

INDEPENDENT BANK CORP

Form 10-Q

November 05, 2015

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

Commission File Number: 1-9047

Independent Bank Corp.

(Exact name of registrant as specified in its charter)

Massachusetts

04-2870273

(State or other jurisdiction of
incorporation or organization)

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

Office Address: 2036 Washington Street, Hanover Massachusetts 02339

Mailing Address: 288 Union Street, Rockland, Massachusetts 02370

(Address of principal executive offices, including zip code)

(781) 878-6100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 2, 2015, there were 26,236,991 shares of the issuer's common stock outstanding, par value \$0.01 per share.

Table of Contents

Table of Contents

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets - September 30, 2015 and December 31, 2014</u>	4
<u>Consolidated Statements of Income - Three and nine months ended September 30, 2015 and 2014</u>	6
<u>Consolidated Statements of Comprehensive Income - Three and nine months ended September 30, 2015 and 2014</u>	7
<u>Consolidated Statements of Stockholders' Equity - Nine months ended September 30, 2015 and 2014</u>	8
<u>Consolidated Statements of Cash Flows - Nine months ended September 30, 2015 and 2014</u>	9
 <u>Notes to Consolidated Financial Statements - September 30, 2015</u>	
<u>Note 1 - Basis of Presentation</u>	11
<u>Note 2 - Recent Accounting Standards Updates</u>	11
<u>Note 3 - Acquisitions</u>	13
<u>Note 4 - Securities</u>	16
<u>Note 5 - Loans, Allowance for Loan Losses, and Credit Quality</u>	20
<u>Note 6 - Earnings Per Share</u>	31
<u>Note 7 - Stock Based Compensation</u>	32
<u>Note 8 - Repurchase Agreements</u>	32
<u>Note 9 - Derivative and Hedging Activities</u>	33
<u>Note 10 - Balance Sheet Offsetting</u>	38
<u>Note 11 - Fair Value Measurements</u>	39
<u>Note 12 - Comprehensive Income/(Loss)</u>	47
<u>Note 13 - Commitments and Contingencies</u>	48
<u>Note 14 - Low Income Housing Project Investments</u>	49
 <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Table 1 - Closed Residential Real Estate Loans</u>	61
<u>Table 2 - Residential Mortgage Loan Sales</u>	61
<u>Table 3 - Mortgage Servicing Asset</u>	62
<u>Table 4 - Components of Loan Growth/(Decline)</u>	63
<u>Table 5 - Nonperforming Assets</u>	66
<u>Table 6 - Activity in Nonperforming Assets</u>	67
<u>Table 7 - Troubled Debt Restructurings</u>	67
<u>Table 8 - Activity in Troubled Debt Restructurings</u>	68
<u>Table 9 - Interest Income Recognized/Collected on Nonaccrual Loans and Troubled Debt Restructurings</u>	68
<u>Table 10 - Summary of Changes in the Allowance for Loan Losses</u>	70
<u>Table 11 - Summary of Allocation of the Allowance for Loan Losses</u>	71
<u>Table 12 - Components of Deposit Growth</u>	72
<u>Table 13 - Borrowings</u>	73
<u>Table 14 - Company and Bank's Capital Amounts and Ratios</u>	74
<u>Table 15 - Summary of Results of Operations</u>	75

Table of Contents

Table of Contents

<u>Table 16 - Average Balance, Interest Earned/Paid & Average Yields Quarter-to-Date</u>	<u>76</u>
<u>Table 17 - Average Balance, Interest Earned/Paid & Average Yields Year-to-Date</u>	<u>78</u>
<u>Table 18 - Volume Rate Analysis</u>	<u>80</u>
<u>Table 19 - Noninterest Income - Three and Nine Months Ended</u>	<u>83</u>
<u>Table 20 - Noninterest Expense - Three and Nine Months Ended</u>	<u>84</u>
<u>Table 21 - Tax Provision and Applicable Tax Rates</u>	<u>86</u>
<u>Table 22 - New Markets Tax Credit Recognition Schedule</u>	<u>86</u>
<u>Table 23 - Interest Rate Sensitivity</u>	<u>88</u>
<u>Table 24 - Sources of Liquidity</u>	<u>90</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>90</u>
<u>Item 4. Controls and Procedures</u>	<u>90</u>
<u>PART II. OTHER INFORMATION</u>	<u>91</u>
<u>Item 1. Legal Proceedings</u>	<u>91</u>
<u>Item 1A. Risk Factors</u>	<u>91</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>91</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>91</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>91</u>
<u>Item 5. Other Information</u>	<u>91</u>
<u>Item 6. Exhibits</u>	<u>91</u>
<u>Signatures</u>	<u>93</u>
Exhibit 31.1 – Certification 302	
Exhibit 31.2 – Certification 302	
Exhibit 32.1 – Certification 906	
Exhibit 32.2 – Certification 906	

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

INDEPENDENT BANK CORP.

CONSOLIDATED BALANCE SHEETS

(Unaudited—Dollars in thousands, except share data)

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

Table of Contents

Wholesale repurchase agreements	—	50,000
Junior subordinated debentures	73,520	73,685
Subordinated debentures	35,000	65,000
Total borrowings	351,102	406,655
Other liabilities	110,321	107,264
Total liabilities	6,376,286	5,724,385
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$.01 par value. authorized: 1,000,000 shares, outstanding: none	—	—
Common stock, \$.01 par value. authorized: 75,000,000 shares, issued and outstanding: 26,212,238 shares at September 30, 2015 and 23,998,738 shares at December 31, 2014 (includes 244,510 and 254,500 shares of unvested participating restricted stock awards, respectively)	260	237
Shares held in rabbi trust at cost: 172,214 shares at September 30, 2015 and 176,849 shares at December 31, 2014	(3,883	) (3,666
Deferred compensation and other retirement benefit obligations	3,883	3,666
Additional paid in capital	404,089	311,978
Retained earnings	355,537	330,444
Accumulated other comprehensive loss, net of tax	(683	) (2,132
Total stockholders' equity	759,203	640,527
Total liabilities and stockholders' equity	\$7,135,489	\$6,364,912

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

Table of ContentsINDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited—Dollars in thousands, except share and per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Interest income				
Interest and fees on loans	\$54,557	\$49,514	\$160,261	\$147,111
Taxable interest and dividends on securities	5,455	4,563	14,934	13,903
Nontaxable interest and dividends on securities	31	36	95	110
Interest on loans held for sale	64	159	173	306
Interest on federal funds sold and short-term investments	121	96	212	203
Total interest and dividend income	60,228	54,368	175,675	161,633
Interest expense				
Interest on deposits	2,951	2,735	8,636	8,314
Interest on borrowings	2,232	2,070	6,997	7,095
Total interest expense	5,183	4,805	15,633	15,409
Net interest income	55,045	49,563	160,042	146,224
Provision for loan losses	800	1,901	1,000	8,653
Net interest income after provision for loan losses	54,245	47,662	159,042	137,571
Noninterest income				
Deposit account fees	4,754	4,656	13,385	13,478
Interchange and ATM fees	3,949	3,375	10,817	9,672
Investment management	4,981	5,016	15,616	14,755
Mortgage banking income	1,480	1,015	3,832	2,379
Gain on life insurance benefits	—	—	—	1,964
Gain on sale of equity securities	—	67	19	138
Gain on sale of fixed income securities	—	—	798	—
Increase in cash surrender value of life insurance policies	958	774	2,685	2,217
Loan level derivative income	968	381	2,816	1,452
Other noninterest income	2,157	1,814	6,096	5,414
Total noninterest income	19,247	17,098	56,064	51,469
Noninterest expenses				
Salaries and employee benefits	26,685	23,651	78,291	69,574
Occupancy and equipment expenses	5,443	5,027	17,509	16,474
Data processing and facilities management	1,112	1,178	3,462	3,609
FDIC assessment	1,020	957	2,993	2,828
Advertising expense	1,414	1,179	4,101	3,252
Consulting expense	867	737	2,451	2,105
Legal fees	746	547	1,462	1,397
Loss on sale of equity securities	—	—	8	—
Loss on sale of fixed income securities	—	—	1,124	—
Loss on termination of derivatives	—	—	—	1,122
Merger and acquisition expense	—	677	10,501	754
Other noninterest expenses	9,744	8,654	28,750	26,359
Total noninterest expenses	47,031	42,607	150,652	127,474
Income before income taxes	26,461	22,153	64,454	61,566
Provision for income taxes	7,867	6,415	18,949	17,699
Net income	\$18,594	\$15,738	\$45,505	\$43,867

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

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

Table of Contents

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

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

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

Table of Contents

INDEPENDENT BANK CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited—Dollars in thousands, except share and per share data)

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

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

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

Table of Contents

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

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

Table of Contents

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

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

Table of Contents

CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or any other interim period. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission.

NOTE 2 - RECENT ACCOUNTING STANDARDS UPDATES

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

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

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

potential impact of this amendment on the Company's consolidated financial position.

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

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

Table of Contents

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

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

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

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

Table of Contents

NOTE 3 - ACQUISITIONS

Peoples Federal Bancshares, Inc.

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

The Company accounted for the acquisition using the acquisition method pursuant to the Business Combinations Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Accordingly, the Company recorded merger and acquisition expenses of \$10.5 million during the nine months ended September 30, 2015. There were no merger and acquisition expenses during the three months ended September 30, 2015. Additionally, the acquisition method requires the acquirer to recognize the assets acquired and the liabilities assumed at their fair values as of the acquisition date. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition:

	Net Assets Acquired at Fair Value (Dollars in thousands)
Assets	
Cash	\$ 41,957
Investments	43,585
Loans	463,927
Premises and equipment	9,346
Goodwill	30,662
Core deposit and other intangibles	3,936
Other assets	46,920
Total assets acquired	640,333
Liabilities	
Deposits	432,250
Borrowings	51,209
Other liabilities	15,054
Total liabilities assumed	498,513
Purchase price	\$ 141,820

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

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

Cash and Cash Equivalents

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

Investments

The fair values of securities were based on quoted market prices for identical securities received from an independent, nationally-recognized, third-party pricing service. Prices provided by the independent pricing service were based on

recent trading activity and other observable information including, but not limited to, market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable.

Table of Contents

Loans

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

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

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

Premises and Equipment

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

Core Deposit Intangible

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

Deposits

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

Borrowings

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

Table of Contents

Selected Pro Forma Results

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

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

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

Table of Contents

NOTE 4 - SECURITIES

Trading Securities

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

Available for Sale and Held to Maturity Securities

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

	September 30, 2015				December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)							
Available for sale securities								
U.S. government agency securities	\$36,895	\$ 692	\$ —	\$37,587	\$41,369	\$ 139	\$ (22)	\$41,486
Agency mortgage-backed securities	206,778	6,247	(104)	212,921	211,168	7,203	(693)	217,678
Agency collateralized mortgage obligations	51,868	611	(404)	52,075	63,059	599	(623)	63,035
State, county, and municipal securities	4,557	114	—	4,671	5,106	117	—	5,223
Single issuer trust preferred securities issued by banks	2,877	9	(45)	2,841	2,913	12	(16)	2,909
Pooled trust preferred securities issued by banks and insurers (1)	2,226	—	(640)	1,586	7,906	195		