INDEPENDENT BANK CORP
Form 10-Q
May 05, 2016
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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 March 31, 2016
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 May 2, 2016, there were 26,302,440 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)

	March 31, 2016	December 31, 2015
Assets		
Cash and due from banks	$83,345	$84,813
Interest-earning deposits with banks	113,387	190,952
Securities		
Securities - trading	763	356
Securities - available for sale	378,227	367,249
Securities - held to maturity (fair value $467,764 and $478,749)	457,641	477,507
Total securities	836,631	845,112
Loans held for sale (at fair value)	7,588	5,990
Loans		
Commercial and industrial	835,336	843,276
Commercial real estate	2,711,857	2,653,434
Commercial construction	357,867	373,368
Small business	103,323	96,246
Residential real estate	631,888	638,606
Home equity - first position	547,056	543,092
Home equity - subordinate positions	388,255	384,711
Other consumer	13,649	14,988
Total loans	5,589,231	5,547,721
Less: allowance for loan losses	(56,432)	(55,825)
Net loans	5,532,799	5,491,896
Federal Home Loan Bank stock	11,807	14,431
Bank premises and equipment, net	76,692	75,663
Goodwill	201,083	201,083
Other intangible assets	11,135	11,826
Cash surrender value of life insurance policies	135,734	134,627
Other real estate owned and other foreclosed assets	1,720	2,159
Other assets	177,347	150,917
Total assets	$7,189,268	$7,209,469
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	1,840,186	1,846,593
Savings and interest checking accounts	2,374,264	2,370,141
Money market	1,123,600	1,089,139
Time certificates of deposit of $100,000 and over	267,936	274,701
Other time certificates of deposits	389,261	410,129
Total deposits	5,995,247	5,990,703
Borrowings		
Federal Home Loan Bank borrowings	50,840	102,080
Customer repurchase agreements and other short-term borrowings	134,568	133,958

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Junior subordinated debentures (less unamortized debt issuance costs of $152 and $158)	73,257	73,306
Subordinated debentures (less unamortized debt issuance costs of $400 and $411)	34,600	34,589
Total borrowings	293,265	343,933
Other liabilities	112,609	103,370
Total liabilities	6,401,121	6,438,006
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: 26,293,565 shares at March 31, 2016 and 26,236,352 shares at December 31, 2015 (includes 223,753 and 230,900 shares of unvested participating restricted stock awards, respectively)	261	260
Shares held in rabbi trust at cost: 164,571 shares at March 31, 2016 and 173,378 shares at December 31, 2015	(4,031)	(3,958)
Deferred compensation and other retirement benefit obligations	4,031	3,958
Additional paid in capital	406,921	405,486
Retained earnings	379,153	368,169
Accumulated other comprehensive income (loss), net of tax	1,812	(2,452)
Total stockholders’ equity	788,147	771,463
Total liabilities and stockholders' equity	$7,189,268	$7,209,469

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 March 31	
	2016	2015
Interest income		
Interest and fees on loans	$54,269	$ 51,687
Taxable interest and dividends on securities	5,197	4,627
Nontaxable interest and dividends on securities	32	34
Interest on loans held for sale	32	51
Interest on federal funds sold and short-term investments	211	30
Total interest and dividend income	59,741	56,429
Interest expense		
Interest on deposits	2,868	2,763
Interest on borrowings	1,982	2,417
Total interest expense	4,850	5,180
Net interest income	54,891	51,249
Provision (benefit) for loan losses	525	(500)
Net interest income after provision (benefit) for loan losses	54,366	51,749
Noninterest income		
Deposit account fees	4,470	4,166
Interchange and ATM fees	3,724	3,100
Investment management	5,003	5,107
Mortgage banking income	1,132	1,126
Increase in cash surrender value of life insurance policies	1,014	778
Loan level derivative income	1,722	418
Other noninterest income	2,090	1,862
Total noninterest income	19,155	16,557
Noninterest expenses		
Salaries and employee benefits	27,189	25,288
Occupancy and equipment expenses	5,827	6,394
Data processing and facilities management	1,206	1,122
FDIC assessment	1,010	956
Advertising expense	1,257	834
Consulting expense	601	755
Loss on extinguishment of debt	437	122
Loss on sale of equity securities	29	—
Merger and acquisition expense	334	10,230
Software maintenance	754	625
Other noninterest expenses	7,838	8,651
Total noninterest expenses	46,482	54,977
Income before income taxes	27,039	13,329
Provision for income taxes	8,428	3,869
Net income	$18,611	$ 9,460
Basic earnings per share	$0.71	$ 0.38
Diluted earnings per share	$0.71	$ 0.38
Weighted average common shares (basic)	26,275,322	24,959,865

Common shares equivalents	43,409	80,215
Weighted average common shares (diluted)	26,318,732	25,040,080
Cash dividends declared per common share	$ 0.29	$ 0.26

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 March 31	
	2016	2015
Net income	$18,611	$9,460
Other comprehensive income, net of tax		
Net change in fair value of securities available for sale	4,081	1,561
Net change in fair value of cash flow hedges	123	82
Net change in other comprehensive income for defined benefit postretirement plans	60	76
Total other comprehensive income	4,264	1,719
Total comprehensive income	$22,875	$11,179

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 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 Income (Loss)	Total
Balance December 31, 2015	26,236,352	$ 260	$ (3,958)	$ 3,958	$405,486	$368,169	$ (2,452)	$771,463
Net income	—	—	—	—	—	18,611	—	18,611
Other comprehensive income	—	—	—	—	—	—	4,264	4,264
Common dividend declared ($0.29 per share)	—	—	—	—	—	(7,627)	—	(7,627)
Proceeds from exercise of stock options	5,000	—	—	—	149	—	—	149
Tax benefit related to equity award activity	—	—	—	—	235	—	—	235
Stock based compensation	—	—	—	—	865	—	—	865
Restricted stock awards issued, net of awards surrendered	36,887	1	—	—	(672)	—	—	(671)
Shares issued under direct stock purchase plan	15,326	—	—	—	679	—	—	679
Deferred compensation and other retirement benefit obligations	—	—	(73)	73		—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	179	—	—	179
Balance March 31, 2016	26,293,565	$ 261	$ (4,031)	$ 4,031	$406,921	$379,153	$ 1,812	$788,147
Balance December 31, 2014	23,998,738	$ 237	$ (3,666)	$ 3,666	$311,978	$330,444	$ (2,132)	$640,527
Net income	—	—	—	—	—	9,460	—	9,460
Other comprehensive income	—	—	—	—	—	—	1,719	1,719
Common dividend declared ($0.26 per share)	—	—	—	—	—	(6,800)	—	(6,800)
Common stock issued for acquisition	2,052,137	21	—	—	86,394	—	—	86,415
Proceeds from exercise of stock options	23,436	—	—	—	321	—	—	321
Tax benefit related to equity award activity	—	—	—	—	337	—	—	337

Stock based compensation	—	—	—	—	739	—	—	739
Restricted stock awards issued, net of awards surrendered	33,491	1	—	—	(636)	—	—	(635)
Shares issued under direct stock purchase plan	15,774	—	—	—	638	—	—	638
Deferred compensation and other retirement benefit obligations	—	—	(34)	34	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	165	—	—	165
Balance March 31, 2015	26,123,576	$ 259	$ (3,700)	$ 3,700	$399,936	$333,104	$ (413)	$732,886

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)

	Three Months Ended March 31	
	2016	2015
Cash flow from operating activities		
Net income	$18,611	$9,460
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,905	3,145
Provision (benefit) for loan losses	525	(500)
Deferred income tax expense	462	639
Net loss on sale of securities	29	—
Net gain on fixed assets	—	(2)
Loss on extinguishment of debt	437	122
Net (gain) loss on other real estate owned and foreclosed assets	(86)	666
Realized gain on sale leaseback transaction	(258)	(258)
Stock based compensation	865	739
Excess tax benefit related to equity award activity	(235)	(337)
Increase in cash surrender value of life insurance policies	(1,014)	(778)
Change in fair value on loans held for sale	(54)	(27)
Net change in:		
Trading assets	(407)	(494)
Loans held for sale	(1,544)	(2,592)
Other assets	(30,455)	2,934
Other liabilities	11,762	(5,292)
Total adjustments	(17,068)	(2,035)
Net cash provided by operating activities	1,543	7,425
Cash flows provided by (used in) investing activities		
Proceeds from sales of securities available for sale	266	—
Proceeds from maturities and principal repayments of securities available for sale	11,575	13,108
Purchases of securities available for sale	(16,469)	(5,846)
Proceeds from maturities and principal repayments of securities held to maturity	19,942	12,616
Purchases of securities held to maturity	—	(31,890)
Redemption of Federal Home Loan Bank stock	2,624	—
Investments in low income housing projects	(2,648)	(5,002)
Purchases of life insurance policies	(93)	(92)
Net (increase) decrease in loans	(40,895)	41,330
Cash used in business combinations, net of cash acquired	—	(13,448)
Purchases of bank premises and equipment	(2,750)	(1,481)
Proceeds from the sale of bank premises and equipment	—	14
Proceeds from the sale of other real estate owned and foreclosed assets	724	1,641
Net capital improvements to other real estate owned	(113)	(665)
Net cash provided by (used in) investing activities	(27,837)	10,285
Cash flows used in financing activities		
Net decrease in time deposits	(27,633)	(19,023)

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Net increase in other deposits	32,177	47,019
Net repayments of short-term Federal Home Loan Bank borrowings	—	(10,000)
Repayments of long-term Federal Home Loan Bank borrowings	(51,641)	(3,000)
Net increase (decrease) in customer repurchase agreements	610	(29,752)
Net increase in other short term borrowings	—	10,000
Repayments of subordinated debentures	—	(30,000)
Net proceeds from exercise of stock options	149	321
Restricted stock awards issued, net of awards surrendered	(671)	(635)
Excess tax benefit from stock based compensation	235	337
Tax benefit from deferred compensation distribution	179	165
Proceeds from shares issued under direct stock purchase plan	679	638
Common dividends paid	(6,823)	(5,760)
Net cash used in financing activities	(52,739)	(39,690)
Net decrease in cash and cash equivalents	(79,033)	(21,980)
Cash and cash equivalents at beginning of year	275,765	178,254
Cash and cash equivalents at end of period	196,732	156,274
Supplemental schedule of noncash investing and financing activities		
Transfer of loans to other real estate owned & foreclosed assets	$ 86	$354
Net increase in capital commitments relating to low income housing project investments	$ 37	$—
In conjunction with the purchase acquisition detailed in note 2 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 March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 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, 2015, filed with the Securities and Exchange Commission.

NOTE 2 - RECENT ACCOUNTING STANDARDS UPDATES

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 were adopted by the Company effective January 1, 2016, with applicable prior period presentation updated as well. The adoption of this standard did not 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 were adopted by the Company effective January 1, 2016. The adoption of this standard did not have a material impact on the Company's consolidated financial position.

FASB ASC Topic 718 "Compensation - Stock Compensation" Update No. 2016-09. Update No. 2016-09 was issued in March 2016 and affects all entities that issue share-based awards to their employees. This update was issued as part of the FASB’s simplification initiative. The areas for simplification in this update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The

Company is currently assessing the impact of the adoption of this standard on the Company's consolidated financial position.

FASB ASC Topic 606 "Revenue from Contracts with Customers" Update No. 2016-08. Update No. 2016-08 was issued in March 2016 and affects entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The amendments in this update do not change the core principle of the guidance. The effective date and transition requirements for the amendments are the same as the effective date and transitions requirements of Update No. 2014-09, which were originally finalized for public companies effective for fiscal years beginning after December 15, 2016. However, this effective date was subsequently deferred for another year. The Company is currently assessing the impact of the adoption of this standard on the Company's consolidated financial position.

FASB ASC Topic 323 "Investments -Equity Method and Joint Ventures" Update No. 2016-07. Update No. 2016-07 was issued in March 2016 and eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this update require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. 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 815 "Derivative and Hedging - Contingent Put and Call Options in Debt Instruments" Updated No. 2016-6. Update No. 2016-6 was issued in March 2016 to clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. An entity has an option to apply the amendments in this update on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Topic 815 "Derivative and Hedging - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships" Update No. 2016-05. Update No. 2016-05 was issued in March 2016 and applies to all reporting entities for which there is a change in the counterpart to a derivative instrument that has been designated as a hedging instrument under Topic 815. The amendments in this update clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria (including those in paragraphs 815-20-35-14 through 35-18) continue to be met. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. An entity has an option to apply the amendments in this update on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Topic 842 "Leases" Update No. 2016-02. Update No. 2016-02 was issued in February 2016 and affects any entity that enters into a lease (as that term is defined in this update), with some specified scope exemptions. The core principle of this update is that a lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease have not significantly changed from previous GAAP. In addition, the accounting applied by a lessor is largely unchanged from that applied under previous GAAP. For public companies, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of this standard on the Company's consolidated financial position.

FASB ASC Topic 825-10 "Financial Instruments - Overall Recognition and Measurement of Financial Assets and Financial Liabilities" Update No. 2016-01. Update No. 2016-01 was issued in January 2016 to amend the guidance in U.S. GAAP on the classification and measurement of financial instruments. Although the ASU retains many current requirements, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments and various other aspects of recognition,

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measurement, presentation and disclosure of financial instruments. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for only certain guidance. The Company is currently assessing the impact of the adoption of this standard on the Company's consolidated financial position.

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NOTE 3 - SECURITIES
Trading Securities

The Company had trading securities of $763,000 and $356,000 as of March 31, 2016 and December 31, 2015, respectively. 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:

	March 31, 2016				December 31, 2015			
	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	$29,466	$ 856	$ —	$30,322	$29,958	$ 261	$ (4)	$30,215
Agency mortgage-backed securities	200,081	6,950	(20)	207,011	207,693	4,227	(983)	210,937
Agency collateralized mortgage obligations	76,481	1,001	(325)	77,157	64,157	179	(752)	63,584
State, county, and municipal securities	4,529	127	—	4,656	4,543	116	—	4,659
Single issuer trust preferred securities issued by banks	2,350	8	(125)	2,233	2,865	8	(81)	2,792
Pooled trust preferred securities issued by banks and insurers	2,216	—	(716)	1,500	2,217	—	(645)	1,572
Small business administration pooled securities	39,942	849	—	40,791	40,472	87	(110)	40,449
Equity securities	14,373	423	(239)	14,557	13,235	374	(568)	13,041
Total available for sale securities	$369,438	$ 10,214	$ (1,425)	$378,227	$365,140	$ 5,252	$ (3,143)	$367,249
Held to maturity securities								
U.S. Treasury securities	$1,008	$ 84	$ —	$1,092	$1,009	$ 55	$ —	$1,064
Agency mortgage-backed securities	161,452	6,123	—	167,575	167,134	3,460	(219)	170,375
Agency collateralized mortgage obligations	258,620	3,866	(1,007)	261,479	267,348	1,195	(3,652)	264,891
State, county, and municipal securities	225	—	—	225	225	2	—	227
Single issuer trust preferred securities issued by banks	1,500	17	—	1,517	1,500	22	—	1,522
Small business administration pooled securities	34,836	1,040	—	35,876	35,291	437	(64)	35,664
Corporate debt securities	—	—	—	—	5,000	6	—	5,006

Total held to maturity securities	$457,641	$ 11,130	$ (1,007)	$467,764	$477,507	$ 5,177	$ (3,935)	$478,749
Total	$827,079	$ 21,344	$ (2,432)	$845,991	$842,647	$ 10,429	$ (7,078)	$845,998

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 had a $29,000 realized loss during the three months ended March 31, 2016 and no realized gains or losses during the three months ended March 31, 2015 on equity securities available for sale. There were no gains or losses on the Company's fixed income securities during the periods ending March 31, 2016 and 2015.

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 March 31, 2016 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	$500	$500	$276	$277
Due after one year to five years	33,068	33,743	15,263	15,875
Due after five to ten years	96,153	98,802	29,468	30,705
Due after ten years	225,344	230,625	412,634	420,907
Total debt securities	$355,065	$363,670	$457,641	$467,764
Equity securities	$14,373	$14,557	$—	$—
Total	$369,438	$378,227	$457,641	$467,764

Inclusive in the table above is $17.1 million of callable securities in the Company’s investment portfolio at March 31, 2016.

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 $292.7 million and $314.1 million at March 31, 2016 and December 31, 2015, respectively.

At March 31, 2016 and December 31, 2015, 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:

	March 31, 2016						
		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	3	$694	$ (2)	$3,501	$ (18)	$4,195	$ (20)
Agency collateralized mortgage obligations	9	—	—	72,566	(1,332)	72,566	(1,332)
Single issuer trust preferred securities issued by banks and insurers	2	979	(66)	1,000	(59)	1,979	(125)
Pooled trust preferred securities issued by banks and insurers	1	—	—	1,500	(716)	1,500	(716)
Equity securities	29	2,545	(118)	2,249	(121)	4,794	(239)
Total temporarily impaired securities	44	$4,218	$ (186)	$80,816	$ (2,246)	$85,034	$ (2,432)

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	December 31, 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)						
U.S.government agency securities	3	$1,990	$(4)	$—	$—	$1,990	$(4)
Agency mortgage-backed securities	57	112,648	(1,062)	4,297	(140)	116,945	(1,202)
Agency collateralized mortgage obligations	23	147,707	(1,420)	80,927	(2,984)	228,634	(4,404)
Single issuer trust preferred securities issued by banks and insurers	2	1,018	(33)	1,018	(48)	2,036	(81)
Pooled trust preferred securities issued by banks and insurers	1	—	—	1,572	(645)	1,572	(645)
Small business administration pooled securities	3	37,986	(174)	—	—	37,986	(174)
Equity securities	34	3,481	(189)	4,971	(379)	8,452	(568)
Total temporarily impaired securities	123	$304,830	$(2,882)	$92,785	$(4,196)	$397,615	$(7,078)

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 March 31, 2016:

- U.S. Government Agency Securities, 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 are either implicitly or explicitly guaranteed by 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. The Company has the ability and intent to hold these equity securities until a recovery of fair value.

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

	Three Months Ended March 31 2016	2015
	(Dollars in thousands)	
Gross change in OTTI recorded on certain investments	$ —	$ 84
Portion of OTTI recognized in OCI	—	(84)
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 March 31 2016	2015
	(Dollars in thousands)	
Balance at beginning of period	$—	$(9,997)
Add		
Incurred on securities not previously impaired	—	—
Incurred on securities previously impaired	—	—
Less		
Securities sold during the period	—	—
Reclassification due to changes in Company's intent	—	—
Increases in cash flow expected to be collected	—	—
Balance at end of period	$—	$(9,997)

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NOTE 4 - 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:

	March 31, 2016 (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	$830,477	$2,678,161	$357,867	$102,384	$609,153	$929,050	$13,113	$5,520,205	
Individually evaluated for impairment	$4,859	$22,808	$—	$939	$13,673	$6,006	$534	$48,819	
Purchased credit impaired loans	$—	$10,888	$—	$—	$9,062	$255	$2	$20,207	
Total loans by group	$835,336	$2,711,857	$357,867	$103,323	$631,888	$935,311	$13,649	$5,589,231	(1)

	December 31, 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	$838,129	$2,619,294	$373,064	$95,225	$614,014	$921,563	$14,427	$5,475,716	
Individually evaluated for impairment	$5,147	$22,986	$304	$1,021	$15,405	$5,989	$558	$51,410	
Purchased credit impaired loans	$—	$11,154	$—	$—	$9,187	$251	$3	$20,595	
Total loans by group	$843,276	$2,653,434	$373,368	$96,246	$638,606	$927,803	$14,988	$5,547,721	(1)

(1) The amount of net deferred fees on loans and net unamortized discounts on acquired loans not deemed to be PCI included in the ending balance was $11.0 million and $10.9 million at March 31, 2016 and December 31, 2015, respectively.

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

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	Three Months Ended March 31, 2016 (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	$13,802	$27,327	$5,366	$1,264	$2,590	$4,889	$587	$55,825
Charge-offs	(2)	—	—	(63)	(19)	(147)	(306)	(537)
Recoveries	138	189	—	21	—	27	244	619
Provision (benefit)	(453)	1,079	(266)	119	(4)	146	(96)	525
Ending balance	$13,485	$28,595	$5,100	$1,341	$2,567	$4,915	$429	$56,432
Ending balance: individually evaluated for impairment	$222	$802	$—	$3	$1,223	$231	$26	$2,507
Ending balance: collectively evaluated for impairment	$13,263	$27,793	$5,100	$1,338	$1,344	$4,684	$403	$53,925

	Three Months Ended March 31, 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	(561)	(141)	—	(150)	(185)	(161)	(327)	(1,525)
Recoveries	379	685	—	67	45	72	192	1,440
Provision (benefit)	(834)	(132)	197	134	32	39	64	(500)
Ending balance	$14,557	$26,285	$4,142	$1,222	$2,726	$4,906	$677	$54,515
Ending balance: individually evaluated for impairment	$308	$265	$—	$5	$1,453	$253	$34	$2,318
Ending balance: collectively evaluated for impairment	$14,249	$26,020	$4,142	$1,217	$1,273	$4,653	$643	$52,197

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 and 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.

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- 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 and 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 primarily secured by senior or junior mortgage liens on owner-occupied 1-4 family homes, condominiums or vacation homes. 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, 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 or above average leverage and/or weakening market fundamentals that indicate below average asset quality, margins and market share. Collateral coverage is protective.
- 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,

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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:

		March 31, 2016				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in thousands)				
Pass	1 - 6	$768,317	$2,558,324	$ 351,483	$ 100,090	$3,778,214
Potential weakness	7	44,762	95,580	5,000	2,392	147,734
Definite weakness-loss unlikely	8	22,183	56,894	1,384	741	81,202
Partial loss probable	9	74	1,059	—	100	1,233
Definite loss	10	—	—	—	—	—
Total		$835,336	$2,711,857	$ 357,867	$ 103,323	$4,008,383

		December 31, 2015				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in thousands)				
Pass	1 - 6	$765,753	$2,484,025	$ 363,781	$ 93,008	$3,706,567
Potential weakness	7	54,375	112,022	7,678	2,444	176,519
Definite weakness-loss unlikely	8	23,073	56,276	1,909	732	81,990
Partial loss probable	9	75	1,111	—	62	1,248
Definite loss	10	—	—	—	—	—
Total		$843,276	$2,653,434	$ 373,368	$ 96,246	$3,966,324

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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:

	March 31, 2016	December 31, 2015
Residential portfolio		
FICO score (re-scored)(1)	742	742
LTV (re-valued)(2)	62.0 %	61.4 %
Home equity portfolio		
FICO score (re-scored)(1)	766	765
LTV (re-valued)(2)	55.9 %	55.8 %

(1) The average FICO scores for March 31, 2016 are based upon rescores available from February 29, 2016 and origination score data for loans booked between March 1, 2016 and March 31, 2016. The average FICO scores for December 31, 2015 are based upon rescores available from November 30, 2015 and origination score data for loans booked between December 1, 2015 and December 31, 2015.

(2) The combined LTV ratios for March 31, 2016 are based upon updated automated valuations as of March 31, 2015 and origination value data for loans booked between April 1, 2015 and March 31, 2016. The combined LTV ratios for December 31, 2015 are based upon updated automated valuations as of March 31, 2015 and actual score data for loans booked from April 1, 2015 through December 31, 2015. 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.

Asset Quality

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. The Company also may use discretion regarding other loans over 90 days delinquent if the loan is well secured and/or in process of collection. Set forth is information regarding the Company’s nonperforming loans at the period shown:

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	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Commercial and industrial	$3,195	$ 3,699
Commercial real estate	8,027	7,856
Commercial construction	—	304
Small business	189	239
Residential real estate	7,510	8,795
Home equity	6,508	6,742
Other consumer	70	55
Total nonaccrual loans(1)	$25,499	$ 27,690

(1) Included in these amounts were $4.4 million and $5.2 million of nonaccruing TDRs at March 31, 2016 and December 31, 2015, respectively.

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

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Foreclosed residential real estate property held by the creditor	$1,298	$ 1,430
Recorded investment in mortgage loans collateralized by residential real estate property that are in the process of foreclosure	$1,670	$ 1,059

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

	March 31, 2016										
	30-59 days		60-89 days		90 days or more		Total Past Due		Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance			
	(Dollars in thousands)										
Loan Portfolio											
Commercial and industrial	5	$1	6	$ 689	9	$2,769	20	$3,459	$831,877	$835,336	$ —
Commercial real estate	21	9,409	3	299	13	4,682	37	14,390	2,697,467	2,711,857	—
Commercial construction	—	—	—	—	—	—	—	—	357,867	357,867	—
Small business	12	197	14	39	9	84	35	320	103,003	103,323	—
Residential real estate	14	2,270	10	2,031	22	2,918	46	7,219	624,669	631,888	—
Home equity	22	1,634	11	519	23	2,014	56	4,167	931,144	935,311	—
Other consumer (1)	250	307	10	14	13	36	273	357	13,292	13,649	—
Total	324	$13,818	54	$ 3,591	89	$12,503	467	$29,912	$5,559,319	$5,589,231	$ —

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	December 31, 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	9	$399	4	$1,021	8	$3,039	21	$4,459	$838,817	$843,276	$ —
Commercial real estate	19	7,349	6	1,627	13	4,458	38	13,434	2,640,000	2,653,434	—
Commercial construction	—	—	—	—	1	304	1	304	373,064	373,368	—
Small business	11	93	4	9	13	69	28	171	96,075	96,246	—
Residential real estate	20	3,119	11	2,049	19	3,433	50	8,601	630,005	638,606	—
Home equity	21	1,526	11	903	20	1,338	52	3,767	924,036	927,803	—
Other consumer (1)	297	231	12	65	13	25	322	321	14,667	14,988	—
Total	377	$12,717	48	$5,674	87	$12,666	512	$31,057	$5,516,664	$5,547,721	$ —

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

Troubled Debt Restructurings

In the course of resolving nonperforming loans, the Bank may choose to restructure the contractual terms of certain loans. The Bank 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 Bank 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 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:

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
TDRs on accrual status	$32,182	$ 32,849
TDRs on nonaccrual	4,368	5,225
Total TDRs	$36,550	$ 38,074
Amount of specific reserves included in the allowance for loan losses associated with TDRs	$1,565	$ 1,628
Additional commitments to lend to a borrower who has been a party to a TDR	$1,254	$ 972

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 March 31, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)
	(Dollars in thousands)		
Troubled debt restructurings			
Commercial and industrial	3	$ 277	$ 277
Commercial real estate	2	424	424
Residential real estate	2	423	465
Home equity	1	182	182
Other consumer	4	85	85
Total	12	$ 1,391	$ 1,433

	Three Months Ended March 31, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)
	(Dollars in thousands)		
Troubled debt restructurings			
Commercial and industrial	3	$ 156	$ 156
Commercial real estate	1	239	239
Small business	2	50	50
Residential real estate	3	157	157
Home equity	2	184	184
Total	11	$ 786	$ 786

(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 as of the periods indicated:

	Three Months Ended March 31	
	2016	2015
	(Dollars in thousands)	
Extended maturity	$1,195	$642
Combination rate and maturity	238	114
Court ordered concession	—	30
Total	$1,433	$786

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 March 31			
	2016		2015	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Troubled debt restructurings that subsequently defaulted				
Commercial real estate	—	$ —	1	$ 378
	—	$ —	1	$ 378

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 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.

Impaired Loans

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:

	March 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded			
Commercial and industrial	$2,804	$3,198	$ —
Commercial real estate	14,908	16,027	—
Small business	466	584	—
Residential real estate	3,169	3,903	—
Home equity	4,688	4,801	—
Other consumer	142	143	—
Subtotal	26,177	28,656	—
With an allowance recorded			
Commercial and industrial	$2,055	$2,182	$ 222
Commercial real estate	7,900	7,966	802
Small business	473	503	3
Residential real estate	10,504	11,486	1,223
Home equity	1,318	1,478	231
Other consumer	392	408	26
Subtotal	22,642	24,023	2,507
Total	$48,819	$52,679	$ 2,507

	December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded			
Commercial and industrial	$2,613	$3,002	$ —
Commercial real estate	12,008	13,128	—
Commercial construction	304	305	—
Small business	527	618	—
Residential real estate	3,874	4,033	—
Home equity	4,893	5,005	—
Other consumer	184	185	—
Subtotal	24,403	26,276	—
With an allowance recorded			
Commercial and industrial	$2,534	$2,648	$ 183
Commercial real estate	10,978	11,047	204
Small business	494	523	4
Residential real estate	11,531	12,652	1,278
Home equity	1,096	1,287	238
Other consumer	374	389	23
Subtotal	27,007	28,546	1,930
Total	$51,410	$54,822	$ 1,930

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 March 31, 2016	
	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)	
With no related allowance recorded		
Commercial and industrial	$2,871	$ 17
Commercial real estate	15,093	137
Commercial construction	—	—
Small business	478	4
Residential real estate	3,639	43
Home equity	4,718	48
Other consumer	146	3
Subtotal	26,945	252
With an allowance recorded		
Commercial and industrial	$2,090	$ 4
Commercial real estate	8,024	69
Small business	484	8
Residential real estate	10,528	94
Home equity	1,323	10
Other consumer	398	3
Subtotal	22,847	188
Total	$49,792	$ 440

	Three Months Ended March 31, 2015	
	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)	
With no related allowance recorded		
Commercial and industrial	$3,862	$ 57
Commercial real estate	21,137	310
Small business	722	11
Residential real estate	3,474	40
Home equity	4,749	52
Other consumer	586	7
Subtotal	34,841	480
With an allowance recorded		
Commercial and industrial	$2,871	$ 36
Commercial real estate	10,872	137
Small business	356	6
Residential real estate	12,410	173
Home equity	1,289	14
Other consumer	513	5

Subtotal	28,311	371
Total	$63,152	$ 851

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Purchased Credit Impaired Loans

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:

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Outstanding balance	$22,683	$ 23,199
Carrying amount	$20,207	$ 20,595

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

	Three Months Ended March 31	
	2016	2015
	(Dollars in thousands)	
Beginning balance	$2,827	$2,974
Acquisition	—	319
Accretion	(409)	(964)
Other change in expected cash flows (1)	297	219
Reclassification from nonaccretable difference for loans which have paid off (2)	64	79
Ending balance	$2,779	$2,627

(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.

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NOTE 5 -EARNINGS PER SHARE

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

	Three Months Ended March 31	
	2016	2015
	(Dollars in thousands, except share and per share data)	
Net income	$ 18,611	$ 9,460
Weighted Average Shares		
Basic shares	26,275,323	24,959,865
Effect of dilutive securities	43,409	80,215
Diluted shares	26,318,732	25,040,080
Net income per share		
Basic EPS	$ 0.71	$ 0.38
Effect of dilutive securities	—	—
Diluted EPS	$ 0.71	$ 0.38

The following table illustrates the options to purchase common stock or shares of performance-based restricted stock that were excluded from the calculation of diluted earnings per share because they were anti-dilutive for the periods indicated:

	Three Months Ended March 31	
	2016	2015
Stock options	2,252	—
Performance-based restricted stock	—	—

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NOTE 6 - STOCK BASED COMPENSATION

Time Vested Restricted Stock Awards

During the three months ended March 31, 2016, the Company made the following awards of restricted stock:

Date	Shares Granted	Plan	Grant Date Fair Value Per Share	Vesting Period
2/11/2016	51,475	2005 Employee Stock Plan	$ 41.96	Ratably over 5 years from grant date
3/1/2016	600	2005 Employee Stock Plan	$ 44.37	Ratably over 5 years from grant date

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 11, 2016, the Company granted 20,450 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 $41.96. 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 (January 1, 2016 - December 31, 2018). 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 has made the following awards of nonqualified options to purchase shares of common stock during the three months ended March 31, 2016:

	Three Months Ended March 31, 2016
Date of grant	2/20/2016
Plan	2010
Options granted	5,000
Vesting period (1)	22 months
Expiration date	2/20/2026
Expected volatility	32.44 %
Expected life (years)	5.5
Expected dividend yield	2.28 %
Risk free interest rate	1.29 %
Fair value per option	$ 10.59

(1) Vesting periods begin on the grant date unless otherwise noted.

NOTE 7 - 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

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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 tables below set forth information regarding the Company’s repurchase agreements allocated by source of collateral at the dates indicated:

	March 31, 2016				
	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	$7,888	$ —	$ —	$ —	$7,888
Agency mortgage-backed securities	80,653	—	—	—	80,653
Agency collateralized mortgage obligations	46,027	—	—	—	46,027
Total borrowings	$134,568	$ —	$ —	$ —	$134,568

	December 31, 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	$10,157	$ —	$ —	$ —	$10,157
Agency mortgage-backed securities	69,142	—	—	—	69,142
Agency collateralized mortgage obligations	54,659	—	—	—	54,659
Total borrowings	$133,958	$ —	$ —	$ —	$133,958

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 9 - Balance Sheet Offsetting.

NOTE 8 - 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:

March 31, 2016

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	0.63	%	5.04	%	$ (814	)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.63	%	5.04	%	(815	)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.64	%	2.94	%	(1,378	)
$75,000									$ (3,007	)

December 31, 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	0.51	%	5.04	%	$ (1,054	)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.51	%	5.04	%	(1,055	)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.49	%	2.94	%	(1,164	)
$75,000									$ (3,273	)

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 $1.9 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 March 31, 2016.

The Company recognized $61,000 of net amortization income that was an offset to interest expense related to previously terminated swaps for the three month periods ended March 31, 2016 and 2015, respectively.

The Company had no fair value hedges as of March 31, 2016 or December 31, 2015.

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:

	Number of Positions (1)	Notional Amount Maturing Less than 1 year	Less than 2 years	Less than 3 years	Less than 4 years	Thereafter	Total	Fair Value
	March 31, 2016 (Dollars in thousands)							
Loan level swaps								
Receive fixed, pay variable	188	$33,566	$34,167	$24,760	$118,742	$494,821	$706,056	$38,787
Pay fixed, receive variable	173	$33,566	$34,167	$24,760	$118,742	$494,821	$706,056	$(38,737)
Foreign exchange contracts								
Buys foreign currency, sells U.S. currency	33	$60,214	$—	$—	$—	$—	$60,214	$1,845
Buys U.S. currency, sells foreign currency	33	$60,214	$—	$—	$—	$—	$60,214	$(1,806)
	December 31, 2015 (Dollars in thousands)							
Loan level swaps								
Receive fixed, pay variable	171	$37,732	$34,424	$29,629	$77,041	$488,110	$666,936	$22,467
Pay fixed, receive variable	165	$37,732	$34,424	$29,629	$77,041	$488,110	$666,936	$(22,462)
Foreign exchange contracts								
Buys foreign currency, sells U.S. currency	21	$38,416	$—	$—	$—	$—	$38,416	$(354)
Buys U.S. currency, sells foreign currency	21	$38,416	$—	$—	$—	$—	$38,416	$382

(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. These forward commitments carry a market price that has a strong inverse relationship to that of mortgage prices. 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 and forward delivery sale commitments 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 an increase of $54,000 and $27,000 for the three month periods ended March 31, 2016 and 2015, 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:

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	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value at March 31, 2016	Fair Value at December 31, 2015	Balance Sheet Location	Fair Value at March 31, 2016	Fair Value at December 31, 2015
	(Dollars in thousands)					
Derivatives designated as hedges						
Interest rate derivatives	Other assets	$ —	$ —	Other liabilities	$3,007	$ 3,273
Derivatives not designated as hedges						
Customer Related Positions						