INDEPENDENT BANK CORP
Form 10-Q
November 05, 2015
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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, 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.

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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

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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.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	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.

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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	
	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.

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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.

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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)

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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.

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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 ("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 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.

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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.

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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.

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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.

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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.

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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:

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	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.

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- 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)

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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

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	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.

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- 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

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For the Company's consumer portfolio, the quality of the loan is best indicated by the repayment performance of an individual borrower. However, the Company does supplement performance data with current Fair Isaac Corporation ("FICO") 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.

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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	$ —

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	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:

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	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:

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	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.

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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:

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	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

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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	2015	2014
	(Dollars in thousands)			
Beginning balance	$2,527	$3,845	$2,974	$2,514
Acquisition	—	—	319	—
Accretion	(592)	(667)	(2,138)	(1,722)
Other change in expected cash flows (1)	278	380	978	2,572
Reclassification from nonaccretable difference for loans which have paid off (2)	218	—	298	194
Ending balance	$2,431	$3,558	$2,431	$3,558

(1) Represents changes in cash flows expected to be collected and resulting in increased interest income as a prospective yield adjustment over the remaining life of the loan(s).
(2) Results in increased interest income during the period in which the loan paid off at amount greater than originally expected.

NOTE 6 -EARNINGS PER SHARE

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands, except share and per share data)			
Net income	$18,594	$15,738	$45,505	$43,867
Weighted Average Shares				
Basic shares	26,200,621	23,911,678	25,774,571	23,876,391
Effect of dilutive securities	63,493	90,685	72,921	95,320
Diluted shares	26,264,114	24,002,363	25,847,492	23,971,711
Net income per share				
Basic EPS	$0.71	$0.66	$1.77	$1.84
Effect of dilutive securities	—	—	(0.01)	(0.01)
Diluted EPS	$0.71	$0.66	$1.76	$1.83

There were no anti-dilutive options to purchase common stock or shares of performance-based restricted stock that were excluded from the calculation of diluted earnings per share during the three or nine months ended September 30, 2015 and 2014.

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NOTE 7 - STOCK BASED COMPENSATION
Time Vested Restricted Stock Awards
During the nine months ended September 30, 2015, the Company made the following awards of restricted stock:

Date	Shares Granted	Plan	Grant Date Fair Value	Vesting Period
2/11/2015	31,500	2005 Employee Stock Plan	$39.42	Ratably over 5 years from grant date
2/12/2015	25,910	2005 Employee Stock Plan	$40.03	Ratably over 5 years from grant date
3/19/2015	3,800	2005 Employee Stock Plan	$43.56	Ratably over 5 years from grant date
4/27/2015	625	2005 Employee Stock Plan	$41.61	At the end of 3 years from grant date
4/27/2015	1,875	2005 Employee Stock Plan	$41.61	At the end of 5 years from grant date
5/27/2015	8,800	2010 Non-Employee Director Stock Plan	$45.02	At the end of 5 years from grant date
7/14/2015	800	2010 Non-Employee Director Stock Plan	$47.82	Once on May 27, 2020

The fair value of the restricted stock awards is based upon the average of the high and low price at which the Company’s common stock traded on the date of grant. The holders of restricted stock awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights.
Performance-Based Restricted Stock Awards
On February 12, 2015, the Company granted 21,780 performance-based restricted stock awards to certain executive level employees. These performance-based restricted stock awards were issued from the 2005 Employee Stock Plan and were determined to have a grant date fair value per share of $40.03. The number of shares to be vested will be contingent upon the Company's attainment of certain performance measures outlined in the award agreement and will be measured as of the end of the three year performance period, or December 31, 2017. These awards will be accounted for as equity awards due to the nature of these awards and the fact that these shares will not be settled in cash.
The fair value of the performance-based restricted stock awards, assuming achievement at target, is based upon the average of the high and low price at which the Company’s common stock traded on the date of grant. The holders of these awards are not entitled to receive dividends or vote until the shares are vested.
Stock Options
The Company did not issue any awards of options to purchase shares of common stock during the nine months ended September 30, 2015.

NOTE 8 - REPURCHASE AGREEMENTS

The Company can raise additional liquidity by entering into repurchase agreements at its discretion. In a security repurchase agreement transaction, the Company will generally sell a security, agreeing to repurchase either the same or substantially identical security on a specified later date, at a greater price than the original sales price. The difference between the sale price and purchase price is the cost of the proceeds, which is recorded as interest expense. The securities underlying the agreements are delivered to counterparties as security for the repurchase obligations. Since the securities are treated as collateral and the agreement does not qualify for a full transfer of effective control, the transactions does not meet the criteria to be classified as a sale, and is therefore considered a secured borrowing transaction for accounting purposes. Payments on such borrowings are interest only until the scheduled repurchase date. In a repurchase agreement the Company is subject to the risk that the purchaser may default at maturity and not return the securities underlying the agreements. In order to minimize this potential risk, the Company either deals with established firms when entering into these transactions or with customers whose agreements stipulate that the securities underlying the agreement are not delivered to the customer and instead are held in segregated safekeeping accounts by the Company's safekeeping agents. The table below sets forth information regarding the Company’s repurchase agreements allocated by source of collateral at the date indicated:

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	September 30, 2015				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
	(Dollars in thousands)				
Sources of Collateral					
U.S. government agency securities	$10,148	$—	$—	$—	$10,148
Agency mortgage-backed securities	68,601	—	—	—	68,601
Agency collateralized mortgage obligations	59,700	—	—	—	59,700
Total borrowings	$138,449	$—	$—	$—	$138,449

Certain counterparties monitor collateral, and may request additional collateral to be posted from time to time. For further information regarding the Company's repurchase agreements see Note 10 - Balance Sheet Offsetting.

NOTE 9 - DERIVATIVE AND HEDGING ACTIVITIES

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

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

Interest Rate Positions

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

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The following table reflects the Company’s derivative positions for the periods indicated below for interest rate swaps which qualify as cash flow hedges for accounting purposes:

September 30, 2015

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value
(Dollars in thousands)							
$25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.34 %	5.04 %	$(1,409)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.34 %	5.04 %	(1,409)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.33 %	2.94 %	(1,537)
$75,000							$(4,355)

December 31, 2014

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value
			(Dollars in thousands)				
$25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.24 %	5.04 %	$(2,093)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.24 %	5.04 %	(2,094)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.24 %	2.94 %	(1,383)
$75,000							$(5,570)

For derivative instruments that are designated and qualify as cash flow hedging instruments, the effective portion of the gains or losses is reported as a component of other comprehensive income ("OCI"), and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately $2.7 million (pre-tax) to be reclassified to interest expense from OCI related to the Company’s cash flow hedges in the next twelve months. This reclassification is due to anticipated payments that will be made and/or received on the swaps based upon the forward curve as of September 30, 2015.

For both the three and nine month periods ended September 30, 2015 and 2014 the Company recognized $61,000 and $183,000, respectively, of net amortization income that was an offset to interest expense related to previously terminated swaps .

The Company had no fair value hedges as of September 30, 2015 or December 31, 2014.

Customer Related Positions

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

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

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

		Notional Amount Maturing						
	Number of Positions (1)	Less than 1 year	Less than 2 years	Less than 3 years	Less than 4 years	Thereafter	Total	Fair Value
	September 30, 2015							
	(Dollars in thousands)							
Loan level swaps								
Receive fixed, pay variable	176	$63,287	$19,527	$42,008	$92,501	$435,087	$652,410	$29,205
Pay fixed, receive variable	170	$63,287	$19,527	$42,008	$92,501	$435,087	$652,410	$(29,202)
Foreign exchange contracts								
Buys foreign currency, sells U.S. currency	29	$35,732	$—	$—	$—	$—	$35,732	$332
Buys U.S. currency, sells foreign currency	29	$35,732	$—	$—	$—	$—	$35,732	$(304)
	December 31, 2014							
	(Dollars in thousands)							
Loan level swaps								
Receive fixed, pay variable	174	$88,147	$46,854	$40,958	$38,108	$403,208	$617,275	$17,840
Pay fixed, receive variable	168	$88,147	$46,854	$40,958	$38,108	$403,208	$617,275	$(17,837)
Foreign exchange contracts								
Buys foreign currency, sells U.S. currency	23	$57,112	$—	$—	$—	$—	$57,112	$3,983
Buys U.S. currency, sells foreign currency	23	$57,112	$—	$—	$—	$—	$57,112	$(3,960)

(1) The Company may enter into one dealer swap agreement which offsets multiple commercial borrower swap agreements.

Mortgage Derivatives

Prior to closing and funding certain 1- 4 family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to various investors. In addition, the Company may also enter into additional forward To Be Announced ("TBA") mortgage contracts, also considered derivative instruments, which are purchased by the Company from a diversified list of counterparties in order to hedge customer rate locks. These forward contracts carry a market price that has a strong inverse relationship to that of mortgage prices. When the Company locks a rate to the customer, the rate can be held for the benefit of the customer for a certain period of time until the mortgage is sold. During that time, the Company may not have agreed on a price with a mortgage investor and fluctuations in market conditions may cause the mortgage to lose market value. Within a short period after the rate is locked with the customer, the Company may, depending upon the effectiveness of existing hedges, execute a forward TBA trade with a counterparty to hedge that market risk. Certain assumptions, including pull through rates and rate lock periods, are used in managing the existing and future hedges. The effectiveness of the economic hedges rely on the accuracy of these assumptions.

The change in fair value on the interest rate lock commitments, forward delivery sale commitments, and forward TBA mortgage contracts are recorded in current period earnings as a component of mortgage banking income. In addition, the Company has elected the fair value option to carry loans held for sale at fair value. The change in fair value of loans held for sale is recorded in current period earnings as a component of mortgage banking income in accordance with the Company's fair value election. The change in fair value associated with loans held for sale was a decrease of $181,000 and $223,000 for the three months ended

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September 30, 2015 and 2014, respectively, and an increase of $3,000 and $1,000 for the nine months ended September 30, 2015 and 2014, respectively. These amounts were offset in earnings by the change in the fair value of mortgage derivatives. The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the balance sheet at the periods indicated:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value at September 30, 2015	Fair Value at December 31, 2014	Balance Sheet Location	Fair Value at September 30, 2015	Fair Value at December 31, 2014
	(Dollars in thousands)					
Derivatives designated as hedges						
Interest rate derivatives	Other assets	$—	$—	Other liabilities	$4,355	$5,570
Derivatives not designated as hedges						
Customer Related Positions						
Loan level derivatives	Other assets	$29,205	$18,383	Other liabilities	$29,202	$18,380
Foreign exchange contracts	Other assets	662	4,007	Other liabilities	634	3,984
Mortgage Derivatives						
Interest rate lock commitments	Other assets	209	295	Other liabilities	—	—
Forward TBA mortgage contracts	Other assets	—	—	Other liabilities	—	16
Forward sales agreements	Other assets	140	3	Other liabilities	—	—
		$30,216	$22,688		$29,836	$22,380
Total		$30,216	$22,688		$34,191	$27,950

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Derivatives designated as hedges				
Gain in OCI on derivatives (effective portion), net of tax	$132	$578	$596	$2,085
Loss reclassified from OCI into interest expense (effective portion)	$(715)	$(726)	$(2,130)	$(2,937)
Loss reclassified from OCI into noninterest expense (loss on termination)	$—	$—	$—	$(1,122)
Loss recognized in income on derivatives (ineffective portion & amount excluded from effectiveness testing)				
Interest expense	$—	$—	$—	$—
Other expense	—	—	—	—
Total	$—	$—	$—	$—
Derivatives not designated as hedges				
Changes in fair value of customer related positions				
Other income	$39	$10	$56	$54
Other expense	—	(1)	(51)	(3)
Changes in fair value of mortgage derivatives				
Mortgage banking income	174	42	$67	$43
Total	$213	$51	$72	$94

By using derivatives, the Company is exposed to credit risk to the extent that counterparties to the derivative contracts do not perform as required. Should a counterparty fail to perform under the terms of a derivative contract, the Company's credit exposure on interest rate swaps is limited to the net positive fair value and accrued interest of all swaps with each counterparty. The Company seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, and obtaining collateral, where appropriate. Institutional counterparties must have an investment grade credit rating and be approved by the Company's Board of Directors. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial. The Company had no exposure at September 30, 2015 and $272,000 in exposure relating to institutional counterparties at December 31, 2014. The Company's exposure relating to customer counterparties was approximately $30.0 million and $18.9 million at September 30, 2015 and December 31, 2014, respectively. Credit exposure may be reduced by the amount of collateral pledged by the counterparty.

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NOTE 10 - BALANCE SHEET OFFSETTING

The Company does not offset fair value amounts recognized for derivative instruments or repurchase agreements. The Company does net the amount recognized for the right to reclaim cash collateral against the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement. Collateral legally required to be maintained at dealer banks by the Company is monitored and adjusted as necessary. At September 30, 2015, it was determined that no additional collateral would have to be posted to immediately settle these instruments.

The following tables present the Company's asset and liability derivative positions and the potential effect of netting arrangements on its financial position, as of the periods indicated:

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts Recognized in the Statement of Financial Position	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments	Collateral Pledged (Received)	Net Amount
	September 30, 2015 (Dollars in thousands)					
Derivative Assets						
Interest rate swaps	$—	$—	$—	$—	$—	$—
Loan level derivatives	29,205	—	29,205	—	—	29,205
Customer foreign exchange contracts	662	—	662	—	—	662
	$29,867	$—	$29,867	$—	$—	$29,867
Derivative Liabilities						
Interest rate swaps	$4,355	$—	$4,355	$—	$4,355	$—
Loan level derivatives	29,202	—	29,202	—	29,202	—
Customer foreign exchange contracts	634	—	634	—	—	634
Repurchase agreements						
Customer repurchase agreements	138,449	—	138,449	—	138,449	—
	$172,640	$—	$172,640	$—	$172,006	$634

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	Gross Amounts Recognized in the Statement of Financial Position	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments (1)	Collateral Pledged (Received)	
	December 31, 2014 (Dollars in thousands)					
Derivative Assets						
Interest rate swaps	$—	$—	$—	$—	$—	$—
Loan level derivatives	18,383	—	18,383	272	—	18,111
Customer foreign exchange contracts	4,007	—	4,007	—	—	4,007
	$22,390	$—	$22,390	$272	$—	$22,118
Derivative Liabilities						
Interest rate swaps	$5,570	$—	$5,570	$—	$5,570	$—
Loan level derivatives	18,380	—	18,380	272	17,836	272
Customer foreign exchange contracts	3,984	—	3,984	—	—	3,984
Repurchase agreements						
Customer repurchase agreements	147,890	—	147,890	—	147,890	—
Wholesale repurchase agreements	50,000	—	50,000	—	50,000	—
	$225,824	$—	$225,824	$272	$221,296	$4,256

(1) Reflects offsetting derivative positions with the same counterparty.

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well capitalized institution, then the Company could be required to terminate any outstanding derivatives with the counterparty. All liability position interest rate swap and customer loan level swap counterparties have credit-risk contingent features as of the dates indicated in the table above. In addition, derivative instruments that contain credit-risk related contingent features that are in a net liability position require the Company to assign collateral as noted in the table above.

NOTE 11 - FAIR VALUE MEASUREMENTS

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

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

Fair Value Measurements and Disclosures Topic of the FASB ASC are described below:
Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

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

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

Valuation Techniques

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

Securities:

Trading Securities

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

U.S. Government Agency Securities

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

Agency Mortgage-Backed Securities

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

Agency Collateralized Mortgage Obligations and Small Business Administration Pooled Securities

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

State, County, and Municipal Securities

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

Single and Pooled Issuer Trust Preferred Securities

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

Equity Securities

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

Loans Held for Sale

The Company has elected the fair value option to account for originated closed loans intended for sale. The fair value is measured on an individual loan basis using quoted market prices and when not available, comparable market value or discounted cash flow analysis may be utilized. These assets are typically classified as Level 2.

Derivative Instruments

Derivatives

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact

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of netting and any applicable credit enhancements, such as collateral postings. Additionally, in conjunction with fair value measurement guidance, the Company has made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of September 30, 2015 and December 31, 2014, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified as Level 2.

Mortgage Derivatives

The fair value of mortgage derivatives is determined based on current market prices for similar assets in the secondary market and, therefore, classified as Level 2 within the fair value hierarchy.

Impaired Loans

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

Other Real Estate Owned and Other Foreclosed Assets

The fair values are generally estimated based upon recent appraisal values of the property less costs to sell the property, as Other Real Estate Owned ("OREO") and Other Foreclosed Assets are valued at the lower of cost or fair value of the property, less estimated costs to sell. Certain inputs used in appraisals are not always observable, and therefore OREO and Other Foreclosed Assets may be classified as Level 3 within the fair value hierarchy.

Goodwill and Other Intangible Assets

Goodwill and identified intangible assets are subject to impairment testing. The Company conducts an annual impairment test of goodwill in the third quarter of each year, or more frequently if necessary, and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. To estimate the fair value of goodwill and, if necessary, other intangible assets, the Company utilizes both a comparable analysis of relevant price multiples in recent market transactions and discounted cash flow analysis. Both valuation models require a significant degree of management judgment. In the event the fair value as determined by the valuation model is less than the carrying value, the intangibles may be impaired. If the impairment testing resulted in impairment, the Company would classify the impaired goodwill and other intangible assets subjected to nonrecurring fair value adjustments as Level 3.

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Assets and liabilities measured at fair value at the periods indicated were as follows:

	Balance	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	September 30, 2015 (Dollars in thousands)			
Recurring fair value measurements				
Assets				
Trading securities	$454	$454	$—	$—
Securities available for sale				
U.S. Government agency securities	37,587	—	37,587	$—
Agency mortgage-backed securities	212,921	—	212,921	—
Agency collateralized mortgage obligations	52,075	—	52,075	—
State, county, and municipal securities	4,671	—	4,671	—
Single issuer trust preferred securities issued by banks and insurers	2,841	—	2,841	—
Pooled trust preferred securities issued by banks and insurers	1,586	—	—	1,586
Small business administration pooled securities	41,156	—	41,156	—
Equity securities	12,955	12,955	—	—
Loans held for sale	11,476	—	11,476	—
Derivative instruments	30,216	—	30,216	—
Liabilities				
Derivative instruments	34,191	—	34,191	—
Total recurring fair value measurements	$373,747	$13,409	$358,752	$ 1,586
Nonrecurring fair value measurements				
Assets				
Collateral dependent impaired loans	$6,011	$—	$—	$ 6,011
Other real estate owned and other foreclosed assets	2,532	—	—	2,532
Total nonrecurring fair value measurements	$8,543	$—	$—	$ 8,543

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	Balance	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2014 (Dollars in thousands)			
Recurring fair value measurements				
Assets				
Securities available for sale				
U.S. Government agency securities	$41,486	$—	$41,486	$—
Agency mortgage-backed securities	217,678	—	217,678	—
Agency collateralized mortgage obligations	63,035	—	63,035	—
State, county, and municipal securities	5,223		5,223	
Single issuer trust preferred securities issued by banks and insurers	2,909	—	2,909	—
Pooled trust preferred securities issued by banks and insurers	6,321	—	—	6,321
Equity securities	11,902	11,902	—	—
Loans held for sale	6,888	—	6,888	—
Derivative instruments	22,688	—	22,688	—
Liabilities				
Derivative instruments	27,950	—	27,950	—
Total recurring fair value measurements	$350,180	$11,902	$331,957	$6,321
Nonrecurring fair value measurements:				
Assets				
Collateral dependent impaired loans	$8,196	$—	$—	$8,196
Other real estate owned and other foreclosed assets	7,743	—	—	7,743
Total nonrecurring fair value measurements	$15,939	$—	$—	$15,939

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), which were valued using pricing models and discounted cash flow methodologies, as of the dates indicated:

	Securities Available for Sale: Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
	(Dollars in thousands)	
Pooled Trust Preferred Securities		
Beginning balance	$1,595	$5,091
Gains and (losses) (realized/unrealized)		
Included in other comprehensive income	12	318
Settlements	(21)	(23)
Ending balance	$1,586	$5,386

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	Securities Available for Sale:	
	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Pooled Trust Preferred Securities	(Dollars in thousands)	
Beginning balance	$6,321	$3,841
Gains and (losses) (realized/unrealized)		
Included in other comprehensive income	20	1,666
Sales	(4,679)	—
Settlements	(76)	(121)
Ending balance	1,586	5,386

It is the Company’s policy to recognize the transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers between the levels of the fair value hierarchy for any assets or liabilities measured at fair value on a recurring basis during the nine month periods ended September 30, 2015 or 2014.

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

	September 30 2015	December 31 2014		September 30 2015	December 31 2014	September 30 2015	December 31 2014
Valuation Technique	Fair Value		Unobservable Inputs	Range		Weighted Average	
	(Dollars in thousands)						
Discounted cash flow methodology							
Pooled trust preferred securities	$1,586	$6,321	Cumulative prepayment	0% - 65%	0% - 75%	2.5%	7.0%
			Cumulative default	5% - 100%	3% - 100%	14.8%	13.9%
			Loss given default	85% - 100%	85% - 100%	94.2%	96.1%
			Cure given default	0% - 75%	0% - 75%	63.8%	46.7%
Appraisals of collateral (1)							
Impaired loans	$6,011	$8,196					
Other real estate owned and foreclosed assets	$2,532	$7,743					

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

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

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

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

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

			Fair Value Measurements at Reporting Date Using		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	September 30, 2015 (Dollars in thousands)				
Financial assets					
Securities held to maturity(a)					
U.S. Treasury securities	$1,009	$1,084	$ —	$ 1,084	$ —
Agency mortgage-backed securities	172,684	178,402	—	178,402	—
Agency collateralized mortgage obligations	230,820	231,910	—	231,910	—
State, county, and municipal securities	225	229	—	229	—
Single issuer trust preferred securities issued by banks	1,500	1,496	—	1,496	—
Small business administration pooled securities	36,901	37,613	—	37,613	—
Corporate debt securities	5,000	5,042	—	5,042	—
Loans, net of allowance for loan losses(b)	5,436,905	5,406,492	—	—	5,406,492
Financial liabilities					
Time certificates of deposits(c)	$711,263	$713,473	$ —	$ 713,473	$ —
Federal Home Loan Bank borrowings(c)	104,133	104,989	—	104,989	—
Customer repurchase agreements and other short-term borrowings(c)	138,449	138,449	—	—	138,449
Junior subordinated debentures(d)	73,520	70,925	—	70,925	—
Subordinated debentures(c)	35,000	35,282	—	—	35,282

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	Carrying Value	Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2014 (Dollars in thousands)				
Financial assets					
Securities held to maturity(a)					
U.S. Treasury securities	$1,010	$1,073	$ —	$ 1,073	$ —
Agency mortgage-backed securities	159,522	164,944	—	164,944	—
Agency collateralized mortgage obligations	198,220	196,584	—	196,584	—
State, county, and municipal securities	424	428	—	428	—
Single issuer trust preferred securities issued by banks	1,500	1,477	—	1,477	—
Small business administration pooled securities	9,775	10,074	—	10,074	—
Corporate debt securities	5,002	5,119	—	5,119	—
Loans, net of allowance for loan losses(b)	4,907,437	4,875,283	—	—	4,875,283
Financial liabilities					
Time certificates of deposits(c)	$649,620	$651,180	$ —	$ 651,180	$ —
Federal Home Loan Bank borrowings(c)	70,080	70,208	—	70,208	—
Customer repurchase agreements and other short-term borrowings(c)	147,890	147,890	—	—	147,890
Wholesale repurchase agreements(c)	50,000	50,510	—	—	50,510
Junior subordinated debentures(d)	73,685	70,045	—	70,045	—
Subordinated debentures(c)	65,000	64,198	—	—	64,198

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

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

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

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

This summary excludes financial assets and liabilities for which the carrying value approximates fair value. For financial assets, these include cash and due from banks, federal funds sold, short-term investments, FHLB stock, and cash surrender value of life insurance policies. For financial liabilities, these include demand, savings, money market deposits, and federal funds purchased. These instruments would all be considered to be classified as Level 1 within the fair value hierarchy. Also excluded from the summary are financial instruments measured at fair value on a recurring and nonrecurring basis, as previously described.

The Company considers its financial instruments' current use to be the highest and best use of the instruments.

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NOTE 12 - COMPREHENSIVE INCOME (LOSS)

The following table presents a reconciliation of the changes in the components of other comprehensive income (loss) for the dates indicated, including the amount of income tax (expense) benefit allocated to each component of other comprehensive income (loss):

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount
	(Dollars in thousands)					
Change in fair value of securities available for sale	$1,966	$ (755)	$1,211	$597	$ (239)	$358
Less: net security losses reclassified into other noninterest income	—	—	—	(315)	129	(186)
Net change in fair value of securities available for sale	1,966	(755)	1,211	912	(368)	544
Change in fair value of cash flow hedges	(493)	201	(292)	(1,096)	429	(667)
Less: net cash flow hedge losses reclassified into interest on borrowings expense (1)	(715)	291	(424)	(2,130)	867	(1,263)
Net change in fair value of cash flow hedges	222	(90)	132	1,034	(438)	596
Net unamortized gain related to defined benefit pension and other postretirement adjustments arising during the period	50	(21)	29	137	(71)	66
Less: amortization of actuarial gains	61	(25)	36	182	(74)	108
Less: amortization of prior service costs	75	(30)	45	227	(92)	135
Net change in other comprehensive income for defined benefit postretirement plans (2)	186	(76)	110	546	(237)	309
Total other comprehensive income	$2,374	$ (921)	$1,453	$2,492	$ (1,043)	$1,449

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount
	(Dollars in thousands)					
Change in fair value of securities available for sale	$(1,322)	$512	$(810)	$5,869	$(2,325)	$3,544
Less: net security gains reclassified into other noninterest income	67	(27)	40	138	(56)	82
Net change in fair value of securities available for sale	(1,389)	539	(850)	5,731	(2,269)	3,462
Change in fair value of cash flow hedges	252	(103)	149	(535)	220	(315)
Less: net cash flow hedge losses reclassified into interest on borrowings expense (1)	(726)	297	(429)	(2,937)	1,200	(1,737)
Less: loss on termination of hedge reclassified into noninterest expense	—	—	—	(1,122)	459	(663)

Net change in fair value of cash flow hedges	978	(400)	578	3,524	(1,439)	2,085
Net unamortized loss related to defined benefit pension and other postretirement adjustments arising during the period	(80)	32	(48)	(240)	98	(142)
Less: amortization of actuarial losses	(10)	5	(5)	(32)	13	(19)
Less: amortization of prior service costs	26	(11)	15	76	(31)	45
Less: amortization of transfer obligations	(2)	1	(1)	(2)	1	(1)
Net change in other comprehensive income for defined benefit postretirement plans (2)	(66)	27	(39)	(198)	81	(117)
Total other comprehensive income (loss)	$(477)	$166	$(311)	$9,057	$(3,627)	$5,430

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(1) Includes the amortization of the remaining balance of a realized but unrecognized gain, net of tax, from the termination of interest rate swaps in June 2009. The original gain of $1.4 million, net of tax, is being recognized in earnings through December 2018, the original maturity date of the swap. The balance of this gain has amortized to $463,000 and $606,000 at September 30, 2015 and 2014, respectively.

(2) The amortization of prior service costs is included in the computation of net periodic pension cost as disclosed in the Employee Benefit Plans footnote in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission.

Information on the Company’s accumulated other comprehensive loss, net of tax, is comprised of the following components as of the periods indicated:

	Unrealized Gain on Securities	Unrealized Loss on Cash Flow Hedge	Deferred Gain on Hedge Transactions	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Loss
	(Dollars in thousands)				
	2015				
Beginning balance: January 1, 2015	$3,389	$(3,298)	$571	$(2,794)	$(2,132)
Net change in other comprehensive income (loss)	544	704	(108)	309	1,449
Ending balance: September 30, 2015	$3,933	$(2,594)	$463	$(2,485)	$(683)
	2014				
Beginning balance: January 1, 2014	$(2,023)	$(5,698)	$715	$(428)	$(7,434)
Net change in other comprehensive income (loss)	3,462	2,194	(109)	(117)	5,430
Ending balance: September 30, 2014	$1,439	$(3,504)	$606	$(545)	$(2,004)

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company enters into various transactions to meet the financing needs of its customers, which, in accordance with GAAP, are not included in its consolidated balance sheets. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of these commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding.

Standby letters of credit are written conditional commitments issued to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment were funded, the Company would be entitled to seek recovery from the customer. The Company’s policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

The fees collected in connection with the issuance of standby letters of credit are representative of the fair value of its obligation undertaken in issuing the guarantee. In accordance with applicable accounting standards related to guarantees, fees collected in connection with the issuance of standby letters of credit are deferred. The fees are then recognized in income proportionately over the life of the standby letter of credit agreement. The deferred standby letter of credit fees represent the fair value of the Company's potential obligations under the standby letter of credit guarantees.

The following table summarizes the above financial instruments at the dates indicated:

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Commitments to extend credit	$2,011,329	$1,822,369
Standby letters of credit	18,834	18,516
Deferred standby letter of credit fees	77	105

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Lease Commitments
The Company leases office space, space for ATM locations, and certain branch locations under noncancelable operating leases.
Rent expense incurred under operating leases was approximately $2.1 million and $1.9 million for the three months ended September 30, 2015 and 2014, respectively, and $6.1 million and $5.8 million for the nine months ended September 30, 2015 and 2014, respectively. Renewal options ranging from 1-10 years exist for several of these leases. Rockland Trust had previously entered into a lease with a related party. The terms of that lease were substantially the same as terms for comparable transactions with unrelated parties, and required rent payments of approximately $92,000 and $216,000 for the three and nine months ended September 30, 2014, respectively. However, there were no such leases for the three and nine months ended September 30, 2015. There has been no significant change in the future minimum lease payments payable by the Company since December 31, 2014. See the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 for information regarding our leases and other commitments.
Other Contingencies
At September 30, 2015, Rockland Trust was involved in pending lawsuits that arose in the ordinary course of business or due to acquisitions. Management has reviewed these pending lawsuits with legal counsel and has taken into consideration the view of counsel as to their outcome. In the opinion of management, the final disposition of pending lawsuits is not expected to have a material adverse effect on the Company’s financial position or results of operations.
The Bank is required to maintain certain reserve requirements of vault cash and/or deposits with the Federal Reserve Bank of Boston. The amount of this reserve requirement was $42.0 million and $33.0 million at September 30, 2015 and December 31, 2014, respectively.

NOTE 14 - LOW INCOME HOUSING PROJECT INVESTMENTS
The Company has invested in low income housing projects that generate Low Income Housing Tax Credits (“LIHTC”) which provide the Company with tax credits and operating loss tax benefits over a period of approximately 15 years. None of the original investment is expected to be repaid. The investment in LIHTC projects is being accounted for using the proportional amortization method, under which the Company amortizes the initial cost of the investment in proportion to the amount of the tax credits and other tax benefits received and recognizes the net investment benefit in the income statement as a component of income tax expense (benefit).
The following table presents the Company's investments in low income housing projects as of the dates indicated:

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Original investment value	$42,626	$40,541
Current recorded investment	38,929	38,943
Unfunded liability obligation	15,272	28,004
Tax credits and benefits (1)	4,151	1,683
Amortization of investments (2)	2,840	1,089
Net income tax benefit (3)	1,314	594

(1) This amount reflects anticipated tax credits and tax benefits for the full years ended December 31, 2015 and 2014.
(2) The amortization amount reduces the tax credits and benefits anticipated for the full years ended December 31, 2015 and 2014.
(3) This amount represents the net tax benefit expected to be realized for the full years ended December 31, 2015 and 2014 in determining the Company's effective tax rate.

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

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Securities and Exchange Commission.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, both in the Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management’s confidence and strategies and management’s expectations about new and existing programs and products, acquisitions, relationships, opportunities, taxation, technology, market conditions and economic expectations. These statements may be identified by forward-looking terminology such as “should,” “expect,” “believe,” “view,” “opportunity,” “allow,” “continues,” “reflects,” “typically,” “usually,” “anticipate,” or similar statements or variations of such terms. Such forward-looking statements involve certain risks and uncertainties and our actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements, in addition to those risk factors listed under the “Risk Factors” section of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, include, but are not limited to:

- a weakening in the United States economy in general and the regional and local economies within the New England region and the Company’s market area;
- adverse changes in the local real estate market;
- acquisitions may not produce results at levels or within timeframes originally anticipated and may result in unforeseen integration issues or impairment of goodwill and/or other intangibles;
- changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- higher than expected tax expense resulting from failure to comply with general tax laws, changes in tax laws or failure to comply with requirements of the federal New Markets Tax Credit program;
- unexpected changes in market interest rates for interest earning assets and/or interest bearing liabilities;
- adverse changes in asset quality including an unanticipated credit deterioration in our loan portfolio;
- unexpected increased competition in the Company’s market area;
- unanticipated loan delinquencies, loss of collateral, decreased service revenues, and other potential negative effects on our business caused by severe weather or other external events;
- a deterioration in the conditions of the securities markets;
- our inability to adapt to changes in information technology;
- electronic fraudulent activity within the financial services industry, especially in the commercial banking sector;
- adverse changes in consumer spending and savings habits;
- the inability to realize expected revenue synergies from the Peoples Federal Bancshares merger in the amounts or in the timeframe anticipated;
- cost or difficulties relating to the Peoples Federal Bancshares integration matters might be greater than expected;
- inability to retain customers and employees, including those of Peoples Federal Bancshares;
- the effect of laws and regulations regarding the financial services industry including, but not limited to, the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) generally applicable to the Company’s business;
- changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters;

- cyber security attacks or intrusions that could adversely impact our businesses; and
- other unexpected material adverse changes in our operations or earnings.

Except as required by law, the Company disclaims any intent or obligation to update publicly any such forward-looking statements, whether in response to new information, future events or otherwise. Any public statements or disclosures by the Company following this Quarterly Report on Form 10-Q which modify or impact any of the forward-looking statements contained in this Quarterly Report on Form 10-Q will be deemed to modify or supersede such statements in this Quarterly Report on Form 10-Q.

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Selected Quarterly Financial Data

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

	Three Months Ended				
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
	(Dollars in thousands, except per share data)				
Financial condition data					
Securities available for sale	$365,792	$375,001	$387,038	$348,554	$361,455
Securities held to maturity	448,139	428,339	394,745	375,453	372,418
Loans	5,498,121	5,434,782	5,393,118	4,970,733	4,947,855
Allowance for loan losses	(55,205)	(54,995)	(54,515)	(55,100)	(55,005)
Goodwill and identifiable intangible assets	213,612	214,331	215,058	180,306	180,871
Total assets	7,135,489	7,195,921	6,911,085	6,364,912	6,384,428
Total deposits	5,914,863	5,970,530	5,670,712	5,210,466	5,302,434
Total borrowings	351,102	386,205	395,015	406,655	367,060
Stockholders’ equity	759,203	743,317	732,886	640,527	627,182
Nonperforming loans	29,567	26,150	30,340	27,512	26,119
Nonperforming assets	32,099	31,274	40,348	38,894	38,557
Income statement					
Interest income	$60,228	$59,016	$56,429	$54,827	$54,368
Interest expense	5,183	5,269	5,180	5,007	4,805
Net interest income	55,045	53,747	51,249	49,820	49,563
Provision (benefit) for loan losses	800	700	(500)	1,750	1,901
Noninterest income	19,247	20,261	16,557	18,473	17,098
Noninterest expenses	47,031	48,644	54,977	44,364	42,607
Net income	18,594	17,451	9,460	15,978	15,738
Per share data					
Net income—basic	$0.71	$0.67	$0.38	$0.67	$0.66
Net income—diluted	0.71	0.67	0.38	0.66	0.66
Cash dividends declared	0.26	0.26	0.26	0.24	0.24
Book value	28.96	28.42	28.05	26.69	26.23
Performance ratios					
Return on average assets	1.03%	1.00%	0.58%	0.99%	0.99%
Return on average common equity	9.75%	9.43%	5.58%	9.93%	9.97%
Net interest margin (on a fully tax equivalent basis)	3.39%	3.43%	3.50%	3.42%	3.42%
Equity to assets	10.64%	10.33%	10.60%	10.06%	9.82%
Dividend payout ratio	36.65%	38.97%	71.84%	36.05%	36.47%
Asset Quality Ratios					
Nonperforming loans as a percent of gross loans	0.54%	0.48%	0.56%	0.55%	0.53%
Nonperforming assets as a percent of total assets	0.45%	0.43%	0.58%	0.61%	0.60%

Allowance for loan losses as a percent of total loans	1.00	%	1.01	%	1.01	%	1.11	%	1.11	%

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Allowance for loan losses as a percent of nonperforming loans	186.71	%	210.31	%	179.68	%	200.28	%	210.59	%
Capital ratios										
Tier 1 leverage capital ratio	9.21	%	9.21	%	9.53	%	8.84	%	8.75	%
Common equity tier 1 capital ratio	10.31	%	10.20	%	10.02	%	n/a		n/a	
Tier 1 risk-based capital ratio	11.58	%	11.48	%	11.31	%	10.88	%	10.75	%
Total risk-based capital ratio	13.23	%	13.16	%	12.99	%	13.15	%	12.47	%

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Executive Level Overview

Management evaluates the Company's operating results and financial condition using measures that include net income, earnings per share, return on assets and equity, return on tangible common equity, net interest margin, tangible book value per share, asset quality indicators, and many others. These metrics help management make key decisions regarding the Company's balance sheet, liquidity, interest rate sensitivity, and capital resources and assist with identifying areas to improve. The Company is focused on organic growth, but will consider acquisition opportunities that provide a satisfactory financial return.

Loans and Asset Quality

Management’s balance sheet strategy emphasizes commercial and home equity lending. The results depicted in the following table reflect an overall increase in total loans due to the results of that strategy as well as the impact of the Peoples Federal Bancshares, Inc. ("Peoples") acquisition. Growth in the commercial and home equity portfolios has been offset by slight decreases within the residential portfolio, resulting in overall organic loan growth for the year through September 30, 2015.

Management strives to be disciplined about loan pricing and generates loan assets with interest rate sensitivity in mind. The Company has gradually and intentionally shifted its balance sheet composition so that its interest-rate risk position is fundamentally asset-sensitive.

Management takes a disciplined approach to credit underwriting, seeking to avoid undue credit risk and loan losses as evidenced by consistently strong overall asset quality metrics.

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Funding and the Net Interest Margin

The Company's overall sources of funding continue to increase, reflecting both the impact of the 2015 first quarter Peoples acquisition as well strong business deposit growth, supporting management's emphasis on core deposit growth to fund loans, as depicted by the following chart:

As of September 30, 2015, core deposits comprised 87.8% of total deposits. The continued emphasis on core deposits has resulted in a low cost of deposits, which remained at 0.20% for the current quarter.

The Company's net interest margin was 3.39% for the quarter ended September 30, 2015, a decrease of four basis points from the linked quarter. The Company's net interest margin decrease was driven by increased liquid asset levels along with ongoing pressure on loan yields, partially offset by a three basis point positive impact from a security prepayment.

Noninterest Income

Management continues to focus on noninterest income growth. Noninterest income is primarily comprised of deposit account fees, interchange and ATM fees, and investment management fees. The following chart depicts noninterest income, excluding certain noncore items, as a percentage of total revenue (the sum of net noninterest income, excluding certain noncore items, and net interest income) over the past five quarters:
*See "Non-GAAP Measures" below for a reconciliation to GAAP financial measures.

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Noninterest Expense Control

Management takes a balanced approach to noninterest expense control by paying close attention to the management of ongoing operating expenses while making needed capital expenditures and prudently investing in growth initiatives. The Company’s primary expenses arise from Rockland Trust’s employee salaries and benefits and expenses associated with buildings and equipment. The following chart depicts the Company's efficiency ratio, on an operating basis (calculated by dividing noninterest expense, excluding certain noncore items, by the sum of net noninterest income, excluding certain noncore items, and net interest income) over the past five quarters:
*See "Non-GAAP Measures" below for a reconciliation to GAAP financial measures.

Tax Effectiveness

The Company participates in federal and state tax credit programs designed to promote economic development, affordable housing, and job creation. The Company continues to participate in the federal New Markets Tax Credit program and has made low-income housing tax credit investments. The Company has also established security corporation subsidiaries and, through its subsidiaries, purchased tax-exempt bonds. Federal and state tax credit program participation and other tax strategies permit the Company to operate in a tax efficient manner and sometimes also creates a competitive advantage for Rockland Trust and its community development subsidiaries. During the third quarter of 2015, the Company’s effective tax rate was 29.73%.

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Capital

The Company's disciplined approach with respect to revenue, expense, and tax effectiveness is designed to promote long-term shareholder value. This approach has resulted in an increase in tangible book value per share of $0.59 during the third quarter. Tangible common equity as a percentage of tangible assets increased from 7.58% in the prior quarter to 7.88%. The following chart shows the Company's tangible book value per share over the past five quarters:
*See "Non-GAAP Measures" below for a reconciliation to GAAP financial measures.

This strong growth in capital has led to a consistent cash dividend, which increased from $0.24 per share in each quarter of 2014 to $0.26 per share in each quarter of 2015, representing an 8.3% increase.

2015 Results

Net income for the third quarter of 2015 computed in accordance with generally accepted accounting principles in the United States ("GAAP") was $18.6 million, or $0.71 on a diluted earnings per share basis, as compared to $15.7 million, or $0.66 per diluted share, for the prior year third quarter. Net income for the third quarter of 2014 included items that are considered noncore, which are excluded for purposes of assessing operating earnings. No noncore items are included in net income for the third quarter of 2015. Third quarter 2015 net operating earnings were $18.6 million, or $0.71 on a diluted earnings per share basis, an increase of 15.1% and 6.0%, respectively, when compared to net operating earnings of $16.2 million, or $0.67 per diluted share, for the third quarter of 2014.

2015 Earnings Outlook

The Company anticipates 2015 diluted operating earnings per share performance to be in the upper end of the range originally provided by management for the full year of between $2.63 and $2.73. Key assumptions in the 2015 outlook include:

- Total organic loan growth 1-2% range;
- Total organic deposit growth of 3-4%;
- A net interest margin percentage in the low 3.40s%;
- Stable asset quality, resulting in a provision for loan loss in the range of $2-$3 million and net charge-offs in the range of $1-$2 million;
- Core noninterest income (exclusive of the Peoples acquisition) growing by 3-4%;
- Core noninterest expense (exclusive of the Peoples acquisition) increasing by 3-4%;
- An effective tax rate of slightly higher than 28.5% realized in 2014; and
- Tangible Common Equity ratio increasing to a range of 7.75% to 8.00% by the end of 2015.

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Non-GAAP Measures

When management assesses the Company’s financial performance for purposes of making day-to-day and strategic decisions, it does so based upon the performance of its core banking business, which is primarily derived from the combination of net interest income and noninterest or fee income, reduced by operating expenses, the provision for loan losses, and the impact of income taxes and other noncore items shown in the table that follows. The Company’s financial performance is determined in accordance with GAAP which sometimes includes items that management believes are unrelated to its core banking business and are not expected to have a material financial impact on operating results in future periods, such as gains or losses on the sales of securities, merger and acquisition expenses, and other items. Management, therefore, computes the Company’s non-GAAP operating earnings, which excludes these items, to measure the strength of the Company’s core banking business and to identify trends that may to some extent be obscured by such gains or losses. Management also supplements its evaluation of financial performance with analysis of tangible book value per share which is computed by dividing stockholders' equity less goodwill and identifiable intangible assets by common shares outstanding.

Management’s computation of the Company’s non-GAAP operating earnings information and tangible book value per share are set forth because management believes it may be useful for investors to have access to the same analytical tools used by management to evaluate the Company’s core operational performance so that investors may assess the Company’s overall financial health and identify business and performance trends that may be more difficult to identify and evaluate when noncore items are included and to assess the relative strength of the Company's capital position. Management also believes that the computation of non-GAAP operating earnings and tangible book value per share may facilitate the comparison of the Company to other companies in the financial services industry.

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

The following tables summarizes the impact of noncore items recorded for the time periods indicated below and reconciles them in accordance with GAAP:

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	Three Months Ended September 30			
	Net Income		Diluted Earnings Per Share	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
As reported (GAAP)				
Net income available to common shareholders (GAAP)	$18,594	$15,738	$0.71	$0.66
Non-GAAP adjustments				
Noninterest expense components				
Merger and acquisition expenses, net of tax	—	400	—	0.01
Impairment on acquired facilities, net of tax	—	12	—	—
Total impact of noncore items	—	412	—	0.01
As adjusted (Non-GAAP)	$18,594	$16,150	$0.71	$0.67

	Nine Months Ended September 30			
	Net Income		Diluted Earnings Per Share	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
As reported (GAAP)				
Net income available to common shareholders (GAAP)	$45,505	$43,867	$1.76	$1.83
Non-GAAP measures				
Noninterest income components				
Gain on sale of fixed income securities, net of tax	(473)	—	(0.01)	—
Gain on life insurance benefits, tax exempt	—	(1,964)	—	(0.08)
Noninterest expense components				
Loss on extinguishment of debt, net of tax	72	—	—	—
Loss on sale of fixed income securities, net of tax	667	—	0.02	—
Merger and acquisition expenses, net of tax	6,442	466	0.25	0.02
Loss on termination of derivatives, net of tax	—	663	—	0.01
Impairment on acquired facilities, net of tax	65	310	—	0.03
Total impact of noncore items	6,773	(525)	0.26	(0.02)
As adjusted (Non-GAAP)	$52,278	$43,342	$2.02	$1.81

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The following table summarizes the impact of noncore items on the calculation of the Company's efficiency ratio for the periods indicated:

	Quarter-to-Date					
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	
	(Dollars in thousands)					
Net interest income	$55,045	$53,747	$51,249	$49,820	$49,563	(a)
Noninterest income (GAAP)	$19,247	$20,261	$16,557	$18,473	$17,098	(b)
Net gain on sale of fixed income securities	—	(798)	—	(121)	—	
Noninterest income on an operating basis (Non-GAAP)	$19,247	$19,463	$16,557	$18,352	$17,098	(c)
Noninterest expense (GAAP)	$47,031	$48,644	$54,977	$44,364	$42,607	(d)
Loss on sale of fixed income securities	—	(1,124)	—	(21)	—	
Merger and acquisition expense	—	(271)	(10,230)	(586)	(677)	
Loss on extinguishment of debt	—	—	(122)	—	—	
Impairment on acquired facilities	—	(109)	—	—	(21)	
Noninterest expense on an operating basis (Non-GAAP)	$47,031	$47,140	$44,625	$43,757	$41,909	(e)
Total revenue (GAAP)	$74,292	$74,008	$67,806	$68,293	$66,661	(a+b)
Total operating revenue (Non-GAAP)	$74,292	$73,210	$67,806	$68,172	$66,661	(a+c)
Ratios						
Efficiency ratio (GAAP)	63.31%	65.73%	81.08%	64.96%	63.92%	(d/(a+b))
Efficiency ratio on an operating basis (Non-GAAP)	63.31%	64.39%	65.81%	64.19%	62.87%	(e/(a+c))
Noninterest income as a % of revenue	25.91%	27.38%	24.42%	27.05%	25.65%	(b/(a+b))
Noninterest income as a % of revenue on an operating basis (Non-GAAP)	25.91%	26.59%	24.42%	26.92%	25.65%	(c/(a+c))

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The following table summarizes the calculation of the Company's tangible book value for the periods indicated:

	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	
	(Dollars in thousands, except per share data)					
Stockholders' equity	$759,203	$743,317	$732,886	$640,527	$ 627,182	(a)
Goodwill and identifiable intangible assets	213,612	214,331	215,058	180,306	180,871	(b)
Common shares	26,212,238	26,158,826	26,123,576	23,998,738	23,911,678	(c)
Tangible book value per share	$20.81	$20.22	$19.82	$19.18	$ 18.66	((a-b)/c)

Critical Accounting Policies

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

There have been no material changes in critical accounting policies during the first nine months of 2015. Please refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 for a complete listing of critical accounting policies.

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FINANCIAL POSITION

Securities Portfolio The Company’s securities portfolio consists of trading securities, securities available for sale, and securities which management intends to hold until maturity. Securities increased by $90.4 million, or 12.5%, at September 30, 2015 as compared to December 31, 2014, primarily due to the acquired Peoples portfolio of $43.6 million in the first quarter. Also contributing to the increase were additional purchases of securities, in the second quarter, offset by sales in the second quarter, which included sales of the Company's investments in certain pooled trust preferred securities. The ratio of securities to total assets was 11.4% at both September 30, 2015 and December 31, 2014, respectively.

The Company continually reviews investment securities for the presence of other-than-temporary impairment (“OTTI”). For debt securities, the primary consideration in determining whether impairment is OTTI is whether or not the Company expects to collect all contractual cash flows. Further analysis of the Company’s OTTI can be found in Note 4 “Securities” within Notes to Consolidated Financial Statements included in Item 1 hereof.

Residential Mortgage Loan Sales The Company’s primary loan sale activity arises from the sale of government sponsored enterprise eligible residential mortgage loans. During the nine months ended September 30, 2015 and 2014, the Company originated residential loans with the intention of selling them in the secondary market, and to a lesser extent, to hold in the Company's residential portfolio. When a loan is sold, the Company enters into agreements that contain representations and warranties about the characteristics of the loans sold and their origination. The Company may be required to either repurchase mortgage loans or to indemnify the purchaser from losses if representations and warranties are breached. The Company has an established reserve of $250,000 and has incurred minimal losses during the three and nine months ended September 30, 2015 related to mortgage repurchases.

The following table shows the total residential loans that were closed and whether the amounts were held in the portfolio or sold/held for sale in the secondary market during the period indicated:

Table 1 - Closed Residential Real Estate Loans

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Held in portfolio	$27,297	$21,368	$53,162	$53,318
Sold/held for sale in secondary market	68,097	46,155	177,143	106,008
Total closed loans	$95,394	$67,523	$230,305	$159,326

The table below reflects the loans which were sold during the periods indicated:

Table 2 - Residential Mortgage Loan Sales

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Sold with servicing rights released	$66,794	$8,221	$165,598	$17,251
Sold with servicing rights retained	—	42,812	5,912	85,366
Total loans sold	$66,794	$51,033	$171,510	$102,617

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As noted in the table above, loans may be sold with servicing rights released or with servicing rights retained. Upon sale with servicing rights retained, the mortgage servicing asset is established, which represents the then current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Servicing rights are recorded in other assets in the consolidated balance sheets, are amortized in proportion to and over the period of estimated net servicing income, and are assessed for impairment based on fair value at each reporting date. Impairment is determined by stratifying the rights based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. The principal balance of loans serviced by the Company on behalf of investors amounted to $387.7 million, $403.0 million, and $384.7 million at September 30, 2015, December 31, 2014, and September 30, 2014, respectively. The following table shows the adjusted cost of the servicing rights associated with these loans and the changes for the periods indicated:

Table 3 - Mortgage Servicing Asset

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Balance at beginning of period	$2,837	$2,440	$2,912	$2,368
Additions	—	416	161	785
Acquired portfolio	—	—	83	—
Amortization	(143)	(154)	(453)	(445)
Change in valuation allowance	7	32	(2)	26
Balance at end of period	$2,701	$2,734	$2,701	$2,734

Forward sale contracts of mortgage loans and forward To Be Announced ("TBA") mortgage contracts, considered derivative instruments for accounting purposes, may be utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain one-to-four family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans, resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to investors, or forward TBA mortgage contracts are entered into with a counterparty, which economically hedges this market risk. See Note 9, “Derivative and Hedging Activities” within Notes to Consolidated Financial statements included in Item 1 hereof for more information on mortgage activity and mortgage related derivatives.

Loan Portfolio Management continues to focus on growth in the commercial and home equity lending categories. Management believes this emphasis is prudent, given the prevailing interest rate and economic environment, as well as strategic priorities. The Company’s loan portfolio increased by $527.4 million during the first nine months of 2015 due primarily to the acquired loan portfolio related to the Peoples acquisition. Excluding the acquisition, organic growth in commercial real estate, commercial construction, small business, and home equity portfolios was countered by declines in the commercial and industrial and residential real estate loan portfolios.

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The following table summarizes loan growth during the periods indicated:
Table 4 - Components of Loan Growth/(Decline)

	September 30 2015	December 31 2014	Peoples Acquisition	Organic Growth/(Decline) $	Organic Growth/(Decline) %
	(Dollars in thousands)				
Commercial and industrial	$862,512	$860,839	$11,268	$(9,595)	(1.1)%
Commercial real estate	2,659,342	2,347,323	249,383	62,636	2.7%
Commercial construction	308,214	265,994	15,299	26,921	10.1%
Small business	92,278	85,247	120	6,911	8.1%
Residential real estate	651,937	530,259	175,323	(53,645)	(10.1)%
Home equity	907,894	863,863	9,072	34,959	4.0%
Other consumer	15,944	17,208	3,462	(4,726)	(27.5)%
Total loans	$5,498,121	$4,970,733	$463,927	$63,461	1.3%

Management considers the Company’s commercial and industrial portfolio to be well-diversified with loans to various types of industries. The following pie chart shows the diversification of the commercial and industrial portfolio as of September 30, 2015:

	(Dollars in thousands)
Average loan size	$231
Largest individual commercial and industrial loan	$22,536
Commercial and industrial nonperforming loans/commercial and industrial loans	0.48%

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

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family apartment buildings, residential development tracts and condominiums. The following pie chart shows the diversification of the commercial real estate portfolio as of September 30, 2015:

	(Dollars in thousands)	
Average loan size	$749	
Largest individual commercial real estate mortgage outstanding	$28,000	
Commercial real estate nonperforming loans/commercial real estate loans	0.31	%
Owner occupied commercial real estate loans/commercial real estate loans	16.1	%

In addition to the commercial portfolios, the Company also originates both fixed-rate and adjustable-rate residential real estate loans as well as residential construction lending related to single-home residential development within the Company's market area. The Company also provides home equity loans and lines that may be made as a fixed rate term loan or under a variable rate revolving line of credit secured by a first or second mortgage on the borrower's residence or second home. Additionally, the Company makes loans for a wide variety of other personal needs. Consumer loans primarily consist of installment loans and overdraft protections. The residential, home equity and other consumer portfolios totaled $1.6 billion at September 30, 2015.

Asset Quality The Company continually monitors the asset quality of the loan portfolio using all available information. Based on this assessment, 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").

Delinquency 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. The Company seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. Generally, the Company requires that a delinquency notice be mailed to a borrower upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices may be sent and telephone calls may be made prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of a delinquency notice, the Bank’s personnel charged with managing its loan portfolios contact the borrower to ascertain the reasons for delinquency and the prospects for payment. Any subsequent actions taken to resolve the delinquency will depend upon the nature of the loan and the length of time that the loan has been delinquent. The borrower’s needs are considered as much as reasonably possible without jeopardizing the Bank’s position. A late charge is usually assessed on loans upon expiration of the grace period.

Nonaccrual Loans As a general rule, within commercial real estate or home equity categories, loans more than 90 days past due with respect to principal or interest are classified as nonaccrual loans. As permitted by banking regulations, certain consumer loans past due 90 days or more continue to accrue interest. In addition, certain commercial and real estate loans that are more than 90 days past due may be kept on an accruing status if the loans are well secured and in the process of collection. The Company may also put a junior lien mortgage on nonaccrual status as a result of delinquency with respect to the first position, which is held by another financial institution, while the junior lien is currently performing. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. A loan remains on nonaccrual status until it becomes current with respect to principal and interest (and in certain instances remains current for up to six months), the loan is liquidated, or when the loan is determined to be uncollectible and is charged-off against the allowance for loan losses.
Troubled Debt Restructurings In the course of resolving problem 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 or cure a default. 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 Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include adjustments to interest rates, extensions of maturity, consumer loans where the borrower's obligations have been effectively discharged through Chapter 7 Bankruptcy and the borrower has not reaffirmed the debt to the Bank, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. If such efforts by the Bank do not result in satisfactory performance, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Bank may terminate foreclosure proceedings if the borrower is able to work out a satisfactory payment plan.
It is the Company’s policy to have any restructured loans which are 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. Loans that are considered TDRs are classified as performing, unless they are on nonaccrual status or greater than 90 days delinquent. Loans classified as TDRs remain classified as such for the life of the loan, except in limited circumstances, when it may be determined that the borrower is performing under modified terms and the restructuring agreement specified an interest rate greater than or equal to an acceptable market rate for a comparable new loan at the time of the restructuring.
Purchased Credit Impaired Loans Purchased Credit Impaired (“PCI”) loans are acquired loans which had evidence of deterioration in credit quality at the purchase date and for which it is probable that all contractually required payments will not be collected. PCI loans are recorded at fair value without any carryover of the allowance for loan losses. The excess cash flows expected to be collected over the carrying amount of the loans, referred to as the "accretable yield," is accreted into interest income over the life of the loans using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual in the same manner as originated loans, rather they are generally considered to be accruing loans because their interest income recognized relates to the accretable yield and not to contractual interest payments. See Note 5, "Loans, Allowance for Loan Losses, and Credit Quality" within Notes to Consolidated Financial Statements included in Item 1 hereof for more information.
Nonperforming Assets Nonperforming assets are comprised of nonperforming loans, nonperforming securities, other real estate owned (“OREO”), and other assets in possession. Nonperforming loans consist of nonaccrual loans and loans that are more than 90 days past due but still accruing interest.
Nonperforming securities consisted of securities that are on nonaccrual status. The Company held five collateralized debt obligation securities (“CDOs”) comprised of pools of trust preferred securities issued by banks and insurance companies, which were deferring interest payments on certain tranches within the bonds’ structures including the tranches held by the Company. These nonaccrual securities were sold by the Company during the second quarter of 2015 for a net gain of $162,000.
OREO consists of real estate properties, which have served as collateral to secure loans, that are controlled or owned by the Bank. These properties are recorded at fair value less estimated costs to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of

estimated costs to sell) of the foreclosed asset is charged to the allowance for loan losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value are recorded as reductions in the valuation allowance, but not below zero. All costs incurred thereafter in maintaining the property are generally charged to noninterest expense. In the event the real estate is utilized as a rental property, net rental income and expenses are recorded as incurred within noninterest expense.

Other assets in possession typically consist of foreclosed non-real estate assets deemed to be in control of the Company.

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The following table sets forth information regarding nonperforming assets held by the Company at the dates indicated:
Table 5 - Nonperforming Assets

	September 30, 2015		December 31, 2014		September 30, 2014	
	(Dollars in thousands)					
Loans Accounted for on a nonaccrual basis						
Commercial and industrial	$4,114		$2,822		$2,321	
Commercial real estate	9,006		7,590		6,512	
Small business	159		246		278	
Residential real estate	9,106		8,697		9,088	
Home equity	7,142		8,038		7,672	
Other consumer	40		—		9	
Total (1)	$29,567		$27,393		$25,880	
Loans past due 90 days or more but still accruing						
Residential real estate (2)	—		106		217	
Other consumer	—		13		22	
Total	$—		$119		$239	
Total nonperforming loans	$29,567		$27,512		$26,119	
Nonaccrual securities (3)	—		3,639		2,806	
Other real estate owned	2,532		7,743		9,602	
Other assets in possession	—		—		30	
Total nonperforming assets	$32,099		$38,894		$38,557	
Nonperforming loans as a percent of gross loans	0.54	%	0.55	%	0.53	%
Nonperforming assets as a percent of total assets	0.45	%	0.61	%	0.60	%

(1) Inclusive of TDRs on nonaccrual of $5.2 million at September 30, 2015 and December 31, 2014, respectively, and $5.7 million at September 30, 2014.
(2) Represents purchased credit impaired loans that are accruing interest due to expectations of future cash collections.
(3) Amounts represent the fair value of five nonaccrual securities at December 31, 2014 and September 30, 2014.

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The following table summarizes the changes in nonperforming assets for the periods indicated:
Table 6 - Activity in Nonperforming Assets

	Three Months Ended		Nine Months Ended	
	September 30, 2015			
	(Dollars in thousands)			
Nonperforming assets beginning balance		$31,274		$38,894
New to nonperforming		8,348		22,296
Acquired nonperforming loans		—		1,901
Loans charged-off		(1,165)		(3,789)
Loans paid-off		(1,799)		(11,986)
Loans transferred to other real estate owned and foreclosed assets		(539)		(1,522)
Loans restored to performing status		(1,409)		(4,866)
Change to other real estate owned				
New to other real estate owned (1)	$1,151		$2,446	
Valuation write down	(480)		(1,154)	
Sale of other real estate owned	(3,460)		(7,246)	
Capital improvements to other real estate owned	196		961	
Other	—		(218)	
Total change to other real estate owned		(2,593)		(5,211)
Net change in nonaccrual securities		—		(3,639)
Other		(18)		21
Nonperforming assets ending balance		$32,099		$32,099

(1) For the quarter ended September 30, 2015 this amount is inclusive of a $612,000 payment to buy out the first position of a foreclosed loan. Also, included in this amount for the year-to-date period is $312,000 of real estate recognized as a loan recovery.

The following table sets forth information regarding troubled debt restructured loans as of the dates indicated:
Table 7 - Troubled Debt Restructurings

	September 30, 2015	December 31, 2014
	(Dollars in thousands)	
Performing troubled debt restructurings	$37,477	$38,382
Nonaccrual troubled debt restructurings	5,201	5,248
Total	$42,678	$43,630
Performing troubled debt restructurings as a % of total loans	0.68 %	0.77 %
Nonaccrual troubled debt restructurings as a % of total loans	0.09 %	0.11 %
Total troubled debt restructurings as a % of total loans	0.77 %	0.88 %

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The following table summarizes changes in TDRs for the periods indicated:

Table 8 - Activity in Troubled Debt Restructurings

	Three Months Ended	Nine Months Ended
	September 30, 2015	
	(Dollars in thousands)	
TDRs beginning balance	$42,373	$43,630
New to TDR status	1,131	5,051
Paydowns	(627)	(5,619)
Charge-offs	(199)	(384)
TDRs ending balance	$42,678	$42,678

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

Table 9 - Interest Income - Nonaccrual Loans and Troubled Debt Restructurings

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
The amount of incremental gross interest income that would have been recorded if nonaccrual loans had been current in accordance with their original terms	$308	$355	$960	$1,141
The amount of interest income on nonaccrual loans and performing TDRs that was included in net income	$642	$771	$1,885	$1,949

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impaired loans include all commercial and industrial loans, commercial real estate loans, commercial construction and small business loans that are on nonaccrual status, TDRs, and other loans that have been categorized as impaired. Impairment is measured on a loan by loan basis by comparing the loan's value to either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. For impaired loans deemed collateral dependent, where impairment is measured using the fair value of the collateral, the Bank will either order a new appraisal or use another available source of collateral assessment such as a broker's opinion of value to determine a reasonable estimate of the fair value of the collateral.

Total impaired loans at September 30, 2015 and December 31, 2014 were $58.0 million and $58.0 million, respectively. For additional information regarding the Company's asset quality, including delinquent loans, nonaccruals, TDRs, and impaired loans, see Note 5, "Loans, Allowance for Loan Losses, and Credit Quality" within Notes to Consolidated Financial Statements included in Item 1 hereof.

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Potential problem loans are any loans which are not included in nonaccrual or nonperforming loans, where known information about possible credit problems of the borrowers causes management to have concerns as to the ability of such borrowers to comply with present loan repayment terms. At September 30, 2015, there were 62 relationships, with an aggregate balance of $81.4 million, deemed to be potential problem loans. These potential problem loans continued to perform with respect to payments. Management actively monitors these loans and strives to minimize any possible adverse impact to the Company.

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

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

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

Table 10 - Summary of Changes in the Allowance for Loan Losses

	Three Months Ended				
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
	(Dollars in thousands)				
Average total loans	$5,466,364	$5,424,090	$5,166,710	$4,956,039	$4,893,674
Allowance for loan losses, beginning of period	$54,995	$54,515	$55,100	$55,005	$54,538
Charged-off loans					
Commercial and industrial	497	473	561	340	504
Commercial real estate	28	67	141	1,181	691
Small business	2	47	150	136	73
Residential real estate	40	17	185	173	199
Home equity	249	248	161	188	160
Other consumer	349	247	327	307	279
Total charged-off loans	1,165	1,099	1,525	2,325	1,906
Recoveries on loans previously charged-off					
Commercial and industrial	22	502	379	249	6
Commercial real estate	152	169	685	82	57
Small business	57	66	67	107	29
Residential real estate	6	1	45	56	178
Home equity	130	31	72	34	67
Other consumer	208	110	192	142	135
Total recoveries	575	879	1,440	670	472
Net loans charged-off (recovered)					
Commercial and industrial	475	(29)	182	91	498
Commercial real estate	(124)	(102)	(544)	1,099	634
Small business	(55)	(19)	83	29	44
Residential real estate	34	16	140	117	21
Home equity	119	217	89	154	93
Other consumer	141	137	135	165	144
Total net loans charged-off	590	220	85	1,655	1,434
Provision (benefit) for loan losses	800	700	(500)	1,750	1,901
Total allowance for loan losses, end of period	$55,205	$54,995	$54,515	$55,100	$55,005
Net loans charged-off as a percent of average total loans (annualized)	0.04 %	0.02 %	0.01 %	0.13 %	0.12 %
Allowance for loan losses as a percent of total loans	1.00 %	1.01 %	1.01 %	1.11 %	1.11 %
Allowance for loan losses as a percent of nonperforming loans	186.71 %	210.31 %	179.68 %	200.28 %	210.59 %

Net loans charged-off as a percent of allowance for loan losses (annualized)	4.24 %	1.60 %	0.63 %	11.92 %	10.34 %
Recoveries as a percent of charge-offs	49.36 %	79.98 %			