

INDEPENDENT BANK CORP

Form 10-Q

November 06, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

Commission File Number: 1-9047

Independent Bank Corp.

(Exact name of registrant as specified in its charter)

Massachusetts

04-2870273

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

Office Address: 2036 Washington Street, Hanover Massachusetts 02339

Mailing Address: 288 Union Street, Rockland, Massachusetts 02370

(Address of principal executive offices, including zip code)

(781) 878-6100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

As of November 1, 2012, there were 21,680,218 shares of the issuer's common stock outstanding, par value \$0.01 per share.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

INDEPENDENT BANK CORP.

CONSOLIDATED BALANCE SHEETS

(Unaudited—Dollars in Thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

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

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

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

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

NOTE 2 – RECENT ACCOUNTING STANDARDS UPDATES

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

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

NOTE 3 – SECURITIES

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

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

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

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale.

The following table shows the gross gains realized on available for sale securities for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
GROSS GAINS REALIZED ON AVAILABLE FOR SALE SECURITIES	\$—	\$—	\$—	\$723

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

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

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

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

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

Other-Than-Temporary Impairment

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

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

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

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

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

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

Agency Mortgage-Backed Securities and Collateralized Mortgage Obligations: This portfolio has contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The decline in market value of these securities is attributable to changes in interest rates and not credit quality.

Additionally, these securities are implicitly guaranteed by the U.S. Government or one of its agencies.

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

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

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

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

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

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

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