing	$501	$589	$ 819	$1,522
Interest income recognized on TDRs still accruing	$434	$276	$ 857	$ 545
Interest collected on these nonaccrual and TDRs and included in interest income	$857	$518	$1,350	$ 805

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.

Impairment is measured on a loan by loan basis for commercial and industrial, commercial real estate, and commercial construction categories by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

For impaired loans deemed collateral dependent, where impairment is measured using the fair value of the collateral, the Bank will either order a new appraisal or use another available source of collateral assessment such as a broker s opinion of value to determine a reasonable estimate of the fair value of the collateral.

At June 30, 2011, impaired loans included all commercial and industrial loans, commercial real estate loans, commercial construction, and small business loans that are on nonaccrual status, TDRs, and certain other loans that have been categorized as impaired. Total impaired loans at both June 30, 2011 and December 31, 2010 were $47.4 million. For additional information regarding the Bank s asset quality, including delinquent loans, nonaccruals, TDRs, and impaired loans, see *Note 4, Loans, Allowance for Loan Losses, and Credit Quality* within Notes to Consolidated Financial Statements included in Item 1 hereof.

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

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

As of June 30, 2011, the allowance for loan losses totaled $46.6 million, or 1.25% of total loans as compared to $46.3 million, or 1.30% of total loans, at December 31, 2010. The change in the allowance was due to a combination of factors including shifts in the composition of the loan portfolio mix, changes in asset quality and loan growth.

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

Table 5 Summary of Changes in the Allowance for Loan Losses

	Three Months Ended				
	June 30, 2011	**March 31, 2011**	**December 31, 2010**	**September 30, 2010**	**June 30, 2010**
	(Dollars in Thousands)				
AVERAGE LOANS	$3,678,019	$3,590,829	$3,481,884	$3,430,372	$3,422,101
Allowance for Loan Losses, Beginning of Period	$ 46,444	$ 46,255	$ 45,619	$ 45,291	$ 45,278
Charged-Off Loans:					
Commercial and Industrial	818	888	1,313	1,489	1,837
Commercial Real Estate	492	652	594	851	1,804
Commercial Construction	769				1,716
Small Business	318	266	541	549	858
Residential Real Estate	280	122	46	51	321
Consumer Home Equity	501	78	384	24	289
Consumer Other	409	478	512	515	469
Total Charged-Off Loans	3,587	2,484	3,390	3,479	7,294
Recoveries on Loans Previously Charged-Off:					
Commercial and Industrial	69	202	276	60	21
Commercial Real Estate					
Commercial Construction	25	50			
Small Business	26	28	46	34	57
Residential Real Estate				26	28
Consumer Home Equity	13	4	6	63	55
Consumer Other	165	189	123	124	215
Total Recoveries	298	473	451	307	376
Net Loans Charged-Off:					
Commercial and Industrial	749	686	1,037	1,429	1,816
Commercial Real Estate	492	652	594	851	1,804
Commercial Construction	744	(50)			1,716
Small Business	292	238	495	515	801
Residential Real Estate	280	122	46	25	293
Consumer Home Equity	488	74	378	(39)	234
Consumer Other	244	289	389	391	254
Total Net Loans Charged-Off	3,289	2,011	2,939	3,172	6,918
Provision for Loan Losses	3,482	2,200	3,575	3,500	6,931

TOTAL ALLOWANCES FOR LOAN LOSSES, END OF PERIOD	$ 46,637	$ 46,444	$ 46,255	$ 45,619	$ 45,291
Net Loans Charged-off as a Percent of Average Total Loans (Annualized)	0.36%	0.23%	0.33%	0.37%	0.81%
Total Allowance for Loan Losses as a Percent of Total Loans	1.25%	1.28%	1.30%	1.34%	1.32%
Total Allowance for Loan Losses as a Percent of Nonperforming Loans	212.70%	198.50%	200.17%	184.79%	191.28%
Net Loans Charged-Off as a Percent of Allowance for Loan Losses (Annualized)	28.29%	17.56%	25.21%	27.89%	61.3%
Recoveries as a Percent of Charge-Offs (Annualized)	8.31%	19.04%	13.30%	8.82%	5.15%

For purposes of the allowance for loan losses, management segregates the loan portfolio into the portfolio segments detailed in the table below. The allocation of the allowance for loan losses is made to each loan category using the analytical techniques and estimation methods described herein. While these amounts represent management s best estimate of the distribution of probable losses at the evaluation dates, they are not necessarily indicative of either the categories in which actual losses may occur or the extent of such actual losses that may be recognized within each category. Each of these loan categories possess unique risk characteristics that are considered when determining the appropriate level of allowance for each segment. The total allowance is available to absorb losses from any segment of the loan portfolio.

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

Table 6 Summary of Allocation of Allowance for Loan Losses

	June 30, 2011		December 31, 2010	
	(Dollars In thousands)			
	Allowance Amount	Percent of Loans In Category To Total Loans	Allowance Amount	Percent of Loans In Category To Total Loans
Commercial and Industrial	$ 11,083	15.2%	$ 10,423	14.1%
Commercial Real Estate	22,995	48.4%	21,939	48.4%
Commercial Construction	2,071	3.5%	2,145	3.6%
Small Business	2,053	2.1%	3,740	2.3%
Residential Real Estate (1)	3,242	12.4%	2,915	13.4%
Home Equity	3,713	17.0%	3,369	16.3%
Consumer Other	1,480	1.4%	1,724	1.9%
Total Allowance for Loan Losses	$ 46,637	100.0%	$ 46,255	100.0%

(1) Includes residential construction.

When available information confirms that specific loans or portions thereof are uncollectible, these amounts are promptly charged-off against the allowance for loan losses. All charge-offs of loans or financing receivables are charged directly to the allowance for loan losses and any recoveries of such previously charged-off amounts are credited to the allowance.

Loans which are determined to be uncollectible by management are charged-off. To determine if a loan should be charged-off, all possible sources of repayment are analyzed. Possible sources of repayment include the potential for future cash flows, the value of the Bank s collateral, and the strength of co-makers or guarantors.

Regardless of whether a loan is unsecured or collateralized, the Company charges off the amount of any confirmed loan loss in the period when the loans, or portions of loans, are deemed uncollectible. For troubled, collateral-dependent loans, loss-confirming events may include an appraisal or other valuation that reflects a shortfall between the value of the collateral and the book value of the loan or receivable, or a deficiency balance following the sale of the collateral. During the first six months of 2011, the allowance increased by approximately $382,000 to $46.6 million at June 30, 2011.

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

Federal Home Loan Bank Stock The Bank held an investment in Federal Home Loan Bank Boston (FHLBB) of $35.9 million at June 30, 2011 and December 31, 2010. The FHLBB is a cooperative that provides services to its member banking institutions. The primary reason for the FHLBB membership is to gain access to a reliable source of wholesale funding, particularly term funding, as a tool to manage interest rate risk. The purchase of stock in the FHLBB is a requirement for a member to gain access to funding. The Company purchases FHLBB stock proportional to the volume of funding received and views the purchases as a necessary long-term investment for the purposes of balance sheet liquidity and not for investment return.

During the second quarter of 2011 the FHLBB continued the moratorium on excess stock repurchases that was put into effect during 2008, as the FHLBB s board of directors have continued to focus on building retained earnings while delivering core solutions of liquidity and longer-term funding to their members. As a result of these efforts, the FHLBB was able to restore a modest dividend beginning in the first quarter of 2011.

Goodwill and Identifiable Intangible Assets Goodwill and identifiable intangible assets were $141.5 million and $142.0 million at June 30, 2011 and December 31, 2010, respectively.

Bank Owned Life Insurance The bank holds Bank Owned Life Insurance (BOLI) for the purpose of offsetting the Bank s future obligations to its employees under its retirement and benefits plans. The value of BOLI was $84.4 million and $82.7 million at June 30, 2011 and December 31, 2010, respectively. The bank recorded tax exempt income from BOLI of $860,000 and $1.6 million for the three and six months ended June 30, 2011, respectively, an increase of 17.6% and 7.9%, respectively, compared to the year ago periods.

Deposits Total deposits increased by $158.8 million, or 4.4%, at June 30, 2011 compared to December 31, 2010. Core deposits were higher by $181.0 million, or 6.2%, driven by inflows in municipal deposits as well as increases in demand deposits due to both advertising efforts of the Company and seasonality within the deposit customer base. The Company s emphasis on low-cost core deposits has led to a steady reduction in time deposits which declined by $22.2 million, or 3.2%, at June 30, 2011. Core deposits to total deposits rose to 82.3% and the total cost of deposits declined to 0.40% for the six months ended June 30, 2011, down 27 basis points from the six months ended June 30, 2010.

The Bank also participates in the Certificate of Deposit Registry Service (CDARS) program, allowing the Bank to provide easy access to multi-million dollar FDIC deposit insurance protection on certificate of deposits investments for consumers, businesses and public entities. As of June 30, 2011 and December 31, 2010, CDARS deposits totaled $54.3 million and $13.6 million, respectively.

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Borrowings The Company s borrowings amounted to $535.7 million at June 30, 2011, a decrease of $29.8 million from year-end 2010. The following table shows the balance of borrowings at the periods indicated:

Table 7 Borrowings by Category

	June 30, 2011	December 31, 2010	% Change
	(Dollars in Thousands)		
Federal Home Loan Bank Advances	$ 258,012	$ 302,414	-14.7%
Fed Funds Purchased and Assets Sold Under Repurchase Agreements	183,166	168,119	9.0%
Junior Subordinated Debentures	61,857	61,857	0.0%
Subordinated Debentures	30,000	30,000	0.0%
Other Borrowings	2,635	3,044	-13.4%
Total Borrowings	$ 535,670	$ 565,434	-5.3%

Capital Resources The Federal Reserve, the FDIC, and other regulatory agencies have established capital guidelines for banks and bank holding companies. Risk-based capital guidelines issued by the federal regulatory agencies require banks to meet a minimum Tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0%. A minimum requirement of 4.0% Tier 1 leverage capital is also mandated. At June 30, 2011, the Company and the Bank exceeded the minimum requirements for Tier 1 risk-based, total risk-based capital, and Tier 1 leverage capital.

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

Table 8 Company and Bank s Capital Amounts and Ratios

	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
	(Dollars in Thousands)							
June 30, 2011								
Company: (Consolidated)								
Total capital (to risk weighted assets)	$466,084	12.52%	$297,839	>	8.0%	N/A		N/A
Tier 1 capital (to risk weighted assets)	389,539	10.46	$148,920	>	4.0	N/A		N/A
Tier 1 capital (to average assets)	389,539	8.54	182,352	>	4.0	N/A		N/A
Bank:								
Total capital (to risk weighted assets)	$445,686	11.96%	$298,179	>	8.0%	$372,724	>	10.0%
Tier 1 capital (to risk weighted assets)	369,089	9.90	$149,090	>	4.0	$223,634	>	6.0
Tier 1 capital (to average assets)	369,089	8.09	182,423	>	4.0	228,029	>	5.0
December 31, 2010								
Company: (Consolidated)								
Total capital (to risk weighted assets)	$444,963	12.37%	$287,846	>	8.0%	N/A		N/A
Tier 1 capital (to risk weighted assets)	369,965	10.28	143,923	>	4.0	N/A		N/A
	369,965	8.19	180,784	>	4.0	N/A		N/A

Tier 1 capital (to average assets)								
Bank:								
Total capital (to risk weighted assets)	$429,304	11.92%	$288,098	>	8.0%	$360,123	>	10.0%
Tier 1 capital (to risk weighted assets)	354,267	9.84	144,049	>	4.0	216,074	>	6.0
Tier 1 capital (to average assets)	354,267	7.83	181,039	>	4.0	226,299	>	5.0

On June 16, 2011 the Company s Board of Directors declared a cash dividend of $0.19 per share to stockholders of record as of the close of business on June 27, 2011. This dividend was paid on July 8, 2011. For the quarter ended June 30, 2011, the dividend payout ratio amounted to 36.65%.

Effective July 21, 2011, the Dodd-Frank Act Collins Amendment requires all Bank Holding Companies to comply with capital standards no less stringent than depository institutions. The Company will begin to use the well-capitalized definition of a depository institution to measure the capitalization of the Bank Holding Company during the third quarter of 2011.

Investment Management

As of June 30, 2011, the Rockland Trust Investment Management Group had assets under administration of $1.7 billion representing approximately 3,429 trust, fiduciary, and agency accounts. At December 31, 2010, assets under administration were $1.6 billion, representing approximately 3,181 trust, fiduciary, and agency accounts. Included in these amounts as of June 30, 2011 and December 31, 2010 are assets under administration of

$117.7 million and $103.6 million, respectively, relating to the Company s registered investment advisor, Bright Rock Capital Management, LLC, which was established in 2010 and provides institutional quality investment management services to institutional and high net worth clients. Revenue from the Investment Management Group amounted to $3.3 million and $6.1 million for the three and six months ended June 30, 2011, respectively, compared to $2.9 million and $5.2 million for the three and six months ended June 30, 2010, respectively.

Additionally, for the three and six months ended June 30, 2011, retail investments and insurance revenue was $348,000 and $698,000, respectively compared to $329,000 and $740,000 for the three and six months ended June 30, 2010. Retail investments and insurance includes revenue from LPL Financial and its affiliates, LPL Insurance Associates, Inc., and Savings Bank Life Insurance of Massachusetts.

Mortgage Banking

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

Table 9 Residential Real Estate Loans Closed, Held in Portfolio, and Sold or Held for Sale

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(Dollars in Thousands)			
Closed	$63,737	$79,291	$145,461	$152,230
Held in Portfolio	16,207	10,314	35,518	25,166
Sold or Held for Sale in the Secondary Market	47,530	68,977	109,943	127,064

Included in the mortgage banking income results is the impact of the Bank s mortgage servicing assets. Servicing assets are recognized as separate assets when rights are acquired through sale of loans with servicing rights retained. The principal balance of loans serviced by the Bank on behalf of investors amounted to $260.5 million at June 30, 2011 and $279.7 million at December 31, 2010. Upon sale, the mortgage servicing asset is established, which represents the then current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Impairment is determined by stratifying the rights based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance, to the extent that fair

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value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. Servicing rights are recorded in other assets in the consolidated balance sheets, are amortized in proportion to and over the period of estimated net servicing income, and are assessed for impairment based on fair value at each reporting date. The following table shows fair value of the servicing rights associated with these loans and the changes for the periods indicated:

Table 10 Mortgage Servicing Asset

	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
	(Dollars in Thousands)			
Balance at beginning of period	$ 1,551	$ 2,233	$ 1,619	$ 2,195
Additions	12		45	
Amortization	(139)	(158)	(278)	(312)
Change in Valuation Allowance	(22)	(19)	16	173
Balance at end of period	$ 1,402	$ 2,056	$ 1,402	$ 2,056

RESULTS OF OPERATIONS

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

The following table provides a summary of results of operations:

Table 11 Summary of Results of Operations

	For the Three Months Ended, June 30,		For the Six Months Ended, June 30,	
	2011	2010	2011	2010
	(Dollars in Thousands)		(Dollars in Thousands)	
Net Income Available to Common Shareholders	$11,120	$8,030	$22,308	$17,257
Diluted Earnings Per Share	$ 0.52	$ 0.38	$ 1.04	$ 0.82
Return on Average Assets	0.95%	0.70%	0.96%	0.77%
Return on Average Equity	9.78%	7.60%	10.01%	8.26%

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

On a fully tax equivalent basis, net interest income for the second quarter of 2011 increased $961,000, or 2.3%, to $42.4 million, when compared to the second quarter of 2010. The Company s net interest margin was 3.97% for the quarter ended June 30, 2011 as compared to 3.96% for the quarter ended June 30, 2010. The Company s interest rate spread (the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities) was 3.76% and 3.72% for the second quarters of 2011 and 2010, respectively.

The net interest margin for the three months ended June 30, 2011 is stable compared to the three months ended June 30, 2010.

The following tables present the Company s daily average balances, net interest income, interest rate spread, and net interest margin for the three and six months ending June 30, 2011 and 2010. For purposes of the table and the following discussion, income from interest-earning assets and net interest income are presented on a fully-taxable equivalent basis by adjusting income and yields earned on tax-exempt interest received on securities and loans, to make them equivalent to income and yields on fully-taxable earning assets. The fully-taxable equivalent was calculated using the blended federal and state statutory tax rate:

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

	Three Months Ended June 30, 2011			2010		
	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate
	(Dollar in Thousands)					
INTEREST-EARNING ASSETS						
Interest Earning Deposits with Banks, Federal Funds Sold, and Short Term Investments	$ 23,049	$ 14	0.24%	$ 188,998	$ 108	0.23%
SECURITIES						
Trading Assets	8,600	71	3.31%	7,367	62	3.38%
Taxable Investment Securities	556,301	5,286	3.81%	557,554	6,067	4.36%
Non-taxable Investment Securities (1)	8,610	161	7.50%	17,718	316	7.15%
TOTAL SECURITIES	573,511	5,518	3.86%	582,639	6,445	4.44%
LOANS HELD FOR SALE	8,659	70	3.24%	7,656	110	5.76%
LOANS						
Commercial and Industrial	535,764	5,710	4.27%	401,430	4,726	4.72%
Commercial Real Estate (1)	1,787,364	23,618	5.30%	1,645,452	23,839	5.81%
Commercial Construction	128,747	1,482	4.62%	166,040	2,098	5.07%
Small Business	79,834	1,151	5.78%	81,319	1,202	5.93%
TOTAL COMMERCIAL	2,531,709	31,961	5.06%	2,294,241	31,865	5.57%
Residential Real Estate	457,651	5,167	4.53%	537,475	6,485	4.84%
Residential Construction	4,535	55	4.86%	7,507	95	5.08%
Consumer Home Equity	627,832	5,920	3.78%	490,197	4,704	3.85%
TOTAL CONSUMER REAL ESTATE	1,090,018	11,142	4.10%	1,035,179	11,284	4.37%
TOTAL OTHER CONSUMER	56,292	1,098	7.82%	92,681	1,784	7.72%
TOTAL LOANS	3,678,019	44,201	4.82%	3,422,101	44,933	5.27%
TOTAL INTEREST EARNING ASSETS	4,283,238	49,803	4.66%	4,201,394	51,596	4.93%
CASH AND DUE FROM BANKS	56,122			71,300		
FEDERAL HOME LOAN BANK STOCK	35,854			35,854		
OTHER ASSETS	322,033			305,041		

TOTAL ASSETS	$4,697,247			$4,613,589		
INTEREST-BEARING LIABILITIES DEPOSITS						
Savings and Interest Checking Accounts	$1,365,892	$ 850	0.25%	$1,182,343	$ 1,297	0.44%
Money Market	723,345	815	0.45%	760,240	1,320	0.70%
Time Deposits	669,941	1,879	1.12%	842,539	2,868	1.37%
TOTAL INTEREST-BEARING DEPOSITS	2,759,178	3,544	0.52%	2,785,122	5,485	0.79%
BORROWINGS						
Federal Home Loan Bank Borrowings	276,984	1,743	2.52%	324,168	2,392	2.96%
Federal Funds Purchased and Assets Sold Under Repurchase Agreement	181,631	657	1.45%	182,810	821	1.80%
Junior Subordinated Debentures	61,857	913	5.92%	61,857	913	5.92%
Subordinated Debentures	30,000	541	7.23%	30,000	541	7.23%
Other Borrowings	2,541		0.00%	3,148		0.00%
TOTAL BORROWINGS	553,013	3,854	2.80%	601,983	4,667	3.11%
TOTAL INTEREST-BEARING LIABILITIES	3,312,191	7,398	0.90%	3,387,105	10,152	1.20%
DEMAND DEPOSITS	870,585			752,622		
OTHER LIABILITIES	58,621			49,870		
TOTAL LIABILITIES	4,241,397			4,189,597		
STOCKHOLDERS EQUITY	455,850			423,992		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$4,697,247			$4,613,589		
NET INTEREST INCOME		$42,405			$41,444	
INTEREST RATE SPREAD (2)			3.76%			3.72%

NET INTEREST MARGIN (3)			3.97%			3.96%
Supplemental Information:						
Total Deposits, including Demand Deposits	$3,629,763	$ 3,544		$3,537,744	$ 5,485	
Cost of Total Deposits			0.39%			0.62%
Total Funding Liabilities, including Demand Deposits	$4,182,776	$ 7,398		$4,139,727	$10,152	
Cost of Total Funding Liabilities			0.71%			0.98%

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $329 and $277 for the three months ended June 30, 2011 and 2010, respectively.

(2) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.

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Table 13 Average Balance, Interest Earned/Paid & Average Yields

	Six Months Ended June 30,					
	2011			2010		
	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate
	(Dollar in Thousands)					
INTEREST-EARNING ASSETS						
Interest Earning Deposits with Banks, Federal Funds Sold, and Short Term Investments	$ 25,338	$ 31	0.25%	$ 106,509	$ 132	0.25%
SECURITIES						
Trading Assets	8,363	134	3.23%	7,085	122	3.47%
Taxable Investment Securities	562,582	10,717	3.84%	563,021	12,476	4.47%
Non-taxable Investment Securities (1)	9,388	351	7.53%	18,411	658	7.21%
TOTAL SECURITIES	580,333	11,202	3.89%	588,517	13,256	4.54%
LOANS HELD FOR SALE	11,409	189	3.34%	7,392	216	5.89%
LOANS						
Commercial and Industrial	518,081	11,111	4.32%	389,708	8,974	4.64%
Commercial Real Estate (1)	1,768,433	46,815	5.34%	1,638,238	47,097	5.80%
Commercial Construction	126,139	2,892	4.62%	168,773	4,174	4.99%
Small Business	80,058	2,329	5.87%	81,894	2,419	5.96%
TOTAL COMMERCIAL	2,492,711	63,147	5.11%	2,278,613	62,664	5.55%
Residential Real Estate	462,870	10,567	4.60%	542,974	13,250	4.92%
Residential Construction	4,126	98	4.79%	8,300	213	5.18%
Consumer Home Equity	614,800	11,542	3.79%	484,293	9,226	3.84%
TOTAL CONSUMER REAL ESTATE	1,081,796	22,207	4.14%	1,035,567	22,689	4.42%
TOTAL OTHER CONSUMER	60,157	2,328	7.80%	98,875	3,796	7.74%
TOTAL LOANS	3,634,664	87,682	4.86%	3,413,055	89,149	5.27%
TOTAL INTEREST EARNING ASSETS	4,251,744	99,104	4.70%	4,115,473	102,753	5.03%
CASH AND DUE FROM BANKS	54,084			68,887		
FEDERAL HOME LOAN BANK STOCK	35,854			35,854		
OTHER ASSETS	321,350			304,622		

TOTAL ASSETS	$4,663,032			$4,524,836		
INTEREST-BEARING LIABILITIES DEPOSITS						
Savings and Interest Checking Accounts	$1,327,759	$ 1,610	0.24%	$1,119,598	$ 2,481	0.45%
Money Market	723,644	1,600	0.45%	731,475	2,641	0.73%
Time Deposits	671,409	3,819	1.15%	865,864	6,302	1.47%
TOTAL INTEREST-BEARING DEPOSITS	2,722,812	7,029	0.52%	2,716,937	11,424	0.85%
BORROWINGS						
Federal Home Loan Bank Borrowings	306,059	3,653	2.41%	332,190	4,823	2.93%
Federal Funds Purchased and Assets Sold Under Repurchase Agreement	179,918	1,308	1.47%	183,712	1,651	1.81%
Junior Subordinated Debentures	61,857	1,816	5.92%	61,857	1,815	5.92%
Subordinated Debentures	30,000	1,077	7.24%	30,000	1,077	7.24%
Other Borrowings	2,650		0.00%	2,756		0.00%
TOTAL BORROWINGS	580,484	7,854	2.73%	610,515	9,366	3.09%
TOTAL INTEREST-BEARING LIABILITIES	3,303,296	14,883	0.91%	3,327,452	20,790	1.26%
DEMAND DEPOSITS	850,918			727,865		
OTHER LIABILITIES	59,201			48,453		
TOTAL LIABILITIES	4,213,415			4,103,770		
STOCKHOLDERS EQUITY	449,617			421,066		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$4,663,032			$4,524,836		
NET INTEREST INCOME		$84,221			$ 81,963	
INTEREST RATE SPREAD (2)			3.79%			3.77%

NET INTEREST MARGIN (3)			3.99%			4.02%
Supplemental Information:						
Total Deposits, including Demand Deposits	$3,573,730	$ 7,029		$3,444,802	$ 11,424	
Cost of Total Deposits			0.40%			0.67%
Total Funding Liabilities, including Demand Deposits	$4,154,214	$14,883		$4,055,317	$ 20,790	
Cost of Total Funding Liabilities			0.72%			1.03%

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $672 and $586 for the six months ended June 30, 2011 and 2010, respectively.

(2) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.

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The following table presents certain information on a fully tax-equivalent basis regarding changes in the Company s interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to: (1) changes in rate (change in rate multiplied by old volume), (2) changes in volume (change in volume multiplied by old rate), and (3) changes in volume/rate (change in volume multiplied by change in rate) which is allocated to the change due to rate column:

Table 14 Volume Rate Analysis

	Three Months Ended June 30, 2011 Compared to 2010			Six Months Ended June 30, 2011 Compared to 2010		
	Change Due to Rate (1)	**Change Due to Volume**	**Total Change**	**Change Due to Rate (1)**	**Change Due to Volume**	**Total Change**
			(Dollars in Thousands)			
INCOME ON INTEREST-EARNING ASSETS:						
INTEREST EARNING DEPOSITIS WITH BANKS, FEDERAL FUNDS SOLD AND SHORT TERM INVERSTMENTS	$ 1	$ (95)	$ (94)	$	$ (101)	$ (101)
SECURIITIES:						
Taxable Securities	(767)	(14)	(781)	(1,749)	(10)	(1,759)
Non-Taxable Securities (2)	7	(162)	(155)	15	(322)	(307)
Trading Assets	(1)	10	9	(10)	22	12
TOTAL SECURITIES	(761)	(166)	(927)	(1,744)	(310)	(2,054)
LOANS HELD FOR SALE	(54)	14	(40)	(144)	117	(27)
LOANS (2)(3)	(4,092)	3,360	(732)	(7,255)	5,788	(1,467)
TOTAL	$(4,906)	$3,113	$(1,793)	$(9,143)	$ 5,494	$(3,649)
EXPENSE OF INTEREST-BEARING LIABILITIES:						
DEPOSITS:						
Savings and Interest Checking Accounts	$ (648)	$ 201	$ (447)	$(1,332)	$ 461	$ (871)
Money Market	(441)	(64)	(505)	(1,013)	(28)	(1,041)
Time Deposits	(401)	(588)	(989)	(1,068)	(1,415)	(2,483)
TOTAL INTEREST-BEARING DEPOSITS	(1,490)	(451)	(1,941)	(3,413)	(982)	(4,395)
BORROWINGS:						
Federal Home Loan Bank Borrowings	$ (301)	$ (348)	$ (649)	$ (791)	$ (379)	$(1,170)

Federal Funds Purchased and Assets Sold Under Repurchase Agreements	(159)	(5)	(164)	(309)	(34)	(343)
Junior Subordinated Debentures				1		1
Subordinated Debentures						
Other Borrowings						
TOTAL BORROWINGIS	(460)	(353)	(813)	(1,099)	(413)	(1,512)
TOTAL	$(1,950)	$ (804)	$(2,754)	$(4,512)	$(1,395)	$(5,907)
CHANGE IN NET INTEREST INCOME	$(2,956)	$3,917	$ 961	$(4,631)	$ 6,889	$ 2,258

(1) The changes for each category of interest income and expense are divided between the portion of change attributable to the variances in volume and the portion of the change attributable to the variances in rate for that category. The unallocated change in rate or volume variance has been allocated to the rate variances.

(2) The total amount of the adjustment to present income and yield on a fully tax-equivalent basis is $329 and $277 for the three months ended June 30, 2011 and 2010, respectively and $672 and $586 for the six months ended June 30, 2011 and 2010, respectively.

(3) Loans include portfolio loans, and nonperforming loans; however unpaid interest on nonaccrual loans has not been included for purposes of determining interest income.

Provision For Loan Losses The provision for loan losses represents the charge to expense that is required to maintain an adequate level of allowance for loan losses. The provision for loan losses totaled $3.5 million and $5.7 million for the three and six months ended June 30, 2011, compared with $6.9 million and $11.6 million for the comparable year-ago periods. The Company s allowance for loan losses, as a percentage of total loans, was 1.25% at June 30, 2011 compared to 1.30% at December 31, 2010 and 1.32% at June 30, 2010. For the three and six months ended June 30, 2011, net loan charge-offs totaled $3.3 million and $5.3 million, respectively, a decrease of $3.6 million and $3.4 million from the year ago comparative periods. While the total loan portfolio increased by 8.6% for the quarter ended June 30, 2011 as compared to the second quarter of 2010, the Company s solid credit profile led to lower provisioning levels in the second quarter of 2011.

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Although the economic environment remains challenging, regional and local general economic conditions continued to show gradual improvement during the first half of 2011, as measured in terms of employment levels, statewide economic activity, and other regional economic indicators. Local residential real estate market fundamentals were mixed during the second quarter of 2011, characterized by a lower level of home sales compared to the same period in 2010 but stabilizing median sales prices. Foreclosure activity in Massachusetts slowed during the second quarter. Regional commercial real estate market conditions were mixed during the first half of 2011, with some areas experiencing a recovery, and others still exhibiting higher vacancy rates and negative absorption. Leading economic indicators signal continued economic improvement through the remainder of 2011, however uncertainty persists and growth is expected to be slow.

Management s periodic evaluation of the adequacy of the allowance for loan losses considers past loan loss experience, known and inherent risks in the loan portfolio, adverse situations which may affect the borrowers ability to repay, the estimated value of the underlying collateral, if any, and current and prospective economic conditions. Substantial portions of the Bank s loans are secured by real estate in Massachusetts. Accordingly, the ultimate collectability of a substantial portion of the Bank s loan portfolio is susceptible to changes in property values within the state.

Non-Interest Income The following table sets forth information regarding non-interest income for the periods shown:

Table 15 Non-Interest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(Dollars In Thousands)		(Dollars In Thousands)	
Service Charges on Deposit Accounts	$ 4,192	$ 3,257	$ 8,151	$ 6,388
Interchange and ATM Fees	1,974	1,258	3,676	2,348
Investment Management	3,603	3,189	6,819	5,918
Mortgage Banking	683	622	1,730	1,622
Bank Owned Life Insurance	860	731	1,566	1,452
Net Gain/(Loss) on Sales of Securities Available for Sale	723	481	723	481
Gross Change on Write-Down of Certain Investments to Fair Value	170	(63)	419	118
Less: Non-Credit Related Other-Than-Temporary Impairment	(306)	(21)	(595)	(380)
Net Loss on Write-Down of Certain Investments to Fair Value	(136)	(84)	(176)	(262)
Other Non-Interest Income	1,575	1,484	3,583	3,041
TOTAL	$13,474	$10,938	$26,072	$20,988

Non-interest income increased by $2.5 million, or 23.2%, and by $5.1 million, or 24.2%, during the three and six months ended June 30, 2011, as compared to the same periods in the prior year. The change in non-interest income is attributable to the following:

Service charges on deposit accounts increased $935,000, or 28.7%, and $1.8 million, or 27.6% during the three and six months ended June 30, 2011, as compared to the same periods in 2010, primarily due to increased customer utilization of the Bank s overdraft privilege program.

Interchange and ATM fees increased by $716,000, or 56.9%, and $1.3 million, or 56.6% during the three and six months ended June 30, 2011, mainly due to the reclassification of certain net interchange revenue as other non-interest income. Previously, the net amount was recorded in non-interest expense.

Investment management revenue increased by $414,000, or 13.0%, and $901,000, or 15.2% during the three and six months ended June 30, 2011, as compared to the same period in the prior year. This increase is mainly due to increases in assets under administration, which were $1.7 billion at June 30, 2011, an increase of $346.0 million, or 26.1%, as compared to the same period in the prior year. The increase is due to the general increases in the stock market in these comparable periods and net new client asset flows.

Other non-interest income increased by $91,000, or 6.1%, and $542,000, or 17.8% during the three and six months ended June 30, 2011. The increases year to date are mainly associated with gains on the Company s trading assets.

Non-Interest Expense The following table sets forth information regarding non-interest expense for the periods shown:

Table 16- Non-Interest Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(Dollars in Thousands)		(Dollars in Thousands)	
Salaries and Employee Benefits	$19,762	$18,406	$40,014	$36,869
Occupancy and Equipment Expenses	4,263	4,094	8,838	8,229
Advertising	1,606	789	2,544	1,230
Data Processing and Facilities Management	1,038	1,497	2,676	2,791
FDIC Assessment	778	1,271	2,069	2,592
Legal Fees	647	1,052	1,066	1,855
Foreclosure Expenses	594	217	1,021	462
Telephone	534	532	1,061	1,078
Gain(Loss) on Other Real Estate Owned and Foreclosed Assets	528	114	1,074	125
Fair Value Mark on a Terminated Hedging Relationship		554		792
Other Non-Interest Expense	7,106	6,403	12,975	12,495
TOTAL	$36,856	$34,929	$73,338	$68,518

Non-interest expense increased by $1.9 million, or 5.5%, and by $4.8 million, or 7.0%, during the three and six months ended June 30, 2011, as compared to the same periods in the prior year. The change in non-interest expense is attributable to the following:

Salaries and employee benefits increased by $1.4 million, or 7.4%, and $3.1 million, or 8.5% during the three and six months ended June 30, 2011, as compared to the same periods in 2010, with the increase attributable to salary merit increases, incentive programs and equity compensation plans.

Occupancy and equipment expense increased by $169,000, or 4.1%, and by $609,000, or 7.4%, during the three and six months ended June 30, 2011. The increase for the three month period is mainly due to increases in depreciation expense and for the six month period the increase is mainly due to snow removal incurred during the first quarter of 2011.

Data processing and facilities management expense decreased by $459,000, or 30.7%, and by $115,000, or 4.1%, during the three and six months ended June 30, 2011, due primarily to a change to a lower cost service provider.

Advertising expense increased by $817,000, or 103.5%, and by $1.3 million, or 106.8%, during the three and six months ended June 30, 2011. The large increase is due to a major advertising campaign including television, radio and billboard advertisements in the first half of 2011.

Other non-interest expense increased by $703,000, or 11.0%, and by $480,000, or 3.8%, during the three and six months ended June 30, 2011, primarily due to increases in credit-related loan workout costs, directors fees and the reclassification of debit card processing fees to other non-interest income for amounts that were previously recorded net in non-interest expense

Income Taxes The tax effect of all income and expense transactions is recognized by the Company in each year s consolidated statements of income, regardless of the year in which the transactions are reported for income tax purposes. For the three months ended June 30, 2011 and 2010, the Company recorded combined federal and state income tax provisions of $4.1 million and $2.2 million equating to an effective tax rate of 26.9% and 21.6%, respectively. For the six months ended June 30, 2011 and 2010, the Company recorded combined federal and state income tax provisions of $8.3 million and $5.0 million equating to an effective tax rate of 27.1% and 22.5%, respectively. The Company s effective rates for each year were lower than the blended federal and state statutory rates of 41.2% and 41.5% for the 2011 and 2010 tax years, attributable to certain tax preference assets such as BOLI, tax exempt bonds, as well as federal tax credits recognized in connection with the New Markets Tax Credit (NMTC) program. The increase in the Company s effective tax rate in 2011 was primarily attributable to a reduction in tax credits from the NMTC program in 2011. Effective July 1, 2008 Massachusetts state legislation was passed which enacted corporate tax reform. As a result of this new legislation, the state tax rate is being reduced 1.5% over a three year period which began on January 1, 2010 and will result in a blended statutory rate of 40.9% in 2012.

Deferred tax assets generally represent items that can be used as a tax deduction or credit in future income tax returns, for which a financial statement tax benefit has already been recognized. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years taxable income to which carry-back refund claims could be made. Valuation allowances are established against those deferred tax assets determined not likely to be realized. The Company had no recorded tax valuation allowance as of June 30, 2011 and 2010.

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To date the Company has been awarded a total of $125.0 million in tax credit allocation authority under the Federal New Markets Tax Credit Program. Tax credits are eligible to be recognized over a seven year period totaling 39.0% of the total award, as capital is invested into a subsidiary which will lend to qualifying businesses in low income communities. Accordingly, the Company has received and continues to receive eligible aggregated tax credits totaling $48.8 million. The following table details the tax credit recognition by year associated with this program:

Table 17 New Markets Tax Credit Recognition Schedule

	Investment	2004 - 2009	2010	2011	2012	2013	2014	2015	2016	Total Credits
					(Dollars in Thousands)					
2004	$ 15 M	$ 4,950	$ 900	$	$	$	$	$	$	$ 5,850
2005	15 M	4,050	900	900						5,850
2007	38.2 M	5,730	2,292	2,292	2,292	2,292				14,898
2008	6.8 M	680	340	408	408	408	408			2,652
2009	10 M	500	500	500	600	600	600	600		3,900
2010	40 M		2,000	2,000	2,000	2,400	2,400	2,400	2,400	15,600
TOTAL	$ 125 M	$15,910	$6,932	$6,100	$5,300	$5,700	$3,408	$3,000	$2,400	$48,750

Market Risk Market risk is the sensitivity of income to changes in interest rates, foreign exchange rates, commodity prices and other market-driven rates or prices. The Company has no trading operations, with the exception of funds held for the purpose of funding an executive non-qualified supplementary retirement plan managed by the Company s investment management group.

Interest rate risk is the most significant non-credit risk to which the Company is exposed. Interest rate risk is the sensitivity of income to changes in interest rates. Changes in interest rates, as well as fluctuations in the level and duration of assets and liabilities, affect net interest income, the Company s primary source of revenue. Interest rate risk arises directly from the Company s core banking activities. In addition to directly impacting net interest income, changes in the level of interest rates can also affect the amount of loans originated, the timing of cash flows on loans and securities, and the fair value of securities and derivatives, as well as other effects.

The primary goal of interest rate risk management is to control this risk within limits approved by the Board of Directors. These limits reflect the Company s tolerance for interest rate risk over both short-term and long-term horizons. The Company attempts to control interest rate risk by identifying, quantifying, and where appropriate, hedging its exposure. The Company manages its interest rate exposure using a combination of on and off-balance sheet instruments, primarily fixed rate portfolio securities, and interest rate swaps.

The Company quantifies its interest rate exposures using net interest income simulation models, as well as simpler gap analysis, and Economic Value of Equity analysis. Key assumptions in these simulation analyses relate to behavior of interest rates and behavior of the Company s deposit and loan customers. The most material assumptions relate to the prepayment of mortgage assets (including mortgage loans and mortgage-backed securities) and the life and sensitivity of non-maturity deposits (e.g. DDA, NOW, savings and money market). The risk of prepayment tends to increase when interest rates fall. Since future prepayment behavior of loan customers is uncertain, the resultant interest rate sensitivity of loan assets cannot be determined exactly.

To mitigate these uncertainties, the Company gives careful attention to its assumptions. In the case of prepayment of mortgage assets, assumptions are derived from published dealer median prepayment estimates for comparable mortgage loans.

The Bank may choose to utilize interest rate swap agreements and interest rate caps and floors to mitigate interest rate risk. 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. Interest rate caps and floors are agreements whereby one party agrees to pay a floating rate of interest on a notional principal amount for a predetermined period of time to a second party if certain market interest rate thresholds are realized. The amounts relating to the notional principal amount are not actually exchanged. See *Note 7, Derivatives and Hedging Activities* within Notes to Consolidated Financial Statements included in Item 1 hereof for additional information regarding the Company s Derivative Financial Instruments.

The Company manages the interest rate risk inherent in its mortgage banking operations by entering into forward sales contracts. An increase in market interest rates between the time the Company commits to terms on a loan and the time the Company ultimately sells the loan in the secondary market will have the effect of reducing the gain (or increasing the loss) the Company records on the sale. The Company attempts to mitigate this risk by entering into forward sales commitments in amounts sufficient to cover all closed loans and a majority of interest rate-locked loan commitments.

The Company s earnings are not directly or materially impacted by movements in foreign currency rates or commodity prices. Movements in equity prices may have a modest impact on earnings by affecting the volume of activity or the amount of fees from investment-related business lines, as well as changes in the fair value of trading securities.

The Company s policy on interest rate risk simulation specifies that estimated net interest income for the subsequent 12 months of any simulation should decline by less than 10.0%. The Company was well within policy limits at June 30, 2011 and 2010.

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The following table sets forth the estimated effects on the Company s net interest income over a 12-month period following the indicated dates in the event of the indicated increases or decreases in market interest rates:

Table 18 Interest Rate Sensitivity

	200 Basis Point Rate Increase	100 Basis Point Rate Decrease	500 Basis Point Rate Increase Flattening Curve
June 30, 2011	1.5%	0.3%	1.8%
June 30, 2010	0.6%	0.4%	0.4%

It should be emphasized, however, that the results are dependent on material assumptions such as those discussed above. For instance, asymmetrical rate behavior can have a material impact on the simulation results. If competition for deposits forced the Company to raise rates on those liabilities quicker than is assumed in the simulation analysis without a corresponding increase in asset yields, net interest income may be negatively impacted. Alternatively, if the Company is able to lag increases in deposit rates as loans re-price upward net interest income would be positively impacted.

The most significant factors affecting market risk exposure of the Company s net interest income during the first half of 2011 were (i) the shape of the U.S. Government securities and interest rate swap yield curve, (ii) the level of U.S. prime interest rate and LIBOR rates, and (iii) the level of interest rates being offered on long-term fixed rate loans.

Liquidity Risk Liquidity, as it pertains to the Company, is the ability to generate adequate amounts of cash in the most economical way for the institution to meet its ongoing obligations to pay deposit withdrawals and to fund loan commitments. The Company s primary sources of funds are deposits, borrowings, and the amortization, prepayment and maturities of loans and securities.

The Bank utilizes its extensive branch network to access retail customers who provide a stable base of in-market core deposits. These funds are principally comprised of demand deposits, interest checking accounts, savings accounts, and money market accounts. Deposit levels are greatly influenced by interest rates, economic conditions, and competitive factors. The Bank has also established repurchase agreements, with major brokerage firms as potential sources of liquidity. At June 30, 2011 the Bank had the following sources of liquidity:

- Outstanding FHLBB borrowings of $258.0 million, with access to $523.7 million additional available borrowing capacity.
- No outstanding borrowings with the Federal Reserve Bank of Boston with access to $676.4 million of available borrowing capacity.
- Unpledged securities of $150.4 million.
- Outstanding repurchase agreements with major brokerage firms of $50.0 million.
- Outstanding customer repurchase agreements amounting to $133.2 million.

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In connection with the repurchase agreements, the Company had investment securities carried at $199.0 million that were pledged to secure assets sold under these repurchase agreements.

Also included in borrowings at June 30, 2011, were $61.8 million of junior subordinated debentures, comprised primarily of trust preferred debt issued to the public and $30.0 million of subordinated debt.

Asset/Liability Management The Bank s asset/liability management process monitors and manages, among other things, the interest rate sensitivity of the balance sheet, the composition of the securities portfolio, funding needs and sources, and the liquidity position. All of these factors, as well as projected asset growth, current and potential pricing actions, competitive influences, national monetary and fiscal policy, and the regional economic environment are considered in the asset/liability management process.

The Asset/Liability Management Committee (ALCO), whose members are comprised of the Bank s senior management, develop procedures consistent with policies established by the Board of Directors, which monitor and coordinate the Bank s interest rate sensitivity and the sources, uses, and pricing of funds. Interest rate sensitivity refers to the Bank s exposure to fluctuations in interest rates and its effect on earnings. If assets and liabilities do not re-price simultaneously and in equal volume, the potential for interest rate exposure exists. It is management s objective to maintain stability in the growth of net interest income through the maintenance of an appropriate mix of interest-earning assets and interest-bearing liabilities and, when necessary, within prudent limits, through the use of off-balance sheet hedging instruments such as interest rate swaps, floors and caps. The ALCO employs simulation analyses in an attempt to quantify, evaluate, and manage the impact of changes in interest rates on the Bank s net interest income. In addition, the Bank engages an independent consultant to render advice with respect to asset and liability management strategy.

The Bank is careful to increase deposits without adversely impacting the weighted average cost of those funds. Accordingly, management has implemented funding strategies that include FHLB advances and repurchase agreement lines. These non-deposit funds are also viewed as a contingent source of liquidity and, when profitable lending and investment opportunities exist, access to such funds provides a means to grow the balance sheet.

The Company actively manages its liquidity position under the direction of the ALCO. Periodic review under prescribed policies and procedures is intended to ensure that the Company will maintain adequate levels of available funds. At June 30, 2011 the Company s liquidity position was well above policy guidelines. Management believes that the Bank has adequate liquidity available to respond to current and anticipated liquidity demands.

Off-Balance Sheet Arrangements There have been no material changes in off-balance sheet financial instruments during the first half of 2011. Please refer to the 2010 Form 10-K for a complete table of contractual obligations, commitments, contingencies and off-balance sheet financial instruments.

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Contractual Obligations, Commitments, and Contingencies There have been no material changes in contractual obligations, commitments, or contingencies during the first half of 2011. Please refer to the 2010 Form 10-K for a complete table of contractual obligations, commitments, contingencies, and off-balance sheet financial instruments.

Regulatory Update In July 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). This law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of implementing rules and regulations, and to prepare numerous studies and reports for Congress.

The Company continues to review the provisions of the Dodd-Frank Act, monitor its implementation and assess its probable impact on the Company s business, financial condition, and results of operations. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and on the Company in particular, remains uncertain at this time.

Provisions under the Dodd-Frank Act are as follows:

Effective July 21, 2011, is a provision of the Dodd-Frank Act that eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Company s interest expense.

The Dodd-Frank Act also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013. The Company has begun to see a reduction in the amount of the FDIC assessment as a result of these change in the second quarter of 2011.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own board candidates using a company s proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not. The Company s Board has decided to include a proxy vote on executive compensation every year.

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The Dodd-Frank Act broadened the scope of derivative instruments and requires clearing and exchange trading of certain instruments. Furthermore, the Dodd-Frank Act includes capital margin, reporting and registration requirements for derivative participants. Final regulations are in process and the effective date of the changes has been delayed to December 31, 2011.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. Banks and savings institutions with $10 billion or less in assets will continue to be examined for compliance with consumer laws by their primary bank regulators.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information required by this Item 3 is included in Item 2 of Part I of this Form 10-Q, entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer along with the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, the Company s Chief Executive Officer along with the Company s Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in Internal Controls over Financial Reporting. There were no changes in our internal control over financial reporting that occurred through the second quarter of 2011 that have materially affected or are reasonably likely to materially affect the Company s internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not involved in any legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Management believes that those routine legal proceedings involve, in the aggregate, amounts that are immaterial to the Company s financial condition and results of operations.

Item 1A. Risk Factors

As of the date of this report, there have been no material changes with regard to the Risk Factors disclosed in Item 1A of our 2010 Annual Report on Form 10-K, which are incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c)

The following table sets forth information regarding the Company s repurchases of its common stock during the three months ended June 30, 2011:

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program
April 1 to April 30, 2011	465	$ 27.92		
May 1 to May 31, 2011	130	29.03		
June 1 to June 30, 2011				
Total	**595**			

(1) Shares repurchased relate to the surrendering of mature shares for the exercise and/or vesting of stock compensation grants

(2) The Company does not currently have a stock repurchase program or plan in place.

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Item 3. Defaults Upon Senior Securities None
Item 5. Other Information None
Item 6. Exhibits

Exhibits Index

No.	Exhibit
3.(i)	Restated Articles of Organization, as adopted May 20, 2010, incorporated by reference to Form 8-K filed on May 24, 2010.
3.(ii)	Amended and Restated Bylaws of the Company, incorporated by reference to Form 8-K filed on May 24, 2010.
4.1	Specimen Common Stock Certificate, incorporated by reference to Form 10-K for the year ended December 31, 1992.
4.2	Specimen Preferred Stock Purchase Rights Certificate, incorporated by reference to Form 8-A Registration Statement filed on November 5, 2001.
4.3	Indenture of Registrant relating the Junior Subordinated Debt Securities issued to Independent Capital Trust V, is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.4	Form of Certificate of Junior Subordinated Debt Security for Independent Capital Trust V (included as Exhibit A to Exhibit 4.9)
4.5	Amended and Restated Declaration of Trust for Independent Capital Trust V, incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.6	Form of Capital Security Certificate for Independent Capital Trust V (included as Exhibit A-1 to Exhibit 4.9).
4.7	Guarantee Agreement relating to Independent Capital Trust V, is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.8	Forms of Capital Securities Purchase Agreements for Independent Capital Trust V, is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.9	Subordinated Debt Purchase Agreement between USB Capital Resources and Rockland Trust Company dated as of August 27, 2008, is incorporated by reference to Form 8-K filed on September 2, 2008.
4.10	Rockland Trust Company Employee Savings, Profit Sharing and Stock Ownership Plan, incorporated by reference to Form S-8 filed on April 16, 2010.
4.11	Independent Bank Corp. 2010 Dividend Reinvestment and Stock Purchase

No.	Exhibit
	Plan, incorporated by reference to Form S-3 filed on August 24, 2010.
10.1	Independent Bank Corp. 1996 Non-Employee Directors Stock Option Plan incorporated by reference to Definitive Proxy Statement for the 1996 Annual Meeting of Stockholders filed on March 19, 1996.
10.2	Independent Bank Corp. 1997 Employee Stock Option Plan incorporated by reference to the Definitive Proxy Statement for the 1997 Annual Meeting of Stockholders filed on March 20, 1997.
10.3	Independent Bank Corp. 2005 Employee Stock Plan, incorporated by reference to Form S-8 filed on July 28, 2005.
10.4	Renewal Rights Agreement dated as of September 14, 2000 by and between the Company and Rockland Trust, as Rights Agent, incorporated by reference to Form 8-K filed on October 23, 2000.
10.5	Independent Bank Corp. Deferred Compensation Program for Directors (restated as amended as of December 1, 2000), incorporated by reference to Form 10-K for the year ended December 31, 2000, filed on March 29, 2001.
10.6	Master Securities Repurchase Agreement, incorporated by reference to Form S-1 Registration Statement filed on September 18, 1992.
10.7	Revised employment agreements between Christopher Oddleifson, Raymond G. Fuerschbach, Edward F. Jankowski, Jane L. Lundquist, Gerard F. Nadeau, Edward H. Seksay, and Denis K. Sheahan and the Company and/or Rockland Trust and a Rockland Trust Company amended and restated Supplemental Executive Retirement Plan dated November 20, 2008, incorporated by reference to Form 8-K filed on November 21, 2008.
10.8	Specimen forms of stock option agreements for the Company s Chief Executive and other executive officers, incorporated by reference to Form 8-K filed on December 20, 2005.
10.9	On-Site Outsourcing Agreement by and between Fidelity Information Services, Inc. and Independent Bank Corp., effective as of November 1, 2004, incorporated by reference to Form 10-K for the year ended December 31, 2004 filed on March 4, 2005. Amendment to On-Site Outsourcing Agreement, incorporated by reference to Form 8-K filed on May 7, 2008.
10.10	New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of September 22, 2004, incorporated by reference to Form 8-K filed on October 14, 2004.
10.11	Independent Bank Corp. 2006 Non-Employee Director Stock Plan, incorporated by reference to Form S-8 filed on April 17, 2006.
10.12	Independent Bank Corp. 2006 Stock Option Agreement for Non-Employee

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No.	Exhibit
	Director, incorporated by reference to Form 10-Q filed on May 9, 2006.
10.13	Independent Bank Corp. 2006 Restricted Stock Agreement for Non-Employee Director, incorporated by reference to Form 10-Q filed on May 9, 2006.
10.14	New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of January 9, 2007, is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
10.15	New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of June 18, 2009, incorporated by reference to Form 10-Q filed on November 5, 2009.
10.16	Item Processing and Other Services Agreement dated and effective as of July 1, 2010 by and between Fidelity Information Services, Inc. and Independent Bank Corp., incorporated by reference to Form 10-Q filed August 5, 2010.
10.17	Independent Bank Corp. 2010 Non-Employee Director Stock Plan, incorporated by reference to Form 8-K filed May 24, 2010.
10.18	Independent Bank Corp. 2010 Stock Option Agreement for Non-Employee Director, incorporated by reference to Form 8-K filed May 24, 2010.
10.20	Independent Bank Corp. 2010 Restricted Stock Agreement for Non-Employee Director, incorporated by reference to Form 8-K filed May 24, 2010.
10.21	Independent Bank Corp. amendment to the Amended and Restated 2005 Employee Stock Plan, incorporated by reference to Form S-8 filed on June 17, 2011.
10.22	Independent Bank Corp. and Rockland Trust company Executive Officer Performance Incentive Plan, incorporated by reference to Form 8-K filed on April 20, 2011.
31.1	Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*
31.2	Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*
32.1	Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+
32.2	Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+
101.INS	XBRL Instance Document +
101.SCH	XBRL Taxonomy Extension Schema Document +

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document +
101.LAB	XBRL Taxonomy Extension Label Linkbase Document +
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document +
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document +

* Filed herewith

\+ Furnished herewith

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SIGNATURES

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

	INDEPENDENT BANK CORP. (registrant)
Date: August 5, 2011	/s/ Christopher Oddleifson Christopher Oddleifson President and Chief Executive Officer (Principal Executive Officer)
Date: August 5, 2011	/s/ Denis K. Sheahan Denis K. Sheahan Chief Financial Officer (Principal Financial Officer)
	INDEPENDENT BANK CORP. (registrant)