INDEPENDENT BANK CORP
Form 10-Q
November 05, 2009

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2009
Commission File Number: 1-9047
Independent Bank Corp.
(Exact name of registrant as specified in its charter)

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

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

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

Yes þ No o

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

Yes o No o

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

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

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

Yes o No þ

As of November 1, 2009, there were 20,930,171 shares of the issuer s common stock outstanding, par value $0.01 per share

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 30, 2009	December 31, 2008
ASSETS		
CASH AND DUE FROM BANKS	$ 65,514	$ 50,007
FED FUNDS SOLD AND SHORT TERM INVESTMENTS		100
SECURITIES		
TRADING ASSETS	23,090	2,701
SECURITIES AVAILABLE FOR SALE	546,125	600,291
SECURITIES HELD TO MATURITY (fair value $83,479 and $30,390)	83,063	32,789
TOTAL SECURITIES	652,278	635,781
LOANS HELD FOR SALE	14,160	8,351
LOANS		
COMMERCIAL AND INDUSTRIAL	371,092	270,832
COMMERCIAL REAL ESTATE	1,546,206	1,126,295
COMMERCIAL CONSTRUCTION	201,196	171,955
SMALL BUSINESS	84,135	86,670
RESIDENTIAL REAL ESTATE	576,575	413,024
RESIDENTIAL CONSTRUCTION	14,783	10,950
CONSUMER HOME EQUITY	467,213	406,240
CONSUMER AUTO	92,093	127,956
CONSUMER OTHER	34,246	38,614
TOTAL LOANS	3,387,539	2,652,536
LESS: ALLOWANCE FOR LOAN LOSSES	(41,357)	(37,049)
NET LOANS	3,346,182	2,615,487
FEDERAL HOME LOAN BANK STOCK	36,357	24,603
BANK PREMISES AND EQUIPMENT, NET	41,963	36,429
GOODWILL	129,056	116,437
IDENTIFIABLE INTANGIBLE ASSETS	15,096	9,273
MORTGAGE SERVICING RIGHTS	2,165	1,498
BANK OWNED LIFE INSURANCE	78,391	65,003
OTHER REAL ESTATE OWNED	6,491	1,808
OTHER ASSETS	46,350	63,692
TOTAL ASSETS	$4,434,003	$3,628,469

LIABILITIES AND STOCKHOLDERS   EQUITY

DEPOSITS		
DEMAND DEPOSITS	$ 702,159	$ 519,326
SAVINGS AND INTEREST CHECKING ACCOUNTS	965,694	725,313
MONEY MARKET	675,269	488,345
TIME CERTIFICATES OF DEPOSIT OVER $100,000	306,702	285,410
OTHER TIME CERTIFICATES OF DEPOSIT	631,152	560,686
TOTAL DEPOSITS	3,280,976	2,579,080
FEDERAL HOME LOAN BANK ADVANCES	396,218	429,634
FEDERAL FUNDS PURCHASED AND ASSETS SOLD UNDER REPURCHASE AGREEMENTS	188,707	170,880
SUBORDINATED DEBENTURES	30,000	30,000
JUNIOR SUBORDINATED DEBENTURES	61,857	61,857
OTHER BORROWINGS	2,418	2,946
TOTAL BORROWINGS	679,200	695,317
OTHER LIABILITIES	67,252	48,798
TOTAL LIABILITIES	$4,027,428	$3,323,195
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
COMMON STOCK, $0.01 par value. Authorized: 30,000,000 Shares Issued and Outstanding: 20,930,171 Shares at September 30, 2009 and 16,285,455 Shares at December 31, 2008	$ 209	$ 163
SHARES HELD IN RABBI TRUST AT COST 175,489 Shares at September 30, 2009 and 171,489 Shares at December 31, 2008	(2,417)	(2,267)
DEFERRED COMPENSATION OBLIGATION	2,417	2,267
ADDITIONAL PAID IN CAPITAL	224,848	137,488
RETAINED EARNINGS	179,245	177,493
ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX	2,273	(9,870)
TOTAL STOCKHOLDERS EQUITY	406,575	305,274
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$4,434,003	$3,628,469

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

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

	THREE MONTHS ENDED September 30,		NINE MONTHS ENDED September 30,	
	2009	2008	2009	2008
INTEREST INCOME				
Interest on Loans	$ 45,773	$ 39,143	$ 126,491	$ 112,732
Interest on Loans Held for Sale	169	58	497	293
Taxable Interest and Dividends on Securities	7,426	5,456	21,802	15,671
Non-taxable Interest and Dividends on Securities	218	366	744	1,319
Interest on Federal Funds Sold and Short-Term Investments	4	62	272	96
Total Interest and Dividend Income	53,590	45,085	149,806	130,111
INTEREST EXPENSE				
Interest on Deposits	7,446	9,078	24,293	28,933
Interest on Borrowings	5,236	5,079	15,517	15,006
Total Interest Expense	12,682	14,157	39,810	43,939
Net Interest Income	40,908	30,928	109,996	86,172
PROVISION FOR LOAN LOSSES	4,443	2,068	12,911	5,312
Net Interest Income After Provision For Loan Losses	36,465	28,860	97,085	80,860
NON-INTEREST INCOME				
Service Charges on Deposit Accounts	4,613	4,083	12,518	11,681
Wealth Management	2,278	2,764	7,318	8,554
Mortgage Banking Income, Net	425	501	3,578	2,574
Bank Owned Life Insurance Income	713	659	2,126	1,816
Net Gain/(Loss) on Sales of Securities Available for Sale			1,355	(609)
Gain Resulting From Early Termination of Hedging Relationship			3,778	
Gross Loss on Write-Down of certain Investments to Fair Value	(5,108)	(720)	(7,384)	(2,570)
Less: Non-Credit Related Other-Than-Temporary Impairment	(33)		590	
Net Loss on Write-Down of certain Investments to Fair Value	(5,141)	(720)	(6,794)	(2,570)

Other Non-Interest Income	1,578	1,432	4,283	3,779
Total Non-Interest Income	4,466	8,719	28,162	25,225
NON-INTEREST EXPENSE				
Salaries and Employee Benefits	17,727	14,719	49,720	43,806
Occupancy and Equipment Expenses	3,985	3,200	11,826	9,338
Data Processing and Facilities Management	1,580	1,465	4,600	4,170
FDIC Assessment	1,267	719	5,655	830
Telephone	779	389	1,820	1,201
Advertising Expense	232	366	1,427	1,506
Software Maintenance	484	347	1,393	1,062
Consulting Expense	474	411	1,416	1,311
Legal	703	403	1,906	794
Merger & Acquisition Expenses	41		12,423	1,120
Other Non-Interest Expense	5,032	3,440	14,981	12,414
Total Non-Interest Expense	32,304	25,459	107,167	77,552
INCOME BEFORE INCOME TAXES	8,627	12,120	18,080	28,533
PROVISION FOR INCOME TAXES	1,786	3,305	4,192	7,590
NET INCOME	$ 6,841	$ 8,815	$ 13,888	$ 20,943
PREFERRED STOCK DIVIDEND	$	$	$ 5,698	$
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 6,841	$ 8,815	$ 8,190	$ 20,943
BASIC EARNINGS PER SHARE	$ 0.33	$ 0.54	$ 0.43	$ 1.35
DILUTED EARNINGS PER SHARE	$ 0.33	$ 0.54	$ 0.43	$ 1.34
Weighted average common shares (Basic)	20,921,635	16,275,442	19,210,431	15,518,540
Common share equivalents	48,254	62,738	26,181	72,627
Weighted average common shares (Diluted)	20,969,889	16,338,180	19,236,612	15,591,167

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

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited Dollars in Thousands, Except Per Share Data)

	PREFERRED STOCK	COMMON SHARES OUTSTANDING	COMMON STOCK	VALUE OF SHARES HELD IN RABBI TRUST	DEFERRED COMPENSATION OBLIGATION	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS)/INCOME	TOTAL
BALANCE DECEMBER 31, 2008	$	16,285,455	$163	$(2,267)	$2,267	$137,488	$177,493	$ (9,870)	$305,274
Cumulative effect accounting adjustment, net of tax (1)							3,823	(3,823)	
Net Income							13,888		13,888
Dividends Declared:									
Common Declared ($0.54 per share)							(10,521)		(10,521)
Preferred Declared (2)							(5,698)		(5,698)
Common Stock Issue for Acquisition		4,624,948	46			84,452			84,498
Proceeds From Exercise of Stock Options		19,768					260		260
Tax Expense Related to Equity Award Activity						(4)			(4)
Equity Based Compensation						532			532
Change in Fair Value of Cash Flow Hedges, Net of Tax and Realized Gains								5,173	5,173
Deferred Compensation Obligation				(150)	150				
								(195)	(195)

Amortization of Prior Service Cost, net of tax									
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)								10,988	10,988
Issuance of Preferred Stock and Stock Warrants	73,578					4,580			78,158
Redemption of Preferred Stock and Stock Warrants	(73,578)					(2,200)			(75,778)
BALANCE SEPTEMBER 30, 2009	$	20,930,171	$209	$(2,417)	$2,417	$224,848	$179,245	$ 2,273	$406,575
BALANCE DECEMBER 31, 2007	$	13,746,711	$137	$(2,012)	$2,012	$ 60,632	$164,565	$ (4,869)	$220,465
Net Income							20,943		20,943
Cash Dividends Declared ($0.54 per share)							(8,796)		(8,796)
Common Stock Issue for Acquisition		2,492,195	25			76,203			76,228
Proceeds From Exercise of Stock Options		39,486	1				626		627
Tax Benefit Related to Equity Award Activity						123			123
Equity Based Compensation						389			389
Change in Fair Value of Cash Flow Hedges,								(655)	(655)

Net of Tax and Realized Gains/(Losses) Deferred Compensation Obligation			(161)	161				
Amortization of Prior Service Cost, net of tax							126	126
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains							(4,710)	(4,710)
BALANCE SEPTEMBER 30, 2008	$ 16,278,392	$163	$(2,173)	$2,173	$137,347	$177,338	$(10,108)	$304,740

(1) Represents reclassification of the non-credit related component of previously recorded Other-Than-Temporary impairment, pursuant to the provisions of the Investments-Debt and Equity Securities Topic of FASB ASC.

(2) Includes $196 discount of accretion on preferred stock and $4,384 of deemed dividend associated with the Company s exit from the U.S. Treasury s Capital Purchase Program.

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

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INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited Dollars In Thousands)

	NINE MONTHS ENDED SEPTEMBER 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 13,888	$ 20,943
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	7,299	4,751
Provision for loan losses	12,911	5,312
Deferred income tax benefit	(4,851)	(7,764)
Net (gain) loss on sale of investments	(1,355)	609
Loss on write-down of investments in securities available for sale	6,794	2,570
Loss on sale of other real estate owned	562	35
Realized gain on sale leaseback transaction	(775)	(431)
Stock based compensation	532	388
Tax (expense) benefit from stock option exercises	(4)	123
Net change in:		
Trading assets	(20,389)	339
Loans held for sale	(5,809)	5,617
Other assets	50,187	5,832
Other liabilities	(5,204)	(6,770)
TOTAL ADJUSTMENTS	39,898	10,611
NET CASH PROVIDED BY OPERATING ACTIVITIES	53,786	31,554
CASH FLOWS PROVIDED BY / (USED IN) INVESTING ACTIVITIES:		
Proceeds from sales of Securities Available For Sale	168,535	109,413
Proceeds from maturities and principal repayments of Securities Available For Sale	125,859	74,111
Proceeds from maturities and principal repayments of Securities Held to Maturity	5,832	11,973
Purchase of Securities Available For Sale	(92,938)	(155,555)
Purchase of Held to Maturity Securities	(56,135)	
Purchase of Federal Home Loan Bank stock		(642)
Net increase in Loans	(60,585)	(81,359)
Cash Provided By/(Used In) Business Combinations	98,084	(13,671)
Investment in Bank Premises and Equipment	(3,066)	(5,957)
Proceeds from the sale of other real estate owned	705	206
Proceeds from Sale Leaseback Transaction		31,433
NET CASH PROVIDED BY/ (USED IN) INVESTING ACTIVITIES	186,291	(30,048)
CASH FLOWS PROVIDED BY/(USED IN) FINANCING ACTIVITIES:		

Net (decrease) increase in Time Deposits	(150,626)	77,493
Net increase in Other Deposits	151,115	23,159
Net increase in Federal Funds Purchased		
and Assets Sold Under Repurchase Agreements	17,827	27,814
Net decrease in Short Term Federal Home Loan Bank Advances	(48,250)	(28,000)
Proceeds from Long Term Federal Home Loan Bank Advances		
Repayment of Long Term Federal Home Loan Bank Advances	(180,629)	(97,997)
Net decrease in Treasury Tax & Loan Notes	(528)	(966)
Proceeds from Issuance of Subordinated Debentures		30,000
Proceeds from issuance of Preferred Stock and Stock Warrants	78,158	
Redemption of Preferred Stock	(78,158)	
Redemption of Warrants	(2,200)	
Proceeds from exercise of stock options	260	628
Dividends paid		
Common Dividends	(10,521)	(8,201)
Preferred Dividends	(1,118)	
NET CASH PROVIDED BY/ (USED IN) FINANCING ACTIVITIES	(224,670)	23,930
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,407	25,436
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	50,107	67,416
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 65,514	$ 92,852
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans to foreclosed assets	$ 2,665	$ 799
In conjunction with business combinations		
assets were acquired and liabilities were assumed as follows:		
Common stock issued	$ 84,498	$ 76,236
Fair value of assets acquired	1,006,448	662,647
Fair value of liabilities assumed	921,945	586,419

The accompanying 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.

The Company is currently the sponsor of Independent Capital Trust V (Trust V), a Delaware statutory trust, Slade s Ferry Statutory Trust I (Slade s Ferry Trust I), a Connecticut statutory trust, and Benjamin Franklin Capital Trust I (Ben Franklin Trust I), a Delaware statutory trust, each of which was formed to issue trust preferred securities. Trust V, Slade s Ferry Trust I, and Ben Franklin Trust I are not included in the Company s consolidated financial statements in accordance with the requirements of the consolidation topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

As of September 30, 2009, the Bank had the following corporate subsidiaries, all of which were wholly-owned by the Bank and included in the Company s consolidated financial statements:

Four Massachusetts security corporations, namely Rockland Borrowing Collateral Securities Corp., Rockland IMG Collateral Securities Corp., Rockland Deposit Collateral Securities Corp., and Taunton Avenue Securities Corp., which hold securities, industrial development bonds, and other qualifying assets;

Rockland Trust Community Development Corporation which, in turn, has four wholly-owned corporate subsidiaries named Rockland Trust Community Development LLC, Rockland Trust Community Development Corporation II, Rockland Trust Community Development III LLC, and Rockland Trust Community Development IV LLC, which were all formed to qualify as community development entities under the federal New Markets Tax Credit Program criteria;

Rockland Trust Phoenix LLC, which was established in April 2009 to hold other real estate acquired through foreclosure; and

Compass Exchange Advisors LLC (CEA LLC) which provides like-kind exchange services pursuant to section 1031 of the Internal Revenue Code.

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

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S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009 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, 2008 filed with the Securities and Exchange Commission.

NOTE 2- STOCK BASED COMPENSATION

On May 27, 2009 the Company granted restricted stock awards to acquire 5,600 shares of the Company s common stock from the 2006 Non-Employee Director Stock Plan to certain directors of the Company and/or Bank. The holders of these awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. The restricted stock awards have been determined to have a fair value of $20.08 per share, based on the average of the high price and low price at which the Company s common stock traded on the date of grant. The restricted stock awards vest at the end of a five year period.

On May 21, 2009 the Company granted 93,000 restricted stock awards to certain executive officers of the Company and/or Bank, from the 2005 Employee Stock Plan. The holders of these awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. The restricted stock awards have been determined to have a fair value of $19.48, based on the average of the high price and low price at which the Company s common stock traded on the date of grant. The restricted stock awards vest over a five year period.

On April 20, 2009 the Company awarded options to purchase 5,000 shares of common stock from the 2005 Employee Stock Plan to a certain officer of the Bank. The expected volatility, expected life, expected dividend yield, and expected risk free interest rate for this grant used to determine the fair value of the shares as determined on April 20, 2009 were 38%, 5 years, 2.99%, and 1.80%, respectively. The options have been determined to have a fair value of $5.25 per share. The options vest over a five year period and have a contractual life of ten years from date of grant.

On March 2, 2009 the Company awarded options to purchase 5,000 shares of common stock from the 2006 Non-Employee Director Stock Plan to a director of the Company and/or the Bank. The expected volatility, expected life, expected dividend yield, and expected risk free interest rate for this grant used to determine their fair value were determined on March 2, 2009 and were 33%, 5 years, 2.78%, and 1.82%, respectively. The options have been determined to have a fair value of $3.32 per share. The options vest over a five year period and have a contractual life of ten years from date of grant.

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On February 27, 2009 the Company granted 24,000 restricted stock awards to certain non-executive officers of the Company and/or Bank, from the 2005 Employee Stock Plan. The holders of these awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. The restricted stock awards have been determined to have a fair value of $14.64, based on the average of the high price and low price at which the Company s common stock traded on the date of grant. The restricted stock awards vest over a five year period.

NOTE 3 RECENT ACCOUNTING DEVELOPMENTS

FASB ASC Topic No. 855, Subsequent Events (Statement of Financial Accounting Standards (SFAS) No. 165 Subsequent Events (as Amended)) This statement was established to set forth principles and requirements for subsequent events. In particular this statement set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. This guidance was effective for interim or annual financial periods ending after June 15, 2009, and was applied prospectively. The adoption of this statement did not have a material impact on the Company s consolidated financial position or results of operations.

FASB ASC Topic No. 860, Transfers and Servicing (SFAS No. 166 (SFAS 166), Accounting for Transfers of Financial Assets an amendment of FASB Statement No.140) The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. This Statement must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The adoption of this standard did not have a material impact on the Company s consolidated financial position or results of operations. The Company does not anticipate the adoption of this standard to have a material impact on the Company s consolidated financial position or results of operations.

FASB ASC Topic No. 810, Consolidation (SFAS No. 167 Amendments to FASB Interpretations 46(R) (as amended)) The purpose of the statement is to improve financial reporting by enterprises involved with variable interest entities. This guidance requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity by determining whether the Company has the power to direct the activities of the variable interest entity that most significantly impact the entity s economic performance. This Standard shall be effective for interim or annual financial periods ending after November 15, 2009. 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 or results of operations.

FASB ASC Topic No. 105, Generally Accepted Accounting Positions (SFAS No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles) In May 2009, the FASB issued this guidance to replace SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles and to establish

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the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). This Statement is effective for fiscal years beginning on or after September 15, 2009. The adoption of this standard did not have a material effect on the Company s consolidated financial position or results of operations.

FASB ASC Topic No. 320, **Investments Debt and Equity Securities** ***(FASB Staff Position (FSP) SFAS 115-2 &124-2*** **Recognition and Presentation of Other-Than-Temporary Impairments** ***)*** Issued on April 9, 2009, this standard amends the other-than-temporary impairment (OTTI) guidance in U.S. GAAP for debt securities to make guidance more operational and to improve the presentation and disclosure of OTTI on debt and equity securities in the financial statements, by providing greater clarity to investors about the credit and non-credit components of OTTI. This standard was effective for interim and annual periods ending after June 15, 2009, with early adoption for the interim and annual periods ending after March 15, 2009. The Company elected to early adopt this standard and pursuant to the adoption of this standard, which stated that previously recorded impairment charges which did not relate to credit loss should be reclassified from retained earnings to other comprehensive income (OCI), the Company recorded a cumulative effect accounting adjustment that increased retained earnings and decreased OCI for the amount of previously recorded OTTI that was not related to credit.

FASB ASC Topic No. 820, **Fair Value Measurement and Disclosures** ***(FSP SFAS 157-4,*** **Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly** ***)*** Issued on April 9, 2009, this standard provides additional guidance for estimating fair value in accordance with FASB ASC Topic No. 820, Fair Value Measurements, when the volume and level of activity for the assets or liability have significantly decreased. This standard was effective for interim and annual reporting periods ending after June 15, 2009. Early adoption was permitted for periods ending after March 15, 2009. The Company elected to early adopt this standard for the period ending March 31, 2009. The adoption of the standard did not have a material impact on the Company s consolidated financial position or results of operations.

FASB ASC Topic No. 825, **Financial Instruments (FSP SFAS 107-1, Interim Disclosures about Fair Value of Financial Instruments**) Issued on April 9, 2009, this standard amends the periods for which public companies must disclose the fair value of financial instruments. The standard requires all publicly traded companies to include disclosures about the fair value of its financial instruments as required by FASB ASC Topic No. 825 whenever the Company summarizes financial information for interim reporting periods. This statement was effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity was able to early adopt the standard by also electing to early adopt FSP FAS 157-4. Accordingly, the Company early adopted this standard for the interim period ending March 31, 2009. The adoption of the standard did not have a material impact on the Company s consolidated financial position or results of operations.

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NOTE 4 SECURITIES

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

The amortized cost, gross unrealized gains and losses, non-credit related other-than-temporary impairment, and fair value of securities held to maturity for the periods below were as follows:

	September 2009					December 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Non-Credit Related Other-Than-Temporary Impairment	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Non-Credit Related Other-Than-Temporary Impairment	Fair Value
	(Dollars In Thousands)					(Dollars In Thousands)				
Agency Mortgage-Backed Securities	$ 43,030	$ 961	$	$	$ 43,991	$ 3,470	$ 130	$	$	$ 3,600
Agency Collateralized Mortgage Obligations	15,002		(177)		14,825					
State, County, and Municipal Securities	15,251	438			15,689	19,516	324	(53)		19,787
Single Issuer Trust Preferred Securities Issued by Banks	9,780		(806)		8,974	9,803		(2,800)		7,003
Total	$ 83,063	$ 1,399	$ (983)	$	$ 83,479	$ 32,789	$ 454	$ (2,853)	$	$ 30,390

The amortized cost, gross unrealized gains and losses, non-credit related other-than-temporary impairment and fair value of securities available for sale for the periods below were as follows:

	September 2009					December 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Non-Credit Related Other-Than-Temporary Impairment	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Non-Credit Related Other-Than-Temporary Impairment	Fair Value
	(Dollars In Thousands)					(Dollars In Thousands)				
U.S. Treasury Securities	$ 751	$ 1	$	$	$ 752	$ 705	$ 5	$	$	$ 710
Agency Mortgage-Backed Securities	465,308	20,484	(48)		485,744	462,539	12,721	(177)		475,083

Agency Collateralized Mortgage Obligations	33,816	913	(26)		34,703	56,541	323	(81)		56,783
Private Mortgage-Backed Securities (2)	16,593		(811)	(908)	14,874	22,020		(6,506)		15,514
State, County, and Municipal Securities	4,000	104			4,104	18,620	334			18,954
Corporate Debt Securities						24,925	927			25,852
Single Issuer Trust Preferred Securities Issued by Banks	5,000		(1,858)		3,142	5,000		(2,798)		2,202
Pooled Trust Preferred Securities Issued by Banks and Insurers(1)(2)	10,864		(2,402)	(5,656)	2,806	17,437		(6,269)	(5,975)	5,193
Total	$ 536,332	$ 21,502	$ (5,145)	$ (6,564)	$ 546,125	$ 607,787	$ 14,310	$ (15,831)	$ (5,975)	$ 600,291

(1) The Company recorded OTTI charges in this category of $7.2 million for the year ended December 31, 2008. For securities deemed to be other-than-temporarily impaired the amortized cost reflects previous OTTI recognized in earnings. Subsequently, pursuant to the provisions of the Investments Debt and Equity Securities Topic of the FASB ASC, which stated that previously recorded impairment charges which did not relate to credit loss should be reclassified from retained earnings to OCI, the Company

recorded a cumulative effect adjustment that increased retained earnings and decreased OCI by $6.0 million, or $3.8 million net of tax, respectively.The table above reflects the reclass to OCI pursuant to the provisions of the Investments Debt and Equity Securities Topic of the FASB ASC for comparative illustrative purposes only, as the FASB ASC was adopted effective January 1, 2009.

(2) During the nine months ending September 30, 2009 the Company recorded additional OTTI of $7.4 million of which $6.8 million was determined to be credit related and accordingly was recorded as a charge to non-interest income and the remaining $590,000 was recorded through OCI.

The Company recorded gross gains of $1.4 million for the nine months ended September 30, 2009 on the sale of available for sale securities. There were no sales during the quarter ended September 30, 2009. There were gross losses of $609,000 for the nine months ended September 30, 2008 on the sale of securities available for sale and no gross gains or losses for the quarter ended September 30, 2008 on the sale of securities available for sale. When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale.

A schedule of the contractual maturities of securities held to maturity and securities available for sale as of September 30, 2009 is presented below.

	Held to Maturity		**Available for Sale**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
	(Dollars In Thousands)		***(Dollars In Thousands)***	
Due in one year or less	$ 13	$ 13	$	$
Due from one year to five years	7,597	7,857	39,386	40,442
Due from five to ten years	8,311	8,667	134,646	141,056

Due after ten years	67,142	66,942	362,300	364,627
Total	$ 83,063	$ 83,479	$ 536,332	$ 546,125

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 September 30, 2009, the Bank has $25.4 million of callable securities in its investment portfolio.

On September 30, 2009 and December 31, 2008 investment securities carried at $229.5 million and $196.0 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 as required by law. As of September 30, 2009, the Federal Home Loan Bank Boston (FHLBB) changed the requirements for pledging securities as collateral, by requiring that the securities be held in a safekeeping account at the FHLBB. The Bank currently is not safekeeping securities with the FHLBB and therefore the securities are not eligible to be pledged as collateral at this time. Management will continue to review the cost/benefit and its liquidity needs as it relates to safekeeping and pledging investment securities at the FHLBB. At December 31, 2008, $310.6 million of securities, at carrying value, were pledged to the FHLBB to secure advances.

At September 30, 2009 and December 31, 2008, the Company had no investments in obligations of individual states, counties, or municipalities, which exceed 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 is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment.

Management prepares an estimate of the expected cash flows for investment securities that potentially may be deemed to have OTTI. This estimate begins with the contractual cash flows of the security. This amount is then reduced by an estimate of probable credit losses associated with the security. When estimating the extent of probable losses on the securities, management considers the strength of the underlying issuers. Indicators of diminished credit quality of the issuers includes defaults, interest deferrals, or payments in kind. Management also considers those factors listed in the Investments Debt and Equity Securities topic of the FASB ASC when estimating the ultimate realizability of the cash flows for each individual security. The resulting estimate of cash flows after considering credit is then subject to a present value computation using a discount rate equal to the current yield used to accrete the beneficial interest or the effective interest rate implicit in the security at the date of acquisition. If the present value of the estimated cash flows is less than the current amortized cost basis, an OTTI is considered to have occurred and the security is written down to the fair value indicated by the cash flows analysis. As part of the analysis, management considers whether it intends to sell the security or whether it is more than likely that it would be required to sell the security before the recovery of its amortized cost basis.

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In determining which portion of the OTTI charge is related to credit, and what portion is related to other factors, management considers the reductions in the cash flows due to credit and ascribes that portion of the OTTI charge to credit. Simply, to the extent the estimated cash flows do not support the amortized cost, that amount is considered credit loss and the remainder of the OTTI charge is considered due to other factors, such as liquidity or interest rates, and thus is not recognized in earnings, but rather through other comprehensive income.

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, at September 30, 2009 and December 31, 2008.

		At September 30, 2009					
		Less than 12 months		12 months or longer		Total	
Description of Securities	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(Dollars In Thousands)			
Agency Mortgage-Backed Securities	3	$ 11,498	$ (48)	$	$	$ 11,498	$ (48)
Agency Collateralized Mortgage Obligations	6	17,570	(203)			17,570	(203)
Private Mortgage-Backed Securities	1			9,243	(811)	9,243	(811)
City, State, and Local Municipal Bonds	0						
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	4			12,116	(2,664)	12,116	(2,664)
Pooled Trust Preferred Securities Issued by Banks and Insurers	2			2,328	(2,402)	2,328	(2,402)
Total Temporarily Impaired Securities	16	$ 29,068	$ (251)	$ 23,687	$ (5,877)	$ 52,755	$ (6,128)

		At December 31, 2008					
		Less than 12 months		12 months or longer		Total	
Description of Securities	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(Dollars In Thousands)			
Agency Mortgage-Backed Securities	10	$ 4,326	$ (177)	$	$	$ 4,326	$ (177)
Agency Collateralized Mortgage Obligations	4	16,730	(81)			16,730	(81)
Private Mortgage-Backed Securities	2	15,514	(6,506)			15,514	(6,506)

City, State, and Local Municipal Bonds	4	1,613	(54)			1,613	(54)
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	4	1,043	(496)	8,163	(5,102)	9,206	(5,598)
Pooled Trust Preferred Securities Issued by Banks and Insurers	3			3,495	(6,268)	3,495	(6,268)
Total Temporarily Impaired Securities	27	$ 39,226	$ (7,314)	$ 11,658	$ (11,370)	$ 50,884	$ (18,684)

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

Agency Mortgage-Backed Securities and Collateralized Mortgage Obligation: 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.

Private Mortgage-Backed Securities: The unrealized loss on this security, which is below investment grade, is attributable to the credit rating downgrades received during the past nine months and the general uncertainty surrounding the housing market and its potential impact on securitized mortgage loans. Management evaluates various factors, including current and expected performance of underlying collateral, to determine collectability of amounts due.

City, State, and Local Municipal Bonds: The unrealized losses on the Company s investment in City, State and Local Municipal Bonds are due to current disruptions in the municipal insurance business, rather than credit concerns.

Single Issuer Trust Preferred Securities: This portfolio consists of four securities, one of which is investment grade, two of which are below investment grade and one which is not rated. The unrealized loss on these securities is attributable to the illiquid nature of the trust preferred market in the current economic environment. Management evaluates various financial metrics for each of the issuers, including capitalization rates.

Pooled Trust Preferred Securities: This portfolio consists of both investment grade and below investment grade securities. 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.

Management monitors the following securities closely for impairment due to recent OTTI experiences. If the securities are not currently experiencing OTTI management has determined that the securities possess characteristics which in this economic environment could lead to further OTTI charges. The following tables summarize pertinent information that was considered by management in determining if OTTI existed.

Security Name	Class	Amortized Cost*	Gross Unrealized Gain/(Loss)	Non-Credit Related Other-Than-Temporary Impairment	Fair Value	Lowest Credit Ratings as of September 30, 2009	Total Cumulative Other-Than-Temporary Impairment thru September 30, 2009
		(Dollars in Thousands)					
Pooled Trust Preferred Securities							
Pooled Trust Preferred Security A	C1	$ 3,124	$	$ (2,868)	$ 256	CC (Fitch); Caa3 (Moody s)	$ (4,703)
Pooled Trust Preferred Security B	D					C (Fitch)	(3,481)
Pooled Trust Preferred Security C	C1	826		(750)	76	C (Fitch)	(911)
Pooled Trust Preferred Security D	D					C (Fitch)	(990)
Pooled Trust Preferred Security E	C1	2,183		(2,038)	145	CC (Fitch); Ca (Moody s)	(3,303)
Pooled Trust Preferred Security F	B	1,887	(1,231)		656	BBB- (S&P)	
Pooled Trust Preferred Security G	A1	2,844	(1,171)		1,673	B3 (Moody's)	
		$ 10,864	$ (2,402)	$ (5,656)	$ 2,806		$ (13,388)
Single Issuer Trust Preferred Securities							
Single Issuer-AFS	N/A	$ 5,000	$ (1,858)	$	$ 3,142	Baa1 (Moody's)	$
	N/A	5,134	(533)		4,601	B (S&P)	

Single Issuer One-HTM												
Single Issuer Two-HTM	N/A		1,538		(131)				1,407	BBB- (S&P)		
Single Issuer Three-HTM	N/A		3,108		(142)				2,966	N/R		
		$	14,780	$	(2,664)	$		$	12,116		$	
Private Mortgage-Backed Securities												
Private Mortgage-Backed Securities One	A19	$	6,539	$		$	(908)	$	5,631	CC (Fitch)	$	(1,205)
Private Mortgage-Backed Securities Two	2A1		10,054		(811)				9,243	CC (Fitch)		
		$	16,593	$	(811)	$	(908)	$	14,874		$	(1,205)

* For the securities deemed impaired the amortized cost reflects previous OTTI recognized in earnings.

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Security Name	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)*
Pooled Trust Preferred Securities				
Trust Preferred Security A	70	28.49%	24.15%	0.00%
Trust Preferred Security B	70	28.49%	24.15%	0.00%
Trust Preferred Security C	55	30.10%	25.02%	0.00%
Trust Preferred Security D	55	30.10%	25.02%	0.00%
Trust Preferred Security E	57	20.02%	24.05%	0.00%
Trust Preferred Security F	37	20.02%	21.75%	41.78%
Trust Preferred Security G	37	20.02%	21.75%	20.25%
Private Mortgage-Backed Securities				
Private Mortgage-Backed Securities One	N/A	0.38%	5.68%	0.00%
Private Mortgage-Backed Securities Two	N/A	0.00%	7.61%	0.00%

* 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.

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

The Company recorded OTTI of $5.1 million through earnings during the third quarter of 2009, all of which was determined to be credit related. Additionally, the Company reclassified $33,000 from OCI to earnings for OTTI previously considered to be non-credit related. The Company recorded OTTI of $7.4 million for the nine months ended September 30, 2009, of which $6.8 million was determined to be credit related. The remaining $590,000 was considered non-credit related and recorded through OCI. For the year ended December 31, 2008 the Company recorded OTTI on certain investment grade pooled trust preferred securities, which resulted in a charge to non-interest income of $7.2 million. Pursuant to the Investments Debt and Equity Securities topic of the FASB ASC which states that previously recorded impairment charges which did not relate to credit loss should be reclassified from retained earnings to OCI as of January 1, 2009, the Company recorded a cumulative effect adjustment that increased retained earnings and decreased OCI by $6.0 million, or $3.8 million, net of tax. The remaining $1.2 million of the original $7.2 million OTTI charge was deemed to be credit related. The following table shows the credit related component of other-than-temporary impairment.

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Credit Related Component of Other-Than-Temporary Impairment
(Dollars in Thousands)

For the three months ended:	
Balance at June 30, 2009	$ (2,889)
Add:	
Incurred on Securities not Previously Impaired	(1,835)
Incurred on Securities Previously Impaired	(3,306)
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 September 30, 2009	$ (8,030)
For the nine months ended:	
Balance at January 1, 2009	$ (1,236)
Add:	
Incurred on Securities not Previously Impaired	(2,133)
Incurred on Securities Previously Impaired	(4,661)
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 September 30, 2009	$ (8,030)

NOTE 5 FAIR VALUE

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

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value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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

Valuation Techniques

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 and Government Sponsored Enterprises

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 within the fair value hierarchy.

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.

State, County, and Municipal Securities

The fair value is estimated using a valuation matrix with inputs including bond interest rate tables, recent transactions, and yield relationships. These securities are categorized as Level 2 within the fair value hierarchy.

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Corporate Debt Securities

The fair value is estimated using market prices (to the extent they are available and observable), recently executed transactions, and bond spreads. Corporate bonds are categorized as Level 2.

Single/Pooled Issuer Trust Preferred Securities

The fair value of trust preferred securities, including pooled and single issued 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 within the fair value hierarchy.

Derivative Financial Instruments

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect 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 September 30, 2009, 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 of the fair value hierarchy.

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.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market value. Fair value is measured on a non-recurring basis 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.

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 within the fair value hierarchy.

Mortgage Servicing Asset

The mortgage servicing asset is carried at cost and is subject to impairment testing. A valuation model, which utilizes a discounted cash flow analysis encompassing interest rates and prepayment speed assumptions currently quoted for comparable instruments, is used for impairment analysis. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Company classifies the mortgage servicing asset as Level 3.

Goodwill and Other Intangible Assets

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2009 and December 31, 2008 are as follows:

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		Fair Value Measurements at Reporting Date Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in Thousands)		
As of September 30, 2009				
Description				
Assets				
Trading Securities	$ 23,090	$ 23,090	$	$
Securities Available for Sale:				
U.S. Treasury and Government Sponsored Enterprise	752		752	
Agency Mortgage-Backed Securities	485,744		485,744	
Agency Collateralized Mortgage Obligations	34,703		34,703	
Private Mortgage-Backed Securities	14,874			14,874
State, County, and Municipal Securities	4,104		4,104	
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	3,142			3,142
Pooled Trust Preferred Securities Issued by Banks and Insurers	2,806			2,806
Residential Mortgage Loan Commitments & Forward Sales Agreements, net	317		317	
Liabilities				
Derivatives:				
Derivative Financial Instruments, net	6,777		6,777	
As of December 31, 2008				
Description				
Assets				
Trading Securities	$ 2,701	$ 2,701	$	$
Securities Available for Sale:				
U.S. Treasury and Government Sponsored Enterprise	710		710	
Agency Mortgage-Backed Securities	475,083		475,083	
Agency Collateralized Mortgage Obligations	56,783		56,783	
Private Mortgage-Backed Securities	15,514		15,514	
State, County, and Municipal Securities	18,954		18,954	
Corporate Debt Securities	25,852		25,852	
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	2,201		2,201	
Pooled Trust Preferred Securities Issued by Banks and Insurers	5,194			5,194

Residential Mortgage Loan Commitments & Forward Sales Agreements, net	367	367
Liabilities		
Derivatives:		
Derivative Financial Instruments, net	12,852	12,852

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) during the three and nine months ended September 30, 2009 and year ended December 31, 2008. These instruments were valued using pricing models and discounted cash flow methodologies.

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Reconciliation for All Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

	Securities Available for Sale			
	Pooled Trust Preferred Securities	Single Trust Preferred Securities	Private Mortgage-Backed Securities	Total
	(Dollars in Thousands)			
Quarter-to-Date				
Balance at June 30, 2009	$ 4,239	$ 2,798	$ 16,684	$ 23,721
Gains and Losses (realized/unrealized)				
Included in earnings	(4,937)		(204)	(5,141)
Included in Other Comprehensive Income	3,522	344	216	4,082
Purchases, issuances and settlements	(18)		(1,822)	(1,840)
Transfers in to Level 3				
Balance at September 30, 2009	$ 2,806	$ 3,142	$ 14,874	$ 20,822
Year-to-Date				
Balance at January 1, 2008	$	$	$	$
Gains and Losses (realized/unrealized)				
Included in earnings	(7,216)			(7,216)
Reclass to OCI (2)	5,974			5,974
Included in Other Comprehensive Income	(8,957)			(8,957)
Purchases, issuances and settlements				
Transfers in to Level 3	15,393			15,393
Balance at January 1, 2009	$ 5,194	$	$	$ 5,194
Gains and Losses (realized/unrealized)				
Included in earnings	(6,497)		(297)	(6,794)
Included in Other Comprehensive Income	4,127	940	1,479	6,546
Purchases, issuances and settlements	(18)		(1,822)	(1,840)
Transfers in to Level 3		2,202	15,514	17,716
Balance at September 30, 2009	$ 2,806	$ 3,142	$ 14,874	$ 20,822

The amount of gains and losses due to change in fair value, including both realized and unrealized gains and losses, included in earnings for Level 3 assets and liabilities during the three and nine month periods, ending September 30, 2009 and the twelve month period ending December 31, 2008 and that are still held were classified as follows:

For the three months ending	For the nine months ending	For the twelve months ending

September 30, 2009		September 30, 2009		December 31, 2008	
Trading Income	Non-Interest Income	Trading Income	Non-Interest Income	Trading Income	Non-Interest Income
$	$(5,141) (1)	$	$(6,794)(1)	$	$(7,216)(1)

(1) Represents write-downs on certain securities that were deemed to be other-than-temporarily impaired during the three and nine months ended September 30, 2009 and twelve months ended December 31, 2008.

(2) Pursuant to the Investments -Debt and Equity Securities Topic of the FASB ASC, $6.0 million of securities impairment that represented non credit related impairment was reclassed to OCI. The table above reflects the reclass to OCI for comparative illustrative purposes only as the guidance was adopted effective January 1, 2009.

Assets and liabilities measured at fair value on a non-recurring basis as of September 30, 2009 and December 31, 2008 are as follows:

		Fair Value Measurements at Reporting Date Using			
	Balance	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
		(Dollars in Thousands)			
As of September 30, 2009 Description					
Impaired Loans	$ 22,028	$	$	$ 22,028	$ (688)
Loans Held For Sale	16,264		16,264		515

Other Real Estate Owned		6,491				2,396	4,095	164
Mortgage Servicing Asset		2,165					2,165	
As of December 31, 2008								
Description								
Impaired Loans	$	2,754	$		$	2,754	$	$ (1,453)

As required by the FASB ASC Topic No. 825, Fair Value Measurements and Disclosures , the estimated fair values and related carrying amounts of the Company s

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financial instruments are listed below. Excluded from this listing are certain financial instruments such as post retirement plans, lease contracts, investments accounted for under the equity method, equity investments in consolidated subsidiaries, and all non-financial instruments. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

	SEPTEMBER 2009		DECEMBER 2008	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
	(Dollars In Thousands)		(Dollars In Thousands)	
FINANCIAL ASSETS				
Securities Held To Maturity	$ 83,063	$ 83,479	$ 32,789	$ 30,390(a)
Loans, Net of Allowance for Loan Losses	3,346,182	3,350,329	2,615,487	2,621,550(b) (e)
FINANCIAL LIABILITIES				
Time Certificates of Deposits	$ 937,854	$ 949,301	$ 846,096	$ 855,585(c)
Federal Home Loan Bank Advances	396,218	384,123	429,634	435,431(c)
Federal Funds Purchased and Assets Sold Under Repurchase Agreements	188,707	192,442	170,880	166,600(c)
Subordinated Debentures	30,000	24,400	30,000	31,188(c)
Junior Subordinated Debentures	61,857	1,580	61,857	10,894(d)

(a) The fair value 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.

(e) The book value of net loans excludes loans held for sale.

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 of Boston stock, and Bank Owned Life Insurance. For financial liabilities, these include demand, savings, money market deposits, and federal funds purchased and assets sold under repurchase agreements. The estimated fair value of demand, savings and money market deposits is the amount payable at the reporting date. The Financial Instruments topic of the FASB ASC requires the use of carrying value because the accounts have no stated maturity date and the customer has the ability to withdraw funds immediately. Also excluded from the summary are financial instruments measured at fair value on a recurring and non-recurring basis, as previously described.

NOTE 6 EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing net income available to the common shareholder by the weighted average number of common shares (excluding shares of unvested restricted stock) outstanding before any dilution during the period. Diluted earnings per share have been calculated in a manner similar to that of basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares (such as those resulting from the exercise of stock options, unvested restricted stock awards, and outstanding warrants) were issued during the period, computed using the treasury stock method.

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Earnings per share consisted of the following components for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Dollars in Thousands)		(Dollars in Thousands)	
Net Income	$ 6,841	$ 8,815	$ 13,888	$ 20,943
Less: Preferred Stock Dividends			5,698	
Net Income Available to Common Shareholders	$ 6,841	$ 8,815	$ 8,190	$ 20,943
Weighted Average Shares				
Basic EPS	20,921,635	16,275,442	19,210,431	15,518,540
Effect of dilutive securities	48,254	62,738	26,181	72,627
Diluted EPS	20,969,889	16,338,180	19,236,612	15,591,167
Net Income Available to Common Shareholders per Share				
Basic EPS	$ 0.33	$ 0.54	$ 0.43	$ 1.35
Effect of dilutive securities				0.01
Diluted EPS	$ 0.33	$ 0.54	$ 0.43	$ 1.34

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Stock Options	1,011,736	784,599	1,059,363	738,254
Restricted Stock				

NOTE 7 EMPLOYEE BENEFITS

POST RETIREMENT BENEFITS, SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS & DEFINED BENEFIT PENSION PLAN

The Company maintains a defined benefit pension plan (Pension Plan) administered by Pentegra Retirement Services (the Fund), a multiple employer plan. The Fund does not segregate the assets or liabilities of all participating employers, accordingly, disclosure of accumulated vested and non-vested benefits is not possible. Effective July 1, 2006, the Company froze the Pension Plan. The Pension Plan year is July 1st through June 30th. Contributions for the 2008-2009 plan year were all paid in 2008. It has not yet been determined what the contribution is expected to be related to the 2009-2010 plan year. During the three months ended September 30, 2009 and 2008, $339,000 and $318,000 of pension expense had been recognized, respectively. During the nine months ended September 30, 2009 and 2008, $713,000 and $837,000 of pension expense had been recognized, respectively.

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As a result of the acquisition of Slade s Ferry Bancorp Inc. (Slades) in 2008, the Company acquired a defined benefit pension plan (Slades Pension Plan) that covers substantially all of Slades previous employees that met certain eligibility requirements and that were employed up to January 1, 1998 when the plan was frozen. During the first quarter of 2009, the Company merged the Slades Pension Plan into the Company s existing Pension Plan.

As a result of the acquisition of Benjamin Franklin Bancorp., Inc (Ben Franklin) during 2009 the Company acquired an Employee Stock Ownership Program (ESOP). The Company is in the process of terminating and winding down the plan, pending approval from the Internal Revenue Service. All vested participants benefits will be distributed upon termination. The Company has no liability relating to this plan.

The Company administers post-retirement benefit plans and previously disclosed in its financial statements for the fiscal year ended December 31, 2008 that it expected to contribute $83,000 to its post-retirement benefit plans in 2009. For the three and nine months ended September 30, 2009 $25,000 and $55,000 of contributions have been made to the post-retirement benefit plans, respectively, as compared to $17,000 and $56,000 for the comparative periods in 2008.

The Company also administers supplemental executive retirement plans (SERPs) and previously disclosed in its financial statements for the fiscal year ended December 31, 2008 that it expected to record an expense of $244,000 for its SERPs in 2009. For the three and nine months ended September 30, 2009 $62,000 and $162,000 have been recorded as an expense for the SERPs, respectively, as compared to $26,000 and $85,000 for the comparative periods in 2008.

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NOTE 8 COMPREHENSIVE INCOME

Information on the Company s comprehensive income, presented net of taxes, is set forth below for the three and nine months ended September 30, 2009 and 2008.

Comprehensive income (loss) is reported net of taxes, as follows:
(Dollars in Thousands)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008	2009	2008
Net Income	$ 6,841	$ 8,815	$13,888	$20,943
Other Comprehensive Income/(Loss), Net of Tax:				
Cumulative Effect Accounting Adjustment, net of tax of $2,151			(3,823)(a)	
Increase (Decrease) in fair value of securities available for sale, net of tax of $4,269 and ($444) for the three months ended September 30, 2009 and 2008, respectively and $6,835 and ($2,532) for the nine months ended September 30, 2009 and 2008, respectively.	7,035	(995)	11,831	(4,633)
Less: reclassification adjustment for realized gains included in net income, net of tax of $536 and $56 for the nine months ended September 30, 2009 and 2008, respectively.			(843)	(77)
Net change in fair value of securities available for sale, net of tax of $4,269 and ($444) for the three months ended September 30, 2009 and 2008, respectively, and $6,299 and ($2,588) for the nine months ended September 30, 2009 and 2008, respectively.	7,035	(995)	10,988	(4,710)
Change in unrealized (losses)/gains on cash flow hedges, net of tax of($1,035) and ($402) for the three months ended September 30, 2009 and 2008, respectively and $4,394 and ($608) for the nine months ended September 30, 2009 and 2008, respectively.	(1,499)	(555)	6,362(c)	(857)(b)
Less: reclassification of realized loss on cash flow hedges, net of tax of ($40) and $71 for the three months ended September 30, 2009 and 2008, respectively, and $828 and $145 for the	(57)	98	1,189	202

nine months ended September 30, 2009 and 2008, respectively.				
Change in fair value of cash flow hedges, net of tax of ($995) and ($331) for the three months ended September 30, 2009 and 2008, respectively, and $3,565 and ($471) for the nine months ended September 30, 2009 and 2008, respectively.	(1,442)	(457)	5,173	(655)
Amortization of certain costs included in net periodic post retirement costs, net of tax of ($45) and $30 for the three months ended September 30, 2009 and 2008, respectively, and ($134) and $91 for the nine months ended September 30, 2009 and 2008, respectively.	(65)	42	(195)	126
Other Comprehensive Gain/(Loss), Net of Tax:	5,528	(1,410)	12,143	(5,239)
Comprehensive Income	$12,369	$ 7,405	$26,031	$15,704

(a) Represents reclassifications of non credit related components of previously recorded OTTI pursuant to the adoption of the Investments - Debt and Equity Securities topic of the FASB ASC.

(b) Includes the remaining balance of $473,000 at September 30, 2008 of realized but unrecognized loss from the sale of an interest rate swap in

January 2008. The loss will be recognized in earnings through January 2010, the original maturity date of the interest rate swap.

(c) Includes the remaining balance of $1.3 million at September 30, 2009 of realized but unrecognized gain, net of tax, from the sale of interest rate swaps in June 2009. The gain will be recognized in earnings through December 2018, the original maturity date of the swap. Also, includes the remaining balance of $103,000 at September 30, 2009 of realized but unrecognized loss from the sale of an interest rate swap in January 2008.

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NOTE 9 ACQUISITION

On April 10, 2009 the Company completed its acquisition of Benjamin Franklin Bancorp, Inc. (Ben Franklin), the parent of Benjamin Franklin Bank. The transaction qualified as a tax-free reorganization for federal income tax purposes, and former Ben Franklin shareholders received 0.59 shares of the Company s common stock for each share of Ben Franklin common stock which they owned. Under the terms of the merger, cash was issued in lieu of fractional shares. Based upon the Company s $18.27 per share closing price on April 9, 2009, the transaction was valued at $10.7793 per share of Ben Franklin common stock or approximately $84.5 million in the aggregate. As a result of the acquisition, the Company s outstanding shares increased by 4,624,948 shares.

The Company accounted for the acquisition using the acquisition method pursuant to the Business Combinations Topic of the FASB ASC. Accordingly, the Company recorded merger and acquisition expenses of $41,000 and $12.4 million during the three and nine months ended September 30, 2009, respectively. Additionally, the acquisition method requires an acquirer to recognize the assets acquired and the liabilities assumed at their fair values as of the acquisition date. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition.

	Net Assets Acquired (Dollars in Thousands)
Assets:	
Cash	$ 98,089
Investments	147,548
Loans	687,444
Premises and Equipment	5,919
Goodwill	12,193
Core Deposit & Other Intangible	7,616
Other Assets	47,639
Total Assets Acquired	1,006,448
Liabilities:	
Deposits	701,407
Borrowings	196,105
Other Liabilities	24,433
Total Liabilities Assumed	921,945
Purchase Price	$ 84,503

As noted above, the Company acquired loans at fair value of $687.4 million. Included in this amount was $3.9 million of loans with evidence of deterioration of credit quality since origination for which it was probable, at the time of the acquisition, that the Company would be unable to collect all contractually required payments receivable. The Company s evaluation of loans with evidence of loan deterioration as of the acquisition date resulted in a nonaccretable difference of $806,000, which is defined as the loan s contractually required payments receivable in excess of the amount of its cash flows expected to be collected. The Company considered factors such as payment history, collateral values, and accrual status when determining whether there was evidence of deterioration of loan s credit quality at the acquisition date.

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A core deposit intangible of $6.6 million was recorded with an expected life of ten years. There was an additional $650,000 of other intangibles recorded related to non-compete agreements with a life of one year, and other various intangibles of $340,000.

The following summarizes the unaudited proforma results of operations as if the Company acquired Ben Franklin on January 1, 2009 (2008 amounts represent combined results for the Company and Ben Franklin).

	Three months ended September 30,	
	2009	**2008**
Net Interest Income	$40,908	$37,853
Net Income	6,868	10,037
Earnings Per Share- Basic	$ 0.33	$ 0.49
Earnings Per Share- Diluted	$ 0.33	$ 0.48

	Nine months ended September 30,	
	2009	**2008**
Net Interest Income	$114,006	$105,898
Net Income	24,974	24,448
Earnings Per Share- Basic	$ 1.30	$ 1.23
Earnings Per Share- Diluted	$ 1.30	$ 1.23

Excluded from the pro forma results of operations for the three and nine months ended September 30, 2009 are merger costs net of tax of $27,000, which had no effect on earnings per diluted share, and $9.7 million, or $0.50 per diluted share, respectively, primarily made up of the acceleration of certain compensation and benefit costs arising due to the change in control and other merger expenses.

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NOTE 10 GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

The changes in goodwill and intangible assets for the period ended September 30, 2009 are shown in the table below. During the second quarter of 2009, the Company acquired Ben Franklin resulting in additional goodwill of $12.2 million and core deposit and other identifiable intangible assets of $7.6 million.

Carrying Amount of Goodwill and Intangibles
(Dollars in Thousands)

	Goodwill	Core Deposit Intangibles	Other Identifiable Intangible Assets	Total
Balance at December 31, 2008	$ 116,437	$ 8,367	$ 906	$ 125,710
Additions	12,619	6,626	990	20,235
Amortization Expense		(1,396)	(397)	(1,793)
Balance at September 30, 2009	$ 129,056	$ 13,597	$ 1,499	$ 144,152

The following table sets forth the remaining estimated annual amortization expense of the identifiable assets.

Remaining Estimated Annual Amortization Expense
(Dollars in Thousands)

	2009	2010	2011	2012	2013	2014 -2038	Total
Core Deposit Intangibles	$ 534	$ 1,789	$ 1,611	$ 1,449	$ 1,449	$ 6,765	$ 13,597
Other Intangible Assets	181	254	78	156	158	672	1,499
Total Identifiable Intangible Assets	$ 715	$ 2,043	$ 1,689	$ 1,605	$ 1,607	$ 7,437	$ 15,096

NOTE 11 CAPITAL PURCHASE PROGRAM

On April 22, 2009 the Company repaid $78.2 million in preferred stock to the U.S. Treasury in conjunction with its exit from the United States Treasury Department s Capital Purchase Program. As a result, during the second quarter the Company recorded a $4.4 million non-cash deemed dividend charge to earnings, amounting to $0.22 per diluted share, associated with the repayment of the preferred stock and an additional preferred stock dividend of $141,000 for the second quarter. The Company also repurchased common stock warrants issued to the Treasury for $2.2 million, the cost of which has been reflected as a reduction in additional paid in capital.

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NOTE 12 DERIVATIVE FINANCIAL INSTRUMENTS

The Company manages economic risks, including interest rate, and liquidity, primarily by managing the amount, sources, and duration of its debt, funding, and the use of derivative financial instruments. 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 derivative instruments with customers, which allows the Company to retain variable rate commercial loans.

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 has been designated and qualifies as part of a hedging relationship, and further, by the type of hedging relationship. As of September 30, 2009, 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 may from time to time enter into interest rate swap contracts with commercial customers, which are not designated as hedging instruments.

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 ten years. The notional amounts for the Company s cash flow hedges at September 30, 2009 and December 31, 2008 amounted to $185.0 million and $235.0 million, respectively.

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Derivative Positions
(Dollars In Thousands)

Derivatives Designated as Hedging:
Cash Flow Hedges
As of September 30, 2009

Interest Rate Swaps	Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value at September 30, 2009
				(Unaudited Dollars in Thousands)				
	$ 35,000	19-Mar-08	19-Mar-08	20-Jan-10	3 Month LIBOR	0.51%	2.28%	$ (209)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.30%	5.04%	(3,378)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.30%	5.04%	(3,306)
	25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.30%	2.65%	(318)
	25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.30%	2.59%	(259)
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.30%	2.94%	478
	25,000	16-Dec-08	18-Dec-08	18-Dec-13	3 Month LIBOR	0.29%	2.09%	229
Total	$ 185,000						Total	$ (6,763)

As of December 31, 2008

Interest Rate Swaps	Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value at December 31, 2008
				(Unaudited Dollars in Thousands)				
	$ 35,000	19-Mar-08	19-Mar-08	20-Jan-10	3 Month LIBOR	4.50%	2.28%	$ (321)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	2.00%	5.04%	(4,890)
	25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	2.00%	5.04%	(4,877)
	25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	2.19%	2.65%	(616)

	25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	2.19%	2.59%		(547)
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	2.19%	2.94%		(987)
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	2.19%	2.94%		(1,001)
	25,000	16-Dec-08	18-Dec-08	18-Dec-13	3 Month LIBOR	1.85%	2.09%		(22)
	25,000	17-Dec-08	19-Dec-08	19-Dec-18	3 Month LIBOR	1.58%	2.24%		445
Total	$ 235,000							Total $	(12,816)

For derivative instruments that are designated and qualify as hedging instruments, the effective portion of the gains or losses are reported as a component of OCI, and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately $4.3 million to be reclassed to earnings from OCI in the next twelve months, related to the Company s cash flow hedges.

The ineffective portion of the cash flow hedge is recognized directly in earnings. The Company recognized $49,000, and $61,000 three and nine months ending September 30, 2009, of hedge ineffectiveness in earnings. During 2008, the amount that was recognized in earnings was not material. The ineffective portions that were recognized during 2009 and 2008 were associated with the unwinding of certain borrowings and their associated cash flow hedges.

During 2009, the Company unwound certain borrowings and their associated cash flow hedges. As a result of the termination of the cash flow hedges, the Company recognized a gain of $3.8 million, pre-tax in non-interest income. Additionally, a gain of $1.4 million remained in OCI, net of tax, and will be amortized over the original maturity of the swap (until December 2018), to the extent the hedged forecasted transaction remain probable.

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In March 2008, the Company exited a $35.0 million notional value LIBOR based interest rate swap hedging 3 month revolving FHLB advances with Bear Stearns and replaced it with a $35.0 million notional value LIBOR based interest rate swap hedging 3 month revolving FHLB advances with Citigroup Financial. Upon exiting the swap, a $1.2 million loss remained in OCI, net of tax, which is being amortized into interest expense on borrowings over the original maturity of the swap (until January 2010.)

Associated net amortization on these swaps of $98,000 and $398,000 was recognized in interest expense on borrowings in the three and nine months ended September 30, 2009.

Customer Related Positions

Interest rate derivatives, primarily interest-rate swaps, offered to commercial borrowers through the Bank s derivative program are not designated as hedging instruments. However, 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. It is anticipated that over time customer interest rate derivatives will reduce the interest rate risk inherent in the longer-term, fixed-rate commercial business and real estate loans. As of September 30, 2009 the Company has entered into twenty customer-related positions and offsetting dealer transactions. For the quarter ended September 30, 2009, and the year ended December 31, 2008 the Bank had a total notional amount of $84.5 million and $20.4 million, respectively, of interest rate swap agreements with commercial borrowers and an equal notional amount of dealer transactions.

Derivative Positions
(Dollars In Thousands)

Derivatives Not Designated as Hedging:

	Notional Amount Maturing						
As of September 30, 2009	**2009**	**2010**	**2011**	**2012**	**Thereafter**	**Total**	**Fair Value**
				(Unaudited Dollars in Thousands)			
Customer Related Positions							
Receive fixed, pay variable					$ 84,491	$ 84,491	$ (1,985)
Pay fixed, receive variable					$ 84,491	$ 84,491	$ 1,971

	Notional Amount Maturing						
As of December 31, 2008	**2009**	**2010**	**2011**	**2012**	**Thereafter**	**Total**	**Fair Value**
				(Unaudited Dollars in Thousands)			
Customer Related Positions							
Receive fixed, pay variable					$ 20,403	$ 20,403	$ (1,048)
Pay fixed, receive variable					$ 20,403	$ 20,403	$ 1,012

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 decrease in fair value of $112,000 and a net increase in fair value of $22,000 for the three and nine months

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ended September 30, 2009, respectively. There were no material amounts recorded in the comparative 2008 periods.

The tables below present the fair value of the Company s derivative financial instruments as well as their classification on the Balance Sheet as of September 30, 2009 and December 31, 2008:

Fair Values of Derivative Instruments
(In thousands)

	Asset Derivatives				**Liability Derivatives**			
	September 30, 2009		**December 31, 2008**		**September 30, 2009**		**December 31, 2008**	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:								
Interest rate swaps	Other Assets	$ 707	Other Assets	$ 445	Other Liabilities	$ 7,470	Other Liabilities	$ 13,261
Derivatives not designated as hedges:								
Customer related positions	Other Assets	$ 2,044	Other Assets	$ 1,011	Other Liabilities	$ 2,058	Other Liabilities	$ 1,048

The tables below present the effect of the Company s derivative financial instruments on the Income Statement as of September 30, 2009 and 2008:

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

For the three months ended September 30, 2009	**Gain/ (Loss) in OCI on Derivative (Effective Portion)**		**Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective**	**From Accumulated OCI Into Income (Effective Portion)**		**Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount excluded from Effectiveness Testing)**	**On Derivative (Ineffective Portion and Amount excluded from Effectiveness Testing**	
Derivatives Designated as Hedges:	**9/30/2009**	**9/30/2008**		**9/30/2009**	**9/30/2008**		**9/30/2009**	**9/30/2008**

			Portion)					
Interest rate swaps	$ (1,662)	$ 1,295	Interest income/(expense)	$ (373)	$ 46	Interest income/(expense)	$ (49)	$

For the nine months ended September 30, 2009 Derivatives Designated as Hedges:	**Gain/ (Loss) in OCI on Derivative (Effective Portion) 9/30/2009**	**9/30/2008**	**Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**	**From Accumulated OCI Into Income (Effective Portion) 9/30/2009**	**9/30/2008**	**Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount excluded from Effectiveness**	**On Derivative (Ineffective Portion and Amount excluded from Effectiveness Testing**	
Interest rate swaps	$ 4,972	$	Interest income/(expense)	$ (1,277)	$ 251	Interest income/(expense)	$ (61)	$
			Other income	937				