INDEPENDENT BANK CORP
Form 10-Q
August 06, 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 June 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 August 3, 2015, there were 26,205,818 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)

	June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	$100,054	$143,342
Interest-earning deposits with banks	295,722	34,912
Securities		
Securities - trading	489	—
Securities - available for sale	375,001	348,554
Securities - held to maturity (fair value $431,778 and $379,699)	428,339	375,453
Total securities	803,829	724,007
Loans held for sale (at fair value)	10,728	6,888
Loans		
Commercial and industrial	873,105	860,839
Commercial real estate	2,630,062	2,347,323
Commercial construction	278,692	265,994
Small business	91,367	85,247
Residential real estate	653,370	530,259
Home equity - first position	526,370	513,518
Home equity - subordinate positions	364,523	350,345
Other consumer	17,293	17,208
Total loans	5,434,782	4,970,733
Less: allowance for loan losses	(54,995)	(55,100)
Net loans	5,379,787	4,915,633
Federal Home Loan Bank stock	37,485	33,233
Bank premises and equipment, net	74,143	64,074
Goodwill	201,083	170,421
Identifiable intangible assets	13,248	9,885
Cash surrender value of life insurance policies	132,600	109,854
Other real estate owned and other foreclosed assets	5,124	7,743
Other assets	142,118	144,920
Total assets	$7,195,921	$6,364,912
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	1,832,971	1,462,200
Savings and interest checking accounts	2,285,968	2,108,486
Money market	1,125,888	990,160
Time certificates of deposit of $100,000 and over	295,738	254,718
Other time certificates of deposits	429,965	394,902
Total deposits	5,970,530	5,210,466
Borrowings		
Federal Home Loan Bank borrowings	108,190	70,080
Customer repurchase agreements and other short-term borrowings	119,439	147,890

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Wholesale repurchase agreements	50,000	50,000
Junior subordinated debentures	73,576	73,685
Subordinated debentures	35,000	65,000
Total borrowings	386,205	406,655
Other liabilities	95,869	107,264
Total liabilities	6,452,604	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: 26,158,826 shares at June 30, 2015 and 23,998,738 shares at December 31, 2014 (includes 243,710 and 254,500 shares of unvested participating restricted stock awards, respectively)	259	237
Shares held in rabbi trust at cost: 171,286 shares at June 30, 2015 and 176,849 shares at December 31, 2014	(3,785)	(3,666)
Deferred compensation and other retirement benefit obligations	3,785	3,666
Additional paid in capital	401,437	311,978
Retained earnings	343,757	330,444
Accumulated other comprehensive loss, net of tax	(2,136)	(2,132)
Total stockholders’ equity	743,317	640,527
Total liabilities and stockholders' equity	$7,195,921	$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 per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Interest income				
Interest and fees on loans	$54,016	$49,393	$105,704	$97,597
Taxable interest and dividends on securities	4,852	4,690	9,479	9,340
Nontaxable interest and dividends on securities	30	37	64	74
Interest on loans held for sale	58	96	109	147
Interest on federal funds sold and short-term investments	60	69	91	106
Total interest and dividend income	59,016	54,285	115,447	107,264
Interest expense				
Interest on deposits	2,922	2,789	5,685	5,579
Interest on borrowings	2,347	2,443	4,765	5,026
Total interest expense	5,269	5,232	10,450	10,605
Net interest income	53,747	49,053	104,997	96,659
Provision for loan losses	700	2,250	200	6,752
Net interest income after provision for loan losses	53,047	46,803	104,797	89,907
Noninterest income				
Deposit account fees	4,465	4,463	8,631	8,821
Interchange and ATM fees	3,767	3,322	6,868	6,298
Investment management	5,528	5,136	10,635	9,739
Mortgage banking income	1,226	877	2,352	1,364
Gain on life insurance benefits	—	337	—	1,964
Gain (loss) on sale of equity securities	19	(20)	19	71
Gain on sale of fixed income securities	798	—	798	—
Increase in cash surrender value of life insurance policies	949	721	1,727	1,443
Loan level derivative income	1,430	324	1,848	1,070
Other noninterest income	2,079	1,697	3,939	3,602
Total noninterest income	20,261	16,857	36,817	34,372
Noninterest expenses				
Salaries and employee benefits	26,318	22,843	51,606	45,923
Occupancy and equipment expenses	5,672	5,301	12,066	11,447
Data processing and facilities management	1,228	1,179	2,350	2,432
FDIC assessment	1,017	966	1,973	1,871
Advertising expense	1,853	1,249	2,687	2,073
Consulting expense	829	810	1,585	1,368
Loss on sale of equity securities	8	—	8	—
Loss on sale of fixed income securities	1,124	—	1,124	—
Loss on termination of derivatives	—	1,122	—	1,122
Merger and acquisition expense	271	—	10,501	77
Other noninterest expenses	10,324	9,510	19,722	18,553
Total noninterest expenses	48,644	42,980	103,622	84,866
Income before income taxes	24,664	20,680	37,992	39,413
Provision for income taxes	7,213	5,934	11,082	11,284

Net income	$17,451	$14,746	$26,910	$28,129
Basic earnings per share	$0.67	$0.62	$1.05	$1.18
Diluted earnings per share	$0.67	$0.61	$1.05	$1.17
Weighted average common shares (basic)	26,149,593	23,897,413	25,558,016	23,858,456
Common shares equivalents	71,819	94,560	76,626	97,544
Weighted average common shares (diluted)	26,221,412	23,991,973	25,634,642	23,956,000
Cash dividends declared per common share	$0.26	$0.24	$0.52	$0.48

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 June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Net income	$17,451	$14,746	$26,910	$28,129
Other comprehensive income (loss), net of tax				
Net change in fair value of securities available for sale	(2,228)	2,395	(667)	4,312
Net change in fair value of cash flow hedges	382	1,005	464	1,507
Net change in other comprehensive income for defined benefit postretirement plans	123	(39)	199	(78)
Total other comprehensive income (loss)	(1,723)	3,361	(4)	5,741
Total comprehensive income	$15,728	$18,107	$26,906	$33,870

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 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	—	—	—	—	—	26,910	—	26,910
Other comprehensive loss	—	—	—	—	—	—	(4)	(4)
Common dividend declared ($0.52 per share)	—	—	—	—	—	(13,597)	—	(13,597)
Common stock issued for acquisition	2,052,137	21	—	—	86,394	—	—	86,415
Proceeds from exercise of stock options, net of cash paid	40,314	—	—	—	311	—	—	311
Tax benefit related to equity award activity	—	—	—	—	546	—	—	546
Stock based compensation	—	—	—	—	1,362	—	—	1,362
Restricted stock awards issued, net of awards surrendered	36,101	1	—	—	(646)	—	—	(645)
Shares issued under direct stock purchase plan	31,536	—	—	—	1,327	—	—	1,327
Deferred compensation and other retirement benefit obligations	—	—	(119)	119		—	—	—
Tax benefit related to deferred compensation distributions	—	$—	$ —	$—	165	—	—	165
Balance June 30, 2015	26,158,826	$259	$ (3,785)	$ 3,785	$401,437	$343,757	$ (2,136)	$743,317

Balance December 31, 2013	23,805,984	$235	$ (3,404)	$ 3,404	$305,179	$293,560	$ (7,434)	$591,540
Net income	—	—	—	—	—	28,129	—	28,129
Other comprehensive income	—	—	—	—	—	—	5,741	5,741
Common dividend declared ($0.48 per share)	—	—	—	—	—	(11,463)	—	(11,463)
Proceeds from exercise of stock options, net of cash paid	20,609	—	—	—	468	—	—	468
Tax benefit related to equity award activity	—	—	—	—	449	—	—	449
Stock based compensation	—	—	—	—	1,496	—	—	1,496
Restricted stock awards issued, net of awards surrendered	60,495	1	—	—	(643)	—	—	(642)
Shares issued under direct stock purchase plan	16,984	—	—	—	643	—	—	643
Deferred compensation and other retirement benefit obligations	—	—	(124)	124	—	—	—	—
Tax benefit related to deferred compensation distributions	—	$—	$ —	$ —	$ 128	$—	$ —	$ 128
Balance June 30, 2014	23,904,072	236	(3,528)	3,528	307,720	310,226	(1,693)	616,489

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)

	Six Months Ended June 30	
	2015	2014
Cash flow from operating activities		
Net income	$26,910	$28,129
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,388	6,153
Provision for loan losses	200	6,752
Deferred income tax expense	5,372	563
Net (gain) loss on sale of securities	315	(71)
Net loss on fixed assets	110	390
Loss on termination of derivatives	—	1,122
Net loss on other real estate owned and foreclosed assets	630	232
Realized gain on sale leaseback transaction	(517)	(517)
Stock based compensation	1,362	1,496
Excess tax benefit related to equity award activity	(546)	(449)
Increase in cash surrender value of life insurance policies	(1,727)	(1,443)
Gain on life insurance benefits	—	(1,964)
Change in fair value on loans held for sale	(184)	(225)
Net change in:		
Trading assets	(489)	—
Loans held for sale	(3,656)	(7,018)
Other assets	16,057	1,572
Other liabilities	(12,353)	(4,154)
Total adjustments	10,962	2,439
Net cash provided by operating activities	37,872	30,568
Cash flows used in investing activities		
Proceeds from sales of securities available for sale	14,344	673
Proceeds from maturities and principal repayments of securities available for sale	34,849	23,510
Purchases of securities available for sale	(34,193)	(868)
Proceeds from maturities and principal repayments of securities held to maturity	29,030	20,216
Purchases of securities held to maturity	(81,859)	(43,493)
Redemption of Federal Home Loan Bank stock	—	2,576
Investments in low income housing projects	(12,272)	(3,748)
Purchases of life insurance policies	(100)	(101)
Proceeds from life insurance policies	—	5,735
Net increase in loans	(1,137)	(177,486)
Cash used in business combinations, net of cash acquired	(13,448)	—
Purchases of bank premises and equipment	(4,537)	(3,915)
Proceeds from the sale of bank premises and equipment	347	759
Payments on early termination of hedging relationship	—	(1,122)
Proceeds from the sale of other real estate owned and foreclosed assets	3,879	2,810
Net capital improvements to other real estate owned	(765)	(875)

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Net cash used in investing activities	(65,862)	(175,329)
Cash flows provided by financing activities		
Net decrease in time deposits	(39,853)	(40,770)
Net increase in other deposits	367,667	352,513
Net repayments of short-term Federal Home Loan Bank borrowings	(10,000)	(75,000)
Repayments of long-term Federal Home Loan Bank borrowings	(3,000)	(5,000)
Net decrease in customer repurchase agreements	(28,451)	(17,522)
Net decrease in other short term borrowings	—	(5,000)
Repayments of subordinated debentures	(30,000)	—
Net proceeds from exercise of stock options	311	468
Restricted stock awards issued, net of awards surrendered	(645)	(642)
Excess tax benefit from stock based compensation	546	449
Tax benefit from deferred compensation distribution	165	128
Proceeds from shares issued under direct stock purchase plan	1,327	643
Common dividends paid	(12,555)	(10,967)
Net cash provided by financing activities	245,512	199,300
Net increase in cash and cash equivalents	217,522	54,539
Cash and cash equivalents at beginning of year	178,254	216,325
Cash and cash equivalents at end of period	395,776	270,864
Supplemental schedule of noncash investing and financing activities		
Transfer of loans to other real estate owned & foreclosed assets	$983	$4,257
Other net transfers to other real estate owned	$142	$—
Increase (decrease) in capital commitments relating to low income housing project investments	$(1,055)	$25,840
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 footnotes 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 June 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 footnotes 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 - 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 account 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

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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 $271,000 and $10.5 million during the three and six months ended June 30, 2015, respectively. 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 June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net interest income after provision for loan losses	$53,047	$51,273	$107,455	$98,789
Net income	17,606	15,285	31,766	29,182

Excluded from the pro forma results of operations for the three and six months ended June 30, 2015 are merger-related costs of $271,000 and $16.7 million, respectively, recognized by both the Company and Peoples in the aggregate. 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 June 30, 2015, the Company had trading securities of $489,000. 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:

	June 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	$39,375	$351	$—	$39,726	$41,369	$139	$(22)	$41,486
Agency mortgage-backed securities	226,438	5,436	(877)	230,997	211,168	7,203	(693)	217,678
Agency collateralized mortgage obligations	55,241	477	(516)	55,202	63,059	599	(623)	63,035
State, county, and municipal securities	4,571	97	—	4,668	5,106	117	—	5,223
Single issuer trust preferred securities issued by banks	2,889	11	(28)	2,872	2,913	12	(16)	2,909
Pooled trust preferred securities issued by banks and insurers (1)	2,246	—	(651)	1,595	7,906	195	(1,780)	6,321
Small business administration pooled securities	26,632	—	(135)	26,497	—	—	—	—
Equity securities	13,201	579	(336)	13,444	11,572	567	(237)	11,902
Total available for sale securities	$370,593	$6,951	$(2,543)	$375,001	$343,093	$8,832	$(3,371)	$348,554
Held to maturity securities								
U.S. Treasury securities	$1,009	$61	$—	$1,070	$1,010	$63	$—	$1,073
Agency mortgage-backed securities	158,432	4,011	(69)	162,374	159,522	5,422	—	164,944
Agency collateralized mortgage obligations	224,994	1,885	(2,754)	224,125	198,220	1,842	(3,478)	196,584
State, county, and municipal securities	225	2	—	227	424	4	—	428
Single issuer trust preferred securities issued by banks	1,500	—	—	1,500	1,500	—	(23)	1,477
Small business administration pooled securities	37,178	341	(103)	37,416	9,775	299	—	10,074

Corporate debt securities	5,001	65	—	5,066	5,002	117	—	5,119
Total held to maturity securities	$428,339	$6,365	$(2,926)	$431,778	$375,453	$7,747	$(3,501)	$379,699
Total	$798,932	$13,316	$(5,469)	$806,779	$718,546	$16,579	$(6,872)	$728,253

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

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale. The Company realized a loss of $8,000 and a gain of $19,000 on equity securities classified as available for sale during the three and six month periods ending June 30, 2015. The Company realized a net loss of $20,000 and a net gain of $71,000 on equity securities classified as available for sale during the three and six month period ending June 30, 2014, respectively. The Company realized a loss of $1.1 million and a gain of $798,000 on the sale of the Company's fixed income securities during the three and six month periods ending June 30, 2015. There were no gains or losses on sale on the Company's fixed income securities during the respective periods ending June 30, 2014.

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 June 30, 2015 is presented below:

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	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$—	$—	$5,226	$5,293
Due after one year to five years	46,469	47,097	149	152
Due after five to ten years	92,147	92,354	29,960	30,547
Due after ten years	218,776	222,106	393,004	395,786
Total debt securities	$357,392	$361,557	$428,339	$431,778
Equity securities	$13,201	$13,444	$—	$—
Total	$370,593	$375,001	$428,339	$431,778

Inclusive in the table above is $27.6 million of callable securities in the Company's investment portfolio at June 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 $317.6 million and $340.0 million at June 30, 2015 and December 31, 2014, respectively.

At June 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:

	June 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	40	$76,234	$(766)	$4,542	$(180)	$80,776	$(946)
Agency collateralized mortgage obligations	14	45,813	(329)	88,668	(2,941)	134,481	(3,270)
Single issuer trust preferred securities issued by banks and insurers	2	2,113	(28)	—	—	2,113	(28)
Pooled trust preferred securities issued by banks and insurers	1	—	—	1,595	(651)	1,595	(651)
Small business administration pooled securities	3	39,349	(238)	—	—	39,349	(238)
Equity securities	26	2,717	(123)	4,330	(213)	7,047	(336)
Total temporarily impaired securities	86	$166,226	$(1,484)	$99,135	$(3,985)	$265,361	$(5,469)

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	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 June 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 two 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.
- 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.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Gross change in OTTI recorded on certain investments	$—	$196	$84	$1,029
Portion of OTTI recognized in OCI	—	(196)	(84)	(1,029)
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 June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(Dollars in thousands)			
Balance at beginning of period	$(9,997)	$(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	—	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:

	June 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	$867,695	$2,588,279	$278,205	$90,481	$629,556	$884,588	$15,618	$5,354,422	
Individually evaluated for impairment	$5,410	$29,562	$309	$886	$14,940	$5,895	$1,664	$58,666	
Purchased credit impaired loans	$—	$12,221	$178	$—	$8,874	$410	$11	$21,694	
Total loans by group	$873,105	$2,630,062	$278,692	$91,367	$653,370	$890,893	$17,293	$5,434,782	(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 fees included in the ending balance was $3.5 million and $2.8 million at June 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 June 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	$14,557	$26,285	$4,142	$1,222	$2,726	$4,906	$677	$54,515
Charge-offs	(473)	(67)	—	(47)	(17)	(248)	(247)	(1,099)
Recoveries	502	169	—	66	1	31	110	879
Provision	693	(28)	(71)	7	(159)	182	76	700
Ending balance	$15,279	$26,359	$4,071	$1,248	$2,551	$4,871	$616	$54,995

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	Three Months Ended June 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	$ 15,601	$ 24,917	$ 3,570	$ 1,207	$ 2,829			