

INDEPENDENT BANK CORP

Form 10-Q

November 06, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

Commission File Number: 1-9047

Independent Bank Corp.

(Exact name of registrant as specified in its charter)

Massachusetts

04-2870273

(State or other jurisdiction of
incorporation or organization)

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

Office Address: 2036 Washington Street, Hanover Massachusetts 02339

Mailing Address: 288 Union Street, Rockland, Massachusetts 02370

(Address of principal executive offices, including zip code)

(781) 878-6100

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

☒

Accelerated Filer

☐

Non-accelerated Filer

☐

Smaller Reporting Company

☐

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

As of November 1, 2014, there were 23,958,212 shares of the issuer's common stock outstanding, par value \$0.01 per share.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

INDEPENDENT BANK CORP.

CONSOLIDATED BALANCE SHEETS

(Unaudited—Dollars in thousands, except share data)

	September 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$98,810	\$168,106
Interest-earning deposits with banks	126,522	48,219
Securities		
Securities available for sale	361,455	356,862
Securities held to maturity (fair value \$373,465 and \$346,455)	372,418	350,652
Total securities	733,873	707,514
Loans held for sale (at fair value)	12,580	8,882
Loans		
Commercial and industrial	842,833	784,202
Commercial real estate	2,338,641	2,249,260
Commercial construction	276,593	223,859
Small business	81,435	77,240
Residential real estate	536,822	541,443
Home equity - 1st position	509,903	497,075
Home equity - subordinate positions	344,743	325,066
Other consumer	16,885	20,162
Total loans	4,947,855	4,718,307
Less: allowance for loan losses	(55,005)	(53,239)
Net loans	4,892,850	4,665,068
Federal Home Loan Bank stock	33,233	39,926
Bank premises and equipment, net	64,186	64,950
Goodwill	170,421	170,421
Identifiable intangible assets	10,450	12,221
Cash surrender value of life insurance policies	108,895	100,406
Other real estate owned and other foreclosed assets	9,632	7,633
Other assets	122,976	105,888
Total assets	\$6,384,428	\$6,099,234
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	\$1,493,116	\$1,369,432
Savings and interest checking accounts	2,070,617	1,940,153
Money market	1,066,237	933,205
Time certificates of deposit of \$100,000 and over	268,965	297,984
Other time certificates of deposits	403,499	445,644
Total deposits	5,302,434	4,986,418
Borrowings		
Federal Home Loan Bank borrowings	60,127	140,294
Customer repurchase agreements and other short-term borrowings	153,192	154,288
Wholesale repurchase agreements	50,000	50,000

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Junior subordinated debentures	73,741	73,906
Subordinated debentures	30,000	30,000
Total borrowings	367,060	448,488
Other liabilities	87,752	72,788
Total liabilities	5,757,246	5,507,694
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: 23,911,678 shares at September 30, 2014 and 23,805,984 shares at December 31, 2013 (includes 254,030 and 268,290 shares of unvested participating restricted stock awards, respectively)	237	235
Shares held in rabbi trust at cost: 175,219 shares at September 30, 2014 and 178,765 shares at December 31, 2013	(3,591	) (3,404
Deferred compensation obligation	3,591	3,404
Additional paid in capital	308,723	305,179
Retained earnings	320,226	293,560
Accumulated other comprehensive loss, net of tax	(2,004	) (7,434
Total stockholders' equity	627,182	591,540
Total liabilities and stockholders' equity	\$6,384,428	\$6,099,234
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 September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Interest income				
Interest on loans	\$49,514	\$47,019	\$147,111	\$141,717
Taxable interest and dividends on securities	4,563	3,763	13,903	10,798
Nontaxable interest and dividends on securities	36	10	110	32
Interest on loans held for sale	159	156	306	661
Interest on federal funds sold and short-term investments	96	79	203	134
Total interest and dividend income	54,368	51,027	161,633	153,342
Interest expense				
Interest on deposits	2,735	2,649	8,314	7,857
Interest on borrowings	2,070	3,182	7,095	9,812
Total interest expense	4,805	5,831	15,409	17,669
Net interest income	49,563	45,196	146,224	135,673
Provision for loan losses	1,901	2,650	8,653	7,050
Net interest income after provision for loan losses	47,662	42,546	137,571	128,623
Noninterest income				
Deposit account fees	4,656	4,604	13,478	13,164
Interchange and ATM fees	3,375	2,845	9,672	7,934
Investment management	5,016	4,175	14,755	12,417
Mortgage banking income	1,015	1,843	2,379	5,794
Loan level derivative income	381	1,331	1,452	2,679
Increase in cash surrender value of life insurance policies	774	793	2,217	2,325
Gain on extinguishment of debt	—	763	—	763
Gain on life insurance benefits	—	—	1,964	—
Gain (loss) on sale of equity securities, net	67	—	138	(4)
Other noninterest income	1,814	1,776	5,414	5,473
Total noninterest income	17,098	18,130	51,469	50,545
Noninterest expenses				
Salaries and employee benefits	23,651	22,654	69,574	66,963
Occupancy and equipment expenses	5,027	4,573	16,474	14,742
Data processing and facilities management	1,178	1,179	3,609	3,564
FDIC assessment	957	898	2,828	2,653
Advertising expense	1,179	759	3,252	3,410
Consulting expense	737	914	2,105	2,291
Debit card expense	552	766	1,694	2,209
Loss on termination of derivatives	—	—	1,122	—
Merger and acquisition expense	677	366	754	2,465
Software maintenance	579	599	1,850	1,878
Other noninterest expenses	8,070	8,014	24,212	25,630
Total noninterest expenses	42,607	40,722	127,474	125,805
Income before income taxes	22,153	19,954	61,566	53,363
Provision for income taxes	6,415	5,299	17,699	13,698

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Net income	\$15,738	\$14,655	\$43,867	\$39,665
Basic earnings per share	\$0.66	\$0.64	\$1.84	\$1.73
Diluted earnings per share	\$0.66	\$0.64	\$1.83	\$1.73
Weighted average common shares (basic)	23,911,678	22,946,308	23,876,391	22,886,521
Common shares equivalents	90,685	100,806	95,320	72,799
Weighted average common shares (diluted)	24,002,363	23,047,114	23,971,711	22,959,320
Cash dividends declared per common share	\$0.24	\$0.22	\$0.72	\$0.66

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

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INDEPENDENT BANK CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited—Dollars in thousands)

	Three Months Ended September 30		Nine Months Ended September 30		
	2014	2013	2014	2013	
Net income	\$15,738	\$14,655	\$43,867	\$39,665	
Other comprehensive income, net of tax					
Unrealized gains (losses) on securities					
Change in fair value of securities available for sale	(810	) (148	) 3,544	(5,517	)
Less: net security gains (losses) reclassified into earnings	40	—	82	(3	)
Net change in fair value of securities available for sale	(850	) (148	) 3,462	(5,514	)
Unrealized gains (losses) on cash flow hedges					
Change in fair value of cash flow hedges	149	(411	) (315	) 350	
Less: net cash flow hedge losses reclassified into earnings	(429	) (866	) (2,400	) (2,557	)
Net change in fair value of cash flow hedges	578	455	2,085	2,907	
Net gain (loss) during the period and amortization of certain costs included in net periodic retirement costs	(39	) 30	(117	) 73	
Total other comprehensive income (loss)	(311	) 337	5,430	(2,534	)
Total comprehensive income	\$15,427	\$14,992	\$49,297	\$37,131	

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 Obligation	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2013	23,805,984	\$235	\$ (3,404)	\$ 3,404	\$305,179	\$293,560	\$ (7,434)	\$591,540
Net income	—	—	—	—	—	43,867	—	43,867
Other comprehensive income	—	—	—	—	—	—	5,430	5,430
Common dividend declared (\$0.72 per share)	—	—	—	—	—	(17,201)	—	(17,201)
Proceeds from exercise of stock options	24,609	1	—	—	582	—	—	583
Tax benefit related to equity award activity	—	—	—	—	438	—	—	438
Equity based compensation	—	—	—	—	2,075	—	—	2,075
Restricted stock awards issued, net of awards surrendered	55,675	1	—	—	(644)	—	—	(643)
Shares issued under direct stock purchase plan	25,410	—	—	—	959	—	—	959
Deferred compensation obligation	—	—	(187)	187	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	134	—	—	134
Balance at September 30, 2014	23,911,678	\$237	\$ (3,591)	\$ 3,591	\$308,723	\$320,226	\$ (2,004)	\$627,182
Balance at December 31, 2012	22,774,009	\$225	\$ (3,179)	\$ 3,179	\$269,950	\$263,671	\$ (4,526)	\$529,320
Net income	—	—	—	—	—	39,665	—	39,665
	—	—	—	—	—	—	(2,534)	(2,534)

Other comprehensive income								
Common dividend declared (\$0.66 per share)	—	—	—	—	—	(15,128)	—	(15,128)
Proceeds from exercise of stock options	76,253	1	—	—	1,993	—	—	1,994
Tax benefit related to equity award activity	—	—	—	—	412	—	—	412
Equity based compensation	—	—	—	—	1,923	—	—	1,923
Restricted stock awards issued, net of awards surrendered	89,431	1	—	—	(670)	—	—	(669)
Shares issued under direct stock purchase plan	19,594	—	—	—	656	—	—	656
Deferred compensation obligation	—	—	(165)	165	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	105	—	—	105
Balance								
September 30, 2013	22,959,287	\$227	\$ (3,344)	\$ 3,344	\$274,369	\$288,208	\$ (7,060)	\$555,744

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

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

	Nine Months Ended September 30		
	2014	2013	
Cash flow from operating activities			
Net income	\$43,867	\$39,665	
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	8,451	6,268	
Provision for loan losses	8,653	7,050	
Deferred income tax expense	459	5	
Net (gain) loss on sale of equity securities	(138	) 4	
Net loss on fixed assets	505	27	
Gain on extinguishment of debt	—	(763	)
Loss on termination of derivatives	1,122	—	
Net loss on sale of other real estate owned and foreclosed assets	361	47	
Realized gain on sale leaseback transaction	(775	) (775	)
Stock based compensation	2,075	1,923	
Excess tax benefit related to equity award activity	(438	) (412	)
Increase in cash surrender value of life insurance policies	(2,213	) (2,325	)
Gain on life insurance benefits	(1,964	) —	
Change in fair value on loans held for sale	(1	) (274	)
Net change in:			
Loans held for sale	(3,697	) 37,794	
Other assets	6,321	43,094	
Other liabilities	(3,320	) (14,264	)
Total adjustments	15,401	77,399	
Net cash provided by operating activities	59,268	117,064	
Cash flows used in investing activities			
Proceeds from sales of securities available for sale	945	169	
Proceeds from maturities and principal repayments of securities available for sale	35,936	69,732	
Purchase of securities available for sale	(36,577	) (34,864	)
Proceeds from maturities and principal repayments of securities held to maturity	32,864	39,713	
Purchase of securities held to maturity	(54,681	) (179,226	)
Redemption of Federal Home Loan Bank stock	6,693	3,093	
Investment in Low Income Housing Projects	(5,566	) —	
Purchase of life insurance policies	(10,116	) (219	)
Proceeds from life insurance policies	6,309	—	
Net increase in loans	(242,207	) (44,975	)
Purchase of bank premises and equipment	(5,987	) (6,121	)
Proceeds from the sale of bank premises and equipment	1,064	19	
Payments on early termination of hedging relationship	(1,122	) —	
Proceeds from the sale of other real estate owned and foreclosed assets	4,269	7,119	
Net capital improvements to other real estate owned	(1,772	) (2,035	)
Net cash used in investing activities	(269,948	) (147,595	)

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Cash flows provided by financing activities			
Net decrease in time deposits	(71,164	) (61,509	)
Net increase in other deposits	387,180	272,141	
Net repayments of short-term Federal Home Loan Bank borrowings	(75,000	) (6,507	)
Repayments of long-term Federal Home Loan Bank borrowings	(5,000	) (73,134	)
Net increase in customer repurchase agreements	3,904	10,821	
Net decrease in other borrowings	(5,000	) (12,000	)
Proceeds from exercise of stock options, net of cash paid	583	1,994	
Restricted stock awards issued, net of awards surrendered	(643	) (669	)
Excess tax benefit from stock based compensation	438	412	
Tax benefit from deferred compensation distribution	134	105	
Proceeds from shares issued under direct stock purchase plan	959	656	
Common dividends paid	(16,704	) (10,070	)
Net cash provided by financing activities	219,687	122,240	
Net increase in cash and cash equivalents	9,007	91,709	
Cash and cash equivalents at beginning of year	216,325	215,474	
Cash and cash equivalents at end of period	\$225,332	\$307,183	
Supplemental schedule of noncash investing and financing activities			
Transfer of loans to other real estate owned & foreclosed assets	\$5,039	\$2,346	
Capital commitment relating to Low Income Housing Project investments	\$22,273	\$—	
The accompanying condensed notes are an integral part of these unaudited consolidated financial statements.			

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 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, 2013, filed with the Securities and Exchange Commission.

NOTE 2 - RECENT ACCOUNTING STANDARDS UPDATES

FASB ASC Subtopic 205-40 "Presentation of Financial Statements - Going Concern" Updated No. 2014-15. Update No. 2014-15 was issued in August 2014 to provide guidance in U.S. Generally accepted accounting principles ("GAAP") about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. 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 310-40 "Receivables - Troubled Debt Restructurings by Creditors" Update No. 2014-14. Update No. 2014-14 was issued in August 2014 to address the diversity in practice related to how creditors classify government-guaranteed mortgage loans, including Federal Housing Administration (FHA) or the U.S. Department of Veterans Affairs (VA) guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The objective of this update is to reduce that diversity by addressing the classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs. The amendments in this update are effective for annual periods and interim periods within those annual periods 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 718 "Compensation - Stock Compensation" Update No. 2014-12. Update No. 2014-12 was issued in June 2014 to resolve the diverse accounting treatment of share-based payment awards that require, as a condition to vesting, achievement of a specific performance target after the requisite service period. Many reporting entities account for these performance targets as performance conditions that affect the vesting of the award and, therefore, do not reflect the performance target in the estimate of the grant-date fair value of the award, while other reporting entities treat those performance targets as nonvesting conditions that affect the grant-date fair value of the award. This amendment requires that these performance targets that affect vesting and that could be achieved after the requisite

service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 "Compensation - Stock Compensation" as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in this update are effective for annual periods and interim periods within those annual periods 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 860 "Transfers and Servicing" Update No. 2014-11. Update No. 2014-11 was issued in June 2014 to respond to stakeholders' concerns about current accounting and disclosures for repurchase agreements and similar transactions. The amendments in this Update require two accounting changes. First, the amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments

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in this Update require disclosures for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For those transactions outstanding at the reporting date, the transferor is required to disclose certain information by type of transaction. The amendments in this Update also require certain disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The accounting changes in this Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application for a public business entity is prohibited. For public business entities, the disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Topic 606 "Revenue from Contracts with Customers" Update No. 2014-09. Update No. 2014-09 was issued in May 2014 to address the previous revenue recognition requirements in GAAP that differ from those in International Financial Reporting Standards (IFRS). Accordingly, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. The core principle of the guidance 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. For public entities, the standard is effective for annual and interim periods beginning after December 15, 2016, and calendar year-end public entities will apply it in the quarter that ends March 31, 2017. Early adoption is not permitted. We are currently assessing the potential impact of this amendment on our consolidated financial position.

FASB ASC Subtopic 310-40 "Receivables - Troubled Debt Restructurings by Creditors" Update No. 2014-04. Update No. 2014-04 was issued in January 2014 to reduce diversity by clarifying when an in substance repossession of foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update should be applied prospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. 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 - SECURITIES

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

	September 30, 2014				December 31, 2013			
	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	\$41,357	\$ 23	\$ (93)	\$41,287	\$41,331	\$ 3	\$ (885)	\$40,449
Agency mortgage-backed securities	224,336	6,397	(1,529)	229,204	232,742	6,405	(4,556)	234,591
Agency collateralized mortgage obligations	66,244	285	(943)	65,586	58,765	490	(1,102)	58,153
State, county, and municipal securities	5,125	128	—	5,253	5,439	1	(28)	5,412
Single issuer trust preferred securities issued by banks	2,925	14	(16)	2,923	2,960	14	(22)	2,952
Pooled trust preferred securities issued by banks and insurers (1)	7,961	32	(2,607)	5,386	8,083	—	(4,242)	3,841
Equity securities	11,173	851	(208)	11,816	10,997	762	(295)	11,464
Total available for sale securities	\$359,121	\$ 7,730	\$ (5,396)	\$361,455	\$360,317	\$ 7,675	\$ (11,130)	\$356,862
Held to maturity securities								
U.S. Treasury securities	\$1,010	\$ 50	\$ —	\$1,060	\$1,011	\$ 31	\$ —	\$1,042
Agency mortgage-backed securities	164,531	3,511	(42)	168,000	155,067	1,917	(1,033)	155,951
Agency collateralized mortgage obligations	199,950	1,821	(4,494)	197,277	187,388	824	(6,176)	182,036
State, county, and municipal securities	424	9	—	433	678	7	—	685
Single issuer trust preferred securities issued by banks	1,500	30	—	1,530	1,503	23	—	1,526
Corporate debt securities	5,003	162	—	5,165	5,005	210	—	5,215
Total held to maturity securities	\$372,418	\$ 5,583	\$ (4,536)	\$373,465	\$350,652	\$ 3,012	\$ (7,209)	\$346,455
Total	\$731,539	\$ 13,313	\$ (9,932)	\$734,920	\$710,969	\$ 10,687	\$ (18,339)	\$703,317

(1) Gross unrealized gains and gross unrealized losses include \$1.1 million and \$2.3 million of net non-credit related OTTI at September 30, 2014 and December 31, 2013, respectively.

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 net gains of \$67,000 and \$138,000 on equity securities classified as available for sale during the three and nine month periods ending September 30, 2014, respectively. The Company had no realized gains or losses during the three month period ending September 30, 2013 and realized a net loss of \$4,000 during the nine month period ending September 30, 2013 on equity securities classified as available for sale. There were no gains or losses realized on sale of nonequity securities for the periods ending September 30, 2014 and 2013.

The actual maturities of certain securities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. A schedule of the contractual maturities of securities available for sale and securities held to maturity as of September 30, 2014 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	\$118	\$124	\$199	\$204
Due after one year to five years	37,513	38,373	5,492	5,674
Due after five years to ten years	92,385	91,581	32,731	33,115
Due after ten years	217,932	219,561	333,996	334,472
Total debt securities	\$347,948	\$349,639	\$372,418	\$373,465
Equity securities	\$11,173	\$11,816	\$—	\$—
Total	\$359,121	\$361,455	\$372,418	\$373,465

Inclusive in the table above is \$34.1 million of callable securities in the Company's investment portfolio at September 30, 2014.

The carrying value of securities pledged to secure public funds, repurchase agreements and for other purposes, as required or permitted by law, was \$352.3 million and \$360.1 million at September 30, 2014 and December 31, 2013, respectively.

At September 30, 2014 and December 31, 2013, 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:

September 30, 2014

	# of holdings	Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars in thousands)					
U.S. Government agency securities	25	\$33,836	\$(93)	\$—	\$—	\$33,836	\$(93)
Agency mortgage-backed securities	54	44,458	(60)	45,437	(1,511)	89,895	(1,571)
Agency collateralized mortgage obligations	15	34,062	(345)	104,095	(5,092)	138,157	(5,437)
Single issuer trust preferred securities issued by banks and insurers	1	1,083	(16)	—	—	1,083	(16)
Pooled trust preferred securities issued by banks and insurers	2	—	—	2,580	(1,512)	2,580	(1,512)
Equity securities	17	935	(26)	4,052	(182)	4,987	(208)
Total temporarily impaired securities	114	\$114,374	\$(540)	\$156,164	\$(8,297)	\$270,538	\$(8,837)

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	December 31, 2013						
	# of holdings	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
	(Dollars in thousands)						
U.S. government agency securities	39	\$39,950	\$(885)	\$—	\$—	\$39,950	\$(885)
Agency mortgage-backed securities	124	202,004	(5,217)	5,108	(372)	207,112	(5,589)
Agency collateralized mortgage obligations	19	183,721	(7,278)	—	—	183,721	(7,278)
State, county, and municipal securities	13	3,838	(28)	—	—	3,838	(28)
Single issuer trust preferred securities issued by banks and insurers	2	1,341	(22)	—	—	1,341	(22)
Pooled trust preferred securities issued by banks and insurers	2	—	—	2,300	(1,913)	2,300	(1,913)
Equity securities	22	2,376	(90)	3,520	(205)	5,896	(295)
Total temporarily impaired securities	221	\$433,230	\$(13,520)	\$10,928	\$(2,490)	\$444,158	\$(16,010)

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

As a result of the Company's review of these qualitative and quantitative factors, the causes of the impairments listed in the table above by category are as follows at September 30, 2014:

U.S. Government Agency Securities, Agency Mortgage-Backed Securities and Collateralized Mortgage Obligations: This portfolio has contractual terms that generally do not permit the issuer to settle the securities at a price less than the 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 implicitly guaranteed by the U.S. Government or one of its agencies.

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

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

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 September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Dollars in thousands)			
Gross change in OTTI recorded on certain investments	\$235	\$303	\$1,264	\$674
Portion of OTTI recognized in OCI	(235)	(303)	(1,264)	(674)
Total credit related OTTI losses recognized in earnings	\$—	\$—	\$—	\$—

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Dollars in thousands)			
Balance at beginning of period	\$(9,997)	\$(10,847)	\$(9,997)	\$(10,847)
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)	\$(10,847)	\$(9,997)	\$(10,847)

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NOTE 4 - LOANS, ALLOWANCE FOR LOAN LOSSES, AND CREDIT QUALITY

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

September 30, 2014								
(Dollars in thousands)								
	Commercial Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Financing receivables ending balance:								
Total loans by group	\$842,833	\$2,338,641	\$276,593	\$81,435	\$536,822	\$854,646	\$16,885	\$4,947,855 (1)
Individually evaluated for impairment	\$7,592	\$33,765	\$311	\$1,244	\$15,503	\$5,492	\$974	\$64,881
Purchase credit impaired loans	\$—	\$15,071	\$184	\$—	\$9,784	\$241	\$5	\$25,285
Collectively evaluated for impairment	\$835,241	\$2,289,805	\$276,098	\$80,191	\$511,535	\$848,913	\$15,906	\$4,857,689
December 31, 2013								
(Dollars in thousands)								
	Commercial Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Financing receivables ending balance:								
Total loans by group	\$784,202	\$2,249,260	\$223,859	\$77,240	\$541,443	\$822,141	\$20,162	\$4,718,307 (1)
Individually evaluated for impairment	\$9,148	\$39,516	\$100	\$1,903	\$15,200	\$4,890	\$1,298	\$72,055
Purchase credit impaired loans	\$1	\$18,612	\$197	\$—	\$10,389	\$326	\$19	\$29,544
Collectively evaluated for impairment	\$775,053	\$2,191,132	\$223,562	\$75,337	\$515,854	\$816,925	\$18,845	\$4,616,708

(1) The amount of net deferred fees included in the ending balance was \$2.7 million and \$2.3 million at September 30, 2014 and December 31, 2013.

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

Three Months Ended September 30, 2014

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(Dollars in thousands)

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

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Three Months Ended September 30, 2013

(Dollars in thousands)

	Commercial Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	\$ 14,325	\$ 23,029	\$ 3,422	\$ 1,295	\$ 2,959	\$ 7,267	\$ 679	\$52,976
Charge-offs	(866)	(209)	(308)	(84)	(210)	(420)	(273)	(2,370)
Recoveries	24	89	—	47	5	22	119	306
Provision	1,531	2,069	387	(43)	141	(1,555)	120	2,650
Ending balance	\$ 15,014	\$ 24,978	\$ 3,501	\$ 1,215	\$ 2,895	\$ 5,314	\$ 645	\$53,562

Nine Months Ended September 30, 2014

(Dollars in thousands)

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

Nine Months Ended September 30, 2013

(Dollars in thousands)

	Commercial Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	\$ 13,461	\$ 22,598	\$ 2,811	\$ 1,524	\$ 2,930	\$ 7,703	\$ 807	\$51,834
Charge-offs	(2,591)	(812)	(308)	(505)	(457)	(954)	(794)	(6,421)
Recoveries	263	97	—	123	91	73	452	1,099
Provision	3,881	3,095	998	73	331	(1,508)	180	7,050
Ending balance	\$ 15,014	\$ 24,978	\$ 3,501	\$ 1,215	\$ 2,895	\$ 5,314	\$ 645	\$53,562
Ending balance:								
Individually evaluated for impairment	\$ 1,174	\$ 2,150	\$ —	\$ 111	\$ 1,651	\$ 112	\$ 83	\$ 5,281
	\$ 13,840	\$ 22,828	\$ 3,501	\$ 1,104	\$ 1,244	\$ 5,202	\$ 562	\$48,281

Ending balance:

Collectively
evaluated for
impairment

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:

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Commercial Portfolio

Commercial and Industrial: Loans in this category consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to: accounts receivable, inventory, plant & equipment, or real estate, if applicable. Repayment sources consist of: primarily, operating cash flow, and secondarily, liquidation of assets.

Commercial Real Estate: Loans in this category consist of mortgage loans to finance investment in real property such as multi-family residential, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans are typically written with amortizing payment structures. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources consist of: primarily, cash flow from operating leases and rents, and secondarily, liquidation of assets.

Commercial Construction: Loans in this category consist of short-term construction loans, revolving and nonrevolving credit lines and construction/permanent loans to finance the acquisition, development and construction or rehabilitation of real property. Project types include: residential 1-4 family condominium and multi-family homes, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties.

Loans may be written with nonamortizing or hybrid payment structures depending upon the type of project.

Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources vary depending upon the type of project and may consist of: sale or lease of units, operating cash flows or liquidation of other assets.

Small Business: Loans in this category consist of revolving, term loan and mortgage obligations extended to sole proprietors and small businesses for purposes of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to: accounts receivable, inventory, plant & equipment, or real estate if applicable. Repayment sources consist of: primarily, operating cash flows, and secondarily, liquidation of assets.

For the commercial portfolio it is the Bank'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 Bank's portfolio are made to borrowers who demonstrate the ability to make scheduled payments with full consideration to underwriting factors such as current and expected income, employment status, current assets, other financial resources, credit history and the value of the collateral. Collateral consists of mortgage liens on 1-4 family residential properties. The Company does not originate or purchase sub-prime loans.

Home Equity: Home equity loans and lines are made to qualified individuals and are secured by senior or junior mortgage liens on owner-occupied 1-4 family homes, condominiums or vacation homes or on nonowner occupied 1-4 family homes with more restrictive loan to value requirements. The home equity loan has a fixed rate and is billed in equal payments comprised of principal and interest. The home equity line of credit has a variable rate and is billed in interest-only payments during the draw period. At the end of the draw period, the home equity line of credit is billed as a percentage of the principal balance plus all accrued interest. Additionally, the Bank 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 including personal lines of credit and amortizing loans made to qualified individuals for various purposes such as education, auto loans, debt consolidation, personal expenses or overdraft protection. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines. These loans may be secured or unsecured.

Credit Quality

The Company continually monitors the asset quality of the loan portfolio using all available information. Based on this information, loans demonstrating certain payment issues or other weaknesses may be categorized as delinquent, impaired, nonperforming and/or put on nonaccrual status. Additionally, in the course of resolving such loans, the

Company may choose to restructure the contractual terms of certain loans to match the borrower's ability to repay the loan based on their current financial condition. If a restructured loan meets certain criteria, it may be categorized as a troubled debt restructuring ("TDR").

The Company reviews numerous credit quality indicators when assessing the risk in its loan portfolio. For the commercial portfolio, the Company utilizes a 10-point commercial risk-rating system, which assigns a risk-grade to each borrower based on a number of quantitative and qualitative factors associated with a commercial loan transaction. Factors considered include industry and market conditions, position within the industry, earnings trends, operating cash flow, asset/liability values, debt capacity,

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guarantor strength, management and controls, financial reporting, collateral, and other considerations. The risk-ratings categories are defined as follows:

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

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 Bank’s asset and position. While potentially weak, currently these borrowers are marginally acceptable; no loss of principal or interest is envisioned.

8 Rating — Definite Weakness Loss Unlikely: Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt. Loan may be inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy, although no loss of principal is envisioned. However, there is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Collateral coverage may be inadequate to cover the principal obligation.

9 Rating — Partial Loss Probable: Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt with the added provision that the weaknesses make collection of the debt in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely.

10 Rating — Definite Loss: Borrowers deemed incapable of repayment. Loans to such borrowers are considered uncollectible and of such little value that continuation as active assets of the Bank 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:

Category	Risk Rating	September 30, 2014				
		Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in thousands)				
Pass	1 - 6	\$781,106	\$2,172,537	\$260,854	\$ 77,108	\$3,291,605
Potential weakness	7	41,260	94,977	12,235	3,213	151,685
Definite weakness-loss unlikely	8	20,112	68,166	3,504	1,086	92,868
Partial loss probable	9	355	2,961	—	28	3,344
Definite loss	10	—	—	—	—	—
Total		\$842,833	\$2,338,641	\$276,593	\$ 81,435	\$3,539,502

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Category	Risk Rating	December 31, 2013				
		Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in thousands)				
Pass	1 - 6	\$736,996	\$2,068,995	\$210,372	\$ 71,514	\$3,087,877
Potential weakness	7	21,841	91,984	8,608	3,031	125,464
Definite weakness-loss unlikely	8	24,409	85,767	4,779	2,552	117,507
Partial loss probable	9	956	2,514	100	143	3,713
Definite loss	10	—	—	—	—	—
Total		\$784,202	\$2,249,260	\$223,859	\$ 77,240	\$3,334,561

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") and Loan to Value ("LTV") estimates. Current FICO data is purchased and appended to all consumer loans on a quarterly basis. In addition, automated valuation services and broker opinions of value are used to supplement original value data for the residential and home equity portfolios, periodically. The following table shows the weighted average FICO scores and the weighted average combined LTV ratios as of the periods indicated below:

	September 30, 2014	December 31, 2013	
Residential portfolio			
FICO score (re-scored) (1)	738	738	
LTV (re-valued) (2)	67.4	% 67.0	%
Home equity portfolio			
FICO score (re-scored) (1)	764	763	
LTV (re-valued) (2)	53.4	% 53.0	%

(1) The average FICO scores for September 30, 2014 are based upon rescues available from August 30, 2014 and origination score data for loans booked between September 1 and September 30, 2014. The average FICO scores for December 31, 2013 are based upon rescues available from November 30, 2013 and origination score data for loans booked between December 1, 2013 and December 31, 2013.

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

The Bank'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 Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. As a general rule, loans more than 90 days past due with respect to principal or interest are classified as nonaccrual loans. As permitted by banking regulations, certain consumer loans 90 days or more past due may continue to accrue interest. The Company also may use discretion regarding other loans over 90 days delinquent if the loan is well secured and in process of collection. Set forth is information regarding the Company's nonaccrual, delinquent, TDRs, and impaired loans at the period shown.

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The following table shows nonaccrual loans at the dates indicated:

	September 30, 2014 (Dollars in thousands)	December 31, 2013
Commercial and industrial	\$2,321	\$4,178
Commercial real estate	6,201	11,734
Commercial construction	311	100
Small business	278	633
Residential real estate	9,088	10,329
Home equity	7,672	7,068
Other consumer	9	92
Total nonaccrual loans (1)	\$25,880	\$34,134

(1) Included in these amounts were \$5.7 million and \$7.5 million of nonaccruing TDRs at September 30, 2014 and December 31, 2013, respectively.

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

Loan Portfolio	September 30, 2014										
	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)										
Commercial and industrial	12	\$2,871	2	\$560	16	\$2,069	30	\$5,500	\$837,333	\$842,833	\$ —
Commercial real estate	9	7,001	9	4,088	16	4,221	34	15,310	2,323,331	2,338,641	—
Commercial construction	—	—	—	—	1	311	1	311	276,282	276,593	—
Small business	8	168	4	23	4	158	16	349	81,086	81,435	—
Residential real estate	15	3,547	12	1,480	35	5,184	62	10,211	526,611	536,822	217
Home equity	12	1,068	7	431	28	2,491	47	3,990	850,656	854,646	—
Other consumer	37	174	17	48	10	31	64	253	16,632	16,885	22
Total	93	\$14,829	51	\$6,630	110	\$14,465	254	\$35,924	\$4,911,931	\$4,947,855	\$ 239
Loan Portfolio	December 31, 2013										
	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)										
Commercial and industrial	9	\$743	6	\$327	20	\$3,763	35	\$4,833	\$779,369	\$784,202	\$ —

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Commercial real estate	21	8,643	2	356	30	8,155	53	17,154	2,232,106	2,249,260	—
Commercial construction	1	847	—	—	1	100	2	947	222,912	223,859	—
Small business	18	353	6	227	14	247	38	827	76,413	77,240	—
Residential real estate	23	2,903	8	1,630	39	6,648	70	11,181	530,262	541,443	462
Home equity	27	1,922	8	852	23	2,055	58	4,829	817,312	822,141	—
Other consumer	110	514	30	106	34	148	174	768	19,394	20,162	63
Total	209	\$15,925	60	\$3,498	161	\$21,116	430	\$40,539	\$4,677,768	\$4,718,307	\$ 525

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

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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:

	September 30, 2014	December 31, 2013
	(Dollars in thousands)	
TDRs on accrual status	\$40,140	\$38,410
TDRs on nonaccrual	5,709	7,454
Total TDRs	\$45,849	\$45,864
Amount of specific reserves included in the allowance for loan losses associated with TDRs:	\$2,097	\$2,474
Additional commitments to lend to a borrower who has been a party to a TDR:	\$1,064	\$1,877

The Bank'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:

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

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	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Pre-Modification		Post-Modification	Pre-Modification		Post-Modification
	Number of	Outstanding	Outstanding	Number of	Outstanding	Outstanding
	Contracts	Recorded	Recorded	Contracts	Recorded	Recorded
	Investment	Investment (1)	Investment (1)	Investment	Investment (1)	Investment (1)
	(Dollars in thousands)					
Troubled debt restructurings						
Commercial and industrial	1	\$ 37	\$ 37	3	\$ 319	\$ 319
Commercial real estate	2	463	463	4	1,526	1,526
Small business	4	261	261	9	543	543
Residential real estate	1	228	228	7	2,128	2,154
Home equity	1	184	184	4	378	378
Other consumer	—	—	—	2	11	11
Total	9	\$ 1,173	\$ 1,173	29	\$ 4,905	\$ 4,931

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Dollars in thousands)		(Dollars in thousands)	
Extended maturity	\$ 1,902	\$ 438	\$ 3,403	\$ 1,429
Adjusted interest rate	—	—	726	—
Combination rate & maturity	599	735	2,269	3,491
Court ordered concession	—	—	837	11
Total	\$ 2,501	\$ 1,173	\$ 7,235	\$ 4,931

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

	Three Months Ended September 30			
	2014		2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Troubled debt restructurings that subsequently defaulted				
Commercial and industrial	1	\$ 46	—	\$ —
Residential real estate	1	87	—	—
	2	\$ 133	—	\$ —

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	Nine Months Ended September 30			
	2014		2013	
	Number	Recorded Investment	Number	Recorded Investment
	of Contracts	(Dollars in thousands)	of Contracts	(Dollars in thousands)
Troubled debt restructurings that subsequently defaulted				
Commercial and industrial	1	\$46	1	\$1,614
Small business	—	—	1	231
Residential real estate	3	214	—	—
Total	4	\$260	2	\$1,845

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

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

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

	September 30, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded			
Commercial and industrial	\$3,827	\$4,085	\$—
Commercial real estate	16,297	17,979	—
Commercial construction	311	311	—
Small business	824	860	—
Residential real estate	2,794	2,852	—
Home equity	4,387	4,434	—
Other consumer	360	363	—
Subtotal	28,800	30,884	—
With an allowance recorded			
Commercial and industrial	\$3,765	\$4,341	\$541
Commercial real estate	17,468	17,781	315
Small business	420	455	10
Residential real estate	12,709	13,909	1,521
Home equity	1,105	1,201	269
Other consumer	614	616	43
Subtotal	36,081	38,303	2,699
Total	\$64,881	\$69,187	\$2,699

	December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded			
Commercial and industrial	\$7,147	\$7,288	\$—
Commercial real estate	14,283	15,891	—
Commercial construction	100	408	—
Small business	1,474	1,805	—
Residential real estate	1,972	2,026	—
Home equity	4,263	4,322	—
Other consumer	446	446	—
Subtotal	29,685	32,186	—
With an allowance recorded			
Commercial and industrial	\$2,001	\$2,045	\$1,150
Commercial real estate	25,233	25,377	765
Small business	429	462	109
Residential real estate	13,228	14,197	1,564
Home equity	627	694	116
Other consumer	852	856	70
Subtotal	42,370	43,631	3,774
Total	\$72,055	\$75,817	\$3,774

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

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	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded				
Commercial and industrial	\$4,411	\$63	\$4,743	\$194
Commercial real estate	16,517	263	17,098	787
Commercial construction	311	3	311	10
Small business	840	13	889	40
Residential real estate	2,806	48	2,836	90
Home equity	4,405	51	4,456	154
Other consumer	365	5	382	18
Subtotal	29,655	446	30,715	1,293
With an allowance recorded				
Commercial and industrial	\$3,889	\$52	\$4,285	\$160
Commercial real estate	17,509	246	17,674	734
Small business	427	7	452	23
Residential real estate	12,841	132	12,959	395
Home equity	1,111	12	1,124	30
Other consumer	625	5	656	17
Subtotal	36,402	454	37,150	1,359
Total	\$66,057	\$900	\$67,865	\$2,652
	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded				
Commercial and industrial	\$7,553	\$91	\$7,762	\$275
Commercial real estate	15,175	262	15,638	788
Commercial construction	1,105	13	1,441	39
Small business	1,479	26	1,631	79
Residential real estate	2,159	24	2,221	68
Home equity	3,570	41	3,604	126
Other consumer	500	9	543	32
Subtotal	31,541	466	32,840	1,407
With an allowance recorded				
Commercial and industrial	\$2,360	\$30	\$2,684	\$96
Commercial real estate	24,984	330	25,128	1,013
Small business	624	10	652	30
Residential real estate	13,773	135	13,884	391
Home equity	575	6	585	18
Other consumer	973	9	1,041	27
Subtotal	43,289	520	43,974	1,575
Total	\$74,830	\$986	\$76,814	\$2,982

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Certain loans acquired by the Company may have shown evidence of deterioration of credit quality since origination and it was therefore deemed unlikely that the Bank would be able to collect all contractually required payments. As such, these loans were deemed to be Purchase Credit Impaired (“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 purchased credit impaired loans at the dates indicated:

	September 30, 2014 (Dollars in thousands)	December 31, 2013
Outstanding balance	\$28,578	\$33,555
Carrying amount	\$25,285	\$29,544

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

	(Dollars in thousands)	
Balance at January 1, 2013	\$2,464	
Acquisition	386	
Accretion	(1,812)	)
Other change in expected cash flows (2)	1,142	
Reclassification from nonaccretable difference for loans with improved cash flows (1)	334	
Balance at December 31, 2013	\$2,514	
Accretion	(1,722)	)
Other change in expected cash flows (2)	2,572	
Reclassification from nonaccretable difference for loans with improved cash flows (1)	194	
Balance at September 30, 2014	\$3,558	

(1) Results in increased interest income during the period in which the loan paid off.

(2) 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).

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NOTE 5 - EARNINGS PER SHARE

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
(Dollars in thousands, except per share data)				
Net income	\$15,738	\$14,655	\$43,867	\$39,665
Weighted Average Shares				
Basic shares	23,911,678	22,946,308	23,876,391	22,886,521
Effect of diluted securities	90,685	100,806	95,320	72,799
Dilutive shares	24,002,363	23,047,114	23,971,711	22,959,320
Net income per share				
Basic EPS	\$0.66	\$0.64	\$1.84	\$1.73
Effect of diluted securities	—	—	(0.01)	—
Dilutive EPS	\$0.66	\$0.64	\$1.83	\$1.73

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Stock options	—	—	—	125,241
Performance-based restricted stock	—	—	—	—

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During the nine months ended September 30, 2014, the Company made the following awards of restricted stock:

Date	Shares Granted	Plan	Grant Date Fair Value	Vesting Period
3/20/2014	65,950	2005 Employee Stock Plan	\$39.82	Ratably over 5 years from grant date
3/31/2014	3,000	2005 Employee Stock Plan	\$39.00	Ratably over 3 years from grant date
5/20/2014	10,920	2010 Non-Employee Director Stock Plan	\$35.08	At the end of 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 March 20, 2014, the Company granted 20,700 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 \$39.82. The number of shares to be vested will be contingent upon the Company's attainment of certain performance measures outlined in the award agreement and will be measured as of the end of the three year performance period, or December 31, 2016. 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 on or vote shares of performance-based restricted shares until vested.

Stock Options

The Company has not issued any awards of options to purchase shares of common stock during nine months ended September 30, 2014.

NOTE 7 - 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 four years.

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

September 30, 2014

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value
(Dollars in thousands)							
\$25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.23	% 5.04	% \$(2,318)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.23	% 5.04	% (2,319)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.23	% 2.94	% (1,286)
\$75,000							\$(5,923)

December 31, 2013

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value
(Dollars in thousands)							
\$25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.24	% 5.04	% \$(3,151)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.24	% 5.04	% (3,152)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.24	% 2.94	% (1,493)
50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.25	% 3.04	% (1,341)
25,000	5-May-11	10-Jun-11	10-Jun-15	3 Month LIBOR	0.24	% 1.71	% (493)
\$150,000							\$(9,630)

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 OCI, and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately \$2.8 million (pre-tax) to be reclassified to interest expense from OCI related to the Company's cash flow hedges in the next twelve months. This reclassification is due to anticipated payments that will be made and/or received on the swaps based upon the forward curve as of September 30, 2014.

The Company recognized \$61,000 and \$183,000 of net amortization income that was an offset to interest expense related to previously terminated swaps for both the three and nine month periods ended September 30, 2014 and 2013, respectively.

In June 2014, the Company repaid certain borrowings and consequently terminated the corresponding cash flow hedges. As a result of the termination of the cash flow hedges, the Company reclassified a pre-tax loss of approximately \$1.1 million out of OCI and into noninterest expense.

The Company had no fair value hedges as of September 30, 2014 or December 31, 2013.

Customer Related Positions

Loan level derivatives, primarily interest rate swaps, offered to commercial borrowers through the Bank's loan level derivative program do not qualify as hedges for accounting purposes. The Bank 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 Bank 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 Bank's derivative program do not qualify as hedges for accounting purposes. The Bank 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 Bank enters into similar offsetting positions.

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

		Notional Amount Maturing						
	Number of	Less than	Less	Less	Less		Total	Fair Value
	Positions (1)	1 year	than 2	than 3	than 4	Thereafter		
	September 30, 2014		years	years	years			
	(Dollars in thousands)							
Loan level derivatives								
Receive fixed, pay variable	172	\$47,702	85,305	27,960	44,931	382,700	\$588,598	\$12,300
Pay fixed, receive variable	166	\$47,702	85,305	27,960	44,931	382,700	\$588,598	\$(12,309)
Foreign exchange contracts								
Buys foreign currency, sells US currency	27	\$64,914	—	—	—	—	\$64,914	\$4,040
Buys US currency, sells foreign currency	27	\$64,914	—	—	—	—	\$64,914	\$(4,012)
	December 31, 2013							
	(Dollars in thousands)							
Loan level derivatives								
Receive fixed, pay variable	168	\$48,882	97,975	42,957	42,116	329,554	\$561,484	\$9,484
Pay fixed, receive variable	162	\$48,882	97,975	42,957	42,116	329,554	\$561,484	\$(9,523)
Foreign exchange contracts								
Buys foreign currency, sells US currency	6	\$11,367	—	—	—	—	\$11,367	\$396
Buys US currency, sells foreign currency	6	\$11,367	—	—	—	—	\$11,367	\$(390)

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

depending upon the effectiveness of existing hedges, execute a Forward TBA trade with a counterparty to hedge that market risk. Certain assumptions, including pull through rates and rate lock periods, are used in managing the existing and future hedges. The effectiveness of the hedges rely on the accuracy of these assumptions.

The change in fair value on the interest rate lock commitments, forward delivery sale commitments, and forward TBA mortgage contracts are recorded in current period earnings as a component of mortgage banking income. In addition, the Company has elected the fair value option to carry loans held for sale at fair value. The change in fair value of loans held for sale is recorded in current period earnings as a component of mortgage banking income in accordance with the Company's fair value election. The change in fair value associated with loans held for sale was a decrease of \$223,000 and an increase of \$1.6 million for the

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three months ended September 30, 2014 and 2013, respectively, and an increase of \$1,000 and \$274,000 for the nine months ended September 30, 2014 and 2013, respectively. These amounts were offset in earnings by the change in the fair value of mortgage derivatives.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the balance sheet at the periods indicated:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value at September 30, 2014	Fair Value at December 31, 2013	Balance Sheet Location	Fair Value at September 30, 2014	Fair Value at December 31, 2013
	(Dollars in thousands)					
Derivatives designated as hedges						
Interest rate derivatives	Other assets	\$—	\$—	Other liabilities	\$5,923	\$9,630
Derivatives not designated as hedges						
Customer Related Positions:						
Loan level derivatives	Other assets	\$14,820	\$16,301	Other liabilities	\$14,829	\$16,340
Foreign exchange contracts	Other assets	4,040	396	Other liabilities	4,012	390
Mortgage Derivatives:						
Interest rate lock commitments	Other assets	280	204	Other liabilities	—	—
Forward TBA mortgage contracts	Other assets	—	64	Other liabilities	14	—
Forward sales agreements	Other assets	10	—	Other liabilities	—	35
Total		\$19,150	\$16,965		\$18,855	\$16,765

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Dollars in thousands)		(Dollars in thousands)	
Derivatives designated as hedges				
Gain in OCI on derivatives (effective portion), net of tax	\$578	\$455	\$2,085	\$2,907
Loss reclassified from OCI into interest expense (effective portion)	\$726	\$1,464	\$2,937	\$4,322
Loss reclassified from OCI into noninterest expense (loss on termination)	\$—	\$—	\$1,121	\$—
Loss recognized in income on derivatives (ineffective portion & amount excluded from effectiveness testing)				
Interest expense	\$—	\$—	\$—	\$—
Other expense	—	—	—	—
Total	\$—	\$—	\$—	\$—
Derivatives not designated as hedges				
Changes in fair value of customer related positions				
Other income	\$10	\$1	\$54	\$27
Other expense	(1	) (27	) (3	) (108
Changes in fair value of mortgage derivatives				
Mortgage banking income	42	(1,101	) 43	247
Total	\$51	\$(1,127	) \$94	\$166

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By using derivatives, the Company is exposed to credit risk to the extent that counterparties to the derivative contracts do not perform as required. Should a counterparty fail to perform under the terms of a derivative contract, the Company's credit exposure on interest rate swaps is limited to the net positive fair value and accrued interest of all swaps with each counterparty. The Company seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, and obtaining collateral, where appropriate. Institutional counterparties must have an investment grade credit rating and be approved by the Company's Board of Directors. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial. The Company had \$1.3 million and \$3.4 million in exposure (inclusive of accrued interest) relating to institutional counterparties at September 30, 2014 and December 31, 2013, respectively. The Company's exposure (inclusive of accrued interest) relating to customer counterparties was approximately \$14.3 million and \$13.6 million at September 30, 2014 and December 31, 2013, respectively. Additionally, credit exposure may be reduced by the amount of collateral pledged by the counterparty.

NOTE 8 - BALANCE SHEET OFFSETTING

The Company does not offset fair value amounts recognized for derivative instruments or repurchase agreements. The Company does net the amount recognized for the right to reclaim cash collateral against the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement. Collateral legally required to be maintained at dealer banks by the Company is monitored and adjusted as necessary. At September 30, 2014, it was determined that no additional collateral would have to be posted to immediately settle these instruments.

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

	Gross Amounts Recognized in the Statement of Financial Position September 30, 2014 (Dollars in thousands)	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments (1)	Collateral Pledged (Received)	Net Amount
Derivative Assets						
Interest rate swaps	\$—	\$—	\$—	\$—	\$—	\$—
Loan level derivatives	14,820	—	14,820	1,260	—	13,560
Customer foreign exchange contracts	4,040	—	4,040	—	—	4,040
	\$18,860	\$—	\$18,860	\$1,260	\$—	\$17,599
Derivative Liabilities						
Interest rate swaps	\$5,923	\$—	\$5,923	\$—	\$5,923	\$—
Loan level derivatives	14,829	—	14,829	1,260	12,308	1,260
Customer foreign exchange contracts	4,012	—	4,012	—	—	4,012
Repurchase agreements						
Customer repurchase agreements	153,192	—	153,192	—	151,953	1,239
Wholesale repurchase agreements	50,000	—	50,000	—	50,000	—
	\$227,956	\$—	\$227,956	\$1,260	\$220,184	\$6,511

(1) Includes loan level swaps which are not subject to a master netting arrangement and thus are not offset in the statement of financial position.

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	Gross Amounts Not Offset in the Statement of Financial Position					
	Gross Amounts Recognized in the Statement of Financial Position December 31, 2013 (Dollars in thousands)	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments	Collateral Pledged (Received)	Net Amount
Derivative Assets						
Interest rate swaps	\$—	\$—	\$—	\$—	\$—	\$—
Loan level swaps	16,301	—	16,301	2,823	—	13,478
Customer foreign exchange contracts	396	—	396	—	—	396
	\$16,697	\$—	\$16,697	\$2,823	\$—	\$13,874
Derivative Liabilities						
Interest rate swaps	\$9,630	\$—	\$9,630	\$—	\$9,630	\$—
Loan level swaps	16,340	—	16,340	2,823	10,108	3,409
Customer foreign exchange contracts	390	—	390	—	—	390
Repurchase agreements						
Customer repurchase agreements	149,288	—	149,288	—	149,288	—
Wholesale repurchase agreements	50,000	—	50,000	—	50,000	—
	\$225,648	\$—	\$225,648	\$2,823	\$219,026	\$3,799

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

NOTE 9 - FAIR VALUE MEASUREMENTS

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

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

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

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

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

Valuation Techniques

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

Securities:

U.S. Government Agency Securities

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

Agency Mortgage-Backed Securities

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

Agency Collateralized Mortgage Obligations

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

State, County, and Municipal Securities

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

Single and Pooled Issuer Trust Preferred Securities

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

Equity Securities

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

Loans Held for Sale

The Company elects to account for new originations of mortgage loans held for sale at fair value, which is measured using quoted market prices when available. If quoted market prices are not available, comparable market values or discounted cash flow analysis may be utilized. These assets are typically categorized as Level 2.

Derivative Instruments

Derivatives

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings. Additionally, in conjunction with fair value measurement guidance, the Company has made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of September 30, 2014 and December 31,

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2013, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2.

Mortgage Derivatives

The fair value of the commitments and agreements are estimated using the anticipated market price based on pricing indications provided from syndicate banks. These commitments and agreements are categorized as Level 2.

Impaired Loans

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

Other Real Estate Owned and Other Foreclosed Assets

The fair values are estimated based upon recent appraisal values of the property less costs to sell the property, as Other Real Estate Owned ("OREO") and Other Foreclosed Assets are valued at the lower of cost or fair value of the property, less estimated costs to sell. Certain inputs used in appraisals are not always observable, and therefore OREO and Other Foreclosed Assets may be categorized as Level 3 within the fair value hierarchy. When inputs in appraisals are observable, they are classified as Level 2.

Goodwill and Other Intangible Assets

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

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

	Balance	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)		
	September 30, 2014		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
Recurring fair value measurements				
Assets				
Securities available for sale				
U.S. Government agency securities	\$41,287	\$—	\$41,287	\$—
Agency mortgage-backed securities	229,204	—	229,204	—
Agency collateralized mortgage obligations	65,586	—	65,586	—
State, county, and municipal securities	5,253	—	5,253	—
Single issuer trust preferred securities issued by banks	2,923	—	2,923	—
Pooled trust preferred securities issued by banks and insurers	5,386	—	—	5,386
Equity securities	11,816	11,816	—	—
Loans held for sale	12,580	—	12,580	—
Derivative instruments	19,150	—	19,150	—
Liabilities				
Derivative instruments	24,778	—	24,778	—
Total recurring fair value measurements	\$368,407	\$11,816	\$351,205	\$5,386
Nonrecurring fair value measurements				
Assets				
Collateral dependent impaired loans	\$9,614	\$—	\$—	\$9,614
Other real estate owned and other foreclosed assets	9,632	—	—	9,632
Total nonrecurring fair value measurements	\$19,246	\$—	\$—	\$19,246

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December 31, 2013
(Dollars in thousands)

Recurring fair value measurements

Assets

Securities available for sale

U.S. government agency securities	\$40,449	\$—	\$40,449	\$—
Agency mortgage-backed securities	234,591	—	234,591	—
Agency collateralized mortgage obligations	58,153	—	58,153	—
State, county, and municipal securities	5,412	—	5,412	—
Single issuer trust preferred securities issued by banks	2,952	—	2,952	—
Pooled trust preferred securities issued by banks and insurers	3,841	—	—	3,841
Equity securities	11,464	11,464	—	—
Loans held for sale	8,882	—	8,882	—
Derivative instruments	16,965	—	16,965	—
Liabilities				
Derivative instruments	26,395	—	26,395	—
Total recurring fair value measurements	\$356,314	\$11,464	\$341,009	\$3,841

Nonrecurring fair value measurements

Assets

Collateral dependent impaired loans	\$10,328	\$—	\$—	\$10,328
Other real estate owned and other foreclosed assets	7,633	—	—	7,633
Total nonrecurring fair value measurements	\$17,961	\$—	\$—	\$17,961

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3). These instruments were valued using pricing models and discounted cash flow methodologies.

Securities Available for Sale:

(Dollars in thousands)

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Pooled Trust Preferred Securities	Private Mortgage-Backed Securities	Total	Pooled Trust Preferred Securities	Private Mortgage-Backed Securities	Total
Beginning balance	\$5,091	\$—	\$5,091	\$3,617	\$3,036	\$6,653
Gains and (losses) (realized/unrealized)						
Included in other comprehensive income	318	—	318	399	46	445
Settlements	(23)	—	(23)	(45)	(219)	(264)
Ending balance	\$5,386	\$—	\$5,386	\$3,971	\$2,863	\$6,834
	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Pooled Trust Preferred Securities	Private Mortgage-Backed Securities	Total	Pooled Trust Preferred Securities	Private Mortgage-Backed Securities	Total
Beginning balance	\$3,841	\$—	\$3,841	\$2,981	\$3,532	\$6,513
Gains and (losses) (realized/unrealized)						
Included in other comprehensive income	1,666	—	1,666	1,230	(43)	1,187
Settlements	(121)	—	(121)	(240)	(626)	(866)

Ending balance	\$5,386	\$—	\$5,386	\$3,971	\$2,863	\$6,834
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It is the Company's policy to recognize the transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers between the levels of the fair value hierarchy for any assets or liabilities measured at fair value on a recurring basis during the three or nine month periods ended September 30, 2014 or 2013. The following table sets forth certain unobservable inputs regarding the Company's investment in securities that are classified as Level 3 for the periods indicated:

	September 30 2014	December 31 2013		September 30 2014	December 31 2013	September 30 2014	December 31 2013
Valuation Technique	Fair Value		Unobservable Inputs	Range		Weighted Average	
(Dollars in Thousands)							
Discounted cash flow methodology							
Pooled trust preferred securities	\$5,386	\$3,841	Cumulative prepayment	0% - 75%	0% - 76%	7.0%	7.2%
			Cumulative default	2.8% - 100%	3% - 100%	15.9%	18.1%
			Loss given default	85% - 100%	85% - 100%	95.9%	95.7%
			Cure given default	0% - 75%	0% - 75%	43.7%	39.9%
Appraisals of collateral (1)							
Impaired loans	\$9,614	\$10,328					
Other real estate owned and foreclosed assets	\$9,632	\$7,633					

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

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

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

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

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

	Carrying Value	Fair Value	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	September 30, 2014 (Dollars in thousands)				
Financial assets					
Securities held to maturity (a)					
U.S. Treasury securities	\$1,010	\$1,060	\$ —	\$ 1,060	\$ —
Agency mortgage-backed securities	164,531	168,000	—	168,000	—
Agency collateralized mortgage obligations	199,950	197,277	—	197,277	—
State, county, and municipal securities	424	433	—	433	—
Single issuer trust preferred securities issued by banks	1,500	1,530	—	1,530	—
Corporate debt securities	5,003	5,165	—	5,165	—
Loans, net of allowance for loan losses (b)	4,892,850	4,855,967	—	—	4,855,967
Financial liabilities					
Time certificates of deposits (c)	\$672,464	\$674,280	\$ —	\$ 674,280	\$ —
Federal Home Loan Bank borrowings (c)	60,127	60,087	—	60,087	—
Customer repurchase agreements and other short-term borrowings (c)	153,192	153,192	—	—	153,192
Wholesale repurchase agreements (c)	50,000	50,678	—	—	50,678
Junior subordinated debentures (d)	73,741	73,289	—	73,289	—
Subordinated debentures (c)	30,000	28,588	—	—	28,588

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			Fair Value Measurements at Reporting Date Using		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2013 (Dollars in thousands)				
Financial assets					
Securities held to maturity (a)					
U.S. Treasury securities	\$ 1,011	\$ 1,042	\$ —	\$ 1,042	\$ —
Agency mortgage-backed securities	155,067	155,951	—	155,951	—
Agency collateralized mortgage obligations	187,388	182,036	—	182,036	—
State, county, and municipal securities	678	685	—	685	—
Single issuer trust preferred securities issued by banks	1,503	1,526	—	1,526	—
Corporate debt securities	5,005	5,215	—	5,215	—
Loans, net of allowance for loan losses (b)	4,665,068	4,655,920	—	—	4,655,920
Financial liabilities					
Time certificates of deposits (c)	\$ 743,628	\$ 746,908	\$ —	\$ 746,908	\$ —
Federal Home Loan Bank borrowings (c)	140,294	140,321	—	140,321	—
Customer repurchase agreements and other short-term borrowings (c)	154,288	154,349	—	—	154,349
Wholesale repurchase agreements (c)	50,000	51,298	—	—	51,298
Junior subordinated debentures (d)	73,906	67,481	—	67,481	—
Subordinated debentures (c)	30,000	28,396	—	—	28,396

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

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

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

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

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

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NOTE 10 - COMPREHENSIVE INCOME/(LOSS)

Information on the Company's comprehensive income (loss), presented net of taxes, is set forth below for the periods indicated:

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount
	(Dollars in thousands)			(Dollars in thousands)		
Change in fair value of securities available for sale	\$(1,322)	\$512	\$(810)	\$5,869	\$(2,325)	\$3,544
Less: net security gains (losses) reclassified into other noninterest income	67	(27)	40	138	(56)	82
Net change in fair value of securities available for sale	(1,389)	539	(850)	5,731	(2,269)	3,462
Change in fair value of cash flow hedges	252	(103)	149	(535)	220	(315)
Less: net cash flow hedge losses reclassified into interest on borrowings expense (1)	(726)	297	(429)	(2,937)	1,200	(1,737)
Less: Loss on termination of hedge reclassified into noninterest expense	—	—	—	(1,121)	458	(663)
Net change in fair value of cash flow hedges	978	(400)	578	3,523	(1,438)	2,085
Net loss during the period and amortization of certain costs included in net periodic retirement costs (2)	(66)	27	(39)	(198)	81	(117)
Total other comprehensive income (loss)	\$(477)	\$166	\$(311)	\$9,056	\$(3,626)	\$5,430
	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount
	(Dollars in thousands)			(Dollars in thousands)		
Change in fair value of securities available for sale	\$(190)	\$42	\$(148)	\$(8,924)	\$3,407	\$(5,517)
Less: net security losses reclassified into other noninterest income	—	—	—	(4)	1	(3)
Change in fair value of securities available for sale	(190)	42	(148)	(8,920)	3,406	(5,514)
Change in fair value of cash flow hedges	(696)	285	(411)	592	(242)	350
Less: net cash flow hedge losses reclassified into interest on borrowings expense (1)	(1,464)	598	(866)	(4,322)	1,765	(2,557)
Net change in fair value of cash flow hedges	768	(313)	455	4,914	(2,007)	2,907
	51	(21)	30	124	(51)	73

Net gain during the period and amortization of
certain costs included in net periodic retirement
costs (2)

Total other comprehensive income	\$629	\$(292	) \$337	\$(3,882	) \$1,348	\$(2,534	)
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(1) Includes the amortization of the remaining balance of a realized but unrecognized gain, net of tax, from the termination of interest rate swaps in June 2009. The original gain of \$1.4 million, net of tax, is being recognized in earnings through December 2018, the original maturity date of the swap. The balance of this gain has amortized to \$606,000 and \$751,000 at September 30, 2014 and 2013, respectively.

(2) The amortization of prior service costs is included in the computation of net periodic pension cost as disclosed in the Employee Benefit Plans footnote in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission.

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

	Unrealized Gain (Loss) on Securities 2014	Unrealized Loss on Cash Flow Hedge 2014	Deferred Gain on Hedge Transactions 2014	Defined Benefit Pension Plans 2014	Accumulated Other Comprehensive Loss 2014
(Dollars in thousands)					
Beginning balance January 1, 2014	\$(2,023)	\$(5,698)	\$715	\$(428)	\$(7,434)
Net change in other comprehensive income	\$3,462	\$2,194	\$(109)	\$(117)	\$5,430
Ending balance September 30, 2014	1,439	(3,504)	606	(545)	(2,004)
2013					
Beginning balance January 1, 2013	\$5,478	\$(9,577)	\$859	\$(1,286)	\$(4,526)
Net change in other comprehensive income	\$(5,514)	\$3,015	\$(108)	\$73	\$(2,534)
Ending balance September 30, 2013	(36)	(6,562)	751	(1,213)	(7,060)

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance Sheet Risk

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

The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of these commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Standby letters of credit are written conditional commitments issued to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment were funded, the Company would be entitled to seek recovery from the customer. The Company's policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

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

Financial instruments with off-balance-sheet risk were as follows at the dates indicated:

	September 30, 2014 (Dollars in thousands)	December 31, 2013
Commitments to extend credit	\$1,680,254	\$1,621,873
Standby letters of credit	16,903	18,923
Deferred standby letter of credit fees	108	87

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Lease Commitments

The Company leases office space, space for ATM locations, and certain branch locations under noncancelable operating leases.

Rent expense incurred under operating leases was approximately \$1.9 million for both the three months ended September 30, 2014 and 2013, respectively, and \$5.8 million and \$5.7 million for the nine months ended September 30, 2014 and 2013, respectively. Renewal options ranging from 1-10 years exist for several of these leases. The Company has entered into lease agreements with related third parties on substantially the same terms as those prevailing at the time for comparable transactions with unrelated parties. Rent expense incurred under related third party leases was approximately \$780,000 and \$759,000 for the three months ended September 30, 2014 and 2013 respectively, and \$1.5 million for both the nine month periods ended September 30, 2014 and 2013. There has been no significant change in the future minimum lease payments payable by the Company since December 31, 2013. See the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for information regarding commitments.

Other Contingencies

At September 30, 2014, Rockland Trust was involved in pending lawsuits that arose in the ordinary course of business. Management has reviewed these pending lawsuits with legal counsel and has taken into consideration the view of counsel as to their outcome. In the opinion of management, the final disposition of pending lawsuits is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. The Bank is required to maintain certain reserve requirements of vault cash and/or deposits with the Federal Reserve Bank of Boston. The amount of this reserve requirement was \$37.7 million and \$21.0 million at September 30, 2014 and December 31, 2013, respectively.

NOTE 12 - LOW INCOME HOUSING PROJECT INVESTMENTS

The Company's investment in Low Income Housing Projects that generate Low Income Housing Tax Credits ("LIHTC") at September 30, 2014 was \$26.3 million with a recorded liability of \$22.3 million in funding obligations. The Company has invested in four separate LIHTC projects which provide the Company with tax credits and operating loss tax benefits over a period of approximately 15 years. None of the original investment is expected to be repaid. The investment in LIHTC projects is being accounted for using the proportional amortization method, under which the Company amortizes the initial cost of the investment in proportion to the amount of the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit).

The following table presents the Company's investments in low income housing projects as of the date indicated:

	September 30, 2014 (Dollars in thousands)
Original investment value	\$29,543
Current recorded investment	26,305
Unfunded liability obligation	22,273
Tax credits and benefits (1)	1,557
Amortization of investments (2)	1,098
Net income tax benefit (3)	459

(1) This amount reflects anticipated tax credits and tax benefits for the year ended December 31, 2014.

(2) The amortization amount reduces the tax credits and benefits anticipated for the year ended December 31, 2014.

(3) This amount represents the net tax benefit expected to be realized for the year ended December 31, 2014 in determining the Company's effective tax rate as of September 30, 2014.

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

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the Securities and Exchange Commission.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, both in the MD&A and elsewhere, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about management's confidence and strategies and management's expectations about new and existing programs and products, acquisitions, relationships, opportunities, taxation, technology, market conditions and economic expectations. These statements may be identified by forward-looking terminology such as "should," "expect," "believe," "view," "opportunity," "allow," "continues," "reflects," "typically," "usually," "anticipate," or similar statements or of such terms. Such forward-looking statements involve certain risks and uncertainties and our actual results may differ materially from such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements in addition to those risk factors listed under the "Risk Factors" section of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 include, but are not limited to:

- a weakening in the United States economy in general and the regional and local economies within the New England region and the Company's market area;
- adverse changes in the local real estate market;
- a deterioration of the credit rating for U.S. long-term sovereign debt;
- acquisitions may not produce results at levels or within time frames originally anticipated and may result in unforeseen integration issues or impairment of goodwill and/or other intangibles;
- changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- higher than expected tax expense, resulting from failure to comply with general tax laws, changes in tax laws or failure to comply with requirements of the federal New Markets Tax Credit program;
- unexpected changes in market interest rates for interest earning assets and/or interest bearing liabilities;
- adverse changes in asset quality including an unanticipated credit deterioration in our loan portfolio;
- unexpected increased competition in the Company's market area;
- unanticipated loan delinquencies, loss of collateral, decreased service revenues, and other potential negative effects on our business caused by severe weather or other external events;
- a deterioration in the conditions of the securities markets;
- our inability to adapt to changes in information technology;
- electronic fraudulent activity within the financial services industry, especially in the commercial banking sector;
- adverse changes in consumer spending and savings habits;
- the effect of new laws and regulations regarding the financial services industry including, but not limited to, the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) generally applicable to the Company's business;
- risks associated with the pending merger with Peoples Federal, including failure to obtain shareholder or regulatory approval of the merger or to satisfy other conditions to the merger on the proposed terms and within the proposed time frame; reaction to the merger of, or the inability to retain, Peoples Federal customers and employees; the diversion of management's time on issues relating to the merger; the inability to realize expected cost savings and synergies from the merger in the amounts or the time frame anticipated; changes in the estimate of non-recurring charges;
- unanticipated costs or difficulties relating to integration matters; changes in the Company's stock price from the date

of the merger announcement to the closing date; or material adverse changes in operations or earnings of the Company or Peoples Federal;
changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters; and
other unexpected material adverse changes in our operations or earnings.

Except as required by law, the Company disclaims any intent or obligation to update publicly any such forward-looking statements, whether in response to new information, future events or otherwise. Any public statements or disclosures by the Company following

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this Quarterly Report on Form 10-Q which modify or impact any of the forward-looking statements contained in this Quarterly Report on Form 10-Q will be deemed to modify or supersede such statements in this Quarterly Report on Form 10-Q.

Selected Quarterly Financial Data

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

	Three Months Ended				
	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
	(Dollars in thousands, except per share data)				
Financial condition data					
Securities available for sale	\$361,455	\$340,081	\$348,258	\$356,862	\$284,398
Securities held to maturity	372,418	373,888	375,556	350,652	317,373
Loans	4,947,855	4,885,500	4,807,269	4,718,307	4,556,029
Allowance for loan losses	(55,005)	(54,538)	(53,629)	(53,239)	(53,562)
Goodwill and core deposit intangibles	180,871	181,460	182,051	182,642	160,562
Total assets	6,384,428	6,348,318	6,225,920	6,099,234	5,895,464
Total deposits	5,302,434	5,298,161	5,114,259	4,986,418	4,757,309
Total borrowings	367,060	345,737	422,565	448,488	507,681
Stockholders' equity	627,182	616,489	602,556	591,540	555,744
Income statement					
Interest income	\$54,368	\$54,285	\$52,980	\$52,571	\$51,027
Interest expense	4,805	5,232	5,374	5,666	5,831
Net interest income	49,563	49,053	47,606	46,905	45,196
Provision for loan losses	1,901	2,250	4,502	3,150	2,650
Noninterest income	17,098	16,857	17,516	17,464	18,130
Noninterest expenses	42,607	42,980	41,887	47,845	40,722
Net income	15,738	14,746	13,383	10,588	14,655
Per share data					
Net income—basic	\$0.66	\$0.62	\$0.56	\$0.45	\$0.64
Net income—diluted	0.66	0.61	0.56	0.45	0.64
Cash dividends declared	0.24	0.24	0.24	0.22	0.22
Book value	26.23	25.79	25.23	24.85	24.21
Performance ratios					
Return on average assets	0.99 %	0.94 %	0.88 %	0.70 %	1.00 %
Return on average common equity	9.97 %	9.65 %	9.02 %	7.29 %	10.53 %
Net interest margin (on a fully tax equivalent basis)	3.42 %	3.48 %	3.49 %	3.45 %	3.43 %
Equity to assets	9.82 %	9.71 %	9.68 %	9.70 %	9.43 %
Dividend payout ratio	36.47 %	38.91 %	39.13 %	47.70 %	34.38 %
Asset quality					
Nonperforming loans	26,119	27,416	36,171	34,659	37,887
Nonperforming assets	38,557	39,661	46,521	43,833	48,879
	0.53 %	0.56 %	0.75 %	0.73 %	0.83 %

Nonperforming loans as a
percent of gross loans

Nonperforming assets as a
percent of total assets

0.60

% 0.62

% 0.75

% 0.72

% 0.83

%

47

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Allowance for loan losses as a percent of total loans	1.11	%	1.12	%	1.12	%	1.13	%	1.18	%
Allowance for loan losses as a percent of nonperforming loans	210.59	%	198.93	%	148.27	%	153.61	%	141.37	%
Capital ratios										
Tier 1 leverage capital ratio	8.75	%	8.62	%	8.60	%	8.64	%	8.64	%
Tier 1 risk-based capital ratio	10.75	%	10.65	%	10.76	%	10.78	%	10.82	%
Total risk-based capital ratio	12.47	%	12.38	%	12.52	%	12.58	%	12.69	%

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Executive Level Overview

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

During the third quarter the Company announced the signing of a definitive merger agreement for the acquisition of Peoples Federal Bancshares, Inc. The Company anticipates that the legal closing for that acquisition will occur in the first quarter of 2015.

Loans and Asset Quality

Management's balance sheet strategy emphasizes commercial and home equity lending, with continued strong growth in both categories. The results depicted in the following table reflect the focus on those asset classes:

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

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

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Funding and the Net Interest Margin

Management emphasizes core deposit growth to fund loans, as depicted by the following chart:

As of September 30, 2014 core deposits comprise 87.1% of total deposits compared to 86.6% in the prior quarter. Our core deposit focus resulted in our total cost of deposits decreasing one basis point to 0.21% compared to the prior quarter.

The Company's net interest margin was 3.42% for the quarter ended September 30, 2014, a decrease of six basis point from the linked quarter. The Company's net interest margin decreased due to higher average liquid balances and a decline in loan yield that was only partially offset by reduced funding costs. In addition, our second quarter loan yield was enhanced by the payoff of impaired loans. The Company anticipates some additional loan yield contraction in the current low rate environment.

Noninterest Income

Management continues to focus on noninterest income growth. Noninterest income is primarily comprised of deposit account fees, interchange and ATM fees, and investment management fees. Strong performance from these categories was partially offset by a decrease in loan level derivative income. The following chart depicts noninterest income, excluding certain noncore items, as a percentage of total revenue (the sum of net noninterest income, excluding certain noncore items, and net interest income):

*See "Non-GAAP Measures" below for a reconciliation to GAAP financial measures.

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Expense Control

Management takes a balanced approach to noninterest expense control by paying close attention to the management of ongoing operating expenses while making needed capital expenditures and prudently investing in growth initiatives. The Company's primary expenses arise from Rockland Trust's employee salaries and benefits and expenses associated with buildings and equipment. During the third quarter of 2014, noninterest expense was well contained, resulting in a further decrease to the Company's efficiency ratio, with the following chart showing the trend in the Company's efficiency ratio, on an operating basis (calculated by dividing noninterest expense excluding certain noncore items by the sum of net noninterest income, excluding certain noncore items, and net interest income), over the past five quarters:

*See "Non-GAAP Measures" below for a reconciliation to GAAP financial measures.

Tax Effectiveness

The Company participates in federal and state tax credit programs designed to promote economic development, affordable housing, and job creation. During 2014 the Company continues to participate in the federal New Markets Tax Credit program and has also made low-income housing tax credit investments. The Company has also established security corporation subsidiaries and, through its subsidiaries, purchased tax-exempt bonds. Federal and state tax credit program participation and other tax strategies permit the Company to operate in a tax effective manner and sometimes also creates a competitive advantage for Rockland Trust and its community development subsidiaries. During the third quarter of 2014, the Company's effective tax rate was 28.96%, remaining relatively consistent with the prior quarter.

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Capital

The Company's disciplined approach with respect to revenue, expense, and tax effectiveness is designed to promote long-term shareholder value, and is reflected in the strong capital growth experienced during 2014. As a result, tangible book value per share increased \$0.46 during the third quarter, and tangible common equity as a percentage of tangible assets increased from 7.05% in the prior quarter to 7.19%. The following chart shows the trend of the Company's tangible book value per share over the past five quarters:

This strong growth in capital has led to a consistent cash dividend which increased from \$0.22 per share in each quarter of 2013 to \$0.24 per share in the three quarters of 2014, respectively, representing a 9.1% increase.

2014 Results

Net income for the third quarter of 2014 computed in accordance with Generally Accepted Accounting Principles ("GAAP") was \$15.7 million, or \$0.66 on a diluted earnings per share basis, as compared to \$14.7 million, or \$0.64 per diluted shares for the prior year third quarter. Third quarter 2014 net operating earnings were \$16.2 million, or \$0.67 on a diluted earnings per share basis, an increase of 12.0% and 6.4%, respectively, when compared to net operating earnings of \$14.4 million, or \$0.63 per diluted share, for the third quarter of 2013. The third quarters in both 2014 and 2013 included merger and acquisition expenses which are excluded from operating earnings.

2014 Earnings Outlook

The Company anticipates 2014 diluted operating earnings per share performance to be in the middle to upper end range between \$2.42 and \$2.52. Key assumptions in the 2014 outlook include:

• Total loan growth slightly above the 5% range;

• Total deposit growth of 5-7%;

• A net interest margin percentage in the mid 3.40s;

• Stable asset quality, with a provision for loan loss in the range of \$11-\$14 million and net charge-offs in the range of \$9-\$12 million;

• Noninterest income growing by 1-2%;

• Noninterest expense increasing by 3-4%;

• An effective tax rate of 28-29%; and

• Tangible Common Equity ratio increasing to a range of 7.25% to 7.50% by the end of 2014.

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Non-GAAP Measures

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

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

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

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

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	Three Months Ended September 30			
	Net Income		Diluted Earnings Per Share	
	2014	2013	2014	2013
	(Dollars in thousands)			
As reported (GAAP)				
Net income available to common shareholders (GAAP)	\$15,738	\$14,655	\$0.66	\$0.64
Non-GAAP adjustments				
Noninterest income components				
Gain on extinguishment of debt, net of tax	—	(451)	—	(0.02)
Noninterest expense components				
Merger and acquisition expenses, net of tax	400	216	0.01	0.01
Impairment on acquired facilities, net of tax	12	—	—	—
Total impact of noncore items	412	(235)	0.01	(0.01)
As adjusted (Non-GAAP)	\$16,150	\$14,420	\$0.67	\$0.63
	Nine Months Ended September 30			
	Net Income		Diluted Earnings Per Share	
	2014	2013	2014	2013
	(Dollars in thousands)			
As reported (GAAP)				
Net income available to common shareholders (GAAP)	\$43,867	\$39,665	1.83	\$1.73
Non-GAAP measures				
Noninterest income components				
Gain on life insurance benefits, tax exempt	(1,964)	—	(0.08)	—
Gain on extinguishment of debt, net of tax		\$(451)		(0.02)
Noninterest expense components				
Severance, net of tax	—	192	—	0.01
Merger and acquisition expenses, net of tax	466	1,531	0.02	0.06
Impairment on acquired facilities, net of tax	310	—	0.01	—
Loss on termination of derivatives, net of tax	663	—	0.03	—
Total impact of noncore items	(525)	1,272	(0.02)	0.05
As adjusted (Non-GAAP)	\$43,342	\$40,937	1.81	\$1.78

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

	Quarter-to-Date								
	September 30,	June 30,	March 31,	December 31,	September 30,				
	2014	2014	2014	2013	2013				
	(Dollars in thousands)								
Net interest income	\$49,563	\$49,053	\$47,606	\$46,905	\$45,196	(a)			
Noninterest income (GAAP)	\$17,098	\$16,857	\$17,516	\$17,464	\$18,130	(b)			
Net gain on sale of nonequity securities	—	—	—	(258)	—				
Gain on life insurance benefits	—	(337)	(1,627)	(227)	—				
Gain on extinguishment of debt	—	—	—	—	(763)				
Noninterest income on an operating basis (Non-GAAP)	\$17,098	\$16,520	\$15,889	\$16,979	\$17,367	(c)			
Noninterest expense (GAAP)	\$42,607	\$42,980	\$41,887	\$47,845	\$40,722	(d)			
Merger & acquisition	(677)	—	(77)	(6,219)	(366)				
Loss on termination of derivatives	—	(1,122)	—	—	—				
Impairment on acquired facilities	(21)	—	(503)	—	—				
Noninterest expense on an operating basis (Non-GAAP)	\$41,909	\$41,858	\$41,307	\$41,626	\$40,356	(e)			
Total revenue (GAAP)	\$66,661	\$65,910	\$65,122	\$64,369	\$63,326	(a+b)			
Total operating revenue (Non-GAAP)	\$66,661	\$65,573	\$63,495	\$63,884	\$62,563	(a+c)			
Ratios									
Efficiency ratio (GAAP)	63.92	% 65.21	% 64.32	% 74.33	% 64.31	% (d/(a+b))			
Efficiency ratio on an operating basis (Non-GAAP)	62.87	% 63.83	% 65.06	% 65.16	% 64.50	% (e/(a+c))			
Noninterest income as a % of revenue	25.65	% 25.58	% 26.90	% 27.13	% 28.63	% (b/(a+b))			
Noninterest income as a % of revenue on an operating basis (Non-GAAP)	25.65	% 25.19	% 25.02	% 26.58	% 27.76	% (c/(a+c))			

Critical Accounting Policies

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

There have been no material changes in critical accounting policies during the first nine months of 2014. Please refer to the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for a complete listing of critical accounting policies.

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FINANCIAL POSITION

Securities Portfolio The Company's securities portfolio consists of securities available for sale and securities which management intends to hold until maturity. Securities increased by \$26.4 million, or 3.7%, at September 30, 2014 as compared to December 31, 2013. The ratio of securities to total assets was 11.5% and 11.6% as of September 30, 2014 and December 31, 2013, respectively.

The Company continually reviews investment securities for the presence of other-than-temporary impairment ("OTTI"). Further analysis of the Company's OTTI can be found in Note 3 "Securities" within Notes to Consolidated Financial Statements included in Item 1 hereof.

Residential Mortgage Loan Sales The Company's primary loan sale activity arises from the sale of government sponsored enterprise eligible residential mortgage loans to government sponsored agencies and other financial institutions. During the three and nine months ended September 30, 2014 and 2013, the Bank originated residential loans with the intention of selling them in the secondary market, and to a lesser extent, to hold in the Company's residential portfolio. The following table shows the total residential loans that were closed and whether the amounts were held in the portfolio or sold/held for sale in the secondary market during the period indicated:

Table 1 - Closed Residential Real Estate Loans

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Dollars in thousands)			
Held in portfolio	\$21,368	\$11,173	\$53,318	\$23,140
Sold/held for sale in secondary market	46,155	55,835	106,008	227,479
Total closed loans	\$67,523	\$67,008	159,326	250,619

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

Table 2 - Residential Mortgage Loan Sales

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Dollars in thousands)			
Sold with servicing rights released	\$8,221	\$53,807	\$17,251	\$201,338
Sold with servicing rights retained	42,812	18,121	85,366	58,059
Total loans sold	\$51,033	\$71,928	\$102,617	\$259,397

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As noted in the table above, loans may be sold with servicing rights released or with servicing rights retained. Upon sale with servicing rights retained, the mortgage servicing asset is established, which represents the then current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Servicing rights are recorded in other assets in the consolidated balance sheets, are amortized in proportion to and over the period of estimated net servicing income, and are assessed for impairment based on fair value at each reporting date. Impairment is determined by stratifying the rights based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. The principal balance of loans serviced by the Bank on behalf of investors amounted to \$384.7 million, \$331.4 million, and \$197.8 million at September 30, 2014, December 31, 2013, and September 30, 2013, respectively. The following table shows the adjusted cost of the servicing rights associated with these loans and the changes for the periods indicated:

Table 3 - Mortgage Servicing Asset

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Dollars in thousands)			
Balance at beginning of period	\$2,440	\$1,264	\$2,368	\$899
Additions	416	160	785	508
Amortization	(154)	(101)	(445)	(331)
Change in valuation allowance	32	49	26	296
Balance at end of period	\$2,734	\$1,372	\$2,734	\$1,372

When a loan is sold, the Company enters into agreements that contain representations and warranties about the characteristics of the loans sold and their origination. The Company may be required to either repurchase mortgage loans or to indemnify the purchaser from losses if representations and warranties are breached. The Company incurred no material losses during the three and nine months ended September 30, 2014 or 2013, and therefore at this time, has not established a reserve for loan repurchases because it believes the amount of probable losses is not reasonably estimable.

Forward sale contracts of mortgage loans and forward to-be-announced ("TBA") mortgage contracts, considered derivative instruments for accounting purposes, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain one-to-four family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans, resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to various investors, or forward TBA mortgage contracts are entered into with a counterparty, which economically hedges this market risk. See Note 7, "Derivative and Hedging Activities" within Notes to Consolidated Financial statements included in Item 1 hereof for more information on mortgage activity and mortgage related derivatives.

Loan Portfolio Management continues to focus on growth in the commercial and home equity lending categories. Management believes this emphasis is prudent, given the prevailing interest rate and economic environment, as well as strategic priorities. The Bank's loan portfolio increased \$229.5 million during the first nine months of 2014 to \$4.9 billion. The commercial loan portfolio continues to be the major driver, increasing by \$204.9 million during the first nine months of 2014, accompanied by solid growth in the home equity categories.

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The Bank's commercial and industrial portfolio grew 7.5% in the nine months ended September 30, 2014. This portfolio is well-diversified with loans to various types of industries. The following pie chart shows the diversification of the commercial and industrial portfolio as of September 30, 2014:

	(Dollars in thousands)	
Average loan size	\$234	
Largest individual commercial and industrial loan	\$19,000	
Commercial and industrial nonperforming loans/commercial and industrial loans	0.28	%

The Bank's commercial real estate portfolio, inclusive of commercial construction, is the Bank's largest loan type concentration and has grown by 5.7% for the nine months ended September 30, 2014. This portfolio is also well-diversified with loans secured by a variety of property types, such as owner-occupied and nonowner-occupied commercial, retail, office, industrial, warehouse, industrial development bonds, and other special purpose properties, such as hotels, motels, nursing homes, restaurants, churches, recreational facilities, marinas, and golf courses. Commercial real estate also includes loans secured by certain residential-related property types including multi-family apartment buildings, residential development tracts and condominiums. The following pie chart shows the diversification of the commercial real estate portfolio as of September 30, 2014:

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	(Dollars in thousands)	
Average loan size	\$772	
Largest individual commercial real estate mortgage outstanding	\$24,735	
Commercial real estate nonperforming loans/commercial real estate loans	0.25	%
Owner occupied commercial real estate loans/commercial real estate loans	17.7	%

In addition to the commercial portfolios, the Bank also originates both fixed-rate and adjustable-rate residential real estate loans as well as residential construction lending related to single-home residential development within the Bank's market area. The Bank also provides home equity loans and lines that may be made as a fixed rate term loan or under a variable rate revolving line of credit secured by a first or second mortgage on the borrower's residence or second home. Additionally, the Bank makes loans for a wide variety of other personal needs. Consumer loans primarily consist of installment loans and overdraft protections. The residential, home equity and other consumer portfolios have increased in total by \$24.6 million for the nine months ended September 30, 2014 to \$1.4 billion.

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

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

Nonaccrual Loans As a general rule, within commercial real estate or home equity categories, loans more than 90 days past due with respect to principal or interest are classified as nonaccrual loans. As permitted by banking regulations, certain consumer loans past due 90 days or more continue to accrue interest. In addition, certain commercial and real estate loans that are more than 90 days past due may be kept on an accruing status if the loans are well secured and in the process of collection. The Company may also put a junior lien mortgage on nonaccrual status as a result of delinquency with respect to the first position, which is held by another financial institution, while the junior lien is currently performing. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. A loan remains on nonaccrual status until it becomes current with respect to principal and interest (and in certain instances remains current for up to six months), when the loan is liquidated, or when the loan is determined to be uncollectible and is charged-off against the allowance for loan losses.

Troubled Debt Restructurings In the course of resolving problem loans, the 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 or cure a default. 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 adjustments to interest rates, extensions of maturity, consumer loans where the borrower's obligations have been effectively discharged through Chapter 7 Bankruptcy and the borrower has not reaffirmed the debt to the Bank, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. If such efforts by the Bank do not result in satisfactory performance, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Bank may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Bank's policy to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status for six months, subsequent to being modified, before management considers its return to accrual status. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. Loans that are considered TDRs are classified as performing, unless they are on nonaccrual status or greater than 90 days delinquent. Loans classified as TDRs remain classified as such for the life of the loan, except in limited circumstances, when it may be determined that the borrower is performing under modified terms and the restructuring agreement specified an interest rate greater than or equal to an acceptable market rate for a comparable new loan at the time of the restructuring.

Purchased Credit Impaired Loans Purchased Credit Impaired ("PCI") loans are acquired loans which had evidence of deterioration in credit quality at the purchase date and for which it is probable that all contractually required payments will not be collected. The PCI loans are recorded at fair value without any carryover of the allowance for loan losses. The excess cash flows expected to be collected over the carrying amount of the loans, referred to as the "accretable yield," is accreted into interest income over the life of the loans using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual in the same manner as originated loans, rather they are generally considered to be accruing loans because their interest income recognized relates to the accretable yield and not to contractual interest payments. The carrying amount of these purchased credit impaired loans was \$25.3 million as of September 30, 2014, as compared to \$29.5 million as of December 31, 2013. See Note 4, "Loans, Allowance for Loan Losses, and Credit Quality" within Notes to Consolidated Financial Statements included in Item 1 hereof for more information.

Nonperforming Assets Nonperforming assets are comprised of nonperforming loans, nonperforming securities, other real estate owned ("OREO"), and other assets in possession. Nonperforming loans consist of nonaccrual loans and loans that are more than 90 days past due but still accruing interest.

Nonperforming securities consist of securities that are on nonaccrual status. The Company holds five collateralized debt obligation securities ("CDOs") comprised of pools of trust preferred securities issued by banks and insurance companies, which are currently deferring interest payments on certain tranches within the bonds' structures including the tranches held by the Company. The bonds are anticipated to continue to defer interest until cash flows are sufficient to satisfy certain collateralization levels designed to protect more senior tranches. As a result, the Company

has placed the five securities on nonaccrual status and has reversed any previously accrued but unpaid income related to these securities.

OREO consists of real estate properties, which have served as collateral to secure loans, that are controlled or owned by the Bank. These properties are recorded at fair value less estimated costs to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated costs to sell) of the foreclosed asset is charged to the allowance for loan losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value are recorded as reductions in the valuation allowance, but not below zero. All costs incurred thereafter in maintaining the property are generally

charged to noninterest expense. In the event the real estate is utilized as a rental property, rental income and expenses are recorded as incurred.

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

The following table sets forth information regarding nonperforming assets held by the Bank at the dates indicated:

Table 4 - Nonperforming Assets

	September 30, 2014	December 31, 2013	September 30, 2013	
	(Dollars in thousands)			
Loans Accounted for on a nonaccrual basis				
Commercial and industrial	\$2,321	\$4,178	\$4,557	
Commercial real estate	6,512	11,834	12,900	
Small business	278	633	615	
Residential real estate	9,088	10,329	11,817	
Home equity	7,672	7,068	7,320	
Other consumer	9	92	134	
Total (1)	\$25,880	\$34,134	\$37,343	
Loans past due 90 days or more but still accruing				
Residential real estate (2)	217	462	433	
Other consumer	22	63	111	
Total	\$239	\$525	\$544	
Total nonperforming loans	\$26,119	\$34,659	\$37,887	
Nonaccrual securities (3)	2,806	1,541	1,628	
Other real estate owned	9,602	7,466	9,188	
Other assets in possession	30	167	176	
Total nonperforming assets	\$38,557	\$43,833	\$48,879	
Nonperforming loans as a percent of gross loans	0.53	% 0.73	% 0.83	%
Nonperforming assets as a percent of total assets	0.60	% 0.72	% 0.83	%

(1) Inclusive of TDRs on nonaccrual of \$5.7 million, \$7.5 million, and \$8.6 million at September 30, 2014, December 31, 2013, and September 30, 2013, respectively.

(2) Represents purchased credit impaired loans that are accruing interest due to expectations of future cash collections.

(3) Amounts represent the fair value of five nonaccrual securities at September 30, 2014, December 31, 2013, and September 30, 2013.

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The following table summarizes the changes in nonperforming assets for the periods indicated:

Table 5 - Activity in Nonperforming Assets

	Three Months Ended September 30, 2014 (Dollars in thousands)	Nine Months Ended
Nonperforming assets beginning balance	\$39,661	\$43,833
New to nonperforming	4,972	20,450
Loans charged-off	(1,906)	(8,622)
Loans paid-off	(1,833)	(10,815)
Loans transferred to other real estate owned and foreclosed assets	(783)	(5,039)
Loans restored to performing status	(1,705)	(4,258)
Change to other real estate owned		
New to other real estate owned	\$783	\$5,039
Valuation write down	(109)	(391)
Sale of Other Real Estate Owned	(1,480)	(4,239)
Capital improvements to other real estate owned	896	1,772
Total change to other real estate owned	90	2,181
Change in nonaccrual securities	235	1,264
Other	(175)	(437)
Nonperforming assets ending balance	\$38,557	\$38,557

The following table sets forth information regarding troubled debt restructured loans as of the dates indicated:

Table 6 - Troubled Debt Restructurings

	September 30, 2014	December 31, 2013
	(Dollars in thousands)	
Performing troubled debt restructurings	\$40,140	\$38,410
Nonaccrual troubled debt restructurings	5,709	7,454
Total	\$45,849	\$45,864
Performing troubled debt restructurings as a % of total loans	0.81	% 0.81
Nonaccrual troubled debt restructurings as a % of total loans	0.12	% 0.16
Total troubled debt restructurings as a % of total loans	0.93	% 0.97

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

Table 7 - Activity in Troubled Debt Restructurings

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
	(Dollars in thousands)	
TDRs beginning balance	\$46,424	\$45,864
New to TDR status	1,869	5,571
Paydowns	(2,201)	(4,372)
Charge-offs	(243)	(1,214)
TDRs ending balance	\$45,849	\$45,849

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

Table 8 - Interest Income Recognized/Collected on Nonaccrual Loans and Troubled Debt Restructurings

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Dollars in thousands)			
The amount of incremental gross interest income that would have been recorded if nonaccrual loans had been current in accordance with their original terms	\$355	\$406	\$1,141	\$1,262
The amount of interest income on nonaccrual loans and performing TDRs that was included in net income	771	916	\$1,949	\$2,373

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

At September 30, 2014, impaired loans included all commercial and industrial loans, commercial real estate loans, commercial construction, and small business loans that are on nonaccrual status, TDRs, and other loans that have been categorized as impaired. Total impaired loans at September 30, 2014 and December 31, 2013 were \$64.9 million and \$72.1 million, respectively. For additional information regarding the Bank's asset quality, including delinquent loans, nonaccruals, TDRs, and impaired loans, see Note 4, "Loans, Allowance for Loan Losses, and Credit Quality" within

Notes to Consolidated Financial Statements included in Item 1 hereof.

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Potential problem loans are any loans which are not included in nonaccrual or nonperforming loans, where known information about possible credit problems of the borrowers causes management to have concerns as to the ability of such borrowers to comply with present loan repayment terms. At September 30, 2014, there were 75 relationships, with an aggregate balance of \$72.6 million, deemed to be potential problem loans. These potential problem loans continued to perform with respect to payments. Management actively monitors these loans and strives to minimize any possible adverse impact to the Bank.

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

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on increases in nonperforming loans, changes in economic conditions, or for other reasons.

Additionally, various regulatory agencies, as an integral part of the Bank's examination process, periodically assess the appropriateness of the allowance for loan losses and may require it to increase its provision for loan losses or recognize further loan charge-offs, in accordance with U.S. GAAP.

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

Table 9 - Summary of Changes in the Allowance for Loan Losses

	Three Months Ended					
	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	
	(Dollars in thousands)					
Average total loans	\$4,893,674	\$4,844,917	\$4,788,064	\$4,651,524	\$4,535,596	
Allowance for loan losses, beginning of period	\$54,538	\$53,629	\$53,239	\$53,562	\$52,976	
Charged-off loans						
Commercial and industrial	504	470	783	92	866	
Commercial real estate	691	660	2,922	2,776	209	
Commercial construction	—	—	—	—	308	
Small business	73	128	268	268	84	
Residential real estate	199	326	128	165	210	
Home equity	160	308	94	416	420	
Other consumer	279	258	371	381	273	
Total charged-off loans	1,906	2,150	4,566	4,098	2,370	
Recoveries on loans previously charged-off						
Commercial and industrial	6	128	79	9	24	
Commercial real estate	57	197	68	109	89	
Commercial construction	—	—	—	100	—	
Small business	29	92	47	156	47	
Residential real estate	178	190	—	52	5	
Home equity	67	55	93	62	22	
Other consumer	135	147	167	137	119	
Total recoveries	472	809	454	625	306	
Net loans Charged-off (Recovered)						
Commercial and industrial	498	342	704	83	842	
Commercial real estate	634	463	2,854	2,667	120	
Commercial construction	—	—	—	(100	) 308	
Small business	44	36	221	112	37	
Residential real estate	21	136	128	113	205	
Home equity	93	253	1	354	398	
Other consumer	144	111	204	244	154	
Total net loans charged-off	1,434	1,341	4,112	3,473	2,064	
Provision for loan losses	1,901	2,250	4,502	3,150	2,650	
Total allowances for loan losses, end of period	\$55,005	\$54,538	\$53,629	\$53,239	\$53,562	
Net loans charged-off as a percent of average total loans (annualized)	0.12	% 0.11	% 0.35	% 0.30	% 0.18	%
Allowance for loan losses as a percent of total loans	1.11	% 1.12	% 1.12	% 1.13	% 1.18	%

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Allowance for loan losses as a percent of nonperforming loans	210.59	% 198.93	% 148.27	% 153.61	% 141.37	%
Net loans charged-off as a percent of allowance for loan losses (annualized)	10.34	% 9.86	% 31.10	% 25.88	% 15.29	%
Recoveries as a percent of charge-offs	24.76	% 37.63	% 9.94	% 15.25	% 12.91	%

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For purposes of the allowance for loan losses, management segregates the loan portfolio into the portfolio segments detailed in the table below. The allocation of the allowance for loan losses is made to each loan category using the analytical techniques and estimation methods described herein. While these amounts represent management's best estimate of the distribution of probable losses at the evaluation dates, they are not necessarily indicative of either the categories in which actual losses may occur or the extent of such actual losses that may be recognized within each category. Each of these loan categories possess unique risk characteristics that are considered when determining the appropriate level of allowance for each segment. The total allowance is available to absorb losses from any segment of the loan portfolio.

The following table sets forth the allocation of the allowance for loan losses by loan category at the dates indicated:
Table 10 - Summary of Allocation of Allowance for Loan Losses

	September 30, 2014		December 31, 2013		
	Allowance Amount	Percent of Loans In Category To Total Loans	Allowance Amount	Percent of Loans In Category To Total Loans	
	(Dollars in thousands)				
Commercial and industrial	\$15,522	17.1	% \$15,622	16.6	%
Commercial real estate	25,709	47.3	% 24,541	47.7	%
Commercial construction	4,113	5.6	% 3,371	4.7	%
Small business	1,155	1.6	% 1,215	1.6	%
Residential real estate	2,822	10.8	% 2,760	11.5	%
Home equity	4,947	17.3	% 5,036	17.5	%
Other consumer	737	0.3	% 694	0.4	%
Total allowance for loan losses	\$55,005	100.0	% \$53,239	100.0	%

To determine if a loan should be charged-off, all possible sources of repayment are analyzed. Possible sources of repayment include the potential for future cash flows, the value of the Bank's collateral, and the strength of co-makers or guarantors. When available information confirms that specific loans or portions thereof are uncollectible, these amounts are promptly charged-off against the allowance for loan losses and any recoveries of such previously charged-off amounts are credited to the allowance.

Regardless of whether a loan is unsecured or collateralized, the Company charges off the amount of any confirmed loan loss in the period when the loans, or portions of loans, are deemed uncollectible. For troubled, collateral-dependent loans, loss-confirming events may include an appraisal or other valuation that reflects a shortfall between the value of the collateral and the carrying value of the loan or receivable, or a deficiency balance following the sale of the collateral.

For additional information regarding the Bank's allowance for loan losses, see Note 4, "Loans, Allowance for Loan Losses, and Credit Quality" within Notes to Consolidated Financial Statements included in Item 1 hereof.

Federal Home Loan Bank Stock The Bank held an investment in Federal Home Loan Bank ("FHLB") of Boston of \$33.2 million and \$39.9 million at September 30, 2014 and December 31, 2013, respectively. The decline is a result of the FHLB's repurchase of excess stock from its shareholders. The FHLB is a cooperative that provides services to its member banking institutions. The primary reason for the FHLB of Boston membership is to gain access to a reliable source of wholesale funding, particularly term funding, as a tool to manage interest rate risk. The purchase of stock in the FHLB is a requirement for a member to gain access to funding. The Company purchases FHLB stock proportional to the volume of funding received and views the purchases as a necessary long-term investment for the purposes of balance sheet liquidity and not for investment return.

Goodwill and Identifiable Intangible Assets Goodwill and identifiable intangible assets were \$180.9 million and \$182.6 million at September 30, 2014 and December 31, 2013, respectively.

The Company typically performs its annual goodwill impairment testing during the third quarter of the year, unless certain indicators suggest earlier testing to be warranted. The Company performed its annual goodwill impairment testing during the third quarter of 2014 and determined that the Company's goodwill was not impaired. Identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. There were no events or changes that indicated impairment of identifiable intangible assets.

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Cash Surrender Value of Life Insurance Policies The Bank holds life insurance policies for the purpose of offsetting its future obligations to its employees under its retirement and benefits plans. The cash surrender value of life insurance policies was \$108.9 million and \$100.4 million at September 30, 2014 and December 31, 2013, respectively. During the third quarter of 2014 the Company purchased an additional \$10.0 million in life insurance policies. The Bank recorded tax exempt income from the life insurance policies of \$774,000 and \$2.2 million for the three and nine months ended September 30, 2014, respectively, a decrease of 2.4% and 4.6%, respectively, compared to the year ago period. In addition, the Company recognized tax exempt gains on life insurance benefits in the amount \$2.0 million for the nine months ended September 30, 2014, respectively. There were no such gains for the three months ended September 30, 2014.

Deposits As of September 30, 2014, deposits increased by 6.3% to \$5.3 billion when compared to \$5.0 billion at December 31, 2013. Strong deposit growth was heavily led by the core deposit categories, which increased by \$387.2 million from December 31, 2013 and now represent 87.1% of total deposits. Total cost of deposits was 0.21% for the third quarter.

The Bank also participates in the Certificate of Deposit Registry Service (“CDARS”) program, allowing the Bank to provide easy access to multi-million dollar FDIC deposit insurance protection on certificate of deposits investments for consumers, businesses and public entities. In addition, the Bank may occasionally raise funds through brokered certificates of deposit. This channel allows the Bank to seek additional funding in potentially large quantities by attracting deposits from outside the Bank’s core market. At September 30, 2014 and December 31, 2013, the Company had \$72.7 million and \$77.5 million, respectively, of brokered deposits of which \$51.7 million and \$53.7 million, respectively, were part of the CDARS program.

Borrowings The Company’s borrowings consist of both short-term and long-term borrowings and provide the Bank with one of its primary sources of funding. Maintaining available borrowing capacity provides the Bank with a contingent source of liquidity.

In June of 2014, the Company used excess liquidity to pay off \$75.0 million of FHLB borrowings and exited the associated hedge which fixed the rate on those borrowings. As represented in the financial statements, this resulted in a loss on termination of derivatives for the second quarter of approximately \$1.1 million.

The Company’s borrowings consisted of the following as of the periods indicated:

Table 11 - Borrowings

	September 30, 2014	December 31, 2013
	(Dollars in thousands)	
Federal Home Loan Bank borrowings	\$60,127	\$140,294
Short-term borrowings - one year and under (1)		
Customer repurchase agreements and other short-term borrowings	153,192	154,288
Long-term borrowings - over one year (1)		
Wholesale repurchase agreements	50,000	50,000
Junior subordinated debentures:		
Capital Trust V	51,547	51,547
Slades Ferry Trust I	10,310	10,310
Central Trust I	5,258	5,258
Central Trust II	6,626	6,791
Subordinated debentures	30,000	30,000
Total long-term borrowings	\$153,741	\$153,906
Total borrowings	\$367,060	\$448,488

(1) Classification is based upon duration at origination and not predicated upon remaining time to maturity.

At both September 30, 2014 and December 31, 2013, the Bank had \$2.9 billion of assets pledged as collateral against borrowings. These assets are primarily pledged to the FHLB of Boston, the Federal Reserve Bank of Boston, and

serve as collateral for repurchase agreements.

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Capital Resources On September 18, 2014, the Company's Board of Directors declared a cash dividend of \$0.24 per share to stockholders of record as of the close of business on September 29, 2014. This dividend was paid on October 10, 2014.

The Federal Reserve Board (Federal Reserve), the FDIC, and other regulatory agencies have established capital guidelines for banks and bank holding companies. Risk-based capital guidelines issued by the federal regulatory agencies require banks to meet a minimum Tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0%. A minimum requirement of 4.0% Tier 1 leverage capital is also mandated. At September 30, 2014 and December 31, 2013, the Company and the Bank exceeded the minimum requirements for Tier 1 risk-based, total risk-based capital, and Tier 1 leverage capital.

The Company's and the Bank's actual capital amounts and ratios are also presented in the following table:

Table 12 - Company and Bank's Capital Amounts and Ratios

	Actual		For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount	Ratio		Amount	Ratio		Amount	Ratio		
	September 30, 2014									
	(Dollars in thousands)									
Company (consolidated)										
Total capital (to risk weighted assets)	\$623,793	12.47	%	\$400,277	≥ 8.00	%	N/A		N/A	
Tier 1 capital (to risk weighted assets)	537,815	10.75	%	200,138	≥ 4.00	%	N/A		N/A	
Tier 1 capital (to average assets)	537,815	8.75	%	245,945	≥ 4.00	%	N/A		N/A	
Bank										
Total capital (to risk weighted assets)	\$606,610	12.13	%	\$400,126	≥ 8.00	%	\$500,157	≥ 10.00	%	
Tier 1 capital (to risk weighted assets)	520,632	10.41	%	200,063	≥ 4.00	%	300,094	≥ 6.00	%	
Tier 1 capital (to average assets)	520,632	8.47	%	245,922	≥ 4.00	%	307,402	≥ 5.00	%	
	December 31, 2013									
	(Dollars in thousands)									
Company (consolidated)										
Total capital (to risk weighted assets)	\$589,811	12.58	%	\$375,117	≥ 8.00	%	N/A		N/A	
Tier 1 capital (to risk weighted assets)	505,646	10.78	%	187,558	≥ 4.00	%	N/A		N/A	
Tier 1 capital (to average assets)	505,646	8.64	%	234,153	≥ 4.00	%	N/A		N/A	
Bank										
Total capital (to risk weighted assets)	\$582,599	12.42	%	\$375,205	≥ 8.00	%	\$496,006	≥ 10.00	%	
Tier 1 capital (to risk weighted assets)	498,434	10.63	%	187,603	≥ 4.00	%	281,404	≥ 6.00	%	
Tier 1 capital (to average assets)	498,434	8.51	%	234,154	≥ 4.00	%	292,692	≥ 5.00	%	

In July 2013, the Federal Reserve published final rules establishing a new comprehensive capital framework for U.S. banking organizations, referred to herein as the Rules. The FDIC has adopted substantially identical rules (as interim final rules). The Rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Rules, among other things: (i) introduce a new capital measure called "Common Equity Tier 1," or CET1; (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements; (iii) apply most deductions/adjustments to regulatory capital measures to CET1 and not to the other components of capital, thus

potentially requiring higher levels of CET1 in order to meet minimum ratios; and (iv) expand the scope of the reductions/adjustments from capital as compared to existing regulations. Based upon preliminary assessments of the proposed framework, management believes that the Company will continue to exceed all estimated well-capitalized regulatory requirements over the course of the proposed phase-in period.

Dividend Restrictions In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared

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exceed the net profits for that year combined with the retained net profits for the preceding two years. Under the foregoing dividend restrictions and while maintaining regulatory capital in excess of "well capitalized" minimum levels, dividends paid by the Bank to the Company totaled \$11.8 million and \$8.1 million for the three months ended September 30, 2014 and 2013, respectively, and totaled \$28.3 million and \$23.4 million for the nine months ended September 30, 2014 and 2013, respectively.

Trust Preferred Securities In accordance with the applicable accounting standard related to variable interest entities, the common stock of trusts which have issued trust preferred securities have not been included in the consolidated financial statements. At both September 30, 2014 and 2013, \$71.0 million in trust preferred securities have been included in the Tier 1 capital of the Company for regulatory reporting purposes pursuant to the Federal Reserve's capital adequacy guidelines. Certain provisions of the Basel III capital standards proposal will require trust preferred securities to be excluded from Tier 1 capital, however, the Company qualifies under certain grandfathering provisions which allows the trust preferred securities to continue to be treated as Tier 1 capital under the Basel III capital standards.

Investment Management As of September 30, 2014, the Rockland Trust Investment Management Group had assets under administration of \$2.4 billion, representing approximately 4,756 trust, fiduciary, and agency accounts. At December 31, 2013, assets under administration were \$2.3 billion, representing approximately 4,401 trust, fiduciary, and agency accounts. Included in these amounts as of September 30, 2014 and December 31, 2013 are assets under administration of \$208.2 million and \$195.9 million, respectively, relating to the Company's registered investment advisor, Bright Rock Capital Management, LLC, which provides institutional quality investment management services to institutional and high net worth clients. Revenue from the Investment Management Group amounted to \$4.4 million and \$13.1 million for the three and nine months ended September 30, 2014, respectively, compared to \$3.8 million and \$11.3 million for the three and nine months ended September 30, 2013.

Additionally, for the three and nine months ended September 30, 2014, retail investments and insurance revenue was \$581,000 and \$1.6 million, respectively, compared to \$353,000 and \$1.1 million for the three and nine months ended September 30, 2013. Retail investments and insurance includes commission revenue from LPL Financial and its affiliates, LPL Insurance Associates, Inc., Savings Bank Life Insurance of Massachusetts, and Smith Companies LTD, a division of Capitas Financial, LLC.

RESULTS OF OPERATIONS

The following table provides a summary of results of operations:

Table 13 - Summary of Results of Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
	(Dollars in thousands)			
Net Income	\$15,738	\$14,655	\$43,867	\$39,665
Diluted earnings per share	\$0.66	\$0.64	\$1.83	\$1.73
Return on average assets	0.99	% 1.00	% 0.94	% 0.93
Return on average equity	9.97	% 10.53	% 9.56	% 9.74
Net interest margin	3.42	% 3.43	% 3.46	% 3.53

Net Interest Income The amount of net interest income is affected by changes in interest rates and by the volume and mix of interest earning assets and interest bearing liabilities.

On a fully tax equivalent basis, net interest income for the third quarter of 2014 increased \$4.4 million, or 9.7%, to \$49.8 million, when compared to the third quarter of 2013. The decline in the net interest margin is primarily the result of excess liquidity and assets re-pricing in a lower rate environment without the ability to fully offset this impact through further reductions in funding costs.

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The following tables present the Company's average balances, net interest income, interest rate spread, and net interest margin for the three and nine months ending September 30, 2014 and 2013. Nontaxable income from loans and securities is presented on a fully tax-equivalent basis by adjusting tax-exempt income upward by an amount equivalent to the prevailing income taxes that would have been paid if the income had been fully taxable.

Table 14 - Average Balance, Interest Earned/Paid & Average Yields

	Three Months Ended September 30							
	2014				2013			
	Average Balance	Interest Earned/ Paid	Average Yield		Average Balance	Interest Earned/ Paid	Average Yield	
	(Dollars in thousands)							
Interest-earning assets								
Interest-earning deposits with banks, federal funds sold, and short term investments	\$153,314	\$96	0.25	%	\$128,027	\$79	0.24	%
Securities								
Taxable investment securities	704,021	4,563	2.57	%	561,678	3,763	2.66	%
Nontaxable investment securities (1)	5,861	55	3.72	%	844	15	7.05	%
Total securities	709,882	4,618	2.58	%	562,522	3,778	2.66	%
Loans held for sale	16,812	159	3.75	%	20,784	156	2.98	%
Loans (2)								
Commercial and industrial	842,672	8,150	3.84	%	746,767	7,358	3.91	%
Commercial real estate (1)	2,302,181	24,252	4.18	%	2,159,869	23,812	4.37	%
Commercial construction	266,534	2,824	4.20	%	230,446	2,409	4.15	%
Small business	80,114	1,133	5.61	%	75,791	1,048	5.49	%
Total commercial	3,491,501	36,359	4.13	%	3,212,873	34,627	4.28	%
Residential real estate	537,669	5,511	4.07	%	503,313	4,899	3.86	%
Home equity	847,365	7,459	3.49	%	798,381	7,228	3.59	%
Total consumer real estate	1,385,034	12,970	3.72	%	1,301,694	12,127	3.70	%
Other consumer	17,139	412	9.54	%	21,029	488	9.21	%
Total loans	4,893,674	49,741	4.03	%	4,535,596	47,242	4.13	%
Total interest-earning assets	\$5,773,682	\$54,614	3.75	%	\$5,246,929	\$51,255	3.88	%
Cash and due from banks	78,375				141,922			
Federal Home Loan Bank stock	34,576				38,674			
Other assets	426,661				384,145			
Total assets	\$6,313,294				\$5,811,670			
Interest-bearing liabilities								
Deposits								
Savings and interest checking accounts	\$2,067,132	\$895	0.17	%	\$1,760,508	\$811	0.18	%
Money market	1,027,830	608	0.23	%	891,601	561	0.25	%
Time deposits	686,195	1,232	0.71	%	699,865	1,277	0.72	%
Total interest-bearing deposits	\$3,781,157	\$2,735	0.29	%	\$3,351,974	\$2,649	0.31	%
Borrowings								
Federal Home Loan Bank	\$60,151	\$462	3.05	%	225,749	1,377	2.42	%
Customer repurchase agreements and other short-term borrowings	146,804	49	0.13	%	149,365	49	0.13	%
Wholesale repurchase agreements	50,000	292	2.32	%	50,000	292	2.32	%
Junior subordinated debentures	73,771	1,010	5.43	%	73,990	1,021	5.47	%

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Subordinated debentures	30,000	257	3.40	%	30,000	443	5.86	%
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Total borrowings	\$360,726	\$2,070	2.28	%	\$529,104	\$3,182	2.39	%
Total interest-bearing liabilities	\$4,141,883	\$4,805	0.46	%	\$3,881,078	\$5,831	0.60	%
Demand deposits	1,459,105				1,303,181			
Other liabilities	86,052				75,133			
Total liabilities	\$5,687,040				\$5,259,392			
Stockholders' equity	626,254				552,278			
Total liabilities and stockholders' equity	\$6,313,294				\$5,811,670			
Net interest income (1)		\$49,809				\$45,424		
Interest rate spread (3)			3.29	%			3.28	%
Net interest margin (4)			3.42	%			3.43	%
Supplemental information								
Total deposits, including demand deposits	\$5,240,262	\$2,735			\$4,655,155	\$2,649		
Cost of total deposits			0.21	%			0.23	%
Total funding liabilities, including demand deposits	\$5,600,988	\$4,805			\$5,184,259	\$5,831		
Cost of total funding liabilities			0.34	%			0.45	%

- (1) The total amount of adjustment to present interest income and yield on a FTE basis is \$246,000 and \$228,000 for the three months ended September 30, 2014 and 2013, respectively. The FTE adjustment relates to nontaxable investment securities with average balances of \$5.9 million and \$844,000 and nontaxable industrial development bonds recorded within commercial real estate with average balances of \$44.3 million and \$42.1 million, for the three months ended September 30, 2014 and 2013, respectively.
- (2) Average nonaccruing loans are included in loans.
- (3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.

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Table 15—Average Balance, Interest Earned/Paid & Average Yields

	Nine Months Ended September 30							
	2014				2013			
	Average Balance	Interest Earned/ Paid	Yield/ Rate		Average Balance	Interest Earned/ Paid	Yield/ Rate	
	(Dollars in Thousands)							
Interest-earning assets								
Interest-earning deposits with banks, federal funds sold, and short-term investments	\$ 108,771	\$ 203	0.25	%	\$ 72,126	\$ 134	0.25	%
Securities								
Taxable investment securities	709,774	13,903	2.62	%	539,823	10,798	2.67	%
Nontaxable investment securities (1)	6,036	181	4.01	%	892	52	7.79	%
Total securities	715,810	14,084	2.63	%	540,715	10,850	2.68	%
Loans held for sale	10,840	306	3.77	%	32,796	661	2.69	%
Loans (2)								
Commercial and industrial	835,092	24,234	3.88	%	725,385	21,534	3.97	%
Commercial real estate (1)	2,289,601	73,177	4.27	%	2,143,925	71,780	4.48	%
Commercial construction	246,077	7,787	4.23	%	218,181	6,732	4.13	%
Small business	78,832	3,289	5.58	%	77,068	3,200	5.55	%
Total commercial	3,449,602	108,487	4.20	%	3,164,559	103,246	4.36	%
Residential real estate	539,400	15,997	3.97	%	540,073	16,206	4.01	%
Home equity	835,549	22,061	3.53	%	796,326	21,391	3.59	%

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Total consumer real estate	1,374,949	38,058	3.70	%	1,336,399	37,597	3.76	%
Other consumer	18,054	1,345	9.96	%	23,320	1,568	8.99	%
Total loans	4,842,605	147,890	4.08	%	4,524,278	142,411	4.21	%
Total interest-earning assets	\$5,678,026	\$162,483	3.83	%	\$5,169,915	\$154,056	3.98	%
Cash and due from banks	111,091				114,199			
Federal home loan bank stock	37,557				39,455			
Other assets	418,333				403,311			
Total assets	\$6,245,007				\$5,726,880			
Interest-bearing liabilities								
Deposits								
Savings and interest checking accounts	\$2,024,157	\$2,703	0.18	%	\$1,685,398	\$2,192	0.17	%
Money market	1,009,821	1,834	0.24	%	877,891	1,689	0.26	%
Time deposits	711,393	3,777	0.71	%	726,737	3,976	0.73	%
Total interest-bearing deposits	\$3,745,371	\$8,314	0.30	%	\$3,290,026	\$7,857	0.32	%
Borrowings								
Federal home loan bank	\$113,995	\$2,327	2.73	%	\$267,515	\$4,188	2.09	%
Customer repurchase agreements and other short-term borrowings	140,421	148	0.14	%	146,872	205	0.19	%
Wholesale repurchase agreements	50,000	866	2.32	%	50,000	866	2.32	%
Junior subordinated debentures	73,826	2,996	5.43	%	74,046	3,029	5.47	%
Subordinated debentures	30,000	758	3.38	%	30,000	1,524	6.79	%
Total borrowings	\$408,242	\$7,095	2.32	%	\$568,433	\$9,812	2.31	%
Total interest-bearing liabilities	\$4,153,613	\$15,409	0.50	%	\$3,858,459	\$17,669	0.61	%
Demand Deposits	1,398,599				1,244,138			
Other liabilities	79,139				79,650			
Total liabilities	\$5,631,351				\$5,182,247			
Stockholders' equity	613,656				544,633			
Total liabilities and stockholders' equity	\$6,245,007				\$5,726,880			
Net interest income (1)		\$147,074				\$136,387		
Interest rate spread (3)			3.33	%			3.37	%
Net interest margin (4)			3.46	%			3.53	%
Supplemental information								
Total deposit, including demand deposits	\$5,143,970	\$8,314			\$4,534,164	\$7,857		
Cost of total deposits			0.22	%			0.23	%
Total funding liabilities, including demand deposits	\$5,552,212	\$15,409			\$5,102,597	\$17,669		
Cost of total funding liabilities			0.37	%			0.46	%

- The total amount of adjustment to present interest income and yield on a FTE basis is \$851,000 and \$714,000 for the nine months ended September 30, 2014 and 2013, respectively. The FTE adjustment relates to nontaxable
- (1) investment securities with average balances of \$6.0 million and \$892,000 and nontaxable industrial development bonds recorded within commercial real estate with average balances of \$44.6 million and \$37.4 million for the nine months ended September 30, 2014 and 2013, respectively.
 - (2) Average nonaccruing loans are included in loans.
 - (3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
 - (4) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.

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The following table presents certain information on a fully tax-equivalent basis regarding changes in the Company's interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to: (1) changes in rate (change in rate multiplied by old volume), (2) changes in volume (change in volume multiplied by old rate), and (3) changes in volume/rate (change in volume multiplied by change in rate) which is allocated to the change due to rate column:

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Table 16 - Volume Rate Analysis

	Three Months Ended September 30 2014 Compared To 2013			Nine Months Ended September 30 2014 Compared To 2013			
	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change	
	(Dollars in thousands)						
Income on interest-earning assets							
Interest earning deposit, federal funds sold and short term investments	\$1	\$16	\$17	\$1	\$68	\$69	
Securities							
Taxable investment securities	(154	) 954	800	(295	) 3,400	3,105	
Nontaxable investment securities (1)	(49	) 89	40	(171	) 300	129	
Total securities			840			3,234	
Loans held for sale	33	(30	) 3	88	(443	) (355	)
Loans							
Commercial and industrial	(153	) 945	792	(557	) 3,257	2,700	
Commercial real estate (1)	(1,129	) 1,569	440	(3,479	) 4,877	1,398	
Commercial construction	38	377	415	194	861	1,055	
Small business	25	60	85	16	73	89	
Total commercial			1,732			5,242	
Residential real estate	278	334	612	(189	) (20	) (209	)
Home equity	(212	) 443	231	(384	) 1,054	670	
Total consumer real estate			843			461	
Other consumer	14	(90	) (76	) 131	(354	) (223	)
Total loans (1)(2)			2,499			5,480	
Total income of interest-earning assets			\$3,359			\$8,428	
Expense of interest-bearing liabilities							
Deposits							
Savings and interest checking accounts	\$(57	) \$141	\$84	\$70	\$441	\$511	
Money market	(39	) 86	47	(109	) 254	145	
Time certificates of deposits	(20	) (25	) (45	) (115	) (84	) (199	)
Total interest bearing deposits			86			457	
Borrowings							
Federal Home Loan Bank borrowings	95	(1,010	) (915	) 542	(2,403	) (1,861	)
Customer repurchase agreements and other short-term borrowings	1	(1	) —	(48	) (9	) (57	)
Wholesale repurchase agreements	—	—	—	—	—	—	
Junior subordinated debentures	(8	) (3	) (11	) (24	) (9	) (33	)
Subordinated debt	(186	) —	(186	) (766	) —	(766	)
Total borrowings			(1,112	)		(2,717	)
Total expense of interest-bearing liabilities			(1,026	)		(2,260	)
Change in net interest income			\$4,385			\$10,688	

(1) The table above reflects income determined on a fully tax equivalent basis. See footnote (1) to tables 14 and 15 above for the related adjustments.

(2) Loans include portfolio loans and nonaccrual loans; however, unpaid interest on nonaccrual loans has not been included for purposes of determining interest income.

The increase in net interest income is driven primarily by loan growth, fueled mainly by acquisitions, exceeding the impact of a continued decreasing interest rate environment.

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Provision For Loan Losses The provision for loan losses represents the charge to expense that is required to maintain an appropriate level of allowance for loan losses. The provision for loan losses totaled \$1.9 million and \$8.7 million for the three and nine months ended September 30, 2014, respectively, compared with \$2.7 million and \$7.1 million for the comparable year-ago periods. The Company's allowance for loan losses, as a percentage of total loans, was 1.11% at September 30, 2014, as compared to 1.13% at December 31, 2013 and 1.18% at September 30, 2013. For the three and nine months ended September 30, 2014, net loan charge-offs totaled \$1.4 million and \$6.9 million, respectively, a decrease of \$630,000 and an increase of \$1.6 million from the three and nine months ended September 30, 2013.

Regional and local general economic conditions continued to improve during the first nine months of 2014, as measured by employment levels, economic activity, and other regional economic indicators. Local residential real estate market fundamentals were mixed during the third quarter of 2014, characterized by a lower level of home sales but increased sales prices compared to the same period in 2013. Consumer spending in Massachusetts continued to grow in 2014 through the third quarter. Regional commercial real estate market conditions were mixed, with most markets experiencing positive trends, but some exhibiting higher vacancy rates and flat to negative absorption. Leading economic indicators suggest continued economic improvement through the end of 2014.

Management's periodic evaluation of the adequacy of the allowance for loan losses considers past loan loss experience, known and inherent risks in the loan portfolio, adverse situations which may affect the borrowers' ability to repay, the estimated value of the underlying collateral, if any, and current economic conditions. Substantial portions of the Bank's loans are secured by real estate in Massachusetts and Rhode Island. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in property values within those states.

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Noninterest Income The following table sets forth information regarding noninterest income for the periods shown:
Table 17 - Noninterest Income

	Three Months Ended		Change Amount	%	
	September 30 2014	2013			
	(Dollars in thousands)				
Deposit account fees	\$4,656	\$4,604	\$52	1.13	%
Interchange and ATM fees	3,375	2,845	530	18.63	%
Investment management	5,016	4,175	841	20.14	%
Mortgage banking income	1,015	1,843	(828)	(44.93)	)%
Loan level derivative income	381	1,331	(950)	(71.37)	)%
Increase in cash surrender value of life insurance policies	774	793	(19)	(2.40)	)%
Gain on extinguishment of debt	—	763	(763)	(100.00)	)%
Gain on sale of equity securities, net	67	—	67	100.00	%
Other noninterest income	1,814	1,776	38	2.14	%
Total	\$17,098	\$18,130	\$(1,032)	(5.69)	)%
	Nine Months Ended		Change Amount	%	
	September 30 2014	2013			
	(Dollars in thousands)				
Deposit account fees	\$13,478	\$13,164	\$314	2.39	%
Interchange and ATM fees	9,672	7,934	1,738	21.91	%
Investment management	14,755	12,417	2,338	18.83	%
Mortgage banking income	2,379	5,794	(3,415)	(58.94)	)%
Loan level derivative income	1,452	2,679	(1,227)	(45.80)	)%
Increase in cash surrender value of life insurance policies	2,217	2,325	(108)	(4.65)	)%
Gain on extinguishment of debt	—	763	(763)	(100.00)	)%
Gain on life insurance benefits	1,964	—	1,964	100.00	%
Gain (loss) on sale of equity securities, net	138	(4)	142	3,550.00	%
Other noninterest income	5,414	5,473	(59)	(1.08)	)%
Total	\$51,469	\$50,545	\$924	1.83	%

Noninterest income amounted to \$17.1 million and \$51.5 million during the three and nine months ended September 30, 2014, a \$1.0 million, or 5.7%, decrease and a \$924,000, or 1.8%, increase, respectively, from the same periods in the prior year. The primary reasons for the significant variances in the noninterest income category shown in the preceding tables are noted below:

Deposit account fees and interchange and ATM fees increased as compared to the prior year comparative periods due to the Bank's increased customer base, as a result of acquisitions and successful growth of core checking accounts.

Investment management income growth is driven primarily from growth in overall assets under administration, which were \$2.4 billion at September 30, 2014, an increase of 284.7 million, or 13.2%, as compared to September 30, 2013.

In addition, the Company has experienced successful growth in the retail channel during the year.

Mortgage banking income decreased driven by a lower volume of loan production during the three and nine months ended September 30, 2014.

Loan level derivative income decreased due to the mix of commercial loan closings during the three and nine months ended September 30, 2014.

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Certain nonrecurring items such as gains on life insurance benefits and extinguishment of debt also impact comparisons to the prior year comparative periods.

Noninterest Expense The following table sets forth information regarding non-interest expense for the periods shown:
Table 18 - Noninterest Expense

	Three Months Ended		Change Amount	%	
	September 30 2014	2013			
	(Dollars in thousands)				
Salaries and employee benefits	\$23,651	\$22,654	\$997	4.40	%
Occupancy and equipment expenses	5,027	4,573	454	9.93	%
Data processing & facilities management	1,178	1,179	(1	(0.08	)%
FDIC assessment	957	898	59	6.57	%
Advertising expense	1,179	759	420	55.34	%
Consulting expense	737	914	(177	(19.37	)%
Debit card expense	552	766	(214	(27.94	)%
Merger and acquisition expenses	677	366	311	84.97	%
Software maintenance	579	599	(20	(3.34	)%
Other noninterest expenses	8,070	8,014	56	0.70	%
Total	\$42,607	\$40,722	\$1,885	4.63	%
	Nine Months Ended		Change Amount	%	
	September 30 2014	2013			
	(Dollars in thousands)				
Salaries and employee benefits	\$69,574	\$66,963	\$2,611	3.90	%
Occupancy and equipment expenses	16,474	14,742	1,732	11.75	%
Data processing & facilities management	3,609	3,564	45	1.26	%
FDIC assessment	2,828	2,653	175	6.60	%
Advertising expense	3,252	3,410	(158	(4.63	)%
Consulting expense	2,105	2,291	(186	(8.12	)%
Debit card expense	1,694	2,209	(515	(23.31	)%
Loss on termination of derivatives	1,122	—	1,122	100.00	%
Merger and acquisition expenses	754	2,465	(1,711	(69.41	)%
Software maintenance	1,850	1,878	(28	(1.49	)%
Other noninterest expenses	24,212	25,630	(1,418	(5.53	)%
Total	\$127,474	\$125,805	\$1,669	1.33	%

Noninterest expense increased by \$1.9 million, or 4.63%, and increased by \$1.7 million, or 1.33%, during the three and nine months ended September 30, 2014, as compared to the same periods in the prior year. The primary reasons for the significant variances in the noninterest expense category shown in the preceding tables are noted below:

The increase in salaries and employee benefits reflects overall increases in the employee base (including the November 2013 Mayflower acquisition) along with increases in commissions and payroll taxes.

Occupancy and equipment expense increases were attributable to costs associated with the Mayflower acquired facilities, 2014 first quarter impairment on certain acquired facilities, increased equipment maintenance and repairs, increased snow removal costs, and utilities.

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Advertising expense fluctuates due to the timing of marketing campaigns.

Consulting expense has decreased slightly due to timing of certain initiatives.

During the second quarter of 2014, the Company repaid \$75.0 million of Federal Home Loan Bank borrowings and terminated associated derivative positions which resulted in the recognition of a loss on termination of \$1.1 million.

Merger and acquisition expense in 2014 is primarily related to the Peoples Federal Bancorp acquisition which is expected to close in the first quarter of 2015 subject to shareholder and regulatory approval and satisfaction of other conditions to closing. The majority of the expense in 2013 relates to various contract terminations and benefit expenses associated with the Central Bancorp, Inc. acquisition which closed in November of 2012.

Other noninterest expense decreased for the nine months ended September 30, 2014 due primarily to reduced contract labor costs, mortgage operations expense, and loan workout costs.

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Income Taxes The tax effect of all income and expense transactions is recognized by the Company in each year's consolidated statements of income, regardless of the year in which the transactions are reported for income tax purposes. The following table sets forth information regarding the Company's tax provision and applicable tax rates for the periods indicated:

Table 19 - Tax Provision and Applicable Tax Rates

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
	(Dollars in thousands)		(Dollars in thousands)	
Combined federal and state income tax provisions	\$6,415	\$5,299	\$17,699	\$13,698
Effective income tax rates	28.96	% 26.56	% 28.75	% 25.67

The effective income tax rates are lower than the blended statutory tax rate of 40.74% for the three and nine months ended September 30, 2014 and 2013, due to certain tax preference assets such as life insurance policies and tax exempt bonds, as well as federal tax credits recognized primarily in connection with the New Markets Tax Credit program and investments in Low Income Housing Project Investments. The increase in the tax rate for 2014 is primarily due to a reduction in the benefits recognized from New Markets Tax Credits.

The Company's subsidiaries have received several awards of tax credit allocation authority under the federal New Markets Tax Credit Program which enable the Company to recognize federal tax credits over a seven year period totaling 39.0% of the total award. The Company recognizes federal tax credits as capital investments are made into its subsidiaries to fund below market interest rate loans to qualifying businesses in low income communities. The following table details the remaining tax credit recognition by year associated with this program:

Table 20 - New Markets Tax Credit Recognition Schedule

Investment		2014	2015	2016	2017	2018	2019	Total Remaining Credits
		(Dollars in thousands)						
2008	\$6,800	408	—	—	—	—	—	408
2009	10,000	600	600	—	—	—	—	1,200
2010	40,000	2,400	2,400	2,400	—	—	—	7,200
2012	21,400	1,071	1,285	1,285	1,285	1,285	—	6,211
2013	44,600	2,229	2,229	2,675	2,675	2,675	2,675	15,158
Total	\$122,800	\$6,708	\$6,514	\$6,360	\$3,960	\$3,960	\$2,675	\$30,177

The Company invests in various Low Income Housing Projects which are real estate limited partnerships that acquire, develop, own and operate low and moderate-income housing. As a limited partner in these operating partnerships, the Company will receive tax credits and tax deductions for losses incurred by the underlying properties. The investments are accounted for using the proportional amortization method and will be amortized over various periods through 2030, which represents the period that the tax benefits will be utilized. The total committed investment in these partnerships is \$29.5 million, of which \$7.3 million has been funded. It is expected that the limited partnership investments will generate a net tax benefit of approximately \$459,000 for the 2014 calendar year, and a total of \$10.3 million over the remaining life of the investments, from the combination of the tax credits and operating losses. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future income tax returns, for which a financial statement tax benefit has already been recognized. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years' taxable income to which "carry-back" refund claims could be made. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets are measured using enacted tax rates

expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect of a change in enacted tax rates on the deferred tax assets is recognized in income in the period that includes the enactment date. The Company had no recorded tax valuation allowance as of September 30, 2014 and 2013.

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Risk Management

The Company's Board of Directors and Executive Management have identified significant risk categories which affect the Company. The risk categories include: credit risk, operations risk, compliance risk, reputation risk, strategic risk, market risk and liquidity risk. The Board of Directors has approved a Risk Management Policy that addresses each category of risk. The Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Director of Residential Lending and Compliance Officer, Executive Vice President of Commercial Lending and other members of management provide regular reports to the Board of Directors, identifying key risk issues and plans to address these issues. The Board of Directors will ensure the level of risk is within limits established by both the Risk Management Policy and other previously approved policies.

Credit Risk Credit risk represents the possibility that the Company's borrowing customers or other counterparties may not repay loans or other contractual obligations according to their terms due to changes in the financial capacity and ability of such borrowing customers or counterparties to meet their obligations. In some cases, the collateral securing the payment of the loans may be sufficient to assure repayment, but in other cases the Company may experience significant credit losses which could have an adverse effect on its operating results. The Company makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and counterparties and the value of the real estate and other assets serving as collateral for the repayment of loans. For further discussion regarding the credit risk and the credit quality of the Company's loan portfolio, see Note 4, "Loans, Allowance for Loan Losses, and Credit Quality" within Notes to Consolidated Financial Statements included in Item 1 hereof.

Operations Risk Operations risk is the risk of loss due to human behavior, inadequate or failed internal systems and controls, and external influences such as market conditions, fraudulent activities, disasters and security risks. The Company continuously strives to strengthen its system of internal controls, operating processes and employee awareness. The Bank has an Operations Risk Management Committee that meets monthly and reports to the Board quarterly or more frequently if warranted. The Committee is chaired by the Director of Compliance and members of the Committee include representatives from Audit, Finance, Technology, Operations, Information Security and periodic attendance from business units throughout the organization. An operations risk management dashboard is updated quarterly and reviewed with the Board.

Compliance Risk Compliance risk represents the risk of regulatory sanctions or financial loss resulting from the Company's failure to comply with rules and regulations issued by the various banking agencies, the U.S. Securities and Exchange Commission, the NASDAQ Stock Market, and standards of good banking practice. Activities which may expose the Company to compliance risk include, but are not limited to, those dealing with the prevention of money laundering, privacy and data protection, adherence to all applicable laws and regulations, community reinvestment initiatives and employment and tax matters. Compliance risk is mitigated through the use of written policies and procedures, training of staff, and monitoring of activities for adherence to those procedures.

Strategic and Reputation Risk Strategic and reputation risk represent the risk of loss due to impairment of reputation, failure to fully develop and execute business plans, and failure to assess current and new opportunities and threats in business, markets, and products. Management mitigates strategic and reputational risk through robust annual strategic planning, frequent executive strategic reviews, ongoing competitive and technological observation, rigorous assessment processes of new product, new branch, and new business initiatives, adherence to ethical standards, a philosophy of customer advocacy, a structured process of customer complaint resolution, and ongoing reputational monitoring and management tools.

Market Risk Market risk is the sensitivity of income to changes in interest rates, foreign exchange rates, commodity prices and other market-driven rates or prices. Interest rate sensitivity is the most significant market risk to which the Company is exposed.

Interest rate risk is the sensitivity of income to changes in interest rates. Changes in interest rates, as well as fluctuations in the level and duration of assets and liabilities, affect net interest income, the Company's primary source of revenue. Interest rate risk arises directly from the Company's core banking activities. In addition to directly impacting net interest income, changes in the level of interest rates can also affect the amount of loans originated, the timing of cash flows on loans and securities, and the fair value of securities and derivatives, as well as other effects.

The primary goal of interest rate risk management is to control this risk within limits approved by the Board of Directors. These limits reflect the Company's tolerance for interest rate risk over both short-term and long-term horizons. The Company attempts to control interest rate risk by identifying, quantifying, and where appropriate, hedging its exposure. If assets and liabilities do not re-price simultaneously and in equal volume, the potential for interest rate exposure exists. It is management's objective to maintain stability in the growth of net interest income through the maintenance of an appropriate mix of interest-earning assets and interest-bearing liabilities and, when necessary, within prudent limits, through the use of off-balance sheet hedging instruments such as interest rate swaps, floors and caps.

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The Company quantifies its interest rate exposures using net interest income simulation models, as well as simpler gap analysis, and Economic Value of Equity analysis. Key assumptions in these simulation analyses relate to behavior of interest rates and behavior of the Company's deposit and loan customers. The most material assumptions relate to the prepayment of mortgage assets (including mortgage loans and mortgage-backed securities) and the life and sensitivity of nonmaturity deposits (e.g. DDA, NOW, savings and money market). In the case of prepayment of mortgage assets, assumptions are derived from published dealer median prepayment estimates for comparable mortgage loans. The risk of prepayment tends to increase when interest rates fall. Since future prepayment behavior of loan customers is uncertain, the resultant interest rate sensitivity of loans cannot be determined exactly.

The Company's policy on interest-rate risk simulation specifies that for all "core" interest rate scenarios, estimated net interest income for the subsequent one-year period should not decline by more than 10%. The Company's core scenarios for September 30, 2014 included five instantaneous parallel shifts ("shocks") to market interest rates and four gradual (12 to 24 months) shifts in interest. Additionally, the Company analyzed a separate alternative scenario, labeled "Yield Curve Twist". In this scenario the long-term end of the yield curve increases over the first 18 months of the simulation, followed by the short term rate rising over months 19-36. This causes the curve to flatten around a targeted fed fund rate of 4.00%.

The results of all scenarios are outlined in the table below:

Table 21 - Interest Rate Sensitivity

	Impact on Net Interest Income As of September 30,							
	2014		2013		2014		2013	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Parallel rate shocks (basis points)								
-100	(0.2	)%	(3.9	)%	—	%	(3.1	)%
+100	4.7	%	7.1	%	3.6	%	5.6	%
+200	9.3	%	14.2	%	7.3	%	11.4	%
+300	14.0	%	21.4	%	11.1	%	17.3	%
+400	18.7	%	28.5	%	14.7	%	23.1	%
Gradual rate shifts (basis points)								
-100 over 12 months	0.2	%	(2.6	)%	0.3	%	(2.1	)%
+200 over 12 months	4.2	%	12.4	%	3.2	%	9.8	%
+400 over 24 months	4.3	%	17.2	%	3.2	%	13.5	%
Flat +500 over 12 months	5.2	%	19.9	%	3.9	%	15.5	%
Alternative scenarios								
Yield curve twist	0.5	%	4.1	%	n/a		n/a	

The Company's policy on interest rate risk simulation also specifies that estimated net interest income for the second year of all "core scenarios" should not decline by more than 15.0%. The Company was within policy limits at September 30, 2014 and 2013. It should be emphasized, however, that the results are dependent on material assumptions such as those discussed above. For instance, asymmetrical rate behavior can have a material impact on the simulation results. If competition for deposits forced the Company to raise rates on those liabilities more quickly than is assumed in the simulation analysis without a corresponding increase in asset yields, net interest income may be negatively impacted. Alternatively, if the Company is able to lag increases in deposit rates as loans re-price upward, net interest income would be positively impacted.

The most significant factors affecting market risk exposure of the Company's net interest income during the nine months ended September 30, 2014 were the shape of the U.S. Government securities and interest rate swap yield curve, the level of U.S. prime interest rate and LIBOR rates, and the level of interest rates being offered on long-term fixed rate loans.

The Company manages the interest rate risk inherent in both its loan and borrowing portfolios by utilizing interest rate swap agreements and interest rate caps and floors. 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

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a predetermined period of time from a second party. Interest rate caps and floors are agreements whereby one party agrees to pay a floating rate of interest on a notional principal amount for a predetermined period of time to a second party if certain market interest rate thresholds are realized. The amounts relating to the notional principal amount are not actually exchanged. Additionally, the Company manages the interest rate risk inherent in its mortgage banking operations by entering into forward sales contracts and forward TBA mortgage contracts. An increase in market interest rates between the time the Company commits to terms on a loan and the time the Company ultimately sells the loan in the secondary market will have the effect of reducing the gain (or increasing the loss) the Company records on the sale. The Company attempts to mitigate this risk by entering into forward sales commitments and forward TBA mortgage contracts in amounts sufficient to cover loans anticipated to close and interest rate-locked loan commitments. See Note 7, "Derivative and Hedging Activities" within Notes to Consolidated Financial Statements included in Item 1 hereof for additional information regarding the Company's derivative financial instruments.

The Company's earnings are not directly or materially impacted by movements in foreign currency rates or commodity prices. Movements in equity prices may have a modest impact on earnings by affecting the volume of activity or the amount of fees from investment-related business lines.

Liquidity Risk Liquidity risk is the risk that the Company will not have the ability to generate adequate amounts of cash in the most economical way for the institution to meet its ongoing obligations to pay deposit withdrawals, service borrowings, and to fund loan commitments. The Company's primary sources of funds are deposits, borrowings, and the amortization, prepayment and maturities of loans and securities. The Bank utilizes its extensive branch network to access retail customers who provide a stable base of in-market core deposits. These funds are principally comprised of demand deposits, interest checking accounts, savings accounts, and money market accounts. Deposit levels are greatly influenced by interest rates, economic conditions, and competitive factors.

The Company actively manages its liquidity position under the direction of the Asset Liability Committee of the Bank (ALCO). The Company's primary measure of short-term liquidity is the Total Basic Surplus/Deficit as a percentage of assets. This ratio, which is an analysis of the relationship between liquid assets, short-term liabilities, and available capacity at the FHLB relative to total assets, was within policy limits at September 30, 2014. The Total Basic Surplus/Deficit measure is affected primarily by changes in deposits, securities and short-term investments, loans and borrowings. An increase in deposits, without a corresponding increase in nonliquid assets, will improve the Total Basic Surplus/Deficit measure, whereas, an increase in loans, with no increase in deposits, will decrease the measure. Other factors affecting the Total Basic Surplus/Deficit measure include collateral requirements at the FHLB, changes in the securities portfolio, and the mix of deposits.

The Bank is careful to increase deposits without adversely impacting the weighted average cost of those funds. As part of a prudent liquidity risk management practice, the Company maintains various liquidity sources, some of which are only accessed on a contingency basis. Accordingly, management has implemented funding strategies that include FHLB advances, Federal Reserve Bank borrowing capacity and repurchase agreement lines. These nondeposit funds are also viewed as a contingent source of liquidity and, when profitable lending and investment opportunities exist, access to such funds provides a means to grow the balance sheet.

Borrowing capacity at the FHLB and the Federal Reserve is impacted by the amount and type of assets available to be pledged. For example, a prime, one-to-four family, residential loan, may provide 75 cents of borrowing capacity for every \$1.00 pledged, whereas, a commercial loan may provide a lower amount. As a result, the Company's strategic lending decisions can also affect its liquidity position.

The Company can raise additional liquidity through the issuance of equity or unsecured debt privately or publicly. Additionally, the Company is able to enter into additional repurchase agreements or acquire brokered deposits at its discretion. The availability and cost of equity or debt on an unsecured basis is dependent on many factors. Some factors that will impact this source of liquidity are the Company's financial position, the market environment, and the Company's credit rating. As such, the Company is careful to monitor the various factors that could impact its ability to raise liquidity through these channels.

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The table below shows current and unused liquidity capacity from various sources as of the dated indicated:

Table 22 - Sources of Liquidity

	September 30, 2014		December 31, 2013	
	Outstanding	Additional Borrowing Capacity	Outstanding	Additional Borrowing Capacity
	(Dollars in thousands)			
Federal Home Loan Bank of Boston (1)	\$60,127	\$767,208	\$140,294	\$668,143
Federal Reserve Bank of Boston	—	801,435	—	856,013
Unpledged Securities	—	299,202	—	272,121
Customer repurchase agreements	153,192	—	(3) 149,288	— (3)
Wholesale repurchase agreements	50,000	—	(3) 50,000	— (3)
Junior subordinated debentures (1)	73,741	—	(3) 73,906	— (3)
Subordinated debt	30,000	—	(3) 30,000	— (3)
Parent Company line of credit	—	10,000	5,000	5,000
Brokered deposits (2)	72,723	—	(3) 77,501	— (3)
	\$439,783	1,877,845	\$525,989	\$1,801,277

(1) Amounts shown are inclusive of fair value marks.

(2) Inclusive of \$51.7 million and \$53.7 million of brokered deposits acquired through participation in the Certificate of Deposit Account Registry Service program as of September 30, 2014 and December 31, 2013, respectively.

(3) The additional borrowing capacity has not been assessed for these categories.

In addition to policies used for managing operational liquidity, the Board of Directors and the ALCO recognize the need to establish reasonable guidelines for managing through an environment of heightened liquidity risk. Catalysts for elevated liquidity risk can be Bank-specific issues and/or systemic industry-wide events. It is therefore the responsibility of the Board and ALCO to institute systems and controls to provide advanced detection of potentially significant funding shortages, establish methods for assessing and monitoring risk levels, and institute prompt responses that may alleviate/circumvent a potential liquidity crisis. As such, the Board of Directors and the ALCO have put a Liquidity Contingency Plan in place. The overall goal of this plan is to provide a framework for the Bank to help detect liquidity problems promptly and appropriately address potential liquidity problems in a timely manner. In a period of perceived heightened liquidity risk, the Liquidity Contingency Plan provides for the establishment of a Liquidity Crisis Task Force. The Liquidity Crisis Task Force is responsible for monitoring the potential for a liquidity crisis and for establishing and executing an appropriate response.

Off-Balance Sheet Arrangements There have been no material changes in off-balance sheet financial instruments during the three months ended September 30, 2014. See Note 7, "Derivative and Hedging Activities" and Note 11, "Commitments and Contingencies" within Notes to Consolidated Financial Statements included in Item 1 hereof for more information relating to the Company's off-balance sheet financial instruments.

Contractual Obligations, Commitments, and Contingencies There have been no material changes in contractual obligations, commitments, or contingencies during the three months ended September 30, 2014. Please refer to the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for a complete table of contractual obligations, commitments and contingencies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information required by this Item 3 is included in the "Risk Management" section of Item 2 of Part I of this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based upon that

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evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in Internal Controls over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the third quarter of 2014 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not involved in any legal proceedings, other than routine legal proceedings occurring in the ordinary course of business, or other matters considered to be material. Management believes that those legal proceedings involve, in the aggregate, amounts that are immaterial to the Company's financial condition and results of operations.

Item 1A. Risk Factors

As of the date of this report, there have been no material changes with regard to the Risk Factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which are incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) The following table displays that there was no activity relating to the Company's repurchases of its common stock during the three months ended September 30, 2014:

Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program
July 1 to July 31, 2014	—	\$—	—	—
August 1 to August 31, 2014	—	\$—	—	—
September 1 to September 30, 2014	—	\$—	—	—
Total	—		—	

(1) The Company does not currently have a stock repurchase program or plan in place.

Item 3. Defaults Upon Senior Securities—None

Item 4. Mine Safety Disclosures - Not Applicable

Item 5. Other Information—None

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Item 6. Exhibits

Exhibit Index

No.	Exhibit
	Agreement and Plan of Merger dated August 5, 2014 by and among Independent Bank Corp., Rockland
2.1	Trust Company, Peoples Federal Banchares, Inc. and Peoples Federal Savings Bank is incorporated by reference to Exhibit 2.1 to Form 8-K filed on August 7, 2014.
4.1	Independent Bank Corp. 2014 Dividend Reinvestment and Stock Purchase Plan incorporated by reference to Form S-3 filed on October 31, 2014 (SEC File No. 333-169024).
31.1	Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*
31.2	Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*
32.1	Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+
32.2	Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+
101	Interactive Data File +

*	Filed herewith
+	Furnished herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INDEPENDENT BANK CORP.

(registrant)

November 6, 2014

/s/ Christopher Oddleifson
Christopher Oddleifson
President and
Chief Executive Officer
(Principal Executive Officer)

November 6, 2014

/s/ Robert Cozzone
Robert Cozzone
Chief Financial Officer and Treasurer
(Principal Financial Officer)

INDEPENDENT BANK CORP.

(registrant)