INDEPENDENT BANK CORP
Form 10-Q
November 05, 2015
Table of Contents

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, 2015
Commission File Number: 1-9047

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

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

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

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

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

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

Large Accelerated Filer	x	Accelerated Filer	o
Non-accelerated Filer	o	Smaller Reporting Company	o

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

As of November 2, 2015, there were 26,236,991 shares of the issuer’s common stock outstanding, par value $0.01 per share.

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements
INDEPENDENT BANK CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited—Dollars in thousands, except share data)

	September 30, 2015	December 31, 2014
Assets		
Cash and due from banks	$160,721	$143,342
Interest-earning deposits with banks	89,607	34,912
Securities		
Securities - trading	454	—
Securities - available for sale	365,792	348,554
Securities - held to maturity (fair value $455,776 and $379,699)	448,139	375,453
Total securities	814,385	724,007
Loans held for sale (at fair value)	11,476	6,888
Loans		
Commercial and industrial	862,512	860,839
Commercial real estate	2,659,342	2,347,323
Commercial construction	308,214	265,994
Small business	92,278	85,247
Residential real estate	651,937	530,259
Home equity - first position	531,364	513,518
Home equity - subordinate positions	376,530	350,345
Other consumer	15,944	17,208
Total loans	5,498,121	4,970,733
Less: allowance for loan losses	(55,205)	(55,100)
Net loans	5,442,916	4,915,633
Federal Home Loan Bank stock	37,485	33,233
Bank premises and equipment, net	73,738	64,074
Goodwill	201,083	170,421
Identifiable intangible assets	12,529	9,885
Cash surrender value of life insurance policies	133,573	109,854
Other real estate owned and other foreclosed assets	2,532	7,743
Other assets	155,444	144,920
Total assets	$7,135,489	$6,364,912
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	1,778,051	1,462,200
Savings and interest checking accounts	2,305,636	2,108,486
Money market	1,119,913	990,160
Time certificates of deposit of $100,000 and over	290,093	254,718
Other time certificates of deposits	421,170	394,902
Total deposits	5,914,863	5,210,466
Borrowings		
Federal Home Loan Bank borrowings	104,133	70,080
Customer repurchase agreements and other short-term borrowings	138,449	147,890

4

Table of Contents

Wholesale repurchase agreements	—	50,000
Junior subordinated debentures	73,520	73,685
Subordinated debentures	35,000	65,000
Total borrowings	351,102	406,655
Other liabilities	110,321	107,264
Total liabilities	6,376,286	5,724,385
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: 26,212,238 shares at September 30, 2015 and 23,998,738 shares at December 31, 2014 (includes 244,510 and 254,500 shares of unvested participating restricted stock awards, respectively)	260	237
Shares held in rabbi trust at cost: 172,214 shares at September 30, 2015 and 176,849 shares at December 31, 2014	(3,883)	(3,666)
Deferred compensation and other retirement benefit obligations	3,883	3,666
Additional paid in capital	404,089	311,978
Retained earnings	355,537	330,444
Accumulated other comprehensive loss, net of tax	(683)	(2,132)
Total stockholders' equity	759,203	640,527
Total liabilities and stockholders' equity	$7,135,489	$6,364,912

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

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	
	2015	2014	2015	2014
Interest income				
Interest and fees on loans	$54,557	$49,514	$160,261	$147,111
Taxable interest and dividends on securities	5,455	4,563	14,934	13,903
Nontaxable interest and dividends on securities	31	36	95	110
Interest on loans held for sale	64	159	173	306
Interest on federal funds sold and short-term investments	121	96	212	203
Total interest and dividend income	60,228	54,368	175,675	161,633
Interest expense				
Interest on deposits	2,951	2,735	8,636	8,314
Interest on borrowings	2,232	2,070	6,997	7,095
Total interest expense	5,183	4,805	15,633	15,409
Net interest income	55,045	49,563	160,042	146,224
Provision for loan losses	800	1,901	1,000	8,653
Net interest income after provision for loan losses	54,245	47,662	159,042	137,571
Noninterest income				
Deposit account fees	4,754	4,656	13,385	13,478
Interchange and ATM fees	3,949	3,375	10,817	9,672
Investment management	4,981	5,016	15,616	14,755
Mortgage banking income	1,480	1,015	3,832	2,379
Gain on life insurance benefits	—	—	—	1,964
Gain on sale of equity securities	—	67	19	138
Gain on sale of fixed income securities	—	—	798	—
Increase in cash surrender value of life insurance policies	958	774	2,685	2,217
Loan level derivative income	968	381	2,816	1,452
Other noninterest income	2,157	1,814	6,096	5,414
Total noninterest income	19,247	17,098	56,064	51,469
Noninterest expenses				
Salaries and employee benefits	26,685	23,651	78,291	69,574
Occupancy and equipment expenses	5,443	5,027	17,509	16,474
Data processing and facilities management	1,112	1,178	3,462	3,609
FDIC assessment	1,020	957	2,993	2,828
Advertising expense	1,414	1,179	4,101	3,252
Consulting expense	867	737	2,451	2,105
Legal fees	746	547	1,462	1,397
Loss on sale of equity securities	—	—	8	—
Loss on sale of fixed income securities	—	—	1,124	—
Loss on termination of derivatives	—	—	—	1,122
Merger and acquisition expense	—	677	10,501	754
Other noninterest expenses	9,744	8,654	28,750	26,359
Total noninterest expenses	47,031	42,607	150,652	127,474
Income before income taxes	26,461	22,153	64,454	61,566
Provision for income taxes	7,867	6,415	18,949	17,699
Net income	$18,594	$15,738	$45,505	$43,867

Basic earnings per share	$0.71	$0.66	$1.77	$1.84
Diluted earnings per share	$0.71	$0.66	$1.76	$1.83
Weighted average common shares (basic)	26,200,621	23,911,678	25,774,571	23,876,391
Common shares equivalents	63,493	90,685	72,921	95,320
Weighted average common shares (diluted)	26,264,114	24,002,363	25,847,492	23,971,711
Cash dividends declared per common share	$0.26	$0.24	$0.78	$0.72

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

Table of Contents

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Net income	$18,594	$15,738	$45,505	$43,867
Other comprehensive income (loss), net of tax				
Net change in fair value of securities available for sale	1,211	(850)	544	3,462
Net change in fair value of cash flow hedges	132	578	596	2,085
Net change in other comprehensive income for defined benefit postretirement plans	110	(39)	309	(117)
Total other comprehensive income (loss)	1,453	(311)	1,449	5,430
Total comprehensive income	$20,047	$15,427	$46,954	$49,297

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

Table of Contents

INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited—Dollars in thousands, except share and per share data)

	Common Stock Outstanding	Common Stock	Value of Shares Held in Rabbi Trust at Cost	Deferred Compensation and Other Retirement Benefit Obligations	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance December 31, 2014	23,998,738	$237	$ (3,666)	$3,666	$311,978	$330,444	$ (2,132)	$640,527
Net income	—	—	—	—	—	45,505	—	45,505
Other comprehensive income	—	—	—	—	—	—	1,449	1,449
Common dividend declared ($0.78 per share)	—	—	—	—	—	(20,412)	—	(20,412)
Common stock issued for acquisition	2,052,137	21	—	—	86,394	—	—	86,415
Proceeds from exercise of stock options, net of cash paid	78,240	1	—	—	1,364	—	—	1,365
Tax benefit related to equity award activity	—	—	—	—	776	—	—	776
Stock based compensation	—	—	—	—	2,028	—	—	2,028
Restricted stock awards issued, net of awards surrendered	36,901	1	—	—	(646)	—	—	(645)
Shares issued under direct stock purchase plan	46,222	—	—	—	2,023	—	—	2,023
Deferred compensation and other retirement benefit obligations	—	—	(217)	217		—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	172	—	—	172
Balance September 30, 2015	26,212,238	$260	$ (3,883)	$3,883	$404,089	$355,537	$ (683)	$759,203

Balance December 31, 2013	23,805,984	$235	$ (3,404)	$ 3,404	$305,179	$293,560	$ (7,434)	$591,540
Net income	—	—	—	—	—	43,867	—	43,867
Other comprehensive income	—	—	—	—	—	—	5,430	5,430
Common dividend declared ($0.72 per share)	—	—	—	—	—	(17,201)	—	(17,201)
Proceeds from exercise of stock options, net of cash paid	24,609	1	—	—	582	—	—	583
Tax benefit related to equity award activity	—	—	—	—	438	—	—	438
Stock based compensation	—	—	—	—	2,075	—	—	2,075
Restricted stock awards issued, net of awards surrendered	55,675	1	—	—	(644)	—	—	(643)
Shares issued under direct stock purchase plan	25,410	—	—	—	959	—	—	959
Deferred compensation and other retirement benefit obligations	—	—	(187)	187	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	134	—	—	134
Balance September 30, 2014	23,911,678	$237	$ (3,591)	$ 3,591	$308,723	$320,226	$ (2,004)	$627,182

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

8

INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited—Dollars in thousands)

	Nine Months Ended September 30			
	2015		2014	
Cash flow from operating activities				
Net income	$45,505		$43,867	
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	9,327		9,182	
Provision for loan losses	1,000		8,653	
Deferred income tax expense	5,372		459	
Net (gain) loss on sale of securities	315		(138	)
Net loss on fixed assets	213		505	
Loss on termination of derivatives	—		1,122	
Net loss on other real estate owned and foreclosed assets	1,070		361	
Realized gain on sale leaseback transaction	(775	)	(775	)
Stock based compensation	2,028		2,075	
Excess tax benefit related to equity award activity	(776	)	(438	)
Increase in cash surrender value of life insurance policies	(2,685	)	(2,213	)
Gain on life insurance benefits	—		(1,964	)
Change in fair value on loans held for sale	(3	)	(1	)
Net change in				
Trading assets	(454	)	—	
Loans held for sale	(4,585	)	(3,697	)
Other assets	4,314		11,156	
Other liabilities	2,209		(792	)
Total adjustments	16,570		23,495	
Net cash provided by operating activities	62,075		67,362	
Cash flows used in investing activities				
Proceeds from sales of securities available for sale	14,344		945	
Proceeds from maturities and principal repayments of securities available for sale	60,507		35,936	
Purchases of securities available for sale	(49,086	)	(36,577	)
Proceeds from maturities and principal repayments of securities held to maturity	44,706		32,864	
Purchases of securities held to maturity	(117,286	)	(54,681	)
Redemption of Federal Home Loan Bank stock	—		6,693	
Investments in low income housing projects	(14,817	)	(13,660	)
Purchases of life insurance policies	(115	)	(10,116	)
Proceeds from life insurance policies	—		6,309	
Net increase in loans	(65,650	)	(242,207	)
Cash used in business combinations, net of cash acquired	(13,448	)	—	
Purchases of bank premises and equipment	(6,846	)	(5,987	)
Proceeds from the sale of bank premises and equipment	1,233		1,064	
Payments on early termination of hedging relationship	—		(1,122	)
Proceeds from the sale of other real estate owned and foreclosed assets	7,378		4,269	
Net capital improvements to other real estate owned	(961	)	(1,772	)

Table of Contents

Net cash used in investing activities	(140,041)	(278,042)
Cash flows provided by financing activities		
Net decrease in time deposits	(54,293)	(71,164)
Net increase in other deposits	326,440	387,180
Net repayments of short-term Federal Home Loan Bank borrowings	(10,000)	(75,000)
Repayments of long-term Federal Home Loan Bank borrowings	(7,000)	(5,000)
Net increase (decrease) in customer repurchase agreements	(9,441)	3,904
Repayments of wholesale repurchase agreements	(50,000)	—
Net decrease in other short term borrowings	—	(5,000)
Repayments of subordinated debentures	(30,000)	—
Net proceeds from exercise of stock options	1,365	583
Restricted stock awards issued, net of awards surrendered	(645)	(643)
Excess tax benefit from stock based compensation	776	438
Tax benefit from deferred compensation distribution	172	134
Proceeds from shares issued under direct stock purchase plan	2,023	959
Common dividends paid	(19,357)	(16,704)
Net cash provided by financing activities	150,040	219,687
Net increase in cash and cash equivalents	72,074	9,007
Cash and cash equivalents at beginning of year	178,254	216,325
Cash and cash equivalents at end of period	250,328	225,332
Supplemental schedule of noncash investing and financing activities		
Transfer of loans to other real estate owned & foreclosed assets	$2,134	$5,039
Other net transfers to other real estate owned	$142	$—
Net increase in capital commitments relating to low income housing project investments	$2,085	$27,839
In conjunction with the purchase acquisition detailed in note 3 to the consolidated financial statements, assets were acquired and liabilities were assumed as follows		
Common stock issued for acquisition	$86,415	$—
Fair value of assets acquired, net of cash acquired	$598,376	$—
Fair value of liabilities assumed	$498,513	$—

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

Table of Contents

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 ("GAAP") 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 notes required by GAAP 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, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or any other interim period.

For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission.

NOTE 2 - RECENT ACCOUNTING STANDARDS UPDATES

FASB ASC Topic 805 "Business Combinations" Update No. 2015-16. Update No. 2015-16 was issued in September 2015, requiring an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting has been completed at the acquisition date. Additionally, an entity is required to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been issued. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Subtopic 835-30 "Interest-Imputation of Interest" Update No. 2015-15. Update No. 2015-15 was issued in August 2015 due to the guidance in Updated 2015-03 not addressing presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within Update 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Topic 606 "Revenue from Contracts with Customers" Update No. 2015-14. Update No. 2015-14 was issued in August 2015 to defer the effective date of Updated 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in Updated 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently assessing the potential impact of this amendment on the Company's consolidated financial position.

FASB ASC Topic 805 "Business Combinations - Pushdown Accounting" Update No. 2015-08. Update No. 2015-08 was issued in May 2015 to remove references and to amend certain previously issued pushdown accounting guidance. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Subtopic 350-40 "Intangibles - Goodwill and Other - Internal - Use Software" Update No. 2015-05. Update No. 2015-05 was issued in April 2015 to provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing

Table of Contents

arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change current accounting for service contracts. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Subtopic 835-30 "Interest - Imputation of Interest" Update No. 2015-03. Update No. 2015-03 was issued in April 2015 to simplify presentation of debt issuance costs. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuances costs are not affected by the amendments in this Update. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Topic 810 "Consolidation" Update No. 2015-02. Update No. 2015-02 was issued in February 2015 to respond to stakeholders' concerns about the current accounting for consolidation of certain legal entities. The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, (2) eliminate the presumption that a general partner should consolidate a limited partnership, (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Subtopic 225-20 "Income Statement - Extraordinary and Unusual Items" Update No. 2015-01. Update No. 2015-01 was issued in January 2015 to simplify the income statement presentation requirements in Subtopic 225-20 by eliminating the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

Table of Contents

NOTE 3 - ACQUISITIONS

Peoples Federal Bancshares, Inc.

On February 20, 2015, the Company completed its acquisition of Peoples Federal Bancshares, Inc. ("Peoples"), the parent of Peoples Federal Saving Bank. The transaction qualified as a tax-free reorganization for federal income tax purposes and Peoples shareholders received, for each share of Peoples common stock, the right to receive either $21.00 in cash per share or 0.5523 shares of the Company's stock (valued at $23.26 per share, based upon the highest trading value of the Company's stock on February 20, 2015 of $42.11). The total deal consideration was $141.8 million and was comprised of 40% cash and 60% stock consideration. The cash consideration was $55.4 million in the aggregate, inclusive of cash paid in lieu of fractional shares. The total stock consideration was $86.4 million and resulted in an increase to the Company's outstanding shares of 2,052,137 shares.

The Company accounted for the acquisition using the acquisition method pursuant to the Business Combinations Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Accordingly, the Company recorded merger and acquisition expenses of $10.5 million during the nine months ended September 30, 2015. There were no merger and acquisition expenses during the three months ended September 30, 2015. Additionally, the acquisition method requires the 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 at Fair Value (Dollars in thousands)
Assets	
Cash	$ 41,957
Investments	43,585
Loans	463,927
Premises and equipment	9,346
Goodwill	30,662
Core deposit and other intangibles	3,936
Other assets	46,920
Total assets acquired	640,333
Liabilities	
Deposits	432,250
Borrowings	51,209
Other liabilities	15,054
Total liabilities assumed	498,513
Purchase price	$ 141,820

Fair value adjustments to assets acquired and liabilities assumed are generally amortized using either an effective yield or straight-line basis over periods consistent with the average life, useful life and/or contractual term of the related assets and liabilities.

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

Cash and Cash Equivalents

The fair values of cash and cash equivalents approximate the respective carrying amounts because the instruments are payable on demand or have short-term maturities.

Investments

The fair values of securities were based on quoted market prices for identical securities received from an independent, nationally-recognized, third-party pricing service. Prices provided by the independent pricing service were based on recent trading activity and other observable information including, but not limited to, market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable.

Table of Contents

Loans

The loans acquired were recorded at fair value without a carryover of the allowance for loan losses. Fair value of the loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then applying a market-based discount rate to those cash flows. The overall discount on the loans acquired in this transaction was due to anticipated credit loss, as well as considerations for liquidity and market interest rates.

A portion of the loans acquired showed evidence of deterioration of credit quality at the purchase date and it was deemed unlikely that the Company will be able to collect all contractually required payments. As such, these loans were deemed to be purchased credit impaired ("PCI") and the carrying value and prospective income recognition are predicated upon future cash flows expected to be collected. The following is a summary of these PCI loans associated with the acquisition as of the date acquired:

	(Dollars in thousands)
Contractually required principal and interest at acquisition	$4,358
Contractual cash flows not expected to be collected	(1,596)
Expected cash flows at acquisition	2,762
Interest component of expected cash flows	(319)
Basis in PCI loans at acquisition - estimated fair value	$2,443

Premises and Equipment

The fair value of the premises, including land, buildings and improvements, was determined based upon appraisals by licensed real estate appraisers or pending agreed upon sale prices. The appraisals were based upon the best and highest use of the property with final values determined based upon an analysis of the cost, sales comparison and income capitalization approaches for each property appraised.

Core Deposit Intangible

The fair value of the core deposit intangible is derived by comparing the interest rate and servicing costs that the financial institution pays on the core deposit liability versus the current market rate for alternative sources of financing, while factoring in estimates over the remaining life and attrition rate of the deposit accounts. The intangible asset represents the stable and relatively low cost source of funds that the deposits and accompanying relationships provide the Company, when compared to alternative funding sources.

Deposits

The fair value of acquired savings and transaction deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. The fair value of time deposits were determined based on the present value of the contractual cash flows over the remaining period to maturity using a market interest rate.

Borrowings

The fair values of Federal Home Loan Bank ("FHLB") advances were derived based upon the present value of the principal and interest payments using a current market discount rate.

Table of Contents

Selected Pro Forma Results

The following summarizes the unaudited pro forma results of operations as if the Company acquired Peoples on January 1, 2015 (2014 amounts represent combined results for the Company and Peoples). The selected pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the acquisition actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period.

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net interest income after provision for loan losses	$54,245	$52,089	$161,700	$150,878
Net income	18,594	15,590	50,360	44,772

Excluded from the pro forma results of operations for the nine months ended September 30, 2015 are merger-related costs of $16.7 million recognized by both the Company and Peoples in the aggregate. There were no merger and acquisition expenses recognized during the three months ended September 30, 2015. These costs were primarily made up of contract terminations arising due to the change in control, the acceleration of certain compensation and benefit costs, and other merger expenses.

Table of Contents

NOTE 4 - SECURITIES
Trading Securities

As of September 30, 2015, the Company had trading securities of $454,000. These securities are held in a rabbi trust and will be used for future payments associated with the Company's non-qualified 401(k) Restoration Plan and non-qualified deferred compensation plan.
Available for Sale and Held to Maturity 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:

	September 30, 2015				December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)							
Available for sale securities								
U.S. government agency securities	$36,895	$692	$—	$37,587	$41,369	$139	$(22)	$41,486
Agency mortgage-backed securities	206,778	6,247	(104)	212,921	211,168	7,203	(693)	217,678
Agency collateralized mortgage obligations	51,868	611	(404)	52,075	63,059	599	(623)	63,035
State, county, and municipal securities	4,557	114	—	4,671	5,106	117	—	5,223
Single issuer trust preferred securities issued by banks	2,877	9	(45)	2,841	2,913	12	(16)	2,909
Pooled trust preferred securities issued by banks and insurers (1)	2,226	—	(640)	1,586	7,906	195	(1,780)	6,321
Small business administration pooled securities	41,018	155	(17)	41,156	—	—	—	—
Equity securities	13,200	245	(490)	12,955	11,572	567	(237)	11,902
Total available for sale securities	$359,419	$8,073	$(1,700)	$365,792	$343,093	$8,832	$(3,371)	$348,554
Held to maturity securities								
U.S. Treasury securities	$1,009	$75	$—	$1,084	$1,010	$63	$—	$1,073
Agency mortgage-backed securities	172,684	5,718	—	178,402	159,522	5,422	—	164,944
Agency collateralized mortgage obligations	230,820	2,769	(1,679)	231,910	198,220	1,842	(3,478)	196,584
State, county, and municipal securities	225	4	—	229	424	4	—	428
Single issuer trust preferred securities issued by banks	1,500	—	(4)	1,496	1,500	—	(23)	1,477
Small business administration pooled securities	36,901	712	—	37,613	9,775	299	—	10,074

Corporate debt securities	5,000	42	—	5,042	5,002	117	—	5,119
Total held to maturity securities	$448,139	$9,320	$(1,683)	$455,776	$375,453	$7,747	$(3,501)	$379,699
Total	$807,558	$17,393	$(3,383)	$821,568	$718,546	$16,579	$(6,872)	$728,253

(1) Gross unrealized gains and gross unrealized losses include $230,000 of a net loss on non-credit related other-than-temporary impairment ("OTTI") at December 31, 2014. There was no non-credit related OTTI at September 30, 2015.

Table of Contents

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Equity securities classified as available for sale:				
Gross realized gains	$—	$67	$19	$138
Gross realized losses	—	—	(8)	—
Net realized gain on equity securities	$—	$67	$11	$138
Fixed income securities classified as available for sale:				
Gross realized gains	$—	$—	$798	$—
Gross realized losses	—	—	(1,124)	—
Net realized loss on fixed income securities	$—	$—	$(326)	$—

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, 2015 is presented below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$—	$—	$5,225	$5,271
Due after one year to five years	42,709	43,495	118	120
Due after five to ten years	81,841	83,361	29,013	29,954
Due after ten years	221,669	225,981	413,783	420,431
Total debt securities	$346,219	$352,837	$448,139	$455,776
Equity securities	$13,200	$12,955	$—	$—
Total	$359,419	$365,792	$448,139	$455,776

Inclusive in the table above is $25.1 million of callable securities in the Company’s investment portfolio at September 30, 2015.

The carrying value of securities pledged to secure public funds, trust deposits, repurchase agreements and for other purposes, as required or permitted by law, was $322.6 million and $340.0 million at September 30, 2015 and December 31, 2014, respectively.

At September 30, 2015 and December 31, 2014, the Company had no investments in obligations of individual states, counties, or municipalities which exceeded 10% of stockholders’ equity.

Other-Than-Temporary Impairment ("OTTI")

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:

17

Table of Contents

	September 30, 2015						
		Less than 12 months		12 months or longer		Total	
	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)						
Agency mortgage-backed securities	8	$6,886	$(18)	$4,515	$(86)	$11,401	$(104)
Agency collateralized mortgage obligations	12	16,667	(135)	85,255	(1,948)	101,922	(2,083)
Single issuer trust preferred securities issued by banks and insurers	3	2,541	(15)	1,039	(34)	3,580	(49)
Pooled trust preferred securities issued by banks and insurers	1	—	—	1,586	(640)	1,586	(640)
Small business administration pooled securities	1	11,982	(17)	—	—	11,982	(17)
Equity securities	33	2,627	(178)	5,018	(312)	7,645	(490)
Total temporarily impaired securities	58	$40,703	$(363)	$97,413	$(3,020)	$138,116	$(3,383)

	December 31, 2014						
		Less than 12 months		12 months or longer		Total	
	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)						
U.S.government agency securities	22	$21,950	$(22)	$—	$—	$21,950	$(22)
Agency mortgage-backed securities	17	3,471	(1)	42,222	(692)	45,693	(693)
Agency collateralized mortgage obligations	14	35,083	(331)	94,974	(3,770)	130,057	(4,101)
Single issuer trust preferred securities issued by banks and insurers	2	2,553	(39)	—	—	2,553	(39)
Pooled trust preferred securities issued by banks and insurers	2	—	—	2,681	(1,356)	2,681	(1,356)
Equity securities	23	1,480	(74)	4,072	(163)	5,552	(237)
Total temporarily impaired securities	80	$64,537	$(467)	$143,949	$(5,981)	$208,486	$(6,448)

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, 2015:

- Agency Mortgage-Backed Securities, Agency Collateralized Mortgage Obligations and Small Business Administration Pooled Securities: These portfolios have contractual terms that generally do not permit the issuer to settle the securities at a price less than the current par value 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 carry the implicitly or, in some cases the explicit guarantee of the U.S. Government or one of its agencies.

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

Table of Contents

- Pooled Trust Preferred Securities: This portfolio consists of one below investment grade security which is performing. The unrealized loss on this security 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.
- 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.

The following table shows the total OTTI that the Company recorded for the periods indicated:

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Gross change in OTTI recorded on certain investments	$—	$235	$84	$1,264
Portion of OTTI recognized in OCI	—	(235)	(84)	(1,264)
Total credit related OTTI recognized in earnings	$—	$—	$—	$—

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Balance at beginning of period	$—	$(9,997)	$(9,997)	$(9,997)
Add				
Incurred on securities not previously impaired	—	—	—	—
Incurred on securities previously impaired	—	—	—	—
Less				
Securities sold during the period	—	—	9,997	—
Reclassification due to changes in Company's intent	—	—	—	—
Increases in cash flow expected to be collected	—	—	—	—
Balance at end of period	$—	$(9,997)	$—	$(9,997)

Table of Contents

NOTE 5 - LOANS, ALLOWANCE FOR LOAN LOSSES, AND CREDIT QUALITY

The following tables bifurcate the amount of loans and the allowance allocated to each loan category based on the type of impairment analysis as of the periods indicated:

	September 30, 2015 (Dollars in thousands)								
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total	
Financing receivables ending balance:									
Collectively evaluated for impairment	$856,916	$2,618,612	$307,908	$91,307	$627,031	$901,863	$15,330	$5,418,967	
Individually evaluated for impairment	$5,596	$29,506	$306	$971	$15,247	$5,777	$611	$58,014	
Purchased credit impaired loans	$—	$11,224	$—	$—	$9,659	$254	$3	$21,140	
Total loans by group	$862,512	$2,659,342	$308,214	$92,278	$651,937	$907,894	$15,944	$5,498,121	(1)

	December 31, 2014 (Dollars in thousands)								
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total	
Financing receivables ending balance:									
Collectively evaluated for impairment	$856,185	$2,304,099	$265,501	$84,159	$505,799	$858,305	$16,335	$4,890,383	
Individually evaluated for impairment	$4,654	$30,729	$311	$1,088	$15,055	$5,330	$868	$58,035	
Purchased credit impaired loans	$—	$12,495	$182	$—	$9,405	$228	$5	$22,315	
Total loans by group	$860,839	$2,347,323	$265,994	$85,247	$530,259	$863,863	$17,208	$4,970,733	(1)

(1) The amount of net deferred costs included in the ending balance was $4.0 million and $2.8 million at September 30, 2015 and December 31, 2014, respectively.

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

Three Months Ended September 30, 2015

(Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$15,279	$26,359	$4,071	$1,248	$2,551	$4,871	$616	$54,995
Charge-offs	(497)	(28)	—	(2)	(40)	(249)	(349)	(1,165)
Recoveries	22	152	—	57	6	130	208	575
Provision (benefit)	(518)	582	422	(20)	75	128	131	800
Ending balance	$14,286	$27,065	$4,493	$1,283	$2,592	$4,880	$606	$55,205

Table of Contents

Three Months Ended September 30, 2014
(Dollars in thousands)

	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$15,929	$25,095	$3,757	$1,154	$2,879	$4,969	$755	$54,538
Charge-offs	(504)	(691)	—	(73)	(199)	(160)	(279)	(1,906)
Recoveries	6	57	—	29	178	67	135	472
Provision (benefit)	91	1,248	356	45	(36)	71	126	1,901
Ending balance	$15,522	$25,709	$4,113	$1,155	$2,822	$4,947	$737	$55,005

Nine Months Ended September 30, 2015
(Dollars in thousands)

	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$15,573	$25,873	$3,945	$1,171	$2,834	$4,956	$ 748	$55,100
Charge-offs	(1,531)	(236)	—	(198)	(242)	(659)	(922)	(3,788)
Recoveries	903	1,006	—	189	52	234	509	2,893
Provision (benefit)	(659)	422	548	121	(52)	349	271	1,000
Ending balance	$14,286	$27,065	$4,493	$1,283	$2,592	$4,880	$ 606	$55,205
Ending balance: individually evaluated for impairment	$252	$225	$—	$28	$1,313	$245	$ 27	$2,090
Ending balance: collectively evaluated for impairment	$14,034	$26,840	$4,493	$1,255	$1,279	$4,635	$ 579	$53,115

Nine Months Ended September 30, 2014
(Dollars in thousands)

	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$15,622	$24,541	$3,371	$1,215	$2,760	$5,036	$ 694	$53,239
Charge-offs	(1,757)	(4,273)	—	(469)	(653)	(562)	(908)	(8,622)
Recoveries	213	322	—	168	368	215	449	1,735
Provision (benefit)	1,444	5,119	742	241	347	258	502	8,653
Ending balance	$15,522	$25,709	$4,113	$1,155	$2,822	$4,947	$ 737	$55,005
Ending balance: individually evaluated for impairment	$541	$315	$—	$10	$1,521	$269	$ 43	$2,699
Ending balance: collectively evaluated for impairment	$14,981	$25,394	$4,113	$1,145	$1,301	$4,678	$ 694	$52,306

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

Commercial Portfolio

- Commercial and Industrial: Loans in this category consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to: accounts receivable, inventory, plant & equipment, or real estate, if applicable. Repayment sources consist of primarily, operating cash flow, and secondarily, liquidation of assets.
- Commercial Real Estate: Loans in this category consist of mortgage loans to finance investment in real property such as multi-family residential, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans are typically written with amortizing payment structures. Collateral values are determined based upon

third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources consist of primarily, cash flow from operating leases and rents, and secondarily, liquidation of assets.

- Commercial Construction: Loans in this category consist of short-term construction loans, revolving and nonrevolving credit lines and construction/permanent loans to finance the acquisition, development and construction or rehabilitation of real property. Project types include residential 1-4 family, condominium and multi-family homes, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans may be written with nonamortizing or hybrid payment structures depending upon the type of project. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources vary depending upon the type of project and may consist of sale or lease of units, operating cash flows or liquidation of other assets.
- Small Business: Loans in this category consist of revolving, term loan and mortgage obligations extended to sole proprietors and small businesses for purposes of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to, accounts receivable, inventory, plant & equipment, or real estate if applicable. Repayment sources consist primarily of operating cash flows, and secondarily, liquidation of assets.

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

Consumer Portfolio

- Residential Real Estate: Residential mortgage loans held in the Company’s portfolio are made to borrowers who demonstrate the ability to make scheduled payments with full consideration to underwriting factors such as current and expected income, employment status, current assets, other financial resources, credit history and the value of the collateral. Collateral consists of mortgage liens on 1-4 family residential properties. The Company does not originate or purchase sub-prime loans.
- Home Equity: Home equity loans and lines are made to qualified individuals and are secured by senior or junior mortgage liens on owner-occupied 1-4 family homes, condominiums or vacation homes or on nonowner occupied 1-4 family homes with more restrictive loan to value requirements. The home equity loan has a fixed rate and is billed in equal payments comprised of principal and interest. The home equity line of credit has a variable rate and is billed in interest-only payments during the draw period. At the end of the draw period, the home equity line of credit is billed as a percentage of the principal balance plus all accrued interest. Additionally, the Company has the option of renewing the line of credit for additional draw periods. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan to value ratios within established policy guidelines.
- Other Consumer: Other consumer loan products include personal lines of credit and amortizing loans made to qualified individuals for various purposes such as education, auto loans, debt consolidation, personal expenses or overdraft protection. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines. These loans may be secured or unsecured.

Credit Quality

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

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

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

Table of Contents

- 7 Rating — Potential Weakness: Borrowers exhibit potential credit weaknesses or downward trends deserving management's close attention. If not checked or corrected, these trends will weaken the Company's asset and position. While potentially weak, currently these borrowers are marginally acceptable; no loss of principal or interest is envisioned.
- 8 Rating — Definite Weakness Loss Unlikely: Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt. Loan may be inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy, although no loss of principal is envisioned. However, there is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Collateral coverage may be inadequate to cover the principal obligation.
- 9 Rating — Partial Loss Probable: Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt with the added provision that the weaknesses make collection of the debt in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely.
- 10 Rating — Definite Loss: Borrowers deemed incapable of repayment. Loans to such borrowers are considered uncollectible and of such little value that continuation as active assets of the Company is not warranted.

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

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

The following table details the amount of outstanding principal balances relative to each of the risk-rating categories for the Company's commercial portfolio:

		September 30, 2015				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in thousands)				
Pass	1 - 6	$796,556	$2,504,079	$297,405	$ 88,793	$3,686,833
Potential weakness	7	45,609	93,609	10,280	2,666	152,164
Definite weakness-loss unlikely	8	20,272	60,421	529	735	81,957
Partial loss probable	9	75	1,233	—	84	1,392
Definite loss	10	—	—	—	—	—
Total		$862,512	$2,659,342	$308,214	$ 92,278	$3,922,346

		December 31, 2014				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in thousands)				
Pass	1 - 6	$801,578	$2,196,109	$248,696	$ 81,255	$3,327,638
Potential weakness	7	37,802	82,372	15,464	2,932	138,570
Definite weakness-loss unlikely	8	20,241	67,571	1,834	949	90,595

Partial loss probable	9	1,218	1,271	—	111	2,600
Definite loss	10	—	—	—	—	—
Total		$860,839	$2,347,323	$265,994	$ 85,247	$3,559,403

Table of Contents

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

	September 30, 2015		December 31, 2014	
Residential portfolio				
FICO score (re-scored)(1)	741		739	
LTV (re-valued)(2)	60.8	%	67.1	%
Home equity portfolio				
FICO score (re-scored)(1)	765		764	
LTV (re-valued)(2)	50.9	%	53.6	%

(1) The average FICO scores for September 30, 2015 are based upon rescores available from August 31, 2015 and origination score data for loans booked between September 1, 2015 and September 30, 2015. The average FICO scores for December 31, 2014 are based upon rescores available from November 30, 2014 and origination score data for loans booked between December 1, 2014 and December 31, 2014.

(2) The combined LTV ratios for September 30, 2015 are based upon updated automated valuations as of March 31, 2015 and origination value data for loans booked between April 1, 2015 and September 30, 2015. The combined LTV ratios for December 31, 2014 are based upon updated automated valuations as of February 28, 2013 and actual score data for loans booked from March 1, 2013 through December 31, 2014. For home equity loans and lines in a subordinate lien position, the LTV data represents a combined LTV, taking into account the senior lien data for loans and lines.

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

Table of Contents

The following table shows nonaccrual loans at the dates indicated:

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Commercial and industrial	$4,114	$2,822
Commercial real estate	8,699	7,279
Commercial construction	307	311
Small business	159	246
Residential real estate	9,106	8,697
Home equity	7,142	8,038
Other consumer	40	—
Total nonaccrual loans(1)	$29,567	$27,393

(1) Included in these amounts were $5.2 million of nonaccruing TDRs at both September 30, 2015 and December 31, 2014, respectively.

The following table shows information regarding foreclosed residential real estate property at the date indicated:

	September 30, 2015
	(Dollars in thousands)
Foreclosed residential real estate property held by the creditor	$1,700
Recorded investment in mortgage loans collateralized by residential real estate property that are in the process of foreclosure	$1,465

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

	September 30, 2015										
	30-59 days		60-89 days		90 days or more		Total Past Due				
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
	(Dollars in thousands)										
Loan Portfolio											
Commercial and industrial	6	$383	3	$920	10	$3,334	19	$4,637	$857,875	$862,512	$ —
Commercial real estate	6	1,222	4	746	16	4,769	26	6,737	2,652,605	2,659,342	—
Commercial construction	—	—	—	—	1	306	1	306	307,908	308,214	—
Small business	8	27	4	44	10	105	22	176	92,102	92,278	—
Residential real estate	12	1,620	9	1,760	23	4,096	44	7,476	644,461	651,937	—
Home equity	27	1,770	13	769	14	1,295	54	3,834	904,060	907,894	—
Other consumer (1)	308	262	9	16	13	33	330	311	15,633	15,944	—
Total	367	$5,284	42	$4,255	87	$13,938	496	$23,477	$5,474,644	$5,498,121	$ —

Table of Contents

	December 31, 2014										
	30-59 days		60-89 days		90 days or more		Total Past Due				
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
	(Dollars in thousands)										
Loan Portfolio											
Commercial and industrial	18	$3,192	10	$1,007	19	$2,320	47	$6,519	$854,320	$860,839	$ —
Commercial real estate	19	13,428	6	1,480	16	4,225	41	19,133	2,328,190	2,347,323	—
Commercial construction	1	506	—	—	1	311	2	817	265,177	265,994	—
Small business	7	21	8	113	7	173	22	307	84,940	85,247	—
Residential real estate	13	1,670	10	1,798	36	4,826	59	8,294	521,965	530,259	106
Home equity	20	1,559	7	307	23	2,402	50	4,268	859,595	863,863	—
Other consumer (1)	318	382	16	23	15	15	349	420	16,788	17,208	13
Total	396	$20,758	57	$4,728	117	$14,272	570	$39,758	$4,930,975	$4,970,733	$ 119

(1) Other consumer portfolio is inclusive of deposit account overdrafts recorded as loan balances.

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

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

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
TDRs on accrual status	$37,477	$38,382
TDRs on nonaccrual	5,201	5,248
Total TDRs	$42,678	$43,630
Amount of specific reserves included in the allowance for loan losses associated with TDRs	$1,681	$2,004
Additional commitments to lend to a borrower who has been a party to a TDR	$1,366	$1,400

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

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

26

Table of Contents

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)
	(Dollars in thousands)					
Troubled debt restructurings						
Commercial and industrial	1	$ 100	$ 100	10	$ 1,153	$ 1,153
Commercial real estate	1	653	653	6	2,963	2,963
Small business	2	103	103	7	269	269
Residential real estate	2	218	245	5	376	403
Home equity	1	36	36	4	251	251
Total	7	$ 1,110	$ 1,137	32	$ 5,012	$ 5,039

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)
	(Dollars in thousands)					
Troubled debt restructurings						
Commercial and industrial	3	$ 193	$ 193	12	$ 744	$ 744
Commercial real estate	5	2,095	2,095	13	4,225	4,225
Small business	—	—	—	1	58	58
Residential real estate	1	156	158	8	1,388	1,419
Home equity	2	55	55	9	781	781
Other consumer	—	—	—	1	8	8
Total	11	$ 2,499	$ 2,501	44	$ 7,204	$ 7,235

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands)		(Dollars in thousands)	
Extended maturity	$855	$1,902	$2,204	$3,403
Adjusted interest rate	—	—	—	726
Combination rate and maturity	246	599	2,769	2,269
Court ordered concession	36	—	66	837
Total	$1,137	$2,501	$5,039	$7,235

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

Table of Contents

	Three Months Ended September 30			
	2015		2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Troubled debt restructurings that subsequently defaulted				
Commercial and industrial	—	—	1	46
Residential real estate	—	—	1	87
	—	$—	2	$133

	Nine Months Ended September 30			
	2015		2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Troubled debt restructurings that subsequently defaulted				
Commercial real estate	2	$880	—	$—
Commercial and industrial	3	339	1	46
Residential real estate	—	—	3	214
	5	$1,219	4	$260

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

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

Table of Contents

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

	September 30, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded			
Commercial and industrial	$2,041	$2,193	$—
Commercial real estate	13,740	14,835	—
Commercial construction	306	308	—
Small business	458	494	—
Residential real estate	3,555	3,658	—
Home equity	4,564	4,631	—
Other consumer	195	196	—
Subtotal	24,859	26,315	—
With an allowance recorded			
Commercial and industrial	$3,555	$3,641	$252
Commercial real estate	15,766	15,938	225
Small business	513	543	28
Residential real estate	11,692	12,806	1,313
Home equity	1,213	1,359	245
Other consumer	416	430	27
Subtotal	33,155	34,717	2,090
Total	$58,014	$61,032	$2,090

	December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded			
Commercial and industrial	$3,005	$3,278	$—
Commercial real estate	15,982	17,164	—
Commercial construction	311	311	—
Small business	692	718	—
Residential real estate	2,439	2,502	—
Home equity	4,169	4,221	—
Other consumer	338	341	—
Subtotal	26,936	28,535	—
With an allowance recorded			
Commercial and industrial	$1,649	$1,859	$412
Commercial real estate	14,747	15,514	197
Small business	396	458	7
Residential real estate	12,616	13,727	1,500
Home equity	1,161	1,264	262
Other consumer	530	530	38
Subtotal	31,099	33,352	2,416
Total	$58,035	$61,887	$2,416

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

29

Table of Contents

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded				
Commercial and industrial	$2,080	$11	$2,204	$41
Commercial real estate	13,876	89	14,433	337
Commercial construction	307	—	309	—
Small business	465	4	484	14
Residential real estate	3,566	42	3,601	123
Home equity	4,585	44	4,670	134
Other consumer	198	4	207	12
Subtotal	25,077	194	25,908	661
With an allowance recorded				
Commercial and industrial	$3,687	$10	$3,894	$57
Commercial real estate	15,830	204	15,993	609
Small business	540	7	564	22
Residential real estate	11,698	106	11,764	358
Home equity	1,221	4	1,238	13
Other consumer	421	4	443	11
Subtotal	33,397	335	33,896	1,070
Total	$58,474	$529	$59,804	$1,731

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded				
Commercial and industrial	$4,411	$47	$4,743	$155
Commercial real estate	16,517	154	17,098	492
Small business	840	8	889	25
Residential real estate	2,806	34	2,836	71
Home equity	4,405	45	4,456	136
Other consumer	365	5	382	19
Subtotal	29,655	293	30,715	904
With an allowance recorded				
Commercial and industrial	$3,889	$24	$4,285	$98
Commercial real estate	17,509	233	17,674	700
Small business	427	7	452	22
Residential real estate	12,841	106	12,959	324
Home equity	1,111	4	1,124	15
Other consumer	625	5	656	17
Subtotal	36,402	379	37,150	1,176
Total	$66,057	$672	$67,865	$2,080

Table of Contents

Certain loans acquired by the Company may have shown evidence of deterioration of credit quality since origination and it was therefore deemed unlikely that the Company would be able to collect all contractually required payments. As such, these loans were deemed to be PCI loans and the carrying value and prospective income recognition are predicated upon future cash flows expected to be collected. The following table displays certain information pertaining to PCI loans at the dates indicated:

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Outstanding balance	$23,877	$25,279
Carrying amount	$21,140	$22,315

The following table summarizes activity in the accretable yield for the PCI loan portfolio:

	Three Months Ended September 30		Nine Months Ended September 30
	2015	2014	