INDEPENDENT BANK CORP
Form 10-Q
August 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
Commission File Number: 1-9047

Independent Bank Corp.
(Exact name of registrant as specified in its charter)

Massachusetts	04-2870273
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Office Address: 2036 Washington Street, Hanover Massachusetts 02339
Mailing Address: 288 Union Street, Rockland, Massachusetts 02370
(Address of principal executive offices, including zip code)
(781) 878-6100
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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 such files). Yes x No o

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

Large Accelerated Filer	x	Accelerated Filer	o
Non-accelerated Filer	o	Smaller Reporting Company	o
		Emerging Growth Company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Acts. o

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

As of August 1, 2018, there were 27,538,339 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)

	June 30, 2018	December 31 2017
Assets		
Cash and due from banks	$113,930	$103,485
Interest-earning deposits with banks	209,176	109,631
Securities		
Trading	1,598	1,324
Equities	20,133	—
Available for sale	442,929	447,498
Held to maturity (fair value $523,288 and $494,194)	538,261	497,688
Total securities	1,002,921	946,510
Loans held for sale (at fair value)	9,614	4,768
Loans		
Commercial and industrial	976,264	888,528
Commercial real estate	3,131,337	3,116,561
Commercial construction	364,225	401,797
Small business	147,137	132,370
Residential real estate	779,421	754,329
Home equity - first position	646,626	612,990
Home equity - subordinate positions	422,671	439,098
Other consumer	11,590	9,880
Total loans	6,479,271	6,355,553
Less: allowance for loan losses	(62,557)	(60,643)
Net loans	6,416,714	6,294,910
Federal Home Loan Bank stock	13,107	11,597
Bank premises and equipment, net	95,838	94,722
Goodwill	231,806	231,806
Other intangible assets	7,918	9,341
Cash surrender value of life insurance policies	153,574	151,528
Other real estate owned and other foreclosed assets	245	612
Other assets	126,159	123,119
Total assets	$8,381,002	$8,082,029
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	$2,262,871	$2,159,396
Savings and interest checking accounts	2,739,228	2,599,922
Money market	1,351,623	1,325,634
Time certificates of deposit of $100,000 and over	302,219	278,531
Other time certificates of deposits	357,549	365,770
Total deposits	7,013,490	6,729,253
Borrowings		

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Federal Home Loan Bank borrowings	50,775	53,264
Customer repurchase agreements	142,235	162,679
Junior subordinated debentures (less unamortized debt issuance costs of $121 and $125)	73,077	73,073
Subordinated debentures (less unamortized debt issuance costs of $295 and $318)	34,705	34,682
Total borrowings	300,792	323,698
Other liabilities	89,655	85,269
Total liabilities	7,403,937	7,138,220
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: 27,532,524 shares at June 30, 2018 and 27,450,190 shares at December 31, 2017 (includes 159,969 and 177,191 shares of unvested participating restricted stock awards, respectively)	274	273
Value of shares held in rabbi trust at cost: 156,714 shares at June 30, 2018 and 164,438 shares at December 31, 2017	(4,653)	(4,590)
Deferred compensation and other retirement benefit obligations	4,653	4,590
Additional paid in capital	481,979	479,430
Retained earnings	504,926	465,937
Accumulated other comprehensive loss, net of tax	(10,114)	(1,831)
Total stockholders’ equity	977,065	943,809
Total liabilities and stockholders' equity	$8,381,002	$8,082,029

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		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
Interest income				
Interest and fees on loans	$72,082	$ 62,287	$139,266	$ 121,080
Taxable interest and dividends on securities	6,498	5,609	12,717	10,976
Nontaxable interest and dividends on securities	16	26	32	52
Interest on loans held for sale	30	21	49	35
Interest on federal funds sold and short-term investments	541	190	852	397
Total interest and dividend income	79,167	68,133	152,916	132,540
Interest expense				
Interest on deposits	4,587	2,912	8,522	5,679
Interest on borrowings	1,412	1,466	2,755	2,906
Total interest expense	5,999	4,378	11,277	8,585
Net interest income	73,168	63,755	141,639	123,955
Provision for loan losses	2,000	1,050	2,500	1,650
Net interest income after provision for loan losses	71,168	62,705	139,139	122,305
Noninterest income				
Deposit account fees	4,551	4,392	8,982	8,936
Interchange and ATM fees	4,769	4,434	8,942	8,356
Investment management	6,822	5,995	12,964	11,609
Mortgage banking income	1,038	1,314	1,908	2,271
Gain on sale of equity securities	2	3	2	7
Increase in cash surrender value of life insurance policies	998	1,017	1,945	1,981
Loan level derivative income	708	1,337	1,155	1,943
Other noninterest income	2,999	2,906	5,852	5,207
Total noninterest income	21,887	21,398	41,750	40,310
Noninterest expenses				
Salaries and employee benefits	30,288	28,654	61,388	56,978
Occupancy and equipment expenses	6,497	6,059	13,905	12,217
Data processing and facilities management	1,264	1,188	2,550	2,460
FDIC assessment	691	778	1,489	1,561
Advertising expense	1,166	1,365	2,289	2,659
Consulting expense	1,089	1,262	1,845	1,816
Debit card expense	841	852	1,650	1,624
Loss on sale of equity securities	—	2	—	5
Merger and acquisition expense	434	2,909	434	3,393
Software maintenance	997	896	1,969	1,826
Other noninterest expenses	9,421	8,844	18,620	17,043
Total noninterest expenses	52,688	52,809	106,139	101,582
Income before income taxes	40,367	31,294	74,750	61,033
Provision for income taxes	9,249	10,731	16,077	19,745
Net income	$31,118	$ 20,563	$58,673	$ 41,288
Basic earnings per share	$1.13	$ 0.75	$2.13	$ 1.52
Diluted earnings per share	$1.13	$ 0.75	$2.13	$ 1.52

Weighted average common shares (basic)	27,526,653	27,257,799	27,506,724	27,144,350

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Common share equivalents	54,525	74,497	61,480	78,757
Weighted average common shares (diluted)	27,581,178	27,332,296	27,568,204	27,223,107
Cash dividends declared per common share	$ 0.38	$ 0.32	$ 0.76	$ 0.64

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Net income	$31,118	$20,563	$58,673	$41,288
Other comprehensive income (loss), net of tax				
Net change in fair value of securities available for sale	(1,924)	792	(7,392)	1,323
Net change in fair value of cash flow hedges	(112)	(190)	103	(101)
Net change in other comprehensive income for defined benefit postretirement plans	117	78	234	156
Total other comprehensive income (loss)	(1,919)	680	(7,055)	1,378
Total comprehensive income	$29,199	$21,243	$51,618	$42,666

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

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INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited—Dollars in thousands, except per share data)

	Common Stock Outstanding	Common Stock	Value of Shares Held in Rabbi Trust at Cost	Deferred Compensation and Other Retirement Benefit Obligations	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2017	27,450,190	$ 273	$ (4,590)	$ 4,590	$479,430	$465,937	$ (1,831)	$943,809
Opening balance reclassification (1)	—	—	—	—	—	397	(397)	—
Cumulative effect accounting adjustment (2)	—	—	—	—	—	831	(831)	—
Net income	—	—	—	—	—	58,673	—	58,673
Other comprehensive loss	—	—	—	—	—	—	(7,055)	(7,055)
Common dividend declared ($0.76 per share)	—	—	—	—	—	(20,912)	—	(20,912)
Proceeds from exercise of stock options, net of cash paid	20,756	—	—	—	184	—	—	184
Stock based compensation	—	—	—	—	2,392	—	—	2,392
Restricted stock awards issued, net of awards surrendered	43,217	1	—	—	(1,339)	—	—	(1,338)
Shares issued under direct stock purchase plan	18,361	—	—	—	1,312	—	—	1,312
Deferred compensation and other retirement benefit obligations	—	—	(63)	63	—	—	—	—
Balance June 30, 2018	27,532,524	$ 274	$ (4,653)	$ 4,653	$481,979	$504,926	$ (10,114)	$977,065
Balance December 31, 2016	27,005,813	$ 268	$ (4,277)	$ 4,277	$451,664	$414,095	$ (1,337)	$864,690
Cumulative effect accounting adjustment (3)	—	—	—	—	542	(365)	—	177
Net income	—	—	—	—	—	41,288	—	41,288
Other comprehensive income	—	—	—	—	—	—	1,378	1,378
Common dividend declared ($0.64 per share)	—	—	—	—	—	(17,431)	—	(17,431)

Common stock issued for acquisition	369,286	4	—	—	23,464	—	—	23,468
Proceeds from exercise of stock options, net of cash paid	11,174	—	—	—	8	—	—	8
Stock based compensation	—	—	—	—	1,560	—	—	1,560
Restricted stock awards issued, net of awards surrendered	32,524	—	—	—	(1,361)	—	—	(1,361)
Shares issued under direct stock purchase plan	12,374	—	—	—	807	—	—	807
Deferred compensation and other retirement benefit obligations	—	—	(137)	137	—	—	—	—
Balance June 30, 2017	27,431,171	$ 272	$ (4,414)	$ 4,414	$ 476,684	$ 437,587	$ 41	$ 914,584

(1) Represents adjustment needed to reflect the cumulative impact on retained earnings for reclassification of the income tax effects attributable to accumulated other comprehensive income, as a result of the Tax Cuts and Jobs Act (the "Tax Act"). Pursuant to the Company's adoption of Accounting Standards Update 2018-02, the Company has elected to reclassify amounts stranded in other comprehensive income to retained earnings.

(2) Represents adjustment needed to reflect the cumulative impact on retained earnings for the classification and measurement of investments in equity securities. Pursuant to the Company's adoption of Accounting Standards Update 2016-01, the Company's investments in equity securities will no longer be classified as available for sale, therefore the Company was required to reclassify the net unrealized gain recognized on the change in fair value of these equity securities from other comprehensive income to retained earnings.

(3) Represents adjustment needed to reflect the cumulative impact on retained earnings for previously recognized stock based compensation, which included an adjustment for estimated forfeitures. Pursuant to the Company's adoption of Accounting Standards Update 2016-09, the Company has elected to recognize stock based compensation without inclusion of a forfeiture estimate, and as such has recognized this adjustment to present retained earnings consistent with this election.

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

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

	Six Months Ended June 30	
	2018	2017
Cash flow from operating activities		
Net income	$58,673	$41,288
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	8,021	7,454
Provision for loan losses	2,500	1,650
Deferred income tax expense	283	642
Net unrealized loss on equity securities	433	—
Net gain on sale of securities	(2)	(2)
Net gain on bank premises and equipment	(4)	(92)
Net loss on other real estate owned and foreclosed assets	1	70
Realized gain on sale leaseback transaction	(441)	(517)
Stock based compensation	2,392	1,560
Increase in cash surrender value of life insurance policies	(1,945)	(1,981)
Change in fair value on loans held for sale	(44)	(6)
Net change in:		
Trading assets	(274)	(489)
Loans held for sale	(4,802)	(3,236)
Other assets	(1,591)	8,973
Other liabilities	4,444	(6,104)
Total adjustments	8,971	7,922
Net cash provided by operating activities	67,644	49,210
Cash flows used in investing activities		
Proceeds from sales of equity securities	10	—
Purchases of equity securities	(202)	—
Proceeds from sales of securities available for sale	—	35
Proceeds from maturities and principal repayments of securities available for sale	27,625	24,406
Purchases of securities available for sale	(53,559)	(74,956)
Proceeds from maturities and principal repayments of securities held to maturity	42,716	38,634
Purchases of securities held to maturity	(83,047)	(49,802)
Net purchases of Federal Home Loan Bank stock	(1,510)	(2,438)
Investments in low income housing projects	(2,132)	(3,871)
Purchases of life insurance policies	(101)	(101)
Net increase in loans	(124,355)	(118,579)
Cash acquired in business combinations, net of cash paid	—	6,289
Purchases of bank premises and equipment	(5,707)	(14,182)
Proceeds from the sale of bank premises and equipment	63	1,918
Proceeds from the sale of other real estate owned and foreclosed assets	253	1,531
Net cash used in investing activities	(199,946)	(191,116)
Cash flows provided by financing activities		
Net increase (decrease) in time deposits	15,522	(55,787)

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Net increase in other deposits	268,770	179,495
Repayments of long-term Federal Home Loan Bank borrowings	(2,475)	—
Net decrease in customer repurchase agreements	(20,444)	(17,542)
Net proceeds from exercise of stock options	184	8
Restricted stock awards issued, net of awards surrendered	(1,338)	(1,361)
Proceeds from shares issued under direct stock purchase plan	1,312	807
Common dividends paid	(19,239)	(16,487)
Net cash provided by financing activities	242,292	89,133
Net increase (decrease) in cash and cash equivalents	109,990	(52,773)
Cash and cash equivalents at beginning of year	213,116	289,095
Cash and cash equivalents at end of period	$323,106	$236,322
Supplemental schedule of noncash investing and financing activities		
Transfer of loans to other real estate owned & foreclosed assets	$—	$457
Net increase in capital commitments relating to low income housing project investments	$4	$46
In conjunction with the Company's acquisitions, assets were acquired and liabilities were assumed as follows		
Common stock issued for acquisition	$—	$23,468
Fair value of assets acquired, net of cash acquired	$—	$179,252
Fair value of liabilities assumed	$—	$162,073

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 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. Results for the quarter ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 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, 2017, filed with the Securities and Exchange Commission.

NOTE 2 - RECENT ACCOUNTING STANDARDS UPDATES

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 326 "Financial Instruments - Credit Losses" Update No. 2016-13. Update No. 2016-13 was issued in June 2016 to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. For public companies, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of this standard on the Company's consolidated financial position.

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

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NOTE 3 - SECURITIES

Trading Securities

The Company had trading securities of $1.6 million and $1.3 million as of June 30, 2018 and December 31, 2017, respectively. These securities are held in a rabbi trust and will be used for future payments associated with the Company's nonqualified 401(k) Restoration Plan and Nonqualified Deferred Compensation Plan.

Equity Securities

The Company had equity securities of $20.1 million as of June 30, 2018. These securities consist primarily of mutual funds held in a rabbi trust and will be used for future payments associated with the Company's supplemental executive retirement plans. These securities were previously classified as available for sale and were reclassified as equity securities due to a change in accounting guidance effective January 1, 2018. The equity securities had a fair value of $20.6 million as of December 31, 2017 and are reflected accordingly as available for sale in the table below.

Available for Sale and Held to Maturity Securities

The following table presents a summary of the amortized cost, gross unrealized gains and losses and fair value of securities available for sale and securities held to maturity for the periods indicated:

	June 30, 2018				December 31, 2017			
	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	$33,479	$ —	$(760)	$32,719	$35,475	$ 86	$(131)	$35,430
Agency mortgage-backed securities	219,409	1,019	(5,439)	214,989	214,934	1,897	(1,067)	215,764
Agency collateralized mortgage obligations	150,122	90	(5,065)	145,147	124,098	78	(2,164)	122,012
State, county, and municipal securities	1,977	19	—	1,996	2,237	37	—	2,274
Single issuer trust preferred securities issued by banks	1,320	9	—	1,329	2,012	4	—	2,016
Pooled trust preferred securities issued by banks and insurers	2,166	—	(415)	1,751	2,179	—	(539)	1,640
Small business administration pooled securities	46,102	—	(1,104)	44,998	47,852	44	(118)	47,778
Equity securities	—	—	—	—	19,432	1,594	(442)	20,584
Total available for sale securities	$454,575	$ 1,137	$(12,783)	$442,929	$448,219	$ 3,740	$(4,461)	$447,498
Held to maturity securities								
U.S. Treasury securities	$1,005	$ 9	$—	$1,014	$1,006	$ 29	$—	$1,035
Agency mortgage-backed securities	186,299	286	(4,585)	182,000	204,768	1,791	(736)	205,823
Agency collateralized mortgage obligations	323,746	151	(10,555)	313,342	262,998	397	(4,987)	258,408
Single issuer trust preferred securities issued by banks	1,500	23	—	1,523	1,500	29	—	1,529
Small business administration pooled securities	25,711	51	(353)	25,409	27,416	183	(200)	27,399
	$538,261	$ 520	$(15,493)	$523,288	$497,688	$ 2,429	$(5,923)	$494,194

Total held to maturity securities								
Total	$992,836	$ 1,657	$(28,276)	$966,217	$945,907	$ 6,169	$(10,384)	$941,692

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale.

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The actual maturities of certain securities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. A schedule of the contractual maturities of securities available for sale and securities held to maturity as of June 30, 2018 is presented below:

	Due in one year or less		Due after one year to five years		Due after five to ten years		Due after ten years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)									
Available for sale securities										
U.S. government agency securities	$999	$998	$20,014	$19,781	$12,466	$11,940	$—	$—	$33,479	$32,719
Agency mortgage-backed securities	520	524	43,223	42,216	95,410	93,245	80,256	79,004	219,409	214,989
Agency collateralized mortgage obligations	—	—	—	—	—	—	150,122	145,147	150,122	145,147
State, county, and municipal securities	—	—	1,024	1,026	953	970	—	—	1,977	1,996
Single issuer trust preferred securities issued by banks	—	—	—	—	—	—	1,320	1,329	1,320	1,329
Pooled trust preferred securities issued by banks and insurers	—	—	—	—	—	—	2,166	1,751	2,166	1,751
Small business administration pooled securities	—	—	—	—	—	—	46,102	44,998	46,102	44,998
Total available for sale securities	$1,519	$1,522	$64,261	$63,023	$108,829	$106,155	$279,966	$272,229	$454,575	$442,929
Held to maturity securities										
U.S. Treasury securities	$—	$—	$1,005	$1,014	$—	$—	$—	$—	$1,005	$1,014
Agency mortgage-backed securities	—	—	8,998	8,846	29,911	29,380	147,390	143,774	186,299	182,000
Agency collateralized mortgage obligations	—	—	—	—	1,179	1,175	322,567	312,167	323,746	313,342
Single issuer trust preferred securities issued by banks	—	—	—	—	1,500	1,523	—	—	1,500	1,523
	—	—	—	—	—	—	25,711	25,409	25,711	25,409

Small business administration pooled securities										
Total held to maturity securities	$—	$—	$10,003	$9,860	$32,590	$32,078	$495,668	$481,350	$538,261	$523,288

Inclusive in the table above is $6.6 million of callable securities at June 30, 2018.

The carrying value of securities pledged to secure public funds, trust deposits, repurchase agreements and for other purposes, as required or permitted by law, was $545.4 million and $547.2 million at June 30, 2018 and December 31, 2017, respectively.

At June 30, 2018 and December 31, 2017, 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, 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.

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The following tables show the gross unrealized losses and fair value of the Company's investments in an unrealized loss position, which the Company has not deemed to be OTTI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	June 30, 2018						
		Less than 12 months		12 months or longer		Total	
	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)						
U.S. government agency securities	4	$32,719	$(760)	$—	$—	$32,719	$(760)
Agency mortgage-backed securities	151	341,018	(9,349)	14,003	(675)	355,021	(10,024)
Agency collateralized mortgage obligations	52	274,293	(7,235)	137,912	(8,385)	412,205	(15,620)
Pooled trust preferred securities issued by banks and insurers	1	—	—	1,751	(415)	1,751	(415)
Small business administration pooled securities	6	54,637	(1,264)	8,947	(193)	63,584	(1,457)
Total temporarily impaired securities	214	$702,667	$(18,608)	$162,613	$(9,668)	$865,280	$(28,276)

	December 31, 2017						
		Less than 12 months		12 months or longer		Total	
	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)						
U.S.government agency securities	4	$24,343	$(131)	$—	$—	$24,343	$(131)
Agency mortgage-backed securities	84	235,411	(1,493)	14,886	(310)	250,297	(1,803)
Agency collateralized mortgage obligations	42	178,142	(1,579)	159,506	(5,572)	337,648	(7,151)
Pooled trust preferred securities issued by banks and insurers	1	—	—	1,640	(539)	1,640	(539)
Small business administration pooled securities	4	34,553	(223)	9,647	(95)	44,200	(318)
Equity securities	28	3,290	(39)	7,619	(403)	10,909	(442)
Total temporarily impaired securities	163	$475,739	$(3,465)	$193,298	$(6,919)	$669,037	$(10,384)

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 each security before the recovery of its amortized cost basis. As a result, the Company does not consider these investments to be OTTI and accordingly, there was no OTTI recorded and no cumulative credit related component of OTTI for the three and six months ended June 30, 2018 and 2017.

The Company made this determination by reviewing various qualitative and quantitative factors regarding each investment category, such as current market conditions, extent and nature of changes in fair value, issuer rating changes and trends, volatility of earnings, and current analysts' evaluations.

As a result of the Company's review of these qualitative and quantitative factors, the causes of the impairments listed in the table above by category are as follows at June 30, 2018:

- U.S. Government Agency Securities, Agency Mortgage-Backed Securities, Agency Collateralized Mortgage Obligations and Small Business Administration Pooled Securities: These portfolios have contractual terms that generally do not permit the issuer to settle the securities at a price less than the current par value of the investment. The decline in market value of these securities is attributable to changes in interest rates and not credit quality. Additionally, these securities are implicitly guaranteed by the U.S. Government or one of its agencies.
- Pooled Trust Preferred Securities: This portfolio consists of one below investment grade security which is performing. The unrealized loss on this security is attributable to the illiquid nature of the trust preferred market in the current economic and regulatory environment. Management evaluates collateral credit and instrument structure, including

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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.

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

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

	June 30, 2018 (Dollars in thousands)							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Financing receivables ending balance:								
Collectively evaluated for impairment	$943,722	$3,110,500	$364,225	$146,334	$761,476	$1,062,334	$11,335	$6,399,926
Individually evaluated for impairment	$32,542	$15,016	$—	$803	$12,705	$6,759	$255	$68,080
Purchased credit impaired loans	$—	$5,821	$—	$—	$5,240	$204	$—	$11,265
Total loans by group	$976,264	$3,131,337	$364,225	$147,137	$779,421	$1,069,297	$11,590	$6,479,271 (1)

	December 31, 2017 (Dollars in thousands)							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Financing receivables ending balance:								
Collectively evaluated for impairment	$853,885	$3,093,945	$401,797	$131,667	$733,809	$1,045,053	$9,573	$6,269,729
Individually evaluated for impairment	$34,643	$16,638	$—	$703	$13,684	$6,826	$307	$72,801
Purchased credit impaired loans	$—	$5,978	$—	$—	$6,836	$209	$—	$13,023
Total loans by group	$888,528	$3,116,561	$401,797	$132,370	$754,329	$1,052,088	$9,880	$6,355,553 (1)

(1) The amount of net deferred costs on originated loans included in the ending balance was $6.7 million and $6.1 million at June 30, 2018 and December 31, 2017, respectively. Net unamortized discounts on acquired loans not deemed to be purchased credit impaired ("PCI") included in the ending balance was $8.8 million and $9.4 million at June 30, 2018 and December 31, 2017, respectively.

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

	Three Months Ended June 30, 2018 (Dollars in thousands)							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$13,533	$ 31,459	$ 5,679	$1,593	$ 2,837	$ 5,359	$ 402	$60,862
Charge-offs	(4)	—	—	(102)	(109)	(95)	(259)	(569)
Recoveries	59	18	—	10	1	23	153	264
Provision (benefit)	1,200	618	(463)	208	180	181	76	2,000
Ending balance	$14,788	$ 32,095	$ 5,216	$1,709	$ 2,909	$ 5,468	$ 372	$62,557

	Three Months Ended June 30, 2017 (Dollars in thousands)							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$16,518	$ 30,743	$ 5,023	$1,533	$ 2,716	$ 5,345	$ 440	$62,318
Charge-offs	(3,591)	—	—	(24)	(116)	(122)	(345)	(4,198)
Recoveries	13	26	—	13	2	26	229	309
Provision (benefit)	604	178	(209)	91	91	104	191	1,050
Ending balance	$13,544	$ 30,947	$ 4,814	$1,613	$ 2,693	$ 5,353	$ 515	$59,479

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Six Months Ended June 30, 2018 (Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$13,256	$ 31,453	$ 5,698	$1,577	$ 2,822	$ 5,390	$ 447	$60,643
Charge-offs	(137)	—	—	(126)	(148)	(174)	(577)	(1,162)
Recoveries	71	38	—	19	3	57	388	576
Provision (benefit)	1,598	604	(482)	239	232	195	114	2,500
Ending balance	$14,788	$ 32,095	$ 5,216	$1,709	$ 2,909	$ 5,468	$ 372	$62,557
Ending balance: collectively evaluated for impairment	$14,780	$ 32,021	$ 5,216	$1,708	$ 2,050	$ 5,237	$ 358	$61,370
Ending balance: individually evaluated for impairment	$8	$ 74	$ —	$1	$ 859	$ 231	$ 14	$1,187

Six Months Ended June 30, 2017 (Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$16,921	$ 30,369	$ 4,522	$1,502	$ 2,621	$ 5,238	$ 393	$61,566
Charge-offs	(3,591)	—	—	(94)	(139)	(136)	(746)	(4,706)
Recoveries	200	57	—	79	14	102	517	969
Provision (benefit)	14	521	292	126	197	149	351	1,650
Ending balance	$13,544	$ 30,947	$ 4,814	$1,613	$ 2,693	$ 5,353	$ 515	$59,479
Ending balance: collectively evaluated for impairment	$13,474	$ 30,781	$ 4,814	$1,612	$ 1,657	$ 5,110	$ 495	$57,943
Ending balance: individually evaluated for impairment	$70	$ 166	$ —	$1	$ 1,036	$ 243	$ 20	$1,536

For the purpose of estimating the allowance for loan losses, management segregates the loan portfolio into the portfolio segments detailed in the above tables. Each of these loan categories possesses unique risk characteristics that are considered when determining the appropriate level of allowance for each segment. Some of the risk characteristics unique to each loan category include:

Commercial Portfolio

- Commercial and Industrial: Loans in this category consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to: accounts receivable, inventory, plant and equipment, or real estate, if applicable. Repayment sources consist of primarily, operating cash flow, and secondarily, liquidation of assets.
- Commercial Real Estate: Loans in this category consist of mortgage loans to finance investment in real property such as multi-family residential, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans are typically written with amortizing payment structures. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources consist of, primarily, cash flow from operating leases and rents and, secondarily, liquidation of assets.
- Commercial Construction: Loans in this category consist of short-term construction loans, revolving and nonrevolving credit lines and construction/permanent loans to finance the acquisition, development and construction or rehabilitation of real property. Project types include residential 1-4 family, condominium and multi-family homes,

commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans may be written with nonamortizing or hybrid payment structures depending upon the type of project. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources vary depending upon the type of project and may consist of sale or lease of units, operating cash flows or liquidation of other assets.

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

For the commercial portfolio it is the Company's policy to obtain personal guarantees for payment from individuals holding material ownership interests of the borrowing entities.

Consumer Portfolio

- Residential Real Estate: Residential mortgage loans held in the Company's portfolio are made to borrowers who demonstrate the ability to make scheduled payments with full consideration to underwriting factors such as current and expected income, employment status, current assets, other financial resources, credit history and the value of the collateral. Collateral consists of mortgage liens on 1-4 family residential properties. Residential mortgage loans also include loans to construct owner-occupied 1-4 family residential properties.
- Home Equity: Home equity loans and credit lines are made to qualified individuals and are primarily secured by senior or junior mortgage liens on owner-occupied 1-4 family homes, condominiums or vacation homes. Each home equity loan has a fixed rate and is billed in equal payments comprised of principal and interest. Each 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 then outstanding principal balance plus all accrued interest over a predetermined repayment period, as set forth in the note. Additionally, the Company has the option of renewing each line of credit for additional draw periods. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan to value ratios within established policy guidelines.
- Other Consumer: Other consumer loan products include personal lines of credit and amortizing loans made to qualified individuals for various purposes such as education, debt consolidation, personal expenses or overdraft protection. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines. These loans may be secured or unsecured.

Credit Quality

The Company continually monitors the asset quality of the loan portfolio using all available information. Based on this information, loans demonstrating certain payment issues or other weaknesses may be categorized as adversely risk-rated, 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 credit risk-rating system, which assigns a risk-grade to each loan obligation based on a number of quantitative and qualitative factors associated with a commercial or small business loan transaction. Factors considered include industry and market conditions, position within the industry, earnings trends, operating cash flow, asset/liability values, debt capacity, guarantor strength, management and controls, financial reporting, collateral, and other considerations. The risk-ratings categories are defined as follows:

- 1- 6 Rating — Pass: Risk-rating grades "1" through "6" comprise those loans ranging from 'Substantially Risk Free' which indicates borrowers are of unquestioned credit standing and the pinnacle of credit quality, well established companies with a very strong financial condition, and loans fully secured by cash collateral, through 'Acceptable Risk', which indicates borrowers may exhibit declining earnings, strained cash flow, increasing or above average leverage and/or weakening market fundamentals that indicate below average asset quality, margins and market share. Collateral coverage is protective.
- 7 Rating — Potential Weakness: Borrowers exhibit potential credit weaknesses or downward trends deserving management's close attention. If not checked or corrected, these trends will weaken the Company's asset and position. While potentially weak, currently these borrowers are marginally acceptable; no loss of principal or interest is envisioned.

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

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- 9 Rating — Partial Loss Probable: Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt with the added provision that the weaknesses make collection of the debt in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely.
- 10 Rating — Definite Loss: Borrowers deemed incapable of repayment. Loans to such borrowers are considered uncollectible and of such little value that continuation as active assets of the Company is not warranted.

The credit quality of the commercial loan portfolio is actively monitored and any changes in credit quality are reflected in risk-rating changes. Risk-ratings are assigned or reviewed for all new loans, when advancing significant additions to existing relationships (over $50,000), at least quarterly for all actively managed loans, and any time a significant event occurs, including at renewal of the loan.

The Company utilizes a comprehensive strategy for monitoring commercial credit quality. Actively managed commercial 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, while continuous portfolio monitoring techniques are employed to evaluate changes in credit quality for smaller loan relationships. 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 tables detail the amount of outstanding principal balances relative to each of the risk-rating categories for the Company's commercial portfolio:

		June 30, 2018				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in thousands)				
Pass	1 - 6	$896,554	$3,037,955	$ 364,225	$ 144,865	$4,443,599
Potential weakness	7	17,294	47,608	—	1,293	66,195
Definite weakness-loss unlikely	8	56,413	45,311	—	977	102,701
Partial loss probable	9	6,003	463	—	2	6,468
Definite loss	10	—	—	—	—	—
Total		$976,264	$3,131,337	$ 364,225	$ 147,137	$4,618,963

		December 31, 2017				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in thousands)				
Pass	1 - 6	$806,331	$3,007,672	$ 400,964	$ 130,265	$4,345,232
Potential weakness	7	16,563	69,788	—	1,471	87,822
Definite weakness-loss unlikely	8	59,415	38,637	833	631	99,516
Partial loss probable	9	6,219	464	—	3	6,686
Definite loss	10	—	—	—	—	—
Total		$888,528	$3,116,561	$ 401,797	$ 132,370	$4,539,256

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For the Company's consumer portfolio, the quality of the loan is best indicated by the repayment performance of an individual borrower. However, the Company does supplement performance data with current Fair Isaac Corporation ("FICO") scores and Loan to Value ("LTV") estimates. Current FICO data is purchased and appended to all consumer loans on a regular 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:

	June 30, 2018	December 31, 2017
Residential portfolio		
FICO score (re-scored)(1)	747	745
LTV (re-valued)(2)	58.1 %	59.2 %
Home equity portfolio		
FICO score (re-scored)(1)	768	766
LTV (re-valued)(2)(3)	49.2 %	50.1 %

(1) The average FICO scores at June 30, 2018 are based upon rescores available from February 2018 and origination score data for loans booked between March and June 2018. The average FICO scores at December 31, 2017 are based upon rescores available from August 2017 and origination score data for loans booked between September and December 2017.

(2) The combined LTV ratios for June 30, 2018 are based upon updated automated valuations as of May 2018, when available or the most current valuation data available. The combined LTV ratios for December 31, 2017 are based upon updated automated valuations as of August 2017, when available, or the most current valuation data available. The updated automated valuations provides new information on loans that may be available since the previous valuation was obtained. If no new information is available, the valuation will default to the previously obtained data or most recent appraisal.

(3) 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.

Asset Quality

The Company's philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. Delinquent loans are managed by a team of collection specialists and the Company seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. As a general rule, loans more than 90 days past due with respect to principal or interest are classified as nonaccrual loans. The Company also may use discretion regarding other loans over 90 days delinquent if the loan is well secured and/or in process of collection.

The following table shows information regarding nonaccrual loans at the dates indicated:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Commercial and industrial	$30,095	$ 32,055
Commercial real estate	3,110	3,123
Small business	384	230
Residential real estate	7,612	8,129
Home equity	5,861	6,022
Other consumer	36	71
Total nonaccrual loans (1)	$47,098	$ 49,630

(1)Included in these amounts were $4.1 million and $6.1 million of nonaccruing TDRs at June 30, 2018 and December 31, 2017, respectively.

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

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Foreclosed residential real estate property held by the creditor	$245	$ 612
Recorded investment in mortgage loans collateralized by residential real estate property that are in the process of foreclosure	$2,152	$ 2,971

The following tables show the age analysis of past due financing receivables as of the dates indicated:

	June 30, 2018											
	30-59 days		60-89 days		90 days or more		Total Past Due					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
	(Dollars in thousands)										
Loan Portfolio											
Commercial and industrial	5	$291	2	$ 368	12	$30,042	19	$30,701	$945,563	$976,264	$ —
Commercial real estate	12	9,675	3	2,534	9	2,272	24	14,481	3,116,856	3,131,337	—
Commercial construction	—	—	—	—	—	—	—	—	364,225	364,225	—
Small business	8	120	8	59	14	286	30	465	146,672	147,137	—
Residential real estate	15	2,567	7	908	18	3,405	40	6,880	772,541	779,421	—
Home equity	21	1,388	11	1,191	24	2,618	56	5,197	1,064,100	1,069,297	—
Other consumer (1)	205	81	9	11	10	22	224	114	11,476	11,590	14
Total	266	$14,122	40	$ 5,071	87	$38,645	393	$57,838	$6,421,433	$6,479,271	$ 14

	December 31, 2017										
	30-59 days		60-89 days		90 days or more		Total Past Due				
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
	(Dollars in thousands)										
Loan Portfolio											
Commercial and industrial	2	$ 195	2	$ 370	14	$32,007	18	$32,572	$855,956	$888,528	$ —
Commercial real estate	7	3,060	—	—	9	1,793	16	4,853	3,111,708	3,116,561	—
Commercial construction	—	—	—	—	—	—	—	—	401,797	401,797	—
Small business	17	339	11	144	10	57	38	540	131,830	132,370	—
Residential real estate	6	870	13	2,385	22	3,471	41	6,726	747,603	754,329	—
Home equity	22	1,310	6	451	20	2,025	48	3,786	1,048,302	1,052,088	—
Other consumer (1)	265	197	16	27	17	45	298	269	9,611	9,880	8
Total	319	$ 5,971	48	$ 3,377	92	$39,398	459	$48,746	$6,306,807	$6,355,553	$ 8

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

Troubled Debt Restructurings

In the course of resolving nonperforming loans, the Bank may choose to restructure the contractual terms of certain loans. The Bank attempts to work out an alternative payment schedule with the borrower in order to avoid foreclosure actions. Any loans that are modified are reviewed by the Bank to identify if a TDR has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two.

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The following table shows the Company’s total TDRs and other pertinent information as of the dates indicated:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
TDRs on accrual status	$25,528	$ 25,852
TDRs on nonaccrual	4,095	6,067
Total TDRs	$29,623	$ 31,919
Amount of specific reserves included in the allowance for loan losses associated with TDRs	$1,149	$ 1,342
Additional commitments to lend to a borrower who has been a party to a TDR	$767	$ 487

The Company’s policy is to have any restructured loan which is on nonaccrual status prior to being modified remain on nonaccrual status for six months subsequent to being modified before management considers its return to accrual status. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. Additionally, loans classified as TDRs are adjusted to reflect the changes in value of the recorded investment in the loan, if any, resulting from the granting of a concession. For all residential loan modifications, the borrower must perform during a 90 day trial period before the modification is finalized.

The following tables show the modifications which occurred during the periods indicated and the change in the recorded investment subsequent to the modifications occurring:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	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 real estate	—	—	—	1	445	445
Residential real estate	1	149	149	1	149	149
Home equity	4	230	230	6	472	472
Total	5	$ 379	$ 379	8	$ 1,066	$ 1,066

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	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	6	$ 1,299	$ 1,299	8	$ 1,379	$ 1,379
Commercial real estate	2	950	950	6	1,884	1,884
Small business	4	121	121	8	264	264
Residential real estate	5	889	900	5	889	900
Home equity	8	851	854	10	991	994
Total	25	$ 4,110	$ 4,124	37	$ 5,407	$ 5,421

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

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
	(Dollars in thousands)		(Dollars in thousands)	
Extended maturity	$—	$2,872	$ 445	$ 4,079
Court ordered concession	379	1,252	621	1,342
Total	$379	$4,124	$ 1,066	$ 5,421

The Company considers a loan to have defaulted when it reaches 90 days past due. As of June 30, 2018, there were no loans modified during the past twelve months that had subsequently defaulted during the three and six months ended June 30, 2018. As of June 30, 2017, there was one loan modified during the preceding twelve months with a recorded investment of $205,000, which had subsequently defaulted during the three and six months ended June 30, 2017.

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

Impaired Loans

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

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

	June 30, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded			
Commercial and industrial	$32,319	$38,662	$ —
Commercial real estate	12,858	13,719	—
Small business	645	744	—
Residential real estate	4,803	4,945	—
Home equity	5,037	5,243	—
Other consumer	64	65	—
Subtotal	55,726	63,378	—
With an allowance recorded			
Commercial and industrial	$223	$223	$ 8
Commercial real estate	2,158	2,282	74
Small business	158	166	1
Residential real estate	7,902	8,752	859
Home equity	1,722	1,942	231
Other consumer	191	193	14
Subtotal	12,354	13,558	1,187
Total	$68,080	$76,936	$ 1,187

	December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded			
Commercial and industrial	$34,267	$38,329	$ —
Commercial real estate	13,245	14,374	—
Small business	556	619	—
Residential real estate	4,264	4,397	—
Home equity	4,950	5,056	—
Other consumer	91	92	—
Subtotal	57,373	62,867	—
With an allowance recorded			
Commercial and industrial	$376	$376	$ 10
Commercial real estate	3,393	3,399	42
Small business	147	153	1
Residential real estate	9,420	10,154	1,007
Home equity	1,876	2,110	265
Other consumer	216	217	17
Subtotal	15,428	16,409	1,342
Total	$72,801	$79,276	$ 1,342

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

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded				
Commercial and industrial	$32,557	$ 34	$33,198	$ 68
Commercial real estate	13,018	148	13,131	295
Small business	672	3	703	8
Residential real estate	4,825	60	4,842	119
Home equity	5,100	54	5,160	106
Other consumer	66	1	68	2
Subtotal	56,238	300	57,102	598
With an allowance recorded				
Commercial and industrial	$225	$ 2	$226	$ 5
Commercial real estate	2,165	24	2,172	48
Small business	163	3	169	6
Residential real estate	8,003	68	8,045	136
Home equity	1,732	15	1,744	27
Other consumer	194	1	198	3
Subtotal	12,482	113	12,554	225
Total	$68,720	$ 413	$69,656	$ 823

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	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded				
Commercial and industrial	$49,477	$ 19	$49,502	$ 240
Commercial real estate	11,547	110	11,655	217
Small business	549	3	559	7
Residential real estate	4,064	48	4,082	96
Home equity	4,746	48	4,781	96
Other consumer	114	2	118	4
Subtotal	70,497	230	70,697	660
With an allowance recorded				
Commercial and industrial	$1,521	$ 18	$1,555	$ 37
Commercial real estate	5,633	56	5,656	112
Small business	316	3	321	7
Residential real estate	9,841	77	9,882	157
Home equity	1,489	13	1,497	26
Other consumer	237	2	241	3
Subtotal	19,037	169	19,152	342
Total	$89,534	$ 399	$89,849	$ 1,002

Purchased Credit Impaired Loans

Certain loans acquired by the Company may have shown evidence of deterioration of credit quality since origination and it was therefore deemed unlikely that the Company would be able to collect all contractually required payments. As such, these loans were deemed to be PCI loans and the carrying value and prospective income recognition are predicated upon future cash flows expected to be collected. The following table displays certain information pertaining to PCI loans at the dates indicated:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Outstanding balance	$12,702	$ 14,485
Carrying amount	$11,265	$ 13,023

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

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	(Dollars in thousands)			
Beginning balance	$1,642	$2,279	$1,791	$2,370
Accretion	(198)	(302)	(413)	(609)
Other change in expected cash flows (1)	160	190	204	406
Reclassification from nonaccretable difference for loans which have paid off (2)	—	18	22	18
Ending balance	$1,604	$2,185	$1,604	$2,185

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

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NOTE 5 -EARNINGS PER SHARE

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)			
Net income	$31,118	$ 20,563	$58,673	$ 41,288
Weighted Average Shares				
Basic shares	27,526,653	27,257,799	27,506,724	27,144,350
Effect of dilutive securities	54,525	74,497	61,480	78,757
Diluted shares	27,581,178	27,332,296	27,568,204	27,223,107
Net income per share				
Basic EPS	$1.13	$ 0.75	$2.13	$ 1.52
Effect of dilutive securities	—	—	—	—
Diluted EPS	$1.13	$ 0.75	$2.13	$ 1.52

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
Stock options	181	—	163	—
Performance-based restricted stock	—	—	—	—

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NOTE 6 - STOCK BASED COMPENSATION

Time Vested Restricted Stock Awards

During the six months ended June 30, 2018, the Company made the following awards of restricted stock:

Date	Shares Granted	Plan	Grant Date Fair Value Per Share	Vesting Period
2/15/2018	39,950	2005 Employee Stock Plan	$ 71.75	Ratably over 5 years from grant date
2/27/2018	1,150	2005 Employee Stock Plan	$ 72.60	Ratably over 5 years from grant date
5/15/2018	530	2005 Employee Stock Plan	$ 74.00	Ratably over 5 years from grant date
5/22/2018	6,000	2018 Non-Employee Director Stock Plan	$ 76.58	Shares vested immediately

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 are entitled to receive dividends and to vote from and as of the date of grant.

Performance-Based Restricted Stock Awards

On February 15, 2018, the Company granted 16,300 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 $71.75, determined by the average of the high and low price at which the Company's common stock traded on the date of grant. The number of shares to be vested will be contingent upon the Company's attainment of certain performance measures outlined in the award agreement and will be measured as of the end of the three year performance period, January 1, 2018 through December 31, 2020. The awards will vest upon the earlier of the date on which it is determined if the performance goal is achieved subsequent to the performance period or March 31, 2021. 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 holders of these awards are not entitled to receive dividends or vote until the shares are vested.

On February 27, 2018, the performance-based restricted stock awards that were awarded on February 12, 2015 vested at 100% of the maximum target shares awarded, or 16,427 shares.

Stock Options

The Company has made the following awards of nonqualified options to purchase shares of common stock during the six months ended June 30, 2018:

	Six Months Ended June 30, 2018	
Date of grant	4/3/2018	
Plan	2010 Non-Employee Director Stock Plan	
Options granted	5,000	
Vesting period (1)	21 months	
Expiration date	4/3/2028	
Expected volatility	21.15	%
Expected life (years)	5.5	
Expected dividend yield	1.94	%
Risk free interest rate	2.62	%
Fair value per option	$ 13.46	

(1) Vesting period began on the grant date.

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NOTE 7 - REPURCHASE AGREEMENTS

The Company can raise additional liquidity by entering into repurchase agreements at its discretion. These repurchases are accounted for as a secured borrowing transaction for accounting purposes. Payments on such borrowings are interest only until the scheduled repurchase date. In a repurchase agreement the Company is subject to the risk that the purchaser may default at maturity and not return the securities underlying the agreements. In order to minimize this potential risk, the Company enters into repurchase agreements that stipulate that the securities underlying the agreement are not delivered to the customer and instead are held in segregated safekeeping accounts by the Company's safekeeping agents.

The table below sets forth information regarding the Company's repurchase agreements allocated by source of collateral at the dates indicated:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Sources of collateral		
U.S. government agency securities	$14,149	$ 16,867
Agency mortgage-backed securities	57,546	51,273
Agency collateralized mortgage obligations	70,540	94,539
Total customer repurchase agreements (1)	$142,235	$ 162,679

(1) All customer repurchase agreements have an overnight and continuous maturity date.

For further information regarding the Company's repurchase agreements see Note 9 - Balance Sheet Offsetting.

NOTE 8 - DERIVATIVE AND HEDGING ACTIVITIES

The Company early adopted ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities as of January 1, 2018 to incorporate the new standard's alignment of hedge accounting qualifications with the Company's interest rate risk management with respect to new hedges entered into during the first quarter of 2018. This new standard was adopted under a modified retrospective transition, resulting in no changes to the accounting for hedge positions entered in to prior to January 1, 2018.

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 may utilize various interest rate derivatives as hedging instruments against interest rate risk associated with the Company's borrowings and loan portfolios. An interest rate derivative 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.

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The following tables reflect the Company's derivative positions for the periods indicated below for interest rate derivatives which qualify as cash flow hedges for accounting purposes:

June 30, 2018

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	12/9/2008	12/10/2008	12/10/2018	3 Month LIBOR	2.33	%	2.94	%	$ (61)
25,000	4/1/2016	1/17/2017	12/15/2021	3 Month LIBOR	2.34	%	1.36	%	1,227
25,000	4/1/2016	1/17/2017	12/15/2021	3 Month LIBOR	2.34	%	1.36	%	1,218
25,000	7/18/2017	8/15/2017	8/15/2022	3 Month LIBOR	2.32	%	1.88	%	949

Notional Amount	Trade Date	Effective Date	Maturity Date	Pay (Variable) Index	Current Rate Paid		Receive Fixed Swap Rate		Fair Value
50,000	1/9/2018	1/16/2018	1/15/2023	1 Month LIBOR	2.07	%	2.24	%	$ (1,073)

Notional Amount	Trade Date	Effective Date	Maturity Date	Pay (Variable) Index	Current Rate Paid		Receive Fixed Swap Rate Cap - Floor	Fair Value
50,000	1/9/2018	1/16/2018	1/15/2022	1 Month LIBOR	2.07	%	2.75% - 1.80%	$ (382)
								$ 1,878

December 31, 2017

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	12/9/2008	12/10/2008	12/10/2018	3 Month LIBOR	1.54	%	2.94%	$ (264)
25,000	4/1/2016	1/17/2017	12/15/2021	3 Month LIBOR	1.59	%	1.36%	772
25,000	4/1/2016	1/17/2017	12/15/2021	3 Month LIBOR	1.59	%	1.36%	763
25,000	7/18/2017	8/15/2017	8/15/2022	3 Month LIBOR	1.42	%	1.88%	345
								$ 1,616

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 five years.

For derivative instruments that are designated and qualify as cash flow hedging instruments, the effective portion of the gains or losses is reported as a component of other comprehensive income ("OCI"), and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately $77,000 to be reclassified to interest income and $822,000 (pre-tax) to be reclassified as an offset 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 June 30, 2018.

The Company recognized $61,000 and $122,000 of net amortization income that was an offset to interest expense related to previously terminated swaps for each of the three and six month periods ended June 30, 2018 and 2017, respectively.

The Company had no fair value hedges as of June 30, 2018 or December 31, 2017.

Customer Related Positions

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

Foreign exchange contracts offered to commercial borrowers through the Company's derivative program do not qualify as hedges for accounting purposes. The Company acts as a seller and buyer of foreign exchange contracts to accommodate its

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customers. To mitigate the market and liquidity risk associated with these derivatives, the Company enters into similar offsetting positions.

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

		Notional Amount Maturing						
	Number of Positions (1)	Less than 1 year	Less than 2 years	Less than 3 years	Less than 4 years	Thereafter	Total	Fair Value
	June 30, 2018							
	(Dollars in thousands)							
Loan level swaps								
Receive fixed, pay variable	244	$59,965	$61,506	$176,919	$57,508	$614,476	$970,374	$(17,467)
Pay fixed, receive variable	229	$59,965	$61,506	$176,919	$57,508	$614,476	$970,374	$17,456
Foreign exchange contracts								
Buys foreign currency, sells U.S. currency	28	$48,077	$—	$—	$—	$—	$48,077	$(1,041)
Buys U.S. currency, sells foreign currency	28	$48,077	$—	$—	$—	$—	$48,077	$1,067
	December 31, 2017							
	(Dollars in thousands)							
Loan level swaps								
Receive fixed, pay variable	246	$36,023	$61,500	$152,287	$111,147	$591,385	$952,342	$3,875
Pay fixed, receive variable	231	$36,023	$61,500	$152,287	$111,147	$591,385	$952,342	$(3,880)
Foreign exchange contracts								
Buys foreign currency, sells U.S. currency	15	$26,382	$3,780	$—	$—	$—	$30,162	$1,202
Buys U.S. currency, sells foreign currency	15	$26,382	$3,780	$—	$—	$—	$30,162	$(1,188)

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

Mortgage Derivatives

Prior to closing and funding certain 1- 4 family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to various investors. These forward commitments carry a market price that has a strong inverse relationship to that of mortgage prices. Certain assumptions, including pull through rates and rate lock periods, are used in managing the existing and future hedges. The accuracy of underlying assumptions will impact the ultimate effectiveness of any hedging strategies.

The change in fair value on the interest rate lock commitments and forward delivery sale commitments are recorded in current period earnings as a component of mortgage banking income. In addition, the Company has elected the fair value option to carry loans held for sale at fair value. The change in fair value of loans held for sale is recorded in current period earnings as a component of mortgage banking income in accordance with the Company's fair value election. The change in fair value associated with loans held for sale was an increase of $70,000 and $153,000 for the three month periods ended June 30, 2018 and 2017, respectively, and an increase of $44,000 and $6,000 for the six months ended June 30, 2018 and 2017, respectively. These amounts were offset in earnings by the change in the fair value of mortgage derivatives. Additionally, the aggregate amount of net realized gains or losses on sales of such loans included within mortgage banking income was $755,000 and $977,000 for the three month periods ended June 30, 2018 and 2017, respectively and $1.5 million and $2.0 million for the six months ended June 30, 2018 and 2017, respectively.

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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 June 30 2018	Fair Value at December 31 2017	Balance Sheet Location	Fair Value at June 30 2018	Fair Value at December 31 2017
	(Dollars in thousands)					
Derivatives designated as hedges						
Interest rate derivatives	Other assets	$3,394	$ 1,880	Other liabilities	$1,516	$ 264
Derivatives not designated as hedges						
Customer Related Positions						
Loan level derivatives	Other assets	$21,861	$ 14,236	Other liabilities	$21,872	$ 14,241
Foreign exchange contracts	Other assets	1,137	1,202	Other liabilities	1,111	1,188
Mortgage Derivatives						
Interest rate lock commitments	Other assets	231	149	Other liabilities	—	—
Forward sales agreements	Other assets	80	9	Other liabilities	—	—
		$23,309	$ 15,596		$22,983	$ 15,429
Total		$26,703	$ 17,476		$24,499	$ 15,693

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 June 30		Six Months Ended June 30	
	2018	2017	2018	2017
	(Dollars in thousands)			
Derivatives designated as hedges				
Gain (loss) in OCI on derivatives (effective portion), net of tax	$(112)	$(190)	$103	$(101)
Gain (loss) reclassified from OCI into interest income or interest expense (effective portion)	$167	$(80)	$257	$(173)
Loss recognized in income on derivatives (ineffective portion and 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	$15	$7	$24	$—
Other expense	(5)	(4)	(18)	(10)
Changes in fair value of mortgage derivatives				
Mortgage banking income	141	54	153	104
Total	$151	$57	$159	$94

The Company's derivative agreements with institutional counterparties contain various credit-risk related contingent provisions, such as requiring the Company to maintain a well-capitalized capital position. If the Company fails to meet these conditions, the counterparties could request the Company make immediate payment or demand that the Company provide immediate and ongoing full collateralization on derivative positions in net liability positions. The aggregate fair value of all derivative instruments with credit-risk related contingent features that were in a net liability position was $106,000 and $4.2 million

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at June 30, 2018 and December 31, 2017, respectively. Although none of the contingency provisions have applied as of June 30, 2018 and December 31, 2017, the Company has posted collateral to offset the net liability exposures with institutional counterparties.

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 institutional counterparties is remote. The Company's exposure relating to institutional counterparties was $23.2 million and $7.1 million at June 30, 2018 and December 31, 2017, respectively. The Company’s exposure relating to customer counterparties was approximately $2.4 million and $9.5 million at June 30, 2018 and December 31, 2017, respectively. Credit exposure may be reduced by the value of collateral pledged by the counterparty.

NOTE 9 - 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.

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

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts Recognized in the Statement of Financial Position	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments (1)	Collateral Pledged (Received)	Net Amount
	June 30, 2018 (Dollars in thousands)					
Derivative Assets						
Interest rate swaps	$3,394	$ —	$ 3,394	$1,455	$(1,227)	$712
Loan level derivatives	21,861	—	21,861	2,171	(10,123)	9,567
Customer foreign exchange contracts	1,137	—	1,137	—	—	1,137
	$26,392	$ —	$ 26,392	$3,626	$(11,350)	$11,416
Derivative Liabilities						
Interest rate swaps	$1,516	$ —	$ 1,516	$1,455	$61	$—
Loan level derivatives	21,872	—	21,872	2,171	32	19,669
Customer foreign exchange contracts	1,111	—	1,111	—	—	1,111
	$24,499	$ —	$ 24,499	$3,626	$93	$20,780

Customer repurchase agreements	142,235	—	142,235	—	142,235	—

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

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	Gross Amounts Recognized in the Statement of Financial Position	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments (1)	Gross Amounts Not Offset in the Statement of Financial Position: Collateral Pledged (Received)	Net Amount
	December 31, 2017 (Dollars in thousands)					
Derivative Assets						
Interest rate swaps	$1,880	$ —	$ 1,880	$805	$ —	$1,075
Loan level derivatives	14,236	—	14,236	4,578	—	9,658
Customer foreign exchange contracts	1,202	—	1,202	—	—	1,202
	$17,318	$ —	$ 17,318	$5,383	$ —	$11,935
Derivative Liabilities						
Interest rate swaps	$264	$ —	$ 264	$—	$ 264	$—
Loan level derivatives	14,241	—	14,241	5,383	3,675	5,183
Customer foreign exchange contracts	1,188	—	1,188	—	—	1,188
	$15,693	$ —	$ 15,693	$5,383	$ 3,939	$6,371
Customer repurchase agreements	162,679	—	162,679	—	162,679	—

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

NOTE 10 - 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 assumptions applied by the Company when determining fair value reflect those that the Company determines market participants would use to price 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 if the asset were to be sold or that would be or paid if liability were to be transferred in an orderly market transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. When determining fair value, the Company considers pricing information and other inputs that are current as of the measurement date. In periods of market dislocation, the observability of prices and other inputs may be reduced for certain instruments, or not available at all. The unavailability or reduced availability of pricing or other input information 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.

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

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fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation Techniques

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

Securities

Trading and Equity Securities

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

U.S. Government Agency Securities

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

Agency Mortgage-Backed Securities

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

Agency Collateralized Mortgage Obligations and Small Business Administration Pooled Securities

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

State, County, and Municipal Securities

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

Single and Pooled Issuer Trust Preferred Securities

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

Loans Held for Sale

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

Derivative Instruments

Derivatives

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact 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 interest rate derivatives may also 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 June 30, 2018 and December 31, 2017, 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 properly classified as Level 2.

Mortgage Derivatives

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

Impaired Loans

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

Other Real Estate Owned and Other Foreclosed Assets

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. The fair values are generally estimated based upon recent appraisal values of the property less costs to sell the property. Certain inputs used in appraisals are not always observable, and therefore OREO and Other Foreclosed Assets may be classified as Level 3 within the fair value hierarchy.

Goodwill and Other Intangible Assets

Goodwill and other 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. 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 on a recurring and nonrecurring basis were as follows as of the dates indicated:

	Balance	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	June 30, 2018 (Dollars in thousands)			
Recurring fair value measurements				
Assets				
Trading securities	$1,598	$1,598	$—	$ —
Equity securities	20,133	20,133	—	—
Securities available for sale				
U.S. Government agency securities	32,719	—	32,719	—
Agency mortgage-backed securities	214,989	—	214,989	—
Agency collateralized mortgage obligations	145,147	—	145,147	—
State, county, and municipal securities	1,996	—	1,996	—
Single issuer trust preferred securities issued by banks and insurers	1,329	—	1,329	—
Pooled trust preferred securities issued by banks and insurers	1,751	—	—	1,751
Small business administration pooled securities	44,998	—	44,998	—
Loans held for sale	9,614	—	9,614	—
Derivative instruments	26,703	—	26,703	—
Liabilities				
Derivative instruments	24,499	—	24,499	—
Total recurring fair value measurements	$476,478	$21,731	$452,996	$ 1,751
Nonrecurring fair value measurements				
Assets				
Collateral dependent impaired loans	$35,732	$—	$—	$ 35,732
Other real estate owned and other foreclosed assets	245	—	—	245
Total nonrecurring fair value measurements	$35,977	$—	$—	$ 35,977

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	Balance	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2017 (Dollars in thousands)			
Recurring fair value measurements				
Assets				
Trading securities	$1,324	$1,324	$—	$ —
Equity securities	20,584	20,584	—	—
Securities available for sale				
U.S. Government agency securities	35,430	—	35,430	—
Agency mortgage-backed securities	215,764	—	215,764	—
Agency collateralized mortgage obligations	122,012	—	122,012	—
State, county, and municipal securities	2,274	—	2,274	—
Single issuer trust preferred securities issued by banks and insurers	2,016	—	2,016	—
Pooled trust preferred securities issued by banks and insurers	1,640	—	—	1,640
Small business administration pooled securities	47,778	—	47,778	—
Loans held for sale	4,768	—	4,768	—
Derivative instruments	17,476	—	17,476	—
Liabilities				
Derivative instruments	15,693	—	15,693	—
Total recurring fair value measurements	$455,373	$21,908	$431,825	$ 1,640
Nonrecurring fair value measurements:				
Assets				
Collateral dependent impaired loans	$33,567	$—	$—	$ 33,567
Other real estate owned and other foreclosed assets	612	—	—	612
Total nonrecurring fair value measurements	$34,179	$—	$—	$ 34,179

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

	Three Months Ended June 30	
	2018	2017
	(Dollars in thousands)	
Pooled Trust Preferred Securities		
Beginning balance	$1,655	$1,596
Gains and (losses) (realized/unrealized)		
Included in other comprehensive income	104	(4)
Settlements	(8)	1
Ending balance	$1,751	$1,593

	Six Months Ended June 30	
	2018	2017
	(Dollars in thousands)	
Pooled Trust Preferred Securities		
Beginning balance	$1,640	$1,584
Gains and (losses) (realized/unrealized)		
Included in other comprehensive income	125	7
Settlements	(14)	2
Ending balance	$1,751	$1,593

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 six month periods ended June 30, 2018 or 2017.

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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:

Valuation Technique	June 30 2018	December 31 2017	Unobservable Inputs	June 30 2018	December 31 2017	June 30 2018	December 31 2017
	Fair Value			Range		Weighted Average	
	(Dollars in thousands)						
Discounted cash flow methodology							
Pooled trust preferred securities	$1,751	$ 1,640	Cumulative prepayment	0% - 60%	0% - 61%	2.4%	2.5%
			Cumulative default	5% - 100%	5% - 100%	13.6%	12.4%
			Loss given default	85% - 100%	85% - 100%	94.4%	94.3%
			Cure given default	0% - 75%	0% - 75%	60.9%	60.9%
Appraisals of collateral(1)							
Collateral dependent impaired loans	$35,732	$ 33,567					
Other real estate owned and foreclosed assets	$245	$ 612					

(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 default rates, loss given default rates and cure given default rates. Significant increases (decreases) in deferrals or defaults, in isolation, would result in a significantly lower (higher) fair value measurement. Alternatively, significant increases (decreases) in cure rates, in isolation, would result in a significantly higher (lower) fair value measurement.

Additionally, the Company has certain assets which are marked to fair value on a nonrecurring basis which are categorized within Level 3. These assets include collateral dependent impaired loans and OREO. The determination of the fair value amount is derived from the use of independent third party appraisals and evaluations. Real estate appraisals are prepared by firms from a predetermined list of qualified and approved appraisers or evaluators. Upon receipt of a real estate appraisal or evaluation, the Company's Commercial Real Estate Appraisal Department will review the report for compliance with regulatory and Company standards, as well as reasonableness and acceptance of the value conclusions. Any issues or concerns regarding compliance or value conclusions will be addressed with the engaged firm and the report may be adjusted or revised. If a disagreement cannot be resolved, the Company 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 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)
	June 30, 2018 (Dollars in thousands)				
Financial assets					
Securities held to maturity(a)					
U.S. Treasury securities	$1,005	$1,014	$ —	$ 1,014	$ —
Agency mortgage-backed securities	186,299	182,000	—	182,000	—
Agency collateralized mortgage obligations	323,746	313,342	—	313,342	—
Single issuer trust preferred securities issued by banks	1,500	1,523	—	1,523	—
Small business administration pooled securities	25,711	25,409	—	25,409	—
Loans, net of allowance for loan losses(b)	6,380,982	6,198,830	—	—	6,198,830
Federal Home Loan Bank stock(c)	13,107	13,107	—	13,107	—
Cash surrender value of life insurance policies(d)	153,574	153,574	—	153,574	—
Financial liabilities					
Deposit liabilities, other than time deposits(e)	$6,353,722	$6,353,722	$ —	$ 6,353,722	$ —
Time certificates of deposits(f)	659,768	651,660	—	651,660	—
Federal Home Loan Bank borrowings(f)	50,775	49,975	—	49,975	—
Customer repurchase agreements and other short-term borrowings(f)	142,235	142,235	—	—	142,235
Junior subordinated debentures(g)	73,077	71,192	—	71,192	—
Subordinated debentures(f)	34,705	31,885	—	—	31,885

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	Carrying Value	Fair Value	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2017 (Dollars in thousands)				
Financial assets					
Securities held to maturity(a)					
U.S. Treasury securities	$1,006	$1,035	$ —	$ 1,035	$ —
Agency mortgage-backed securities	204,768	205,823	—	205,823	—
Agency collateralized mortgage obligations	262,998	258,408	—	258,408	—
Single issuer trust preferred securities issued by banks	1,500	1,529	—	1,529	—
Small business administration pooled securities	27,416	27,399	—	27,399	—
Loans, net of allowance for loan losses(b)	6,261,343	6,116,051	—	—	6,116,051
Federal Home Loan Bank stock(c)	11,597	11,597	—	11,597	—
Cash surrender value of life insurance policies(d)	151,528	151,528	—	151,528	—
Financial liabilities					
Deposit liabilities, other than time deposits(e)	$6,084,952	$6,084,952	$ —	$ 6,084,952	$ —
Time certificates of deposits(f)	644,301	639,060	—	639,060	—
Federal Home Loan Bank borrowings(f)	53,264	52,111	—	52,111	—
Customer repurchase agreements and other short-term borrowings(f)	162,679	162,679	—	—	162,679
Junior subordinated debentures(g)	73,073	74,680	—	74,680	—
Subordinated debentures(f)	34,682	32,707	—	—	32,707

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

(b) In accordance with recent accounting guidance, the fair value of loans as of June 30, 2018 was measured using the exit price valuation method, determined primarily 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, while incorporating liquidity and credit assumptions. Previously the fair value of loans as of December 31, 2017 was estimated solely 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. Additionally, this amount excludes collateral dependent impaired loans, which are deemed to be marked to fair value on a nonrecurring basis.

(c) FHLB stock has no quoted market value and is carried at cost, therefore the carrying amount approximates fair value.

(d) Cash surrender value of life insurance is recorded at its cash surrender value (or the amount that can be realized upon surrender of the policy), therefore carrying amount approximates fair value.

(e) Fair value of demand deposits, savings and interest checking accounts and money market deposits is the amount payable on demand at the reporting date.

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

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

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

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

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NOTE 11 - REVENUE RECOGNITION

The Company adopted the new revenue recognition standard under Accounting Standards Codification Topic 606 ("ASC 606") as of January 1, 2018 and is using the modified retrospective transition method upon adoption. The Company determined that there were no material changes to be made to revenue recognition upon adoption and that there were no practical expedients to apply to its contracts.

A portion of the Company's noninterest income is derived from contracts with customers, and as such, the revenue recognized depicts 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. The Company considers the terms of the contract and all relevant facts and circumstances when applying this guidance. To ensure its alignment with this core principle, the Company measures revenue and the timing of recognition by applying the following five steps:

1. Identify the contract(s) with customers
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Company has disaggregated its revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The following table presents the revenue streams that the Company has disaggregated as of the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(Dollars in thousands)			
Deposit account fees (inclusive of cash management fees)	$4,551	$4,392	$8,982	$8,936
Interchange fees	3,919	3,561	7,324	6,682
ATM fees	736	759	1,390	1,446
Investment management - wealth management and advisory services	6,083	5,488	11,665	10,625
Investment management - retail investments and insurance revenue	739	507	1,299	984
Merchant processing income	348	274	779	567
Other noninterest income	1,060	1,259	2,034	2,081
Total noninterest income in-scope of ASC 606	17,436	16,240	33,473	31,321
Total noninterest income out-of-scope of ASC 606	4,451	5,158	8,277	8,989
Total noninterest income	21,887	21,398	41,750	40,310

In each of the revenue streams identified above, there were no significant judgments made in determining or allocating the transaction price, as the consideration and service requirements are generally explicitly identified in the associated contracts. Additional information related to each of the revenue streams is further noted below:

Deposit Account Fees

The Company offers various deposit account products to its customers governed by specific deposit agreements applicable to either personal customers or business customers. These agreements identify the general conditions and obligations of both parties, and include standard information regarding deposit account related fees.

Deposit account services include providing access to deposit accounts as well as access to the various deposit transactional services of the Company. These transactional services are primarily those that are identified in the standard fee schedule, and include, but are not limited to, services such as overdraft protection, wire transfer, and check collection. Revenue is recognized in conjunction with the various services being provided. For example, the Company may assess monthly fixed service fees associated with the customer having access to the deposit account, which can vary depending on the account type and daily account balance. In addition, the Company may also assess separate fixed fees associated with and at the time specific transactions are entered in to by the customer. As such, the Company considers its performance obligations to be met concurrently with providing the account access or completing the requested deposit transaction.

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Cash Management

Cash management services are a subset of the Deposit account fees revenue stream. These services primarily include ACH transaction processing, positive pay and remote deposit services. These services are also governed by separate agreements entered into with the customer. The fee arrangement for these services is structured to assess fees under one of two scenarios, either a per transaction fee arrangement or an earnings credit analysis arrangement. Under the per transaction fee arrangement, fixed fees are assessed concurrently with customers executing the transactions, and as such, the Company considers its performance obligations to be met concurrently with completing the requested transaction. Under the earnings credit analysis arrangement, the Company provides a monthly earnings credit to the customer that is negotiated and determined based on various factors. The credit is then available to absorb the per transaction fees that are assessed on the customer's deposit account activity for the month. Any amount of the transactional fees in excess of the earnings credit is recognized as revenue in that month.

Interchange Fees

The Company earns interchange revenue from its issuance of credit and debit cards granted through its membership in various card payment networks. The Company provides credit cards and debit cards to its customers which are authorized and settled through these payment networks, and in exchange, the Company earns revenue as determined by each payment network's interchange program. The revenue is recognized concurrently with the settlement of card transactions within each network.

ATM Fees

The Company deploys automated teller machines (ATMs) as part of its overall branch network. Certain transactions performed at the ATMs require customers to acknowledge and pay a fee for the requested service. Certain ATM fees are disclosed in the deposit account agreement fee schedules, whereas those assessed to non-Rockland Trust deposit holders are solely determined during the transaction at the machine.

The ATM fee is a fixed dollar per transaction amount, and as such, is recognized concurrently with the overall daily processing and settlement of the ATM activity.

Investment Management - Wealth Management and Advisory Services

The Company offers investment management and trust services to individuals, institutions, small businesses and charitable institutions. Each investment management product is governed by its own contract along with a separate identifiable fee schedule unique to that product. The Company also offers additional services, such as estate settlement, financial planning, tax services and other special services quoted at the client's request.

The asset management and/or custody fees are based upon a percentage of the monthly valuation of the principal assets in the customer's account, whereas fees for additional or special services are fixed in nature and are charged as services are rendered. As the fees are dependent on assets under management, which are susceptible to market factors outside of the Company's control, this variable consideration is constrained and therefore no revenue is estimated at contract initiation. As such, all revenue is recognized in correlation to the monthly management fee determinations or as transactional services are provided. Due to the fact that payments are primarily made subsequent to the valuation period, the Company records a receivable for revenue earned but not received. The following table provides the amount of investment management revenue earned but not received as of the periods indicated:

	June 30, 2018	December 31, 2017

	(Dollars in thousands)	
Receivables, included in other assets	$1,850	$ 1,934

Investment Management - Retail Investments and Insurance Revenue

The Company offers the sale of mutual fund shares, unit investment trust shares, general securities, fixed and variable annuities and life insurance products through registered representatives who are both employed by the Company and licensed and contracted with various Broker General Agents to offer these products to the Company's customer base. As such, the Company performs these services as an agent and earns a fixed commission on the sales of these products and services. To a lesser degree, production bonus commissions can also be earned based upon the Company meeting certain volume thresholds.

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In general, the Company recognizes commission revenue at the point of sale, and for certain insurance products, may also earn and recognize annual residual commissions commensurate with annual premiums being paid.

Merchant Processing Income

The Company refers customers to third party merchant processing partners in exchange for commission and fee income. The income earned is comprised of multiple components, including a fixed referral fee per each referred customer, a rebate amount determined primarily as a percentage of net revenue earned by the third party from services provided to each referred customer, and overall production bonus commissions if certain new account production thresholds are met. Merchant processing income is recognized in conjunction with either completing the referral to earn the fixed fee amount or as the merchant activity is processed to derive the Company's rebate and/or production bonus amounts.

Other Noninterest Income

The Company earns various types of other noninterest income that fall within the scope of the new revenue recognition rules, and have been aggregated into one general revenue stream in the table noted above. This amount includes, but is not limited to, the following types of revenue with customers:

Safe Deposit Rent

The Company rents out the use of safe deposit boxes to its customers, which can be accessed when the bank is open for business. The safe deposit box rental fee is paid upfront and is recognized as revenue ratably over the annual term of the contract.

1031 Exchange Fee Revenue

The Company provides like-kind exchange services pursuant to Section 1031 of the Internal Revenue Code. Fee income is recognized in conjunction with completing the exchange transactions.

Foreign Currency

The Company earns fee income associated with various transactions related to foreign currency product offerings, including foreign currency bank notes and drafts and foreign currency wires. The majority of this income is derived from commissions earned related to customers executing the above mentioned foreign currency transactions through arrangements with third party correspondents.

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NOTE 12 - COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount
	(Dollars in thousands)					
Change in fair value of securities available for sale	$(2,533)	$ 609	$(1,924)	$(9,773)	$ 2,381	$(7,392)
Less: net security gains reclassified into other noninterest income (expense)	—	—	—	—	—	—
Net change in fair value of securities available for sale	(2,533)	609	(1,924)	(9,773)	2,381	(7,392)
Change in fair value of cash flow hedges	10	(2)	8	396	(108)	288
Less: net cash flow hedge gains reclassified into interest income or interest expense (1)	167	(47)	120	257	(72)	185
Net change in fair value of cash flow hedges	(157)	45	(112)	139	(36)	103
Amortization of net actuarial losses	93	(27)	66	187	(53)	134
Amortization of net prior service costs	69	(18)	51	138	(38)	100
Net change in other comprehensive income for defined benefit postretirement plans (2)	162	(45)	117	325	(91)	234
Total other comprehensive loss	$(2,528)	$ 609	$(1,919)	$(9,309)	$ 2,254	$(7,055)

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount
	(Dollars in thousands)					
Change in fair value of securities available for sale	$1,277	$ (485)	$ 792	$2,173	$ (849)	$1,324
Less: net security gains reclassified into other noninterest income	1	(1)	—	2	(1)	1
Net change in fair value of securities available for sale	1,276	(484)	792	2,171	(848)	1,323
Change in fair value of cash flow hedges	(399)	162	(237)	(341)	138	(203)
Less: net cash flow hedge losses reclassified into interest income or interest expense (1)	(80)	33	(47)	(173)	71	(102)
Net change in fair value of cash flow hedges	(319)	129	(190)	(168)	67	(101)
Net unamortized loss related to defined benefit pension and other postretirement adjustments arising during the period	(7)	3	(4)	(14)	6	(8)
Amortization of net actuarial losses	69	(28)	41	139	(57)	82
Amortization of net prior service costs	69	(28)	41	138	(56)	82
Net change in other comprehensive income for defined benefit postretirement plans (2)	131	(53)	78	263	(107)	156

Total other comprehensive income	$1,088	$ (408)	$ 680	$2,266	$ (888)	$1,378

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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 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 $78,000 and $137,000 at June 30, 2018 and December 31, 2017, 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, 2017, filed with the Securities and Exchange Commission.

Effective January 1, 2018, the Company elected to reclassify certain tax effects from accumulated other comprehensive income to retained earnings, related to items that were stranded in other comprehensive income as a result of the Tax Act. A description of the other income tax effects that were reclassified as a result of the Act are listed in the table below.

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 on Securities	Unrealized Gain (Loss) on Cash Flow Hedge	Deferred Gain on Hedge Transactions	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income (Loss)
	(Dollars in thousands)				
	2018				
Beginning balance: January 1, 2018	$(504)	$ 948	$ 137	$ (2,412)	$ (1,831)
Opening balance reclassification	(111)	205	29	(520)	(397)
Cumulative effect accounting adjustment	(831)	—	—	—	(831)
Net change in other comprehensive income (loss)	(7,392)	191	(88)	234	(7,055)
Ending balance: June 30, 2018	$(8,838)	$ 1,344	$ 78	$ (2,698)	$ (10,114)
	2017				
Beginning balance: January 1, 2017	$173	$ 361	$ 281	$ (2,152)	$ (1,337)
Net change in other comprehensive income (loss)	1,323	(29)	(72)	156	1,378
Ending balance: June 30, 2017	$1,496	$ 332	$ 209	$ (1,996)	$ 41

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance Sheet Risk

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

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