

INDEPENDENT BANK CORP

Form 10-Q

November 06, 2012

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

---

FORM 10-Q

---

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

For the quarterly period ended September 30, 2012

Commission File Number: 1-9047

---

Independent Bank Corp.

(Exact name of registrant as specified in its charter)

---

Massachusetts

04-2870273

(State or other jurisdiction of  
incorporation or organization)

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

Office Address: 2036 Washington Street, Hanover Massachusetts 02339

Mailing Address: 288 Union Street, Rockland, Massachusetts 02370

(Address of principal executive offices, including zip code)

(781) 878-6100

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer ☐

Accelerated Filer ☒

Non-accelerated Filer ☐

Smaller Reporting Company ☐

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

As of November 1, 2012, there were 21,680,218 shares of the issuer's common stock outstanding, par value \$0.01 per share.

Table of Contents

INDEX

|                                                                                                                  | PAGE      |
|------------------------------------------------------------------------------------------------------------------|-----------|
| <u>PART I. FINANCIAL INFORMATION</u>                                                                             |           |
| <u>Item 1. Financial Statements (unaudited)</u>                                                                  |           |
| <u>Consolidated Balance Sheets</u> - September 30, 2012 and December 31, 2011                                    | <u>5</u>  |
| <u>Consolidated Statements of Income</u> - Three and nine months ended September 30, 2012 and 2011               | <u>7</u>  |
| <u>Consolidated Statements of Comprehensive Income</u> - Three and nine months ended September 30, 2012 and 2011 | <u>8</u>  |
| <u>Consolidated Statements of Stockholders' Equity</u> - Nine months ended September 30, 2012 and 2011           | <u>9</u>  |
| <u>Consolidated Statements of Cash Flows</u> - Nine months ended September 30, 2012 and 2011                     | <u>11</u> |
| <u>Notes to Consolidated Financial Statements</u> - September 30, 2012                                           |           |
| <u>Note 1 - Basis of Presentation</u>                                                                            | <u>13</u> |
| <u>Note 2 - Recent Accounting Standards</u>                                                                      | <u>13</u> |
| <u>Note 3 - Securities</u>                                                                                       | <u>13</u> |
| <u>Note 4 - Loans, Allowance for Loan Losses, and Credit Quality</u>                                             | <u>18</u> |
| <u>Note 5 - Goodwill and Identifiable Intangible Assets</u>                                                      | <u>30</u> |
| <u>Note 6- Earnings Per Share</u>                                                                                | <u>30</u> |
| <u>Note 7 - Stock Based Compensation</u>                                                                         | <u>31</u> |
| <u>Note 8 - Derivative and Hedging Activities</u>                                                                | <u>31</u> |
| <u>Note 9 - Fair Value Measurements</u>                                                                          | <u>35</u> |
| <u>Note 10 - Comprehensive Income/(Loss)</u>                                                                     | <u>43</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>             | <u>46</u> |

Table of Contents

|                                                                                                            |           |
|------------------------------------------------------------------------------------------------------------|-----------|
| <u>Table 1 - Nonperforming Assets/Loans</u>                                                                | <u>58</u> |
| <u>Table 2 - Nonperforming Rollforward</u>                                                                 | <u>59</u> |
| <u>Table 3 - Troubled Debt Restructurings</u>                                                              | <u>59</u> |
| <u>Table 4 - Troubled Debt Restructurings Rollforward</u>                                                  | <u>59</u> |
| <u>Table 5 - Interest Income Recognized/Collected on Nonaccrual Loans And Troubled Debt Restructurings</u> | <u>60</u> |
| <u>Table 6 - Potential Problem Commercial Loans</u>                                                        | <u>61</u> |
| <u>Table 7 - Summary of Changes in the Allowance for Loan Losses</u>                                       | <u>61</u> |
| <u>Table 8 - Summary of Allocation of the Allowance for Loan Losses</u>                                    | <u>63</u> |
| <u>Table 9 - Borrowings</u>                                                                                | <u>64</u> |
| <u>Table 10 - Company and Bank's Capital Amounts and Ratios</u>                                            | <u>65</u> |
| <u>Table 11 - Closed Residential Real Estate Loans</u>                                                     | <u>67</u> |
| <u>Table 12 - Mortgage Servicing Asset</u>                                                                 | <u>67</u> |
| <u>Table 13 - Summary of Results of Operations</u>                                                         | <u>68</u> |
| <u>Table 14 - Average Balance, Interest Earned/Paid &amp; Average Yields – Three Months Ended</u>          | <u>68</u> |
| <u>Table 15 – Average Balance, Interest Earned/Paid &amp; Average Yields – Six Months Ended</u>            | <u>70</u> |
| <u>Table 16 - Volume Rate</u>                                                                              | <u>72</u> |
| <u>Table 17 - Noninterest Income – Three Months Ended</u>                                                  | <u>75</u> |
| <u>Table 18 - Noninterest Income – Six Months Ended</u>                                                    | <u>75</u> |
| <u>Table 19 - Noninterest Expense – Three Months Ended</u>                                                 | <u>77</u> |

Table of Contents

|                                                                            |               |
|----------------------------------------------------------------------------|---------------|
| <u>Table 20 - Noninterest Expense – Six Months Ended</u>                   | <u>78</u>     |
| <u>Table 21 - Tax Provision and Applicable Tax Rates</u>                   | <u>78</u>     |
| <u>Table 22 - New Markets Tax Credit Recognition Schedule</u>              | <u>79</u>     |
| <u>Table 23 - Interest Rate Sensitivity</u>                                | <u>81</u>     |
| <u>Table 24 - Sources of Liquidity</u>                                     | <u>83</u>     |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>83</u>     |
| <u>Item 4. Controls and Procedures</u>                                     | <u>83</u>     |
| <br><u>PART II. OTHER INFORMATION</u>                                      | <br><u>84</u> |
| <u>Item 1. Legal Proceedings</u>                                           | <u>84</u>     |
| <u>Item 1A. Risk Factors</u>                                               | <u>84</u>     |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>84</u>     |
| <u>Item 3. Defaults Upon Senior Securities</u>                             | <u>84</u>     |
| <u>Item 4. Mine Safety Disclosures</u>                                     | <u>84</u>     |
| <u>Item 5. Other Information</u>                                           | <u>84</u>     |
| <u>Item 6. Exhibits</u>                                                    | <u>85</u>     |
| <br><u>Signatures</u>                                                      | <br><u>88</u> |
| Exhibit 31.1 – Certification 302                                           | 1             |
| Exhibit 31.2 – Certification 302                                           | 1             |
| Exhibit 32.1 – Certification 906                                           | 1             |
| Exhibit 32.2 – Certification 906                                           | 2             |

Table of Contents

## PART 1. FINANCIAL INFORMATION

## Item 1. Financial Statements

## INDEPENDENT BANK CORP.

## CONSOLIDATED BALANCE SHEETS

(Unaudited—Dollars in Thousands)

|                                                                  | September 30,<br>2012 | December 31,<br>2011 |
|------------------------------------------------------------------|-----------------------|----------------------|
| ASSETS                                                           |                       |                      |
| CASH AND DUE FROM BANKS                                          | \$66,690              | \$58,301             |
| INTEREST EARNING DEPOSITS WITH BANKS                             | 111,703               | 179,203              |
| SECURITIES:                                                      |                       |                      |
| Trading Securities                                               | —                     | 8,240                |
| Securities Available for Sale                                    | 323,156               | 305,332              |
| Securities Held to Maturity (fair value \$195,454 and \$211,494) | 186,842               | 204,956              |
| TOTAL SECURITIES                                                 | 509,998               | 518,528              |
| LOANS HELD FOR SALE (at fair value)                              | 42,393                | 20,500               |
| LOANS:                                                           |                       |                      |
| Commercial and Industrial                                        | 653,861               | 575,716              |
| Commercial Real Estate                                           | 1,939,245             | 1,847,654            |
| Commercial Construction                                          | 175,731               | 128,904              |
| Small Business                                                   | 78,794                | 78,509               |
| Residential Real Estate                                          | 375,660               | 416,570              |
| Residential Construction                                         | 9,288                 | 9,631                |
| Home Equity—1st Position                                         | 485,605               | 381,766              |
| Home Equity—2nd Position                                         | 308,770               | 314,297              |
| Consumer—Other                                                   | 29,181                | 41,343               |
| TOTAL LOANS                                                      | 4,056,135             | 3,794,390            |
| Less: Allowance for Loan Losses                                  | (49,746)              | (48,260)             |
| NET LOANS                                                        | 4,006,389             | 3,746,130            |
| FEDERAL HOME LOAN BANK STOCK                                     | 33,564                | 35,854               |
| BANK PREMISES AND EQUIPMENT, NET                                 | 49,100                | 48,252               |
| GOODWILL                                                         | 127,847               | 130,074              |
| IDENTIFIABLE INTANGIBLE ASSETS                                   | 9,446                 | 10,648               |
| CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES                  | 86,980                | 86,137               |
| OTHER REAL ESTATE OWNED & OTHER FORECLOSED ASSETS                | 8,927                 | 6,924                |
| OTHER ASSETS                                                     | 139,057               | 129,689              |
| TOTAL ASSETS                                                     | \$5,192,094           | \$4,970,240          |
| LIABILITIES AND STOCKHOLDERS' EQUITY                             |                       |                      |
| DEPOSITS:                                                        |                       |                      |
| Demand Deposits                                                  | \$1,110,266           | \$992,418            |
| Savings and Interest Checking Accounts                           | 1,536,439             | 1,473,812            |
| Money Market                                                     | 840,723               | 780,437              |
| Time Certificates of Deposit Over \$100,000                      | 248,061               | 225,099              |
| Other Time Certificates of Deposits                              | 382,358               | 405,063              |
| TOTAL DEPOSITS                                                   | 4,117,847             | 3,876,829            |
| BORROWINGS:                                                      |                       |                      |
| Federal Home Loan Bank and Other Borrowings                      | 189,464               | 229,701              |



Table of Contents

|                                                                                                                                                                                                                                                                                         |             |             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Wholesale Repurchase Agreements                                                                                                                                                                                                                                                         | 50,000      | 50,000      |
| Customer Repurchase Agreements                                                                                                                                                                                                                                                          | 158,578     | 166,128     |
| Junior Subordinated Debentures                                                                                                                                                                                                                                                          | 61,857      | 61,857      |
| Subordinated Debentures                                                                                                                                                                                                                                                                 | 30,000      | 30,000      |
| TOTAL BORROWINGS                                                                                                                                                                                                                                                                        | 489,899     | 537,686     |
| OTHER LIABILITIES                                                                                                                                                                                                                                                                       | 91,383      | 86,668      |
| TOTAL LIABILITIES                                                                                                                                                                                                                                                                       | 4,699,129   | 4,501,183   |
| 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,<br>Issued and Outstanding: 21,666,926 Shares at September 30, 2012 and 21,499,768<br>Shares at December 31, 2011 (includes 263,124 and 235,540 shares of unvested<br>participating restricted stock awards, respectively) | 214         | 213         |
| Shares Held in Rabbi Trust at Cost                                                                                                                                                                                                                                                      |             |             |
| 179,004 Shares at September 30, 2012 and 180,058 Shares at December 31, 2011                                                                                                                                                                                                            | (3,103      | ) (2,980 )  |
| Deferred Compensation Obligation                                                                                                                                                                                                                                                        | 3,103       | 2,980       |
| Additional Paid in Capital                                                                                                                                                                                                                                                              | 237,859     | 233,878     |
| Retained Earnings                                                                                                                                                                                                                                                                       | 258,481     | 239,452     |
| Accumulated Other Comprehensive Loss, Net of Tax                                                                                                                                                                                                                                        | (3,589      | ) (4,486 )  |
| TOTAL STOCKHOLDERS' EQUITY                                                                                                                                                                                                                                                              | 492,965     | 469,057     |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY                                                                                                                                                                                                                                              | \$5,192,094 | \$4,970,240 |
| The accompanying notes are an integral part of these consolidated financial statements.                                                                                                                                                                                                 |             |             |

Table of Contents

## INDEPENDENT BANK CORP.

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited—Dollars in Thousands, Except Per Share Data)

|                                                                | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                |
|----------------------------------------------------------------|-------------------------------------|---------------|------------------------------------|----------------|
|                                                                | 2012                                | 2011          | 2012                               | 2011           |
| <b>INTEREST INCOME:</b>                                        |                                     |               |                                    |                |
| Interest on Loans                                              | \$44,251                            | \$43,763      | \$131,142                          | \$130,917      |
| Taxable Interest and Dividends on Securities                   | 3,995                               | 4,929         | 12,938                             | 15,779         |
| Nontaxable Interest and Dividends on Securities                | 20                                  | 78            | 72                                 | 286            |
| Interest on Loans Held for Sale                                | 255                                 | 116           | 541                                | 305            |
| Interest on Federal Funds Sold                                 | 34                                  | 49            | 85                                 | 80             |
| <b>TOTAL INTEREST AND DIVIDEND INCOME</b>                      | <b>48,555</b>                       | <b>48,935</b> | <b>144,778</b>                     | <b>147,367</b> |
| <b>INTEREST EXPENSE:</b>                                       |                                     |               |                                    |                |
| Interest on Deposits                                           | 2,619                               | 3,419         | 8,045                              | 10,448         |
| Interest on Borrowings                                         | 3,098                               | 3,842         | 9,413                              | 11,696         |
| <b>TOTAL INTEREST EXPENSE</b>                                  | <b>5,717</b>                        | <b>7,261</b>  | <b>17,458</b>                      | <b>22,144</b>  |
| <b>NET INTEREST INCOME</b>                                     | <b>42,838</b>                       | <b>41,674</b> | <b>127,320</b>                     | <b>125,223</b> |
| <b>PROVISION FOR LOAN LOSSES</b>                               | <b>3,606</b>                        | <b>2,000</b>  | <b>13,706</b>                      | <b>7,682</b>   |
| <b>NET INTEREST INCOME AFTER PROVISION FOR<br/>LOAN LOSSES</b> | <b>39,232</b>                       | <b>39,674</b> | <b>113,614</b>                     | <b>117,541</b> |
| <b>NONINTEREST INCOME:</b>                                     |                                     |               |                                    |                |
| Service Charges on Deposit Accounts                            | 3,959                               | 4,223         | 11,771                             | 12,374         |
| Interchange and ATM Fees                                       | 2,422                               | 2,005         | 7,189                              | 5,681          |
| Investment Management                                          | 3,723                               | 3,491         | 11,113                             | 10,310         |
| Mortgage Banking Income                                        | 1,445                               | 907           | 4,238                              | 2,637          |
| Increase in Cash Surrender Value of Life Insurance Policies    | 757                                 | 757           | 2,211                              | 2,323          |
| Proceeds from Life Insurance Policies                          | 1,307                               | —             | 1,307                              | —              |
| Loan Level Derivative Income                                   | 1,047                               | 295           | 2,747                              | 1,241          |
| Net Gain on Sales of Securities                                | —                                   | —             | —                                  | 723            |
| Gross Change on OTTI Securities                                | 403                                 | (318)         | 571                                | 101            |
| Less: Portion of OTTI Losses Recognized in OCI                 | (403)                               | ) 290         | (647)                              | ) (305)        |
| Net Impairment Losses Recognized in Earnings on Securities     | —                                   | (28)          | ) (76)                             | ) (204)        |
| Other Noninterest Income                                       | 1,448                               | 665           | 4,500                              | 3,301          |
| <b>TOTAL NONINTEREST INCOME</b>                                | <b>16,108</b>                       | <b>12,315</b> | <b>45,000</b>                      | <b>38,386</b>  |
| <b>NONINTEREST EXPENSES:</b>                                   |                                     |               |                                    |                |
| Salaries and Employee Benefits                                 | 20,704                              | 20,568        | 61,915                             | 60,582         |
| Occupancy and Equipment Expenses                               | 4,218                               | 4,107         | 12,752                             | 12,946         |
| Goodwill Impairment                                            | 2,227                               | —             | 2,227                              | —              |
| Advertising Expense                                            | 1,267                               | 703           | 3,478                              | 3,247          |
| Data Processing & Facilities Management                        | 1,144                               | 1,152         | 3,418                              | 3,828          |
| FDIC Assessment                                                | 775                                 | 691           | 2,354                              | 2,760          |
| Consulting Expense                                             | 691                                 | 685           | 1,900                              | 1,715          |
| Merger and Acquisition Expenses                                | 595                                 | —             | 1,267                              | —              |
| Legal Fees                                                     | 503                                 | 580           | 1,598                              | 1,647          |
| Telecommunications                                             | 479                                 | 522           | 1,763                              | 1,584          |
| Other Non-Interest Expenses                                    | 7,449                               | 6,415         | 21,738                             | 20,451         |
| <b>TOTAL NONINTEREST EXPENSES</b>                              | <b>40,052</b>                       | <b>35,423</b> | <b>114,410</b>                     | <b>108,760</b> |
| <b>INCOME BEFORE INCOME TAXES</b>                              | <b>15,288</b>                       | <b>16,566</b> | <b>44,204</b>                      | <b>47,167</b>  |

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

|                                          |            |            |            |            |
|------------------------------------------|------------|------------|------------|------------|
| PROVISION FOR INCOME TAXES               | 3,687      | 4,607      | 11,546     | 12,900     |
| NET INCOME                               | \$11,601   | \$11,959   | \$32,658   | \$34,267   |
| BASIC EARNINGS PER SHARE                 | 0.54       | 0.56       | 1.51       | 1.60       |
| DILUTED EARNINGS PER SHARE               | 0.53       | 0.56       | 1.51       | 1.60       |
| WEIGHTED AVERAGE COMMON SHARES (BASIC)   | 21,654,188 | 21,463,714 | 21,613,157 | 21,401,885 |
| COMMON SHARE EQUIVALENTS                 | 52,116     | 13,077     | 31,300     | 32,452     |
| WEIGHTED AVERAGE COMMON SHARES (DILUTED) | 21,706,304 | 21,476,791 | 21,644,457 | 21,434,337 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | 0.21       | 0.19       | 0.63       | 0.57       |

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

Table of Contents

## INDEPENDENT BANK CORP.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited—Dollars in Thousands)

|                                                                                        | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|----------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                                        | 2012                                | 2011      | 2012                               | 2011      |
| NET INCOME                                                                             | \$ 11,601                           | \$ 11,959 | \$ 32,658                          | \$ 34,267 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:                                         |                                     |           |                                    |           |
| UNREALIZED GAINS (LOSSES) ON SECURITIES                                                |                                     |           |                                    |           |
| Change in Fair Value of Securities Available for Sale                                  | 837                                 | (228)     | ) 537                              | 545       |
| Less: Net Security Losses (Gains) Reclassified into Earnings                           | —                                   | 17        | 45                                 | (317)     |
| Net Change in Fair Value of Securities Available for Sale                              | 837                                 | (211)     | ) 582                              | 228       |
| UNREALIZED GAINS (LOSSES) ON CASH FLOW HEDGES                                          |                                     |           |                                    |           |
| Change in Fair Value of Cash Flow Hedges                                               | (929)                               | ) (4,110) | ) (2,125)                          | ) (6,518) |
| Less: Net Cash Flow Hedge Losses Reclassified into Earnings                            | 810                                 | 868       | 2,371                              | 2,366     |
| Net Change in Fair Value of Cash Flow Hedges                                           | (119)                               | ) (3,242) | ) 246                              | (4,152)   |
| AMORTIZATION OF CERTAIN COSTS INCLUDED IN NET PERIODIC RETIREMENT COSTS                | 23                                  | 78        | 69                                 | 330       |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS)                                                | 741                                 | (3,375)   | ) 897                              | (3,594)   |
| TOTAL COMPREHENSIVE INCOME                                                             | \$ 12,342                           | \$ 8,584  | \$ 33,555                          | \$ 30,673 |
| The accompanying notes are an integral part of these consolidated financial statements |                                     |           |                                    |           |

Table of Contents

INDEPENDENT BANK CORP.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited—Dollars in Thousands, Except Per Share Data)

9

---

Table of Contents

|                                                                                             | Common<br>Stock<br>Outstanding | Common<br>Stock | Value of<br>Shares<br>Held in<br>Rabbi Trust<br>at Cost | Deferred<br>Compensation<br>Obligation | Additional<br>Paid in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | TOTAL      |
|---------------------------------------------------------------------------------------------|--------------------------------|-----------------|---------------------------------------------------------|----------------------------------------|----------------------------------|----------------------|-----------------------------------------------|------------|
| BALANCE                                                                                     |                                |                 |                                                         |                                        |                                  |                      |                                               |            |
| DECEMBER 31, 2011                                                                           | 21,499,768                     | \$213           | \$ (2,980 )                                             | \$ 2,980                               | \$233,878                        | \$239,452            | \$ (4,486 )                                   | \$ 469,057 |
| NET INCOME                                                                                  | —                              | —               | —                                                       | —                                      | —                                | 32,658               | —                                             | 32,658     |
| OTHER COMPREHENSIVE INCOME                                                                  | —                              | —               | —                                                       | —                                      | —                                | —                    | 897                                           | 897        |
| DIVIDEND DECLARED (\$0.63 PER SHARE)                                                        | —                              | —               | —                                                       | —                                      | —                                | (13,629 )            | —                                             | (13,629 )  |
| PROCEEDS FROM EXERCISE OF STOCK OPTIONS                                                     | 48,976                         | —               | —                                                       | —                                      | 953                              | —                    | —                                             | 953        |
| TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY                                                | —                              | —               | —                                                       | —                                      | 153                              | —                    | —                                             | 153        |
| EQUITY BASED COMPENSATION RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS SURRENDERED        | —                              | —               | —                                                       | —                                      | 2,178                            | —                    | —                                             | 2,178      |
| SHARES ISSUED UNDER DIRECT STOCK PURCHASE PLAN                                              | 85,254                         | 1               | —                                                       | —                                      | (345 )                           | —                    | —                                             | (344 )     |
| DEFERRED COMPENSATION OBLIGATION TAX BENEFIT RELATED TO DEFERRED COMPENSATION DISTRIBUTIONS | 32,928                         | —               | —                                                       | —                                      | 953                              | —                    | —                                             | 953        |
| BALANCE                                                                                     | —                              | —               | (123 )                                                  | 123                                    | —                                | —                    | —                                             | —          |
| SEPTEMBER 30, 2012                                                                          | —                              | —               | —                                                       | —                                      | 89                               | —                    | —                                             | 89         |
| BALANCE                                                                                     |                                |                 |                                                         |                                        |                                  |                      |                                               |            |
| DECEMBER 31, 2010                                                                           | 21,220,801                     | \$210           | \$ (2,738 )                                             | \$ 2,738                               | \$226,708                        | \$210,320            | \$ (766 )                                     | \$ 436,472 |
| NET INCOME                                                                                  | —                              | —               | —                                                       | —                                      | —                                | 34,267               | —                                             | 34,267     |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |            |       |             |          |           |           |             |           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------|-------------|----------|-----------|-----------|-------------|-----------|
| OTHER<br>COMPREHENSIVE LOSS<br>COMMON<br>DIVIDEND<br>DECLARED (\$0.57<br>PER SHARE)<br>PROCEEDS FROM<br>EXERCISE OF<br>STOCK OPTIONS<br>TAX BENEFIT<br>RELATED TO<br>EQUITY AWARD<br>ACTIVITY<br>EQUITY BASED<br>COMPENSATION<br>RESTRICTED<br>STOCK AWARDS<br>GRANTED, NET<br>OF AWARDS<br>SURRENDERED<br>SHARES ISSUED<br>UNDER DIRECT<br>STOCK<br>PURCHASE PLAN<br>DEFERRED<br>COMPENSATION<br>OBLIGATION<br>TAX BENEFIT<br>RELATED TO<br>DEFERRED<br>COMPENSATION<br>DISTRIBUTIONS<br>BALANCE<br>SEPTEMBER 30,<br>2011 | —          | —     | —           | —        | —         | —         | (3,594 )    | (3,594 )  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | —          | —     | —           | —        | —         | (12,218 ) | —           | (12,218 ) |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 164,100    | 2     | —           | —        | 3,711     | —         | —           | 3,713     |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | —          | —     | —           | —        | 251       | —         | —           | 251       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | —          | —     | —           | —        | 1,917     | —         | —           | 1,917     |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 60,495     | —     | —           | —        | (361 )    | —         | —           | (361 )    |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 19,713     | —     | —           | —        | 540       | —         | —           | 540       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | —          | —     | (146 )      | 146      | —         | —         | —           | —         |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | —          | —     | —           | —        | 79        | —         | —           | 79        |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 21,465,109 | \$212 | \$ (2,884 ) | \$ 2,884 | \$232,845 | \$232,369 | \$ (4,360 ) | \$461,066 |

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

Table of Contents

INDEPENDENT BANK CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited—Dollars In Thousands)

|                                                                                      | Nine Months Ended<br>September 30, |           |
|--------------------------------------------------------------------------------------|------------------------------------|-----------|
|                                                                                      | 2012                               | 2011      |
| CASH FLOWS FROM OPERATING ACTIVITIES:                                                |                                    |           |
| Net Income                                                                           | \$32,658                           | \$34,267  |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED<br>BY OPERATING ACTIVITIES: |                                    |           |
| Depreciation and Amortization                                                        | 7,900                              | 7,178     |
| Goodwill Impairment                                                                  | 2,227                              | —         |
| Provision for Loan Losses                                                            | 13,706                             | 7,682     |
| Deferred Income Tax Benefit                                                          | (28)                               | (32)      |
| Net Gain on Sale of Investments                                                      | —                                  | (723)     |
| Loss on Write-Down of Investments in Securities Available for Sale                   | 76                                 | 204       |
| (Gain)Loss on Sale of Fixed Assets                                                   | (29)                               | 302       |
| Loss on Sale of Other Real Estate Owned and Foreclosed Assets                        | 796                                | 1,308     |
| Gain Realized from Early Termination of Hedging Relationship                         | (22)                               | —         |
| Realized Gain on Sale Leaseback Transaction                                          | (775)                              | (775)     |
| Stock Based Compensation                                                             | 2,178                              | 1,917     |
| Increase in Cash Surrender Value of Life Insurance Policies                          | (3,515)                            | (2,308)   |
| Change in Fair Value on Loans Held for Sale                                          | (788)                              | (929)     |
| Proceeds from Bank Owned Life Insurance                                              | 2,891                              | —         |
| Net Change In:                                                                       |                                    |           |
| Trading Assets                                                                       | (265)                              | (387)     |
| Loans Held for Sale                                                                  | (21,105)                           | 6,690     |
| Other Assets                                                                         | (12,136)                           | (29,778)  |
| Other Liabilities                                                                    | 5,740                              | 11,075    |
| TOTAL ADJUSTMENTS                                                                    | (3,149)                            | 1,424     |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                                            | 29,509                             | 35,691    |
| CASH FLOWS USED IN INVESTING ACTIVITIES:                                             |                                    |           |
| Proceeds from Sales of Securities Available For Sale                                 | —                                  | 14,639    |
| Proceeds from Maturities and Principal Repayments of Securities Available For Sale   | 74,524                             | 80,416    |
| Purchase of Securities Available For Sale                                            | (83,384)                           | (10,072)  |
| Proceeds from Maturities and Principal Repayments of Securities Held to Maturity     | 41,620                             | 27,442    |
| Purchase of Securities Held to Maturity                                              | (24,287)                           | (45,946)  |
| Redemption of Federal Home Loan Bank Stock                                           | 2,290                              | —         |
| Proceeds from (Purchase of) Life Insurance Policies                                  | (219)                              | (220)     |
| Net Increase in Loans                                                                | (280,861)                          | (181,160) |
| Cash Used in Business Combinations                                                   | —                                  | (457)     |
| Purchase of Bank Premises and Equipment                                              | (4,951)                            | (5,933)   |
| Proceeds from the Sale of Bank Premises and Equipment                                | 67                                 | —         |
| Proceeds Resulting from Early Termination of Hedging Relationship                    | 22                                 | —         |
| Proceeds from the Sale of Other Real Estate Owned and Foreclosed Assets              | 4,451                              | 3,919     |

Table of Contents

|                                                                         |           |            |   |
|-------------------------------------------------------------------------|-----------|------------|---|
| NET CASH USED IN INVESTING ACTIVITIES                                   | (270,728  | ) (117,372 | ) |
| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:                            |           |            |   |
| Net Increase(Decrease) in Time Deposits                                 | 257       | (51,708    | ) |
| Net Increase in Other Deposits                                          | 240,761   | 211,458    |   |
| Net (Decrease) Increase in Wholesale and Customer Repurchase Agreements | (7,550    | ) 48,212   |   |
| Net Decrease in Short Term Federal Home Loan Bank Advances              | (40,000   | ) —        |   |
| Net Decrease in Long Term Federal Home Loan Bank Advances               | —         | (44,144    | ) |
| Net Decrease in Treasury Tax & Loan Notes                               | —         | (841       | ) |
| Proceeds from Exercise of Stock Options                                 | 953       | 3,713      |   |
| Tax Benefit from Stock Option Exercises                                 | 153       | 251        |   |
| Restricted Shares Surrendered                                           | (344      | ) (361     | ) |
| Tax Benefit from Deferred Compensation Distribution                     | 89        | 79         |   |
| Shares Issued Under Direct Stock Purchase Plan                          | 953       | 540        |   |
| Common Dividends Paid                                                   | (13,164   | ) (11,960  | ) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                               | 182,108   | 155,239    |   |
| NET (DECREASE)INCREASE IN CASH AND CASH EQUIVALENTS                     | (59,111   | ) 73,558   |   |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                          | 237,504   | 161,282    |   |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                              | \$178,393 | \$234,840  |   |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:    |           |            |   |
| Transfer of Loans to Foreclosed Assets                                  | \$5,429   | \$5,691    |   |
| Transfer of Securities from Trading to Available for Sale               | \$8,505   | \$—        |   |

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

Table of Contents

CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 or any other interim period.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission.

NOTE 2 – RECENT ACCOUNTING STANDARDS UPDATES

FASB ASC Topic No. 350 "Intangibles - Goodwill and Other" Update No. 2012-02. Update No. 2012-02 was issued in July 2012, stating that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this standard did not have an impact on the Company's consolidated financial position.

FASB ASC Topic No. 220 “Comprehensive Income” Update No. 2011-05 and Update no. 2011-12. Update No. 2011-05 was issued in June 2011, and provided amendments to Topic No. 220, “Comprehensive Income”, stating that an entity has the option to present total comprehensive income, the components of net income, and the components of other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The entity is no longer permitted to present the components of other comprehensive income within the statement of stockholders’ equity. Update 2011-12 deferred the component of Update 2011-05 which required entities to present separately on the income statement, reclassification adjustments between other comprehensive income and net income. The amendments in these updates should be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The adoption of this standard did not have an impact on the Company’s consolidated financial position.

NOTE 3 – SECURITIES

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

Table of Contents

|                                                                            | September 30, 2012     |                              |                               |                                        |               | December 31, 2011 |                              |                               |                                        |               |
|----------------------------------------------------------------------------|------------------------|------------------------------|-------------------------------|----------------------------------------|---------------|-------------------|------------------------------|-------------------------------|----------------------------------------|---------------|
|                                                                            | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Unrealized<br>Losses<br>Other | Other-Than-<br>Temporary<br>Impairment | Fair<br>Value | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Unrealized<br>Losses<br>Other | Other-Than-<br>Temporary<br>Impairment | Fair<br>Value |
|                                                                            | (Dollars In Thousands) |                              |                               |                                        |               |                   |                              |                               |                                        |               |
| AVAILABLE<br>FOR SALE<br>SECURITIES:                                       |                        |                              |                               |                                        |               |                   |                              |                               |                                        |               |
| U.S. Government<br>Agency Securities                                       | \$20,055               | \$852                        | \$—                           | \$—                                    | \$20,907      | \$—               | \$—                          | \$—                           | \$—                                    | \$—           |
| Agency<br>Mortgage-Backed<br>Securities                                    | 196,930                | 14,833                       | (18 )                         | —                                      | 211,745       | 222,349           | 16,042                       | —                             | —                                      | 238,391       |
| Agency<br>Collateralized<br>Mortgage<br>Obligations                        | 72,621                 | 826                          | (75 )                         | —                                      | 73,372        | 52,927            | 874                          | —                             | —                                      | 53,801        |
| Private<br>Mortgage-Backed<br>Securities                                   | 3,935                  | —                            | —                             | 177                                    | 4,112         | 6,215             | —                            | —                             | (105 )                                 | 6,110         |
| Single Issuer Trust<br>Preferred<br>Securities Issued<br>by Banks          | —                      | —                            | —                             | —                                      | —             | 5,000             | —                            | (790 )                        | —                                      | 4,210         |
| Pooled Trust<br>Preferred<br>Securities Issued<br>by Banks and<br>Insurers | 8,451                  | —                            | (2,464 )                      | (2,935 )                               | 3,052         | 8,505             | —                            | (2,518 )                      | (3,167 )                               | 2,820         |
| Marketable Equity<br>Securities                                            | 9,764                  | 219                          | (15 )                         | —                                      | 9,968         | —                 | —                            | —                             | —                                      | —             |
| TOTAL<br>AVAILABLE<br>FOR SALE<br>SECURITIES                               | \$311,756              | \$16,730                     | \$(2,572)                     | \$(2,758)                              | \$323,156     | \$294,996         | \$16,916                     | \$(3,308)                     | \$(3,272)                              | \$305,332     |
| HELD TO<br>MATURITY<br>SECURITIES:                                         |                        |                              |                               |                                        |               |                   |                              |                               |                                        |               |
| U.S. Treasury<br>Securities                                                | \$1,013                | \$130                        | \$—                           | \$—                                    | \$1,143       | \$1,014           | \$103                        | \$—                           | \$—                                    | \$1,117       |
| Agency<br>Mortgage-Backed<br>Securities                                    | 81,523                 | 5,239                        | —                             | —                                      | 86,762        | 109,553           | 4,406                        | —                             | —                                      | 113,959       |
| Agency<br>Collateralized<br>Mortgage<br>Obligations                        | 91,845                 | 2,924                        | —                             | —                                      | 94,769        | 77,804            | 2,494                        | —                             | —                                      | 80,298        |
| State, County, and<br>Municipal                                            | 915                    | 14                           | —                             | —                                      | 929           | 3,576             | 34                           | —                             | —                                      | 3,610         |

## Securities

## Single Issuer Trust

|                                      |       |    |   |   |       |       |    |        |   |       |
|--------------------------------------|-------|----|---|---|-------|-------|----|--------|---|-------|
| Preferred Securities Issued by Banks | 6,538 | 63 | — | — | 6,601 | 8,000 | 15 | (669 ) | — | 7,346 |
|--------------------------------------|-------|----|---|---|-------|-------|----|--------|---|-------|

|                           |       |     |   |   |       |       |     |   |   |       |
|---------------------------|-------|-----|---|---|-------|-------|-----|---|---|-------|
| Corporate Debt Securities | 5,008 | 242 | — | — | 5,250 | 5,009 | 155 | — | — | 5,164 |
|---------------------------|-------|-----|---|---|-------|-------|-----|---|---|-------|

## TOTAL HELD

|                        |           |         |     |     |           |           |         |          |     |           |
|------------------------|-----------|---------|-----|-----|-----------|-----------|---------|----------|-----|-----------|
| TO MATURITY SECURITIES | \$186,842 | \$8,612 | \$— | \$— | \$195,454 | \$204,956 | \$7,207 | \$(669 ) | \$— | \$211,494 |
|------------------------|-----------|---------|-----|-----|-----------|-----------|---------|----------|-----|-----------|

|       |           |          |           |           |           |           |          |           |           |           |
|-------|-----------|----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|
| TOTAL | \$498,598 | \$25,342 | \$(2,572) | \$(2,758) | \$518,610 | \$499,952 | \$24,123 | \$(3,977) | \$(3,272) | \$516,826 |
|-------|-----------|----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|

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

The following table shows the gross gains realized on available for sale securities for the periods indicated:

|                                                       | Three Months Ended     |      | Nine Months Ended |       |
|-------------------------------------------------------|------------------------|------|-------------------|-------|
|                                                       | September 30,          |      | September 30,     |       |
|                                                       | 2012                   | 2011 | 2012              | 2011  |
|                                                       | (Dollars in Thousands) |      |                   |       |
| GROSS GAINS REALIZED ON AVAILABLE FOR SALE SECURITIES | \$—                    | \$—  | \$—               | \$723 |

The actual maturities of certain securities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. A schedule of the contractual maturities of securities available for sale and securities held to maturity as of September 30, 2012 is presented below:

Table of Contents

|                                  | Available for Sale     |               | Held to Maturity  |               |
|----------------------------------|------------------------|---------------|-------------------|---------------|
|                                  | Amortized<br>Cost      | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
|                                  | (Dollars in Thousands) |               |                   |               |
| DUE IN ONE YEAR OR LESS          | \$340                  | \$357         | \$239             | \$241         |
| DUE AFTER ONE YEAR TO FIVE YEARS | 1,414                  | 1,521         | 6,548             | 6,877         |
| DUE AFTER FIVE TO TEN YEARS      | 71,549                 | 75,974        | 1,013             | 1,143         |
| DUE AFTER TEN YEARS              | 228,689                | 235,336       | 179,042           | 187,193       |
| TOTAL DEBT SECURITIES            | \$301,992              | \$313,188     | \$186,842         | \$195,454     |
| MARKETABLE EQUITY SECURITIES     | \$9,764                | \$9,968       | \$—               | \$—           |
| TOTAL                            | \$311,756              | \$323,156     | \$186,842         | \$195,454     |

Inclusive in the table above is \$10.5 million and \$13.0 million, respectively, of callable securities in the Company's investment portfolio at September 30, 2012 and December 31, 2011.

At September 30, 2012 and December 31, 2011, investment securities carried at \$380.3 million and \$389.7 million, respectively, were pledged to secure public deposits, assets sold under repurchase agreements, letters of credit, and for other purposes.

At September 30, 2012 and December 31, 2011, the Company had no investments in obligations of individual states, counties, or municipalities, which exceeded 10% of Stockholders' Equity.

**Other-Than-Temporary Impairment**

The Company continually reviews investment securities for the existence of OTTI, taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, the credit worthiness of the obligor of the security, volatility of earnings, current analysts' evaluations, the Company's intent to sell the security, or whether it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery, as well as other qualitative factors. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment.

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

| September 30, 2012                                                   |                        |               |                                             |                                      |                                             |                        |                      |
|----------------------------------------------------------------------|------------------------|---------------|---------------------------------------------|--------------------------------------|---------------------------------------------|------------------------|----------------------|
|                                                                      | # of holdings          | Fair<br>Value | Less than 12 months<br>Unrealized<br>Losses | 12 months or longer<br>Fair<br>Value | 12 months or longer<br>Unrealized<br>Losses | Total<br>Fair<br>Value | Unrealized<br>Losses |
|                                                                      | (Dollars In Thousands) |               |                                             |                                      |                                             |                        |                      |
| AGENCY<br>MORTGAGE-BACKED<br>SECURITIES                              | 1                      | \$3,843       | \$(18 )                                     | \$—                                  | \$—                                         | \$3,843                | \$(18 )              |
| AGENCY COLLATERALIZED<br>MORTGAGE OBLIGATIONS                        | 1                      | 9,888         | (75 )                                       | —                                    | —                                           | 9,888                  | (75 )                |
| POOLED TRUST PREFERRED<br>SECURITIES ISSUED BY<br>BANKS AND INSURERS | 2                      | —             | —                                           | 2,118                                | (2,464 )                                    | 2,118                  | (2,464 )             |
| MARKETABLE EQUITY<br>SECURITIES                                      | 11                     | 531           | (15 )                                       | —                                    | —                                           | 531                    | (15 )                |
| TOTAL TEMPORARILY<br>IMPAIRED SECURITIES                             | 15                     | \$14,262      | \$(108 )                                    | \$2,118                              | \$(2,464 )                                  | \$16,380               | \$(2,572 )           |



Table of Contents

|                        | # of holdings | December 31, 2011      |                   |            |                   |            |                   |
|------------------------|---------------|------------------------|-------------------|------------|-------------------|------------|-------------------|
|                        |               | Fair Value             | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
|                        |               | (Dollars In Thousands) |                   |            |                   |            |                   |
| SINGLE ISSUER TRUST    |               |                        |                   |            |                   |            |                   |
| PREFERRED SECURITIES   |               |                        |                   |            |                   |            |                   |
| ISSUED BY BANKS AND    | 2             | \$—                    | \$—               | \$8,617    | \$(1,459 )        | \$8,617    | \$(1,459 )        |
| INSURERS               |               |                        |                   |            |                   |            |                   |
| POOLED TRUST PREFERRED |               |                        |                   |            |                   |            |                   |
| SECURITIES ISSUED BY   | 2             | —                      | —                 | 2,117      | (2,518 )          | 2,117      | (2,518 )          |
| BANKS AND INSURERS     |               |                        |                   |            |                   |            |                   |
| TOTAL TEMPORARILY      | 4             | \$—                    | \$—               | \$10,734   | \$(3,977 )        | \$10,734   | \$(3,977 )        |
| IMPAIRED SECURITIES    |               |                        |                   |            |                   |            |                   |

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

As a result of the Company's review of these qualitative and quantitative factors, the causes of the impairments listed in the table above by category are as follows at September 30, 2012:

Agency Mortgage-Backed Securities and Collateralized Mortgage Obligations: This portfolio has contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost 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 two below investment grade securities of which one is performing while the other is deferring payments as contractually allowed. The unrealized loss on these securities is attributable to the illiquid nature of the trust preferred market and the significant risk premiums required in the current economic environment. Management evaluates collateral credit and instrument structure, including current and expected deferral and default rates and timing. In addition, discount rates are determined by evaluating comparable spreads observed currently in the market for similar instruments.

Marketable Equity Securities: This portfolio consists of mutual funds and other equity investments. During some periods, the mutual funds in the Company's investment portfolio may have unrealized losses resulting from market fluctuations as well as the risk premium associated with that particular asset class. For example, emerging market equities tend to trade at a higher risk premium than U.S. government bonds and thus, will fluctuate to a greater degree on both the upside and the downside. In the context of a well-diversified portfolio, however, the correlation amongst the various asset classes represented by the funds serves to minimize downside risk. The Company evaluates each mutual fund in the portfolio regularly and measures performance on both an absolute and relative basis. A reasonable recovery period for positions with an unrealized loss is based on management's assessment of general economic data, trends within a particular asset class, valuations, earnings forecasts and bond durations.

Management monitors the following issuances closely for impairment due to the history of OTTI losses recorded within these classes of securities. Management has determined that these securities possess characteristics which in the current economic environment could lead to further credit related OTTI charges. The following tables summarize pertinent information as of September 30, 2012, that was considered by management in determining if OTTI existed:

Table of Contents

|                                                | Class | Amortized<br>Cost (1) | Gross<br>Unrealized<br>Gain/(Loss) | Non-Credit<br>Related<br>Other-<br>Than-Temporary<br>Impairment | Fair<br>Value | Total<br>Cumulative<br>Credit Related<br>Other-Than-<br>Temporary<br>Impairment | Total<br>Cumulative<br>Other-Than-<br>Temporary<br>impairment<br>to Date |
|------------------------------------------------|-------|-----------------------|------------------------------------|-----------------------------------------------------------------|---------------|---------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| (Dollars in Thousands)                         |       |                       |                                    |                                                                 |               |                                                                                 |                                                                          |
| POOLED TRUST<br>PREFERRED SECURITIES:          |       |                       |                                    |                                                                 |               |                                                                                 |                                                                          |
| Pooled Trust Preferred<br>Security A           | C1    | \$1,283               | \$—                                | \$ (1,040 )                                                     | \$243         | \$ (3,676 )                                                                     | \$ (4,716 )                                                              |
| Pooled Trust Preferred<br>Security B           | D     | —                     | —                                  | —                                                               | —             | (3,481 )                                                                        | (3,481 )                                                                 |
| Pooled Trust Preferred<br>Security C           | C1    | 506                   | —                                  | (361 )                                                          | 145           | (482 )                                                                          | (843 )                                                                   |
| Pooled Trust Preferred<br>Security D           | D     | —                     | —                                  | —                                                               | —             | (990 )                                                                          | (990 )                                                                   |
| Pooled Trust Preferred<br>Security E           | C1    | 2,080                 | —                                  | (1,534 )                                                        | 546           | (1,368 )                                                                        | (2,902 )                                                                 |
| Pooled Trust Preferred<br>Security F           | B     | 1,893                 | (1,306 )                           | —                                                               | 587           | —                                                                               | —                                                                        |
| Pooled Trust Preferred<br>Security G           | A1    | 2,689                 | (1,158 )                           | —                                                               | 1,531         | —                                                                               | —                                                                        |
| TOTAL POOLED TRUST<br>PREFERRED SECURITIES     |       | \$8,451               | \$ (2,464 )                        | \$ (2,935 )                                                     | \$3,052       | \$ (9,997 )                                                                     | \$ (12,932 )                                                             |
| PRIVATE MORTGAGE<br>BACKED SECURITIES:         |       |                       |                                    |                                                                 |               |                                                                                 |                                                                          |
| Private Mortgage-Backed<br>Securities—One      | 2A1   | \$2,599               | \$—                                | \$ 95                                                           | \$2,694       | \$ (765 )                                                                       | \$ (670 )                                                                |
| Private Mortgage-Backed<br>Securities—Two      | A19   | 1,336                 | —                                  | 82                                                              | 1,418         | (85 )                                                                           | (3 )                                                                     |
| TOTAL PRIVATE<br>MORTGAGE-BACKED<br>SECURITIES |       | \$3,935               | \$—                                | \$ 177                                                          | \$4,112       | \$ (850 )                                                                       | \$ (673 )                                                                |
| TOTAL                                          |       | \$12,386              | \$ (2,464 )                        | \$ (2,758 )                                                     | \$7,164       | \$ (10,847 )                                                                    | \$ (13,605 )                                                             |

(1) The amortized cost reflects previously recorded OTTI charges recognized in earnings for the applicable securities.

|                                          | Class | Number of<br>Performing<br>Banks and<br>Insurance<br>Cos. in<br>Issuances<br>(Unique) | Current<br>Deferrals/<br>Defaults/Losses<br>(As a % of<br>Original<br>Collateral) | Total<br>Projected<br>Defaults/Losses<br>(as a % of<br>Performing<br>Collateral) | Excess Subordination<br>(After Taking into<br>Account Best Estimate<br>of Future Deferrals/<br>Defaults/Losses) (1) | Lowest<br>credit<br>Ratings<br>to date (2) |
|------------------------------------------|-------|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| POOLED TRUST<br>PREFERRED<br>SECURITIES: |       |                                                                                       |                                                                                   |                                                                                  |                                                                                                                     |                                            |
| Trust Preferred Security<br>A            | C1    | 56                                                                                    | 33.25%                                                                            | 20.88%                                                                           | —%                                                                                                                  | C (Fitch)                                  |

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

|                            |    |    |        |        |        |            |
|----------------------------|----|----|--------|--------|--------|------------|
| Trust Preferred Security B | D  | 56 | 33.25% | 20.88% | —%     | C (Fitch)  |
| Trust Preferred Security C | C1 | 48 | 31.00% | 18.89% | 0.71%  | C (Fitch)  |
| Trust Preferred Security D | D  | 48 | 31.00% | 18.89% | —%     | C (Fitch)  |
| Trust Preferred Security E | C1 | 47 | 27.54% | 16.93% | 2.54%  | C (Fitch)  |
| Trust Preferred Security F | B  | 34 | 26.61% | 22.84% | 28.51% | CC (Fitch) |
| Trust Preferred Security G | A1 | 34 | 26.61% | 22.84% | 52.56% | CCC+ (S&P) |

PRIVATE MORTGAGE  
BACKED  
SECURITIES:

|                                        |     |     |       |        |    |            |
|----------------------------------------|-----|-----|-------|--------|----|------------|
| Private Mortgage-Backed Securities—One | 2A1 | N/A | 5.59% | 13.49% | —% | C (Fitch)  |
| Private Mortgage-Backed Securities—Two | A19 | N/A | 3.42% | 6.44%  | —% | CC (Fitch) |

(1) Excess subordination represents the additional default/losses in excess of both current and projected defaults/losses that the security can absorb before the security experiences any credit impairment.

(2) The Company reviewed credit ratings provided by S&P, Moody's and Fitch in its evaluation of issuers.

Per review of the factors outlined above, seven of the securities shown in the table above were deemed to be OTTI.

The remaining securities were not deemed to be OTTI as the Company does not intend to sell these investments and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell the security before the recovery of its amortized cost basis.

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

# Table of Contents

|                                                     | Three Months Ended<br>September 30,<br>2012 |   | September 30,<br>2011 |   | Nine Months Ended<br>September 30,<br>2012 |   | September 30,<br>2011 |   |
|-----------------------------------------------------|---------------------------------------------|---|-----------------------|---|--------------------------------------------|---|-----------------------|---|
|                                                     | (Dollars in Thousands)                      |   |                       |   |                                            |   |                       |   |
| BALANCE AT BEGINNING OF PERIOD                      | \$ (10,847                                  | ) | \$ (10,704            | ) | \$ (10,771                                 | ) | \$ (10,528            | ) |
| ADD:                                                |                                             |   |                       |   |                                            |   |                       |   |
| Incurred on Securities not Previously Impaired      | —                                           |   | —                     |   | —                                          |   | —                     |   |
| Incurred on Securities Previously Impaired          | —                                           |   | (28                   | ) | (76                                        | ) | (204                  | ) |
| LESS:                                               |                                             |   |                       |   |                                            |   |                       |   |
| Realized Gain/Loss on Sale of Securities            | —                                           |   | —                     |   | —                                          |   | —                     |   |
| Reclassification Due to Changes in Company's Intent | —                                           |   | —                     |   | —                                          |   | —                     |   |
| Increases in Cash Flow Expected to be Collected     | —                                           |   | —                     |   | —                                          |   | —                     |   |
| BALANCE AT END OF PERIOD                            | \$ (10,847                                  | ) | \$ (10,732            | ) | \$ (10,847                                 | ) | \$ (10,732            | ) |

## NOTE 4 – LOANS, ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following tables bifurcates the amount of allowance allocated to each loan category based on collective impairment analysis or evaluated individually for impairment as of the periods indicated:

|                                       | September 30, 2012<br>(Dollars in Thousands) |                           |                            |                   |                            |                         |                   |                 |
|---------------------------------------|----------------------------------------------|---------------------------|----------------------------|-------------------|----------------------------|-------------------------|-------------------|-----------------|
|                                       | Commercial<br>Industrial                     | Commercial<br>Real Estate | Commercial<br>Construction | Small<br>Business | Residential<br>Real Estate | Consumer<br>Home Equity | Consumer<br>Other | Total           |
| FINANCING                             |                                              |                           |                            |                   |                            |                         |                   |                 |
| RECEIVABLES:                          |                                              |                           |                            |                   |                            |                         |                   |                 |
| Ending Balance:                       |                                              |                           |                            |                   |                            |                         |                   |                 |
| Total Loans by Group                  | \$653,861                                    | \$1,939,245               | \$175,731                  | \$78,794          | \$384,948                  | \$794,375               | \$29,181          | \$4,056,135 (1) |
| Ending Balance:                       |                                              |                           |                            |                   |                            |                         |                   |                 |
| Individually Evaluated for Impairment | \$8,451                                      | \$35,653                  | \$—                        | \$2,636           | \$16,273                   | \$4,284                 | \$2,293           | \$69,590        |
| Ending Balance:                       |                                              |                           |                            |                   |                            |                         |                   |                 |
| Collectively Evaluated for Impairment | \$645,410                                    | \$1,903,592               | \$175,731                  | \$76,158          | \$368,675                  | \$790,091               | \$26,888          | \$3,986,545     |

|                            | December 31, 2011<br>(Dollars in Thousands) |                           |                            |                   |                            |                         |                   |                 |
|----------------------------|---------------------------------------------|---------------------------|----------------------------|-------------------|----------------------------|-------------------------|-------------------|-----------------|
|                            | Commercial<br>Industrial                    | Commercial<br>Real Estate | Commercial<br>Construction | Small<br>Business | Residential<br>Real Estate | Consumer<br>Home Equity | Consumer<br>Other | Total           |
| FINANCING                  |                                             |                           |                            |                   |                            |                         |                   |                 |
| RECEIVABLES:               |                                             |                           |                            |                   |                            |                         |                   |                 |
| Ending Balance:            |                                             |                           |                            |                   |                            |                         |                   |                 |
| Total Loans by Group       | \$575,716                                   | \$1,847,654               | \$128,904                  | \$78,509          | \$426,201                  | \$696,063               | \$41,343          | \$3,794,390 (1) |
| Ending Balance:            |                                             |                           |                            |                   |                            |                         |                   |                 |
| Individually Evaluated for | \$5,608                                     | \$37,476                  | \$843                      | \$2,326           | \$12,984                   | \$326                   | \$2,138           | \$61,701        |

Impairment

Ending Balance:

Collectively

Evaluated for

Impairment

|           |             |           |          |           |           |          |             |
|-----------|-------------|-----------|----------|-----------|-----------|----------|-------------|
| \$570,108 | \$1,810,178 | \$128,061 | \$76,183 | \$413,217 | \$695,737 | \$39,205 | \$3,732,689 |
|-----------|-------------|-----------|----------|-----------|-----------|----------|-------------|

(1) The amount of deferred fees included in the ending balance was \$3.2 million and \$2.9 million at September 30, 2012 and December 31, 2011, respectively.

# Table of Contents

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

| Three Months Ended September 30, 2012 |                          |                           |                            |                   |                            |                         |                   |          |
|---------------------------------------|--------------------------|---------------------------|----------------------------|-------------------|----------------------------|-------------------------|-------------------|----------|
| (Dollars in Thousands)                |                          |                           |                            |                   |                            |                         |                   |          |
|                                       | Commercial<br>Industrial | Commercial<br>Real Estate | Commercial<br>Construction | Small<br>Business | Residential<br>Real Estate | Consumer<br>Home Equity | Consumer<br>Other | Total    |
| ALLOWANCE<br>FOR LOAN<br>LOSSES:      |                          |                           |                            |                   |                            |                         |                   |          |
| Beginning Balance                     | \$11,558                 | \$21,376                  | \$2,220                    | \$1,320           | \$2,981                    | \$7,854                 | \$1,094           | \$48,403 |
| Charge-offs                           | (1,267 )                 | (621 )                    | —                          | (98 )             | (227 )                     | (365 )                  | (247 )            | (2,825 ) |
| Recoveries                            | 122                      | 188                       | —                          | 21                | 79                         | 36                      | 116               | 562      |
| Provision                             | 1,555                    | 962                       | 359                        | 128               | 101                        | 443                     | 58                | 3,606    |
| Ending Balance                        | \$11,968                 | \$21,905                  | \$2,579                    | \$1,371           | \$2,934                    | \$7,968                 | \$1,021           | \$49,746 |

| Three Months Ended September 30, 2011 |                          |                           |                            |                   |                            |                         |                   |          |
|---------------------------------------|--------------------------|---------------------------|----------------------------|-------------------|----------------------------|-------------------------|-------------------|----------|
| (Dollars in Thousands)                |                          |                           |                            |                   |                            |                         |                   |          |
|                                       | Commercial<br>Industrial | Commercial<br>Real Estate | Commercial<br>Construction | Small<br>Business | Residential<br>Real Estate | Consumer<br>Home Equity | Consumer<br>Other | Total    |
| ALLOWANCE<br>FOR LOAN<br>LOSSES:      |                          |                           |                            |                   |                            |                         |                   |          |
| Beginning Balance                     | \$11,083                 | \$22,995                  | \$2,071                    | \$2,053           | \$3,242                    | \$3,713                 | \$1,480           | \$46,637 |
| Charge-offs                           | (749 )                   | (242 )                    | —                          | (386 )            | (88 )                      | (333 )                  | (374 )            | (2,172 ) |
| Recoveries                            | 77                       | 98                        | 425                        | 18                | —                          | 13                      | 182               | 813      |
| Provision                             | 1,191                    | 134                       | (605 )                     | 312               | 27                         | 723                     | 218               | 2,000    |
| Ending Balance                        | \$11,602                 | \$22,985                  | \$1,891                    | \$1,997           | \$3,181                    | \$4,116                 | \$1,506           | \$47,278 |

| Nine Months Ended September 30, 2012     |                                 |                           |                            |                   |                            |                         |                   |           |
|------------------------------------------|---------------------------------|---------------------------|----------------------------|-------------------|----------------------------|-------------------------|-------------------|-----------|
| (Dollars in Thousands)                   |                                 |                           |                            |                   |                            |                         |                   |           |
|                                          | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Commercial<br>Construction | Small<br>Business | Residential<br>Real Estate | Consumer<br>Home Equity | Consumer<br>Other | Total     |
| ALLOWANCE FOR<br>LOAN LOSSES:            |                                 |                           |                            |                   |                            |                         |                   |           |
| Beginning Balance                        | \$11,682                        | \$23,514                  | \$2,076                    | \$1,896           | \$3,113                    | \$4,597                 | \$1,382           | \$48,260  |
| Charge-offs                              | (5,989 )                        | (3,358 )                  | —                          | (404 )            | (441 )                     | (2,506 )                | (840 )            | (13,538 ) |
| Recoveries                               | 435                             | 188                       | —                          | 119               | 79                         | 67                      | 430               | 1,318     |
| Provision                                | 5,840                           | 1,561                     | 503                        | (240 )            | 183                        | 5,810                   | 49                | 13,706    |
| Ending Balance                           | \$11,968                        | \$21,905                  | \$2,579                    | \$1,371           | \$2,934                    | \$7,968                 | \$1,021           | \$49,746  |
| Ending Balance:                          |                                 |                           |                            |                   |                            |                         |                   |           |
| Individually Evaluated for<br>Impairment | \$281                           | \$737                     | \$—                        | \$201             | \$1,326                    | \$36                    | \$174             | \$2,755   |
| Ending Balance:                          |                                 |                           |                            |                   |                            |                         |                   |           |
| Collectively<br>Evaluated for Impairment | \$11,687                        | \$21,168                  | \$2,579                    | \$1,170           | \$1,608                    | \$7,932                 | \$847             | \$46,991  |



Table of Contents

Nine Months Ended September  
30, 2011  
(Dollars in Thousands)

|                                             | Commercial and<br>Industrial | Commercial<br>Real Estate | Commercial<br>Construction | Small<br>Business | Residential<br>Real<br>Estate | Consumer<br>Home<br>Equity | Consumer<br>Other | Total     |
|---------------------------------------------|------------------------------|---------------------------|----------------------------|-------------------|-------------------------------|----------------------------|-------------------|-----------|
| <b>ALLOWANCE<br/>FOR LOAN<br/>LOSSES:</b>   |                              |                           |                            |                   |                               |                            |                   |           |
| Beginning Balance                           | \$ 10,423                    | \$ 21,939                 | \$ 2,145                   | \$ 3,740          | \$ 2,915                      | \$ 3,369                   | \$ 1,724          | \$ 46,255 |
| Charge-offs                                 | (2,455 )                     | (1,386 )                  | (769 )                     | (970 )            | (490 )                        | (912 )                     | (1,261 )          | (8,243 )  |
| Recoveries                                  | 348                          | 98                        | 500                        | 72                | —                             | 30                         | 536               | 1,584     |
| Provision                                   | 3,286                        | 2,334                     | 15                         | (845 )            | 756                           | 1,629                      | 507               | 7,682     |
| Ending Balance                              | \$ 11,602                    | \$ 22,985                 | \$ 1,891                   | \$ 1,997          | \$ 3,181                      | \$ 4,116                   | \$ 1,506          | \$ 47,278 |
| Ending Balance:                             |                              |                           |                            |                   |                               |                            |                   |           |
| Individually<br>Evaluated for<br>Impairment | \$ 558                       | \$ 306                    | \$ —                       | \$ 299            | \$ 1,258                      | \$ 24                      | \$ 240            | \$ 2,685  |
| Ending Balance:                             |                              |                           |                            |                   |                               |                            |                   |           |
| Collectively<br>Evaluated for<br>Impairment | \$ 11,044                    | \$ 22,679                 | \$ 1,891                   | \$ 1,698          | \$ 1,923                      | \$ 4,092                   | \$ 1,266          | \$ 44,593 |

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

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

**Commercial Construction**—Loans in this category consist of short-term construction loans, revolving and nonrevolving credit lines and construction/permanent loans to finance the acquisition, development and construction or rehabilitation of real property. Project types include: residential 1-4 family condominium and multi-family homes, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans may be written with nonamortizing or hybrid payment structures depending upon the type of project. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources vary depending upon the type of project and may consist of: sale or lease of units, operating cash flows or liquidation of other assets.

**Small Business**—Loans in this category consist of revolving, term loan and mortgage obligations extended to sole proprietors and small businesses for purposes of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to: accounts receivable, inventory, plant &

equipment, or real estate if applicable. Repayment sources consist of: primarily, operating cash flows, and secondarily, liquidation of assets.

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

Consumer Portfolio:

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

Home Equity—Home equity loans and lines are made to qualified individuals for legitimate purposes secured by senior

## Table of Contents

or junior mortgage liens on owner-occupied 1-4 family homes, condominiums or vacation homes or on nonowner occupied 1-4 family homes with more restrictive loan to value requirements. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan to value ratios within established policy guidelines.

Consumer—Other—Other consumer loan products including personal lines of credit and amortizing loans made to qualified individuals for various purposes such as education, auto loans, debt consolidation, personal expenses or overdraft protection. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines. These loans may be secured or unsecured.

### Credit Quality:

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

The Company reviews numerous credit quality indicators when assessing the risk in its loan portfolio. For the commercial portfolio, the Company utilizes a 10-point commercial risk-rating system, which assigns a risk-grade to each borrower based on a number of quantitative and qualitative factors associated with a commercial loan transaction. Factors considered include industry and market conditions, position within the industry, earnings trends, operating cash flow, asset/liability values, debt capacity, guarantor strength, management and controls, financial reporting, collateral, and other considerations. The risk-ratings categories are defined as follows:

#### 1- 6 Rating – Pass

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

#### 7 Rating – Potential Weakness

Borrowers exhibit potential credit weaknesses or downward trends deserving management's close attention. If not checked or corrected, these trends will weaken the Bank's asset and position. While potentially weak, currently these borrowers are marginally acceptable; no loss of principal or interest is envisioned.

#### 8 Rating – Definite Weakness

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

#### 9 Rating – Partial Loss Probable

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

#### 10 Rating – Definite Loss

Borrowers deemed incapable of repayment. Loans to such borrowers are considered uncollectible and of such little value that continuation as active assets of the Bank is not warranted.

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

The Company utilizes a comprehensive strategy for monitoring commercial credit quality. Borrowers are required to provide updated financial information at least annually which is carefully evaluated for any changes in credit quality. Larger loan relationships are subject to a full annual credit review by an experienced credit analysis group. Additionally, the Company

Table of Contents

retains an independent loan review firm to evaluate the credit quality of the commercial loan portfolio. The independent loan review process achieves significant penetration into the commercial loan portfolio and reports the results of these reviews to the Audit Committee of the Board of Directors on a quarterly basis.

The following table details the internal risk-rating categories for the Company's commercial portfolio:

| Category                        | Risk Rating | September 30, 2012        |                        |                         |                |             |
|---------------------------------|-------------|---------------------------|------------------------|-------------------------|----------------|-------------|
|                                 |             | Commercial and Industrial | Commercial Real Estate | Commercial Construction | Small Business | Total       |
|                                 |             | (Dollars in Thousands)    |                        |                         |                |             |
| PASS                            | 1 - 6       | \$615,349                 | \$1,759,857            | \$164,545               | \$71,340       | \$2,611,091 |
| POTENTIAL WEAKNESS              | 7           | 19,584                    | 77,791                 | 6,159                   | 3,673          | 107,207     |
| DEFINITE WEAKNESS—LOSS UNLIKELY | 8           | 17,541                    | 100,602                | 5,027                   | 3,697          | 126,867     |
| PARTIAL LOSS PROBABLE           | 9           | 1,387                     | 995                    | —                       | 84             | 2,466       |
| DEFINITE LOSS                   | 10          | —                         | —                      | —                       | —              | —           |
| TOTAL                           |             | \$653,861                 | \$1,939,245            | \$175,731               | \$78,794       | \$2,847,631 |

| Category                        | Risk Rating | December 31, 2011         |                        |                         |                |             |
|---------------------------------|-------------|---------------------------|------------------------|-------------------------|----------------|-------------|
|                                 |             | Commercial and Industrial | Commercial Real Estate | Commercial Construction | Small Business | Total       |
|                                 |             | (Dollars in Thousands)    |                        |                         |                |             |
| PASS                            | 1 - 6       | \$528,798                 | \$1,626,745            | \$114,633               | \$70,543       | \$2,340,719 |
| POTENTIAL WEAKNESS              | 7           | 33,313                    | 124,661                | 7,859                   | 4,041          | 169,874     |
| DEFINITE WEAKNESS—LOSS UNLIKELY | 8           | 12,683                    | 93,438                 | 6,412                   | 3,762          | 116,295     |
| PARTIAL LOSS PROBABLE           | 9           | 922                       | 2,810                  | —                       | 163            | 3,895       |
| DEFINITE LOSS                   | 10          | —                         | —                      | —                       | —              | —           |
| TOTAL                           |             | \$575,716                 | \$1,847,654            | \$128,904               | \$78,509       | \$2,630,783 |

Table of Contents

For the Company's consumer portfolio, the quality of the loan is best indicated by the repayment performance of an individual borrower. However, the Company does supplement performance data with current Fair Isaac Corporation ("FICO") and Loan to Value ("LTV") estimates. Current FICO data is purchased and appended to all consumer loans on a quarterly basis. In addition, automated valuation services and broker opinions of value are used to supplement original value data for the residential and home equity portfolios, periodically, typically twice per annum. At September 30, 2012 and December 31, 2011, 61.1% and 54.8% of the home equity loans were in first lien position, respectively. In addition, for all second position home equity loans, management reviews the performance of the first position lien, which is often held at another institution, when determining the performing status of the loan. The following table shows the weighted average FICO scores and the weighted average combined LTV ratios as of the periods indicated below:

|                              | September 30,<br>2012 | December 31,<br>2011 |   |
|------------------------------|-----------------------|----------------------|---|
| RESIDENTIAL PORTFOLIO:       |                       |                      |   |
| FICO Score (re-scored) (1)   | 727                   | 731                  |   |
| Combined LTV (re-valued) (2) | 67.0                  | % 67.0               | % |
| HOME EQUITY PORTFOLIO:       |                       |                      |   |
| FICO Score (re-scored) (1)   | 763                   | 762                  |   |
| Combined LTV (re-valued) (2) | 55.0                  | % 55.0               | % |

The average FICO scores for September 30, 2012 are based upon rescues available from August 2012 and actual score data for loans booked between September 1 and September 30, 2012. The average FICO scores for (1) December 31, 2011 are based upon rescues available from November 2011 and actual score data for loans booked between December 1 and December 31, 2011.

The combined LTV ratios for September 30, 2012 are based upon updated automated valuations as of May 31, (2) 2012. The combined LTV ratios for December 31, 2011 are based upon updated automated valuations as of November 30, 2011.

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

The following table shows nonaccrual loans at the dates indicated:

|                            | September 30,<br>2012  | December 31,<br>2011 |
|----------------------------|------------------------|----------------------|
|                            | (Dollars In Thousands) |                      |
| COMMERCIAL AND INDUSTRIAL  | \$2,981                | \$1,883              |
| COMMERCIAL REAL ESTATE     | 9,249                  | 12,829               |
| COMMERCIAL CONSTRUCTION    | —                      | 280                  |
| SMALL BUSINESS             | 604                    | 542                  |
| RESIDENTIAL REAL ESTATE    | 10,383                 | 9,867                |
| HOME EQUITY                | 7,608                  | 3,130                |
| CONSUMER—OTHER             | 181                    | 381                  |
| TOTAL NONACCRUAL LOANS (1) | \$31,006               | \$28,912             |

(1) Included in these amounts were \$6.0 million and \$9.2 million of nonaccruing TDRs at September 30, 2012 and December 31, 2011, respectively.

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

Table of Contents

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

| September 30, 2012        |                 |                   |                 |                   |                 |                   |                 |                   |              |                             |                                           |  |  |
|---------------------------|-----------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|-------------------|--------------|-----------------------------|-------------------------------------------|--|--|
|                           | 30-59 days      |                   | 60-89 days      |                   | 90 days or more |                   | Total Past Due  |                   | Current      | Total Financing Receivables | Recorded Investment >90 Days and Accruing |  |  |
|                           | Number of Loans | Principal Balance | Number of Loans | Principal Balance | Number of Loans | Principal Balance | Number of Loans | Principal Balance |              |                             |                                           |  |  |
| (Dollars in Thousands)    |                 |                   |                 |                   |                 |                   |                 |                   |              |                             |                                           |  |  |
| LOAN PORTFOLIO:           |                 |                   |                 |                   |                 |                   |                 |                   |              |                             |                                           |  |  |
| Commercial and Industrial | 11              | \$ 1,266          | 10              | \$ 987            | 25              | \$ 1,783          | 46              | \$ 4,036          | \$ 649,825   | \$ 653,861                  | \$ —                                      |  |  |
| Commercial Real Estate    | 12              | 2,375             | 7               | 1,319             | 27              | 6,580             | 46              | 10,274            | 1,928,971    | 1,939,245                   | —                                         |  |  |
| Commercial Construction   | 1               | 155               | —               | —                 | —               | —                 | 1               | 155               | 175,576      | 175,731                     | —                                         |  |  |
| Small Business            | 9               | 410               | 3               | 46                | 8               | 315               | 20              | 771               | 78,023       | 78,794                      | —                                         |  |  |
| Residential Real Estate   | 15              | 3,352             | 9               | 2,698             | 30              | 6,365             | 54              | 12,415            | 363,245      | 375,660                     | —                                         |  |  |
| Residential Construction  | —               | —                 | —               | —                 | —               | —                 | —               | —                 | 9,288        | 9,288                       | —                                         |  |  |
| Home Equity               | 17              | 993               | 8               | 327               | 20              | 1,696             | 45              | 3,016             | 791,359      | 794,375                     | 35                                        |  |  |
| Consumer—Other            | 144             | 972               | 40              | 196               | 30              | 154               | 214             | 1,322             | 27,859       | 29,181                      | 41                                        |  |  |
| TOTAL                     | 209             | \$ 9,523          | 77              | \$ 5,573          | 140             | \$ 16,893         | 426             | \$ 31,989         | \$ 4,024,146 | \$ 4,056,135                | \$ 76                                     |  |  |
|                           |                 |                   |                 |                   |                 |                   |                 |                   |              |                             |                                           |  |  |
| December 31, 2011         |                 |                   |                 |                   |                 |                   |                 |                   |              |                             |                                           |  |  |
|                           | 30-59 days      |                   | 60-89 days      |                   | 90 days or more |                   | Total Past Due  |                   | Current      | Total Financing Receivables | Recorded Investment >90 Days and Accruing |  |  |
|                           | Number of Loans | Principal Balance | Number of Loans | Principal Balance | Number of Loans | Principal Balance | Number of Loans | Principal Balance |              |                             |                                           |  |  |
| (Dollars in Thousands)    |                 |                   |                 |                   |                 |                   |                 |                   |              |                             |                                           |  |  |
| LOAN PORTFOLIO:           |                 |                   |                 |                   |                 |                   |                 |                   |              |                             |                                           |  |  |
| Commercial and Industrial | 21              | \$ 2,143          | 10              | \$ 2,709          | 20              | \$ 1,279          | 51              | \$ 6,131          | \$ 569,585   | \$ 575,716                  | \$ —                                      |  |  |
| Commercial Real Estate    | 7               | 3,684             | 7               | 2,522             | 29              | 6,737             | 43              | 12,943            | 1,834,711    | 1,847,654                   | —                                         |  |  |
| Commercial Construction   | —               | —                 | —               | —                 | 3               | 280               | 3               | 280               | 128,624      | 128,904                     | —                                         |  |  |
| Small Business            | 19              | 320               | 3               | 21                | 12              | 148               | 34              | 489               | 78,020       | 78,509                      | —                                         |  |  |
| Residential Real Estate   | 14              | 2,770             | 10              | 3,208             | 31              | 6,065             | 55              | 12,043            | 404,527      | 416,570                     | —                                         |  |  |
| Residential Construction  | —               | —                 | —               | —                 | —               | —                 | —               | —                 | 9,631        | 9,631                       | —                                         |  |  |
| Home Equity               | 28              | 1,483             | 19              | 1,139             | 19              | 1,502             | 66              | 4,124             | 691,939      | 696,063                     | —                                         |  |  |
| Consumer—Other            | 260             | 1,821             | 57              | 303               | 58              | 374               | 375             | 2,498             | 38,845       | 41,343                      | 41                                        |  |  |
| TOTAL                     | 349             | \$ 12,221         | 106             | \$ 9,902          | 172             | \$ 16,385         | 627             | \$ 38,508         | \$ 3,755,882 | \$ 3,794,390                | \$ 41                                     |  |  |

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.

Table of Contents

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

|                                                                                                | September 30,<br>2012  | December 31,<br>2011 |
|------------------------------------------------------------------------------------------------|------------------------|----------------------|
|                                                                                                | (Dollars in Thousands) |                      |
| TDRs ON ACCRUAL STATUS                                                                         | \$46,823               | \$37,151             |
| TDRs ON NONACCRUAL                                                                             | 5,962                  | 9,230                |
| TOTAL TDRs                                                                                     | \$52,785               | \$46,381             |
| AMOUNT OF SPECIFIC RESERVES INCLUDED IN THE ALLOWANCE<br>FOR LOAN LOSSES ASSOCIATED WITH TDRs: | \$2,189                | \$1,887              |
| ADDITIONAL COMMITMENTS TO LEND TO A BORROWER WHO<br>HAS BEEN A PARTY TO A TDR:                 | \$896                  | \$693                |

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

|                                          | Three Months Ended,<br>September 30, 2012 |                                                           |                                                                   | Nine Months Ended<br>September 30, 2012 |                                                           |                                                                |
|------------------------------------------|-------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------|
|                                          | Number of<br>Contracts                    | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment<br>(1) | Number of<br>Contracts                  | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment (1) |
|                                          | (Dollars in Thousands)                    |                                                           |                                                                   |                                         |                                                           |                                                                |
| <b>TROUBLED DEBT<br/>RESTRUCTURINGS:</b> |                                           |                                                           |                                                                   |                                         |                                                           |                                                                |
| Commercial & Industrial                  | 4                                         | \$ 329                                                    | \$329                                                             | 15                                      | \$ 1,602                                                  | \$ 1,602                                                       |
| Commercial Real Estate                   | 5                                         | 1,624                                                     | 1,624                                                             | 13                                      | 6,274                                                     | 6,274                                                          |
| Small Business                           | 8                                         | 327                                                       | 327                                                               | 16                                      | 724                                                       | 724                                                            |
| Residential Real Estate                  | 5                                         | 889                                                       | 893                                                               | 9                                       | 1,539                                                     | 1,543                                                          |
| Home Equity                              | 3                                         | 111                                                       | 113                                                               | 12                                      | 767                                                       | 769                                                            |
| Consumer—Other                           | 8                                         | 57                                                        | 57                                                                | 30                                      | 459                                                       | 459                                                            |
| TOTAL                                    | 33                                        | \$ 3,337                                                  | \$3,343                                                           | 95                                      | \$ 11,365                                                 | \$ 11,371                                                      |

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

# Table of Contents

|                                          | Three Months Ended<br>September 30, 2011 |                                                           |                                                                                             | Nine Months Ended<br>September 30, 2011 |                                                           |                                                                |
|------------------------------------------|------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------|
|                                          | Number of<br>Contracts                   | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment<br>(1)<br>(Dollars in Thousands) | Number of<br>Contracts                  | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment (1) |
| <b>TROUBLED DEBT<br/>RESTRUCTURINGS:</b> |                                          |                                                           |                                                                                             |                                         |                                                           |                                                                |
| Commercial & Industrial                  | 1                                        | \$ 200                                                    | \$200                                                                                       | 5                                       | \$ 410                                                    | \$ 410                                                         |
| Commercial Real Estate                   | 2                                        | 872                                                       | 872                                                                                         | 8                                       | 6,151                                                     | 6,151                                                          |
| Small Business                           | 14                                       | 480                                                       | 480                                                                                         | 34                                      | 1,267                                                     | 1,267                                                          |
| Residential Real Estate                  | 2                                        | 203                                                       | 203                                                                                         | 11                                      | 3,082                                                     | 3,130                                                          |
| Consumer—Home Equity                     | —                                        | —                                                         | —                                                                                           | 3                                       | 127                                                       | 127                                                            |
| Consumer—Other                           | 26                                       | 302                                                       | 302                                                                                         | 71                                      | 816                                                       | 816                                                            |
| <b>TOTAL</b>                             | <b>45</b>                                | <b>\$ 2,057</b>                                           | <b>\$2,057</b>                                                                              | <b>132</b>                              | <b>\$ 11,853</b>                                          | <b>\$ 11,901</b>                                               |

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

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

|                                        | Three Months Ended<br>September 30,<br>2012 |                | Nine Months Ended<br>September 30,<br>2011 |                 |
|----------------------------------------|---------------------------------------------|----------------|--------------------------------------------|-----------------|
|                                        | 2012                                        | 2011           | 2012                                       | 2011            |
|                                        | (Dollars in Thousands)                      |                | (Dollars in Thousands)                     |                 |
| <b>EXTENDED MATURITY</b>               | \$721                                       | \$481          | \$4,058                                    | \$3,978         |
| <b>ADJUSTED INTEREST RATE</b>          | 1,207                                       | 622            | 1,561                                      | 647             |
| <b>COMBINATION RATE &amp; MATURITY</b> | 1,136                                       | 954            | 4,358                                      | 7,276           |
| <b>COURT ORDERED CONCESSION</b>        | 279                                         | —              | 1,394                                      | —               |
| <b>TOTAL</b>                           | <b>\$3,343</b>                              | <b>\$2,057</b> | <b>\$11,371</b>                            | <b>\$11,901</b> |

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

|                                                              | Three Months Ended September 30, |                        |                        |                        |
|--------------------------------------------------------------|----------------------------------|------------------------|------------------------|------------------------|
|                                                              | 2012                             |                        | 2011                   |                        |
|                                                              | Number<br>of Contracts           | Recorded<br>Investment | Number<br>of Contracts | Recorded<br>Investment |
|                                                              | (Dollars in Thousands)           |                        |                        |                        |
| TROUBLED DEBT RESTRUCTURINGS THAT<br>SUBSEQUENTLY DEFAULTED: |                                  |                        |                        |                        |
| Commercial & Industrial                                      | —                                | \$—                    | —                      | \$—                    |
| Commercial Real Estate                                       | 1                                | 202                    | —                      | —                      |
| Small Business                                               | —                                | —                      | 2                      | 66                     |
| Residential Real Estate                                      | 1                                | 190                    | 1                      | 378                    |
| Consumer—Home Equity                                         | —                                | —                      | —                      | —                      |
| Consumer—Other                                               | —                                | —                      | 2                      | 11                     |

|       |   |       |   |       |
|-------|---|-------|---|-------|
| TOTAL | 2 | \$392 | 5 | \$455 |
|-------|---|-------|---|-------|

26

---

Table of Contents

|                                                              | Nine Months Ended September 30, |            |           |            |
|--------------------------------------------------------------|---------------------------------|------------|-----------|------------|
|                                                              | 2012                            |            | 2011      |            |
|                                                              | Number of                       | Recorded   | Number of | Recorded   |
|                                                              | Contracts                       | Investment | Contracts | Investment |
|                                                              | (Dollars in Thousands)          |            |           |            |
| TROUBLED DEBT RESTRUCTURINGS THAT<br>SUBSEQUENTLY DEFAULTED: |                                 |            |           |            |
| Commercial & Industrial                                      | —                               | \$—        | —         | \$—        |
| Commercial Real Estate                                       | 1                               | 202        | —         | —          |
| Small Business                                               | —                               | —          | 2         | 66         |
| Residential Real Estate                                      | 1                               | 190        | 1         | 378        |
| Consumer—Home Equity                                         | —                               | —          | —         | —          |
| Consumer—Other                                               | —                               | —          | 2         | 11         |
| TOTAL                                                        | 2                               | \$392      | 5         | \$455      |

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) and residential 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 book 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 Bank charges off the amount of any confirmed loan loss in the period when the loans, or portion of loans, are deemed uncollectible. Smaller balance consumer TDR loans are reviewed to determine when a charge-off is appropriate. In the limited circumstances that a loan is removed from TDR classification it is the Company's policy to continue to base its measure of loan impairment on the contractual terms specified by the loan agreement.

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

Table of Contents

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

|                                     | September 30, 2012     |                                |                      |
|-------------------------------------|------------------------|--------------------------------|----------------------|
|                                     | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
|                                     | (Dollars in Thousands) |                                |                      |
| WITH NO RELATED ALLOWANCE RECORDED: |                        |                                |                      |
| Commercial & Industrial             | \$7,434                | \$8,427                        | \$—                  |
| Commercial Real Estate              | 18,387                 | 19,054                         | —                    |
| Commercial Construction             | —                      | —                              | —                    |
| Small Business                      | 1,439                  | 1,506                          | —                    |
| Residential Real Estate             | 2,702                  | 2,755                          | —                    |
| Consumer—Home Equity                | 3,485                  | 3,576                          | —                    |
| Consumer—Other                      | 74                     | 75                             | —                    |
| Subtotal                            | 33,521                 | 35,393                         | —                    |
| WITH AN ALLOWANCE RECORDED:         |                        |                                |                      |
| Commercial & Industrial             | \$1,017                | \$1,517                        | \$281                |
| Commercial Real Estate              | 17,266                 | 17,645                         | 737                  |
| Commercial Construction             | —                      | —                              | —                    |
| Small Business                      | 1,197                  | 1,229                          | 201                  |
| Residential Real Estate             | 13,571                 | 14,480                         | 1,326                |
| Consumer—Home Equity                | 799                    | 874                            | 36                   |
| Consumer—Other                      | 2,219                  | 2,220                          | 174                  |
| Subtotal                            | 36,069                 | 37,965                         | 2,755                |
| TOTAL                               | \$69,590               | \$73,358                       | \$2,755              |

|                                     | December 31, 2011      |                                |                      |
|-------------------------------------|------------------------|--------------------------------|----------------------|
|                                     | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
|                                     | (Dollars in Thousands) |                                |                      |
| WITH NO RELATED ALLOWANCE RECORDED: |                        |                                |                      |
| Commercial & Industrial             | \$3,380                | \$4,365                        | \$—                  |
| Commercial Real Estate              | 19,433                 | 20,010                         | —                    |
| Commercial Construction             | 843                    | 843                            | —                    |
| Small Business                      | 1,131                  | 1,193                          | —                    |
| Residential Real Estate             | —                      | —                              | —                    |
| Consumer—Home Equity                | 22                     | 22                             | —                    |
| Consumer—Other                      | 31                     | 32                             | —                    |
| Subtotal                            | 24,840                 | 26,465                         | —                    |
| WITH AN ALLOWANCE RECORDED:         |                        |                                |                      |
| Commercial & Industrial             | \$2,228                | \$2,280                        | \$562                |
| Commercial Real Estate              | 18,043                 | 19,344                         | 457                  |
| Commercial Construction             | —                      | —                              | —                    |
| Small Business                      | 1,195                  | 1,218                          | 148                  |
| Residential Real Estate             | 12,984                 | 13,651                         | 1,245                |
| Consumer—Home Equity                | 304                    | 349                            | 31                   |

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

|                |          |          |         |
|----------------|----------|----------|---------|
| Consumer—Other | 2,107    | 2,125    | 239     |
| Subtotal       | 36,861   | 38,967   | 2,682   |
| TOTAL          | \$61,701 | \$65,432 | \$2,682 |

28

---

Table of Contents

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

|                                     | Three Months Ended<br>September 30, 2012 |                                  | Nine Months Ended<br>September 30, 2012 |                                  |
|-------------------------------------|------------------------------------------|----------------------------------|-----------------------------------------|----------------------------------|
|                                     | Average<br>Recorded<br>Investment        | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment       | Interest<br>Income<br>Recognized |
|                                     | (Dollars in Thousands)                   |                                  |                                         |                                  |
| WITH NO RELATED ALLOWANCE RECORDED: |                                          |                                  |                                         |                                  |
| Commercial & Industrial             | \$8,181                                  | \$107                            | \$8,584                                 | \$323                            |
| Commercial Real Estate              | 18,625                                   | 329                              | 19,033                                  | 1,005                            |
| Commercial Construction             | —                                        | —                                | —                                       | —                                |
| Small Business                      | 1,461                                    | 25                               | 1,543                                   | 79                               |
| Residential Real Estate             | 2,709                                    | 81                               | 2,730                                   | 84                               |
| Consumer—Home Equity                | 3,527                                    | 39                               | 3,571                                   | 117                              |
| Consumer—Other                      | 81                                       | 1                                | 78                                      | 3                                |
| Subtotal                            | 34,584                                   | 582                              | 35,539                                  | 1,611                            |
| WITH AN ALLOWANCE RECORDED:         |                                          |                                  |                                         |                                  |
| Commercial & Industrial             | \$1,077                                  | \$23                             | \$1,487                                 | \$74                             |
| Commercial Real Estate              | 17,444                                   | 255                              | 18,103                                  | 790                              |
| Commercial Construction             | —                                        | —                                | —                                       | —                                |
| Small Business                      | 1,176                                    | 16                               | 1,171                                   | 49                               |
| Residential Real Estate             | 13,592                                   | 168                              | 13,720                                  | 434                              |
| Consumer—Home Equity                | 803                                      | 14                               | 815                                     | 41                               |
| Consumer—Other                      | 2,283                                    | 30                               | 2,447                                   | 98                               |
| Subtotal                            | 36,375                                   | 506                              | 37,743                                  | 1,486                            |
| TOTAL                               | \$70,959                                 | \$1,088                          | \$73,282                                | \$3,097                          |

Table of Contents

|                                            | Three Months Ended<br>September 30, 2011 |                                  | Nine Months Ended<br>September 30, 2011 |                                  |
|--------------------------------------------|------------------------------------------|----------------------------------|-----------------------------------------|----------------------------------|
|                                            | Average<br>Recorded<br>Investment        | Interest<br>Income<br>Recognized | Average<br>Recorded<br>Investment       | Interest<br>Income<br>Recognized |
|                                            | (Dollars in Thousands)                   |                                  |                                         |                                  |
| <b>WITH NO RELATED ALLOWANCE RECORDED:</b> |                                          |                                  |                                         |                                  |
| Commercial & Industrial                    | \$2,236                                  | \$46                             | \$2,527                                 | \$143                            |
| Commercial Real Estate                     | 19,391                                   | 345                              | 19,600                                  | 1,020                            |
| Commercial Construction                    | 551                                      | 11                               | 560                                     | 32                               |
| Small Business                             | 1,641                                    | 28                               | 1,627                                   | 82                               |
| Residential Real Estate                    | 2                                        | —                                | 5                                       | —                                |
| Consumer—Home Equity                       | 22                                       | —                                | 22                                      | 1                                |
| Consumer—Other                             | 90                                       | 2                                | 113                                     | 5                                |
| Subtotal                                   | 23,933                                   | 432                              | 24,454                                  | 1,283                            |
| <b>WITH AN ALLOWANCE RECORDED:</b>         |                                          |                                  |                                         |                                  |
| Commercial & Industrial                    | \$756                                    | \$12                             | \$926                                   | \$41                             |
| Commercial Real Estate                     | 13,247                                   | 183                              | 13,304                                  | 569                              |
| Commercial Construction                    | —                                        | —                                | —                                       | —                                |
| Small Business                             | 1,401                                    | 21                               | 1,505                                   | 67                               |
| Residential Real Estate                    | 12,721                                   | 132                              | 12,744                                  | 378                              |
| Consumer—Home Equity                       | 457                                      | 8                                | 480                                     | 22                               |
| Consumer—Other                             | 2,043                                    | 20                               | 1,919                                   | 56                               |
| Subtotal                                   | 30,625                                   | 376                              | 30,878                                  | 1,133                            |
| <b>TOTAL</b>                               | <b>\$54,558</b>                          | <b>\$808</b>                     | <b>\$55,332</b>                         | <b>\$2,416</b>                   |

**NOTE 5 – GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS**

Goodwill and identifiable intangible assets were \$137.3 million and \$140.7 million at September 30, 2012 and December 31, 2011, respectively. The Company performed its annual impairment testing during the third quarter of 2012, and concluded that \$2.2 million of goodwill was impaired. This amount represents the total amount of goodwill relating to Compass Exchange Advisors, LLC ("Compass"). Compass is a wholly-owned subsidiary of the Bank that provides like-kind exchange services pursuant of section 1031 of the Internal Revenue Code. While Compass remains in business and continues to operate, the Company determined the goodwill associated with the Compass purchase to be impaired due to the prolonged low rate environment and the anticipated continued low rates into the near future. The remainder of the Company's goodwill was not impaired.

Table of Contents

## NOTE 6 – EARNINGS PER SHARE

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

|                               | Three Months Ended<br>September 30,<br>2012      2011 |            | Nine Months Ended<br>September 30,<br>2012      2011 |            |
|-------------------------------|-------------------------------------------------------|------------|------------------------------------------------------|------------|
|                               | (Dollars in Thousands)                                |            | (Dollars in Thousands)                               |            |
| NET INCOME                    | \$ 11,601                                             | \$ 11,959  | \$ 32,658                                            | \$ 34,267  |
| BASIC SHARES                  | 21,654,188                                            | 21,463,714 | 21,613,157                                           | 21,401,885 |
| EFFECT OF DILUTIVE SECURITIES | 52,116                                                | 13,077     | 31,300                                               | 32,452     |
| DILUTIVE SHARES               | 21,706,304                                            | 21,476,791 | 21,644,457                                           | 21,434,337 |
| NET INCOME PER SHARE:         |                                                       |            |                                                      |            |
| BASIC EPS                     | 0.54                                                  | 0.56       | 1.51                                                 | 1.60       |
| EFFECT OF DILUTIVE SECURITIES | 0.01                                                  | —          | —                                                    | —          |
| DILUTIVE EPS                  | 0.53                                                  | 0.56       | 1.51                                                 | 1.60       |

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

|               | Three Months Ended<br>September 30,<br>2012      2011 |         | Nine Months Ended<br>September 30,<br>2012      2011 |         |
|---------------|-------------------------------------------------------|---------|------------------------------------------------------|---------|
| STOCK OPTIONS | 357,459                                               | 888,963 | 614,181                                              | 820,871 |

## NOTE 7 – STOCK BASED COMPENSATION

During 2012, the Company made the following awards of restricted stock:

| Date      | Shares Granted | Plan                                  | Fair Value | Vesting Period                        |
|-----------|----------------|---------------------------------------|------------|---------------------------------------|
| 2/16/2012 | 89,800         | 2005 Employee Stock Plan              | \$27.81    | Ratably over 5 years from grant date  |
| 4/5/2012  | 1,000          | 2005 Employee Stock Plan              | \$28.16    | Ratably over 5 years from grant date  |
| 5/22/2012 | 14,000         | 2010 Non-Employee Director Stock Plan | \$27.63    | At the end of 5 years from grant date |

The fair value of the restricted stock awards is based upon the average of the high and low price at which the Company's common stock traded on the date of grant. The holders of restricted stock awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights.

The Company has not issued any awards of options to purchase shares of common stock during 2012.

## NOTE 8 – DERIVATIVES AND HEDGING ACTIVITIES

The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally to manage the Company's interest rate risk. Additionally, the Company enters into interest rate derivatives and foreign exchange contracts to accommodate the business requirements of its customers ("customer related positions"). The Company minimizes the market and liquidity risks of customer related positions by entering into similar offsetting positions with broker-dealers. Derivative instruments are carried at fair value in the Company's financial statements. The accounting for changes in the fair value of a derivative instrument is dependent upon whether or not it qualifies as a hedge for accounting purposes, and further, by the type of hedging relationship.

The Company does not enter into proprietary trading positions for any derivatives.

Interest Rate Positions

31

---

Table of Contents

The Company currently utilizes interest rate swap agreements as hedging instruments against interest rate risk associated with the Company's borrowings. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount, for a predetermined period of time, from a second party. The amounts relating to the notional principal amount are not actually exchanged. The maximum length of time over which the Company is currently hedging its exposure to the variability in future cash flows for forecasted transactions related to the payment of variable interest on existing financial instruments is six years.

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

## September 30, 2012

| Notional Amount        | Trade Date | Effective Date | Maturity Date | Receive (Variable) Index | Current Rate Received | Pay Fixed Swap Rate | Fair Value   |
|------------------------|------------|----------------|---------------|--------------------------|-----------------------|---------------------|--------------|
| (Dollars in Thousands) |            |                |               |                          |                       |                     |              |
| \$25,000               | 16-Feb-06  | 28-Dec-06      | 28-Dec-16     | 3 Month LIBOR            | 0.39                  | % 5.04              | % \$(4,715 ) |
| 25,000                 | 16-Feb-06  | 28-Dec-06      | 28-Dec-16     | 3 Month LIBOR            | 0.39                  | % 5.04              | % (4,716 )   |
| 25,000                 | 8-Dec-08   | 10-Dec-08      | 10-Dec-13     | 3 Month LIBOR            | 0.41                  | % 2.65              | % (693 )     |
| 25,000                 | 9-Dec-08   | 10-Dec-08      | 10-Dec-13     | 3 Month LIBOR            | 0.41                  | % 2.59              | % (676 )     |
| 25,000                 | 9-Dec-08   | 10-Dec-08      | 10-Dec-18     | 3 Month LIBOR            | 0.41                  | % 2.94              | % (3,000 )   |
| 50,000                 | 17-Nov-09  | 20-Dec-10      | 20-Dec-14     | 3 Month LIBOR            | 0.38                  | % 3.04              | % (2,980 )   |
| 25,000                 | 5-May-11   | 10-Jun-11      | 10-Jun-15     | 3 Month LIBOR            | 0.41                  | % 1.71              | % (884 )     |
| \$200,000              |            |                |               |                          |                       |                     | \$(17,664 )  |

## December 31, 2011

| Notional Amount        | Trade Date | Effective Date | Maturity Date | Receive (Variable) Index | Current Rate Received | Pay Fixed Swap Rate | Fair Value   |
|------------------------|------------|----------------|---------------|--------------------------|-----------------------|---------------------|--------------|
| (Dollars in Thousands) |            |                |               |                          |                       |                     |              |
| \$25,000               | 16-Feb-06  | 28-Dec-06      | 28-Dec-16     | 3 Month LIBOR            | 0.55                  | % 5.04              | % \$(4,745 ) |
| 25,000                 | 16-Feb-06  | 28-Dec-06      | 28-Dec-16     | 3 Month LIBOR            | 0.55                  | % 5.04              | % (4,745 )   |
| 25,000                 | 8-Dec-08   | 10-Dec-08      | 10-Dec-13     | 3 Month LIBOR            | 0.54                  | % 2.65              | % (941 )     |
| 25,000                 | 9-Dec-08   | 10-Dec-08      | 10-Dec-13     | 3 Month LIBOR            | 0.54                  | % 2.59              | % (913 )     |
| 25,000                 | 9-Dec-08   | 10-Dec-08      | 10-Dec-18     | 3 Month LIBOR            | 0.54                  | % 2.94              | % (2,349 )   |
| 50,000                 | 17-Nov-09  | 20-Dec-10      | 20-Dec-14     | 3 Month LIBOR            | 0.56                  | % 3.04              | % (3,316 )   |
| 25,000                 | 5-May-11   | 10-Jun-11      | 10-Jun-15     | 3 Month LIBOR            | 0.54                  | % 1.71              | % (704 )     |
| 40,000                 | 18-Aug-11  | 2-Apr-12       | 10-Mar-19     | 3 Month LIBOR            | TBD                   | 1.89                | % (550 )     |
| \$240,000              |            |                |               |                          |                       |                     | \$(18,263 )  |

During 2011, the Company had entered into a forward starting swap with a notional amount of \$40 million, with the intention of hedging a future federal home loan advance. Subsequently, during the quarter ending March 31, 2012, the Company exited the forward starting swap. At the time of exit, the derivative instrument had a fair value of \$22,000, which was received in cash and recognized in other income.

For derivative instruments that are designated and qualify as hedging instruments, the effective portion of the gains or losses is reported as a component of OCI, and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately \$5.7 million (pre-tax), to be reclassified to interest expense from OCI, related to the Company's cash flow hedges in the next twelve months. This reclassification is due to anticipated payments that will be made and/or received on the swaps based upon the forward curve as of September 30, 2012.

The table below presents the net amortization income recognized as an offset to interest expense related to previously terminated swaps for the periods indicated:



Table of Contents

|                         | Three Months Ended<br>September 30,<br>2012 |      | Nine Months Ended<br>September 30,<br>2012 |       |
|-------------------------|---------------------------------------------|------|--------------------------------------------|-------|
|                         | 2011                                        |      | 2011                                       |       |
|                         | (Dollars in Thousands)                      |      | (Dollars in Thousands)                     |       |
| NET AMORTIZATION INCOME | \$61                                        | \$61 | \$183                                      | \$183 |

## Customer Related Positions

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

Foreign exchange contracts offered to commercial borrowers through the Bank's derivative program do not qualify as hedges for accounting purposes. The Bank acts as a seller and buyer of foreign exchange contracts to accommodate its customers. To mitigate the market and liquidity risk associated with these derivatives, the Bank enters into similar offsetting positions.

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

|                                          |                        | Notional Amount Maturing |        |        |         |            |           |             |
|------------------------------------------|------------------------|--------------------------|--------|--------|---------|------------|-----------|-------------|
|                                          | # of Positions         | 2012                     | 2013   | 2014   | 2015    | Thereafter | Total     | Fair Value  |
|                                          | September 30, 2012     |                          |        |        |         |            |           |             |
|                                          | (Dollars in Thousands) |                          |        |        |         |            |           |             |
| LOAN LEVEL SWAPS:                        |                        |                          |        |        |         |            |           |             |
| Receive fixed, pay variable              | 137                    | \$—                      | 17,374 | 65,939 | 107,243 | 278,381    | \$468,937 | \$30,691    |
| Pay fixed, receive variable              | 131                    | \$—                      | 17,374 | 65,939 | 107,243 | 278,381    | \$468,937 | \$(30,697 ) |
| FOREIGN EXCHANGE CONTRACTS:              |                        |                          |        |        |         |            |           |             |
| Buys foreign exchange, sells US currency | 22                     | \$9,272                  | 29,548 | —      | —       | —          | \$38,820  | \$(1,120 )  |
| Buys US currency, sells foreign exchange | 22                     | \$9,272                  | 29,548 | —      | —       | —          | \$38,820  | \$1,149     |
|                                          | December 31, 2011      |                          |        |        |         |            |           |             |
|                                          | (Dollars in Thousands) |                          |        |        |         |            |           |             |
| LOAN LEVEL SWAPS:                        |                        |                          |        |        |         |            |           |             |
| Receive fixed, pay variable              | 101                    | \$—                      | 19,197 | 80,234 | 112,458 | 171,533    | \$383,422 | \$24,478    |
| Pay fixed, receive variable              | 101                    | \$—                      | 19,197 | 80,234 | 112,458 | 171,533    | \$383,422 | \$(24,535 ) |
| FOREIGN EXCHANGE CONTRACTS:              |                        |                          |        |        |         |            |           |             |
| Buys foreign exchange, sells US currency | 15                     | \$21,657                 | —      | —      | —       | —          | \$21,657  | \$(1,081 )  |
| Buys US currency, sells foreign exchange | 15                     | \$21,657                 | —      | —      | —       | —          | \$21,657  | \$1,098     |

The Company may enter into one swap agreement which offsets multiple reverse swap agreements. The positions will offset and the terms will be identical.

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:

Table of Contents

|                                              | Asset Derivatives      |                                  |                                 | Liability Derivatives  |                                  |                                 |
|----------------------------------------------|------------------------|----------------------------------|---------------------------------|------------------------|----------------------------------|---------------------------------|
|                                              | Balance Sheet Location | Fair Value at September 30, 2012 | Fair Value at December 31, 2011 | Balance Sheet Location | Fair Value at September 30, 2012 | Fair Value at December 31, 2011 |
| (Dollars in Thousands)                       |                        |                                  |                                 |                        |                                  |                                 |
| <b>DERIVATIVES DESIGNATED AS HEDGES:</b>     |                        |                                  |                                 |                        |                                  |                                 |
| Interest rate swaps                          | Other Assets           | \$ —                             | \$ —                            | Other Liabilities      | \$ 17,664                        | \$ 18,263                       |
| <b>DERIVATIVES NOT DESIGNATED AS HEDGES:</b> |                        |                                  |                                 |                        |                                  |                                 |
| Customer Related Positions:                  |                        |                                  |                                 |                        |                                  |                                 |
| Loan level swaps                             | Other Assets           | \$ 30,691                        | \$ 24,478                       | Other Liabilities      | \$ 30,697                        | \$ 24,535                       |
| Foreign exchange contracts                   | Other Assets           | 1,149                            | 1,098                           | Other Liabilities      | 1,120                            | 1,081                           |
| <b>TOTAL</b>                                 |                        | <b>\$ 31,840</b>                 | <b>\$ 25,576</b>                |                        | <b>\$ 31,817</b>                 | <b>\$ 25,616</b>                |

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<br>September 30,<br>2012 |   | September 30,<br>2011  |   | Nine Months Ended<br>September 30,<br>2012 |   | September 30,<br>2011  |   |
|-------------------------------------------------------------------------------------------------------------|---------------------------------------------|---|------------------------|---|--------------------------------------------|---|------------------------|---|
|                                                                                                             | (Dollars in Thousands)                      |   | (Dollars in Thousands) |   | (Dollars in Thousands)                     |   | (Dollars in Thousands) |   |
| <b>DERIVATIVES DESIGNATED AS HEDGES:</b>                                                                    |                                             |   |                        |   |                                            |   |                        |   |
| Loss in OCI on Derivative (Effective Portion), Net of Tax                                                   | \$ (929                                     | ) | \$ (4,110              | ) | \$ (2,125                                  | ) | \$ (6,518              | ) |
| Loss Reclassified from OCI into Interest Expense (Effective Portion):                                       | \$ (1,370                                   | ) | \$ (1,467              | ) | \$ (4,008                                  | ) | \$ (4,065              | ) |
| Loss Recognized in Income on Derivative (Ineffective Portion & Amount Excluded from Effectiveness Testing): |                                             |   |                        |   |                                            |   |                        |   |
| Interest Expense                                                                                            | \$ —                                        |   | \$ —                   |   | \$ —                                       |   | \$ —                   |   |
| Other Expense                                                                                               | —                                           |   | —                      |   | —                                          |   | —                      |   |
| <b>TOTAL</b>                                                                                                | <b>\$ —</b>                                 |   | <b>\$ —</b>            |   | <b>\$ —</b>                                |   | <b>\$ —</b>            |   |
| <b>DERIVATIVES NOT DESIGNATED AS HEDGES:</b>                                                                |                                             |   |                        |   |                                            |   |                        |   |
| Changes in Fair Value of Customer Related Positions:                                                        |                                             |   |                        |   |                                            |   |                        |   |
| Other Income                                                                                                | \$ 12                                       |   | \$ 52                  |   | \$ 85                                      |   | \$ 122                 |   |
| Other Expense                                                                                               | (4                                          | ) | —                      |   | (23                                        | ) | (17                    | ) |
| <b>TOTAL</b>                                                                                                | <b>\$ 8</b>                                 |   | <b>\$ 52</b>           |   | <b>\$ 62</b>                               |   | <b>\$ 105</b>          |   |

Derivative contracts involve the risk of dealing with derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have an investment grade credit rating and be approved by the Company's Board of Directors. 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 has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well capitalized institution, then the Company could be required to terminate any outstanding derivatives with the counterparty. The Company had no exposure relating to interest rate swaps with institutional counterparties at September 30, 2012 and December 31, 2011, as all such swaps were in a liability position. The Company's exposure relating to customer

related positions was approximately \$31.2 million and \$25.1 million at September 30, 2012 and December 31, 2011, respectively. Credit exposure may be reduced by the amount of collateral pledged by the counterparty.

The Company currently holds derivative instruments that contain credit-risk related contingent features that are in a net liability position, which require the Company to assign collateral. The table below presents information relating to credit-risk contingent instruments as of the dates indicated:

# Table of Contents

|                      | September 30,<br>2012  | December 31,<br>2011 |
|----------------------|------------------------|----------------------|
|                      | (Dollars in Thousands) |                      |
| NOTIONAL AMOUNT      | \$668.9                | \$623.4              |
| AGGREGATE FAIR VALUE | \$48.4                 | \$42.8               |
| COLLATERAL ASSIGNED  | \$50.3                 | \$47.6               |

Collateral legally required to be maintained at dealer banks by the Company is monitored and adjusted as necessary. Per a review completed by management of these instruments at September 30, 2012 it was determined that no additional collateral would have to be posted to immediately settle these instruments.

The Company does not offset fair value amounts recognized for derivative instruments. 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.

## Mortgage Derivatives

Forward sale contracts of residential mortgage loans, considered derivative instruments for accounting purposes, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans intended for sale. Prior to closing and funding certain one-to-four family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to various investors. The interest rate lock commitments and forward sales commitments are recorded at fair value, with changes in fair value recorded in current period earnings as a component of mortgage banking income. The Company elects to carry newly originated closed loans held for sale at fair value. The Company has chosen to carry these at fair value as changes in the fair value marks on loans held for sale offset changes in interest rate lock and forward sales commitments. The change in fair value of loans held for sale is recorded in current period earnings as a component of mortgage banking income.

The table below summarizes the fair value of residential mortgage loans commitments, forward sales agreements, and loans held for sale at the periods indicated:

|                                            | September 30,<br>2012  | December 31,<br>2011 |
|--------------------------------------------|------------------------|----------------------|
|                                            | (Dollars in Thousands) |                      |
| INTEREST RATE LOCK COMMITMENTS             | \$831                  | \$265                |
| FORWARD SALES AGREEMENTS                   | \$(1,882)              | \$(528)              |
| LOANS HELD FOR SALE FAIR VALUE ADJUSTMENTS | \$1,051                | \$263                |

The table below summarizes the changes in the fair value of residential mortgage loans commitments, forward sales agreements, and loans held for sale at the periods indicated:

|                                              | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |         |
|----------------------------------------------|-------------------------------------|-------|------------------------------------|---------|
|                                              | 2012                                | 2011  | 2012                               | 2011    |
|                                              | (Dollars in Thousands)              |       | (Dollars in Thousands)             |         |
| INTEREST RATE LOCK COMMITMENTS               | \$465                               | \$468 | \$566                              | \$900   |
| FORWARD SALES AGREEMENTS                     | (1,141)                             | (750) | (1,354)                            | (1,829) |
| LOANS HELD FOR SALE FAIR VALUE<br>ADJUSTMENT | 676                                 | 282   | 788                                | 929     |
| TOTAL CHANGE IN FAIR VALUE                   | \$—                                 | \$—   | \$—                                | \$—     |

## NOTE 9 – FAIR VALUE MEASUREMENTS

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. If there has been a

## Table of Contents

significant decrease in the volume and level of activity for the asset or liability, regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from one level to another.

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

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

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

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

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

### Valuation Techniques

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

### Securities:

#### U.S. Government Agency Securities

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

#### Agency Mortgage-Backed Securities

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

#### Agency Collateralized Mortgage Obligations and Private Mortgage-Backed 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, recent reported trades, new issue data, broker and dealer quotes, and collateral performance. If there is at least one significant model assumption or input that is not observable, these securities are categorized as Level 3 within the fair value hierarchy; otherwise, they are classified as Level 2.

#### Single and Pooled Issuer Trust Preferred Securities

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

#### Marketable Equity Securities

These equity and fixed income 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.

#### Loans Held for Sale

## Table of Contents

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

### Derivative Instruments:

#### Derivatives

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings. Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of September 30, 2012 and December 31, 2011, 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. 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. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2.

#### Residential Mortgage Loan Commitments and Forward Sales Agreements

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

#### Impaired Loans

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

#### Other Real Estate Owned

The fair values are 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 Other Real Estate Owned may be categorized as Level 3 within the fair value hierarchy. When inputs in appraisals are observable, they are classified as Level 2.

#### Goodwill and Other Intangible Assets

Goodwill and identified intangible assets are subject to impairment testing. The Company conducts an annual impairment test of goodwill in the third quarter of each year and more frequently, if necessary. To estimate the fair value of goodwill and 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.

Assets and Liabilities Measured at Fair Value at the periods indicated were as follows:

Table of Contents

|                                                                   |                                              | Fair Value Measurements at the End of<br>the<br>Reporting Period Using:       |                                                           |                                                    |                            |
|-------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|----------------------------|
|                                                                   | Balance                                      | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Gains<br>(Losses) |
|                                                                   | September 30, 2012<br>(Dollars in Thousands) |                                                                               |                                                           |                                                    |                            |
| RECURRING FAIR VALUE MEASUREMENTS:                                |                                              |                                                                               |                                                           |                                                    |                            |
| ASSETS                                                            |                                              |                                                                               |                                                           |                                                    |                            |
| SECURITIES AVAILABLE FOR SALE:                                    |                                              |                                                                               |                                                           |                                                    |                            |
| U.S. Government Agency Securities                                 | \$20,907                                     | \$—                                                                           | \$20,907                                                  | \$—                                                |                            |
| Agency Mortgage-Backed Securities                                 | 211,745                                      | —                                                                             | 211,745                                                   | —                                                  |                            |
| Agency Collateralized Mortgage Obligations                        | 73,372                                       | —                                                                             | 73,372                                                    | —                                                  |                            |
| Private Mortgage-Backed Securities                                | 4,112                                        | —                                                                             | —                                                         | 4,112                                              |                            |
| Pooled Trust Preferred Securities Issued by<br>Banks and Insurers | 3,052                                        | —                                                                             | —                                                         | 3,052                                              |                            |
| Marketable Equity Securities                                      | 9,968                                        | 9,968                                                                         | —                                                         | —                                                  |                            |
| LOANS HELD FOR SALE                                               | 42,393                                       | —                                                                             | 42,393                                                    | —                                                  |                            |
| DERIVATIVE INSTRUMENTS                                            | 32,672                                       | —                                                                             | 32,672                                                    | —                                                  |                            |
| LIABILITIES                                                       |                                              |                                                                               |                                                           |                                                    |                            |
| DERIVATIVE INSTRUMENTS                                            | 51,364                                       | —                                                                             | 51,364                                                    | —                                                  |                            |
| TOTAL RECURRING FAIR VALUE MEASUREMENTS                           | \$346,857                                    | \$9,968                                                                       | \$420,719                                                 | \$7,164                                            |                            |
| NONRECURRING FAIR VALUE MEASUREMENTS:                             |                                              |                                                                               |                                                           |                                                    |                            |
| ASSETS                                                            |                                              |                                                                               |                                                           |                                                    |                            |
| COLLATERAL DEPENDENT IMPAIRED<br>LOANS                            | \$7,450                                      | \$—                                                                           | \$—                                                       | \$7,450                                            | \$(676 )                   |
| OTHER REAL ESTATE OWNED                                           | 8,751                                        | —                                                                             | —                                                         | 8,751                                              | —                          |
| TOTAL NONRECURRING FAIR VALUE MEASUREMENTS                        | \$16,201                                     | \$—                                                                           | \$—                                                       | \$16,201                                           | \$(676 )                   |

Table of Contents

December 31, 2011  
(Dollars in Thousands)

## RECURRING FAIR VALUE

## MEASUREMENTS:

## ASSETS

|                                                                |           |         |           |          |
|----------------------------------------------------------------|-----------|---------|-----------|----------|
| TRADING SECURITIES                                             | \$8,240   | \$8,240 | \$—       | \$—      |
| SECURITIES AVAILABLE FOR SALE:                                 |           |         |           |          |
| Agency Mortgage-Backed Securities                              | 238,391   | —       | 238,391   | —        |
| Agency Collateralized Mortgage Obligations                     | 53,801    | —       | 53,801    | —        |
| Private Mortgage-Backed Securities                             | 6,110     | —       | —         | 6,110    |
| Single Issuer Trust Preferred Securities Issued by Banks       | 4,210     | —       | —         | 4,210    |
| Pooled Trust Preferred Securities Issued by Banks and Insurers | 2,820     | —       | —         | 2,820    |
| LOANS HELD FOR SALE                                            | 20,500    | —       | 20,500    | —        |
| DERIVATIVE INSTRUMENTS                                         | 25,841    | —       | 25,841    | —        |
| LIABILITIES                                                    |           |         |           |          |
| DERIVATIVE INSTRUMENTS                                         | 44,407    | —       | 44,407    | —        |
| TOTAL RECURRING FAIR VALUE MEASUREMENTS                        | \$315,506 | \$8,240 | \$294,126 | \$13,140 |

## NONRECURRING FAIR VALUE

## MEASUREMENTS:

## ASSETS

|                                            |          |     |     |          |           |
|--------------------------------------------|----------|-----|-----|----------|-----------|
| IMPAIRED LOANS (1)                         | \$36,861 | \$— | \$— | \$36,861 | \$(2,682) |
| OTHER REAL ESTATE OWNED                    | 6,658    | —   | —   | 6,658    | —         |
| TOTAL NONRECURRING FAIR VALUE MEASUREMENTS | \$43,519 | \$— | \$— | \$43,519 | \$(2,682) |

(1) Represents all impaired loans with an associated specific reserve at December 31, 2011. Included in this amount are \$9.0 million of collateral dependent loans

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

Table of Contents

|                                         | Securities Available for Sale:    |                                   |                                    |           |
|-----------------------------------------|-----------------------------------|-----------------------------------|------------------------------------|-----------|
|                                         | Pooled Trust Preferred Securities | Single Trust Preferred Securities | Private Mortgage-Backed Securities | Total     |
|                                         | (Dollars in Thousands)            |                                   |                                    |           |
| BALANCE AT JUNE 30, 2012                | \$2,754                           | \$—                               | \$4,739                            | \$7,493   |
| GAINS AND LOSSES (REALIZED/UNREALIZED): |                                   |                                   |                                    |           |
| Included in Earnings                    | —                                 | —                                 | —                                  | —         |
| Included in Other Comprehensive Income  | 332                               | —                                 | 50                                 | 382       |
| SETTLEMENTS                             | (34)                              | ) —                               | (677)                              | ) (711)   |
| TRANSFERS INTO(OUT OF) OF LEVEL 3       | —                                 | —                                 | —                                  | —         |
| BALANCE AT SEPTEMBER 30, 2012           | \$3,052                           | \$—                               | \$4,112                            | \$7,164   |
| BALANCE AT JANUARY 1, 2011              | \$2,828                           | \$4,221                           | \$10,254                           | \$17,303  |
| GAINS AND LOSSES (REALIZED/UNREALIZED): |                                   |                                   |                                    |           |
| Included in Earnings                    | (8)                               | ) —                               | (235)                              | ) (243)   |
| Included in Other Comprehensive Income  | 37                                | (11)                              | ) 49                               | 75        |
| SETTLEMENTS                             | (37)                              | ) —                               | (3,958)                            | ) (3,995) |
| BALANCE AT DECEMBER 31, 2011            | \$2,820                           | \$4,210                           | \$6,110                            | \$13,140  |
| GAINS AND LOSSES (REALIZED/UNREALIZED): |                                   |                                   |                                    |           |
| Included in Earnings                    | —                                 | —                                 | (76)                               | ) (76)    |
| Included in Other Comprehensive Income  | 286                               | 703                               | 280                                | 1,269     |
| SETTLEMENTS                             | (54)                              | ) —                               | (2,202)                            | ) (2,256) |
| TRANSFERS INTO(OUT OF) OF LEVEL 3       | —                                 | (4,913)                           | ) —                                | (4,913)   |
| BALANCE AT SEPTEMBER 30, 2012           | \$3,052                           | \$—                               | \$4,112                            | \$7,164   |

During the first quarter of 2012 the Company transferred the Single Issuer Trust Preferred Security from Level 3 to Level 2. The reason for this transfer was increased trading of the security, enabling the use of more observable inputs. It is the Company's policy to recognize the transfers 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 second and third quarter of 2012 or the year ended December 31, 2011.

The following table sets forth certain unobservable inputs regarding the Company's investment in securities that are classified as Level 3:

|                                    | Fair Value at September 30, 2012 | Valuation Technique(s)           | Unobservable Inputs        | Range       | Weighted Average |
|------------------------------------|----------------------------------|----------------------------------|----------------------------|-------------|------------------|
|                                    |                                  |                                  | (Dollars in Thousands)     |             |                  |
| POOLED TRUST PREFERRED SECURITIES  | \$3,052                          | Discounted cash flow methodology | Cumulative Prepayment      | 0%-100%     | 4.3%             |
|                                    |                                  |                                  | Cumulative Default         | 4.0%-100%   | 20.0%            |
|                                    |                                  |                                  | Loss Given Default         | 85% - 100%  | 94.9%            |
|                                    |                                  |                                  | Cure Given Default         | 0% - 75%    | 31.9%            |
| PRIVATE MORTGAGE-BACKED SECURITIES | \$4,112                          | Multi-dimensional spread tables  | Cumulative Prepayment Rate | 10.3%-14.5% | 13.9%            |
|                                    |                                  |                                  | Constant Default Rate      | 0.8% -20.5% | 3.6%             |

Severity 25.0% -62.5% 38.9%

|                         |         |                              |
|-------------------------|---------|------------------------------|
| IMPAIRED LOANS          | \$7,450 | Appraisals of collateral (1) |
| OTHER REAL ESTATE OWNED | \$8,751 | Appraisals of collateral (1) |

## Table of Contents

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 (1) 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 categorized as Level 3, the market is deemed to be inactive, the fair value models are calibrated and to the extent possible, significant inputs are back tested on a quarterly basis. This testing is done by the third party service provider, who performs this testing by comparing anticipated inputs to actual results. For example, modeled default and prepayment rates for private mortgage-backed securities will be compared to actual rates for the previous period. Significant changes in fair value from period to period are closely scrutinized to ensure fair value models are not flawed. The driver(s) of the respective change in fair value and the method for forecasting the driver(s) is closely considered by management.

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

The significant unobservable inputs used in the fair value measurement of the Company's private mortgage-backed securities are constant prepayment rates, constant default rates, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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

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:

Table of Contents

|                                                          |                                              |            | Fair Value Measurements at Reporting Date Using                |                                               |                                           |
|----------------------------------------------------------|----------------------------------------------|------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                                          | Book Value                                   | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|                                                          | September 30, 2012<br>(Dollars in Thousands) |            |                                                                |                                               |                                           |
| FINANCIAL ASSETS                                         |                                              |            |                                                                |                                               |                                           |
| SECURITIES HELD TO MATURITY (a):                         |                                              |            |                                                                |                                               |                                           |
| U.S. Treasury Securities                                 | \$1,013                                      | \$1,143    | —                                                              | \$ 1,143                                      | —                                         |
| Agency Mortgage-Backed Securities                        | 81,523                                       | 86,762     | —                                                              | 86,762                                        | —                                         |
| Agency Collateralized Mortgage Obligations               | 91,845                                       | 94,769     | —                                                              | 94,769                                        | —                                         |
| State, County, and Municipal Securities                  | 915                                          | 929        | —                                                              | 929                                           | —                                         |
| Single Issuer trust preferred Securities Issued by Banks | 6,538                                        | 6,601      | —                                                              | 6,601                                         | —                                         |
| Corporate Debt Securities                                | 5,008                                        | 5,250      | —                                                              | 5,250                                         | —                                         |
| LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (b)              | 4,006,389                                    | 4,009,976  | —                                                              | —                                             | 4,009,976                                 |
| FINANCIAL LIABILITIES                                    |                                              |            |                                                                |                                               |                                           |
| TIME CERTIFICATES OF DEPOSITS (c)                        | \$630,419                                    | \$636,197  | —                                                              | \$ 636,197                                    | —                                         |
| FEDERAL HOME LOAN BANK ADVANCES (c)                      | 189,464                                      | 189,785    | —                                                              | 189,785                                       | —                                         |
| WHOLESALE AND CUSTOMER REPURCHASE AGREEMENTS (c)         | 208,578                                      | 206,199    | —                                                              | —                                             | 206,199                                   |
| JUNIOR SUBORDINATED DEBENTURES (d)                       | 61,857                                       | 61,238     | —                                                              | 61,238                                        | —                                         |
| SUBORDINATED DEBENTURES (c)                              | 30,000                                       | 23,375     | —                                                              | —                                             | 23,375                                    |
|                                                          | December 31, 2011<br>(Dollars in Thousands)  |            |                                                                |                                               |                                           |
| FINANCIAL ASSETS                                         |                                              |            |                                                                |                                               |                                           |
| SECURITIES HELD TO MATURITY (a):                         |                                              |            |                                                                |                                               |                                           |
| U.S. Treasury Securities                                 | \$1,014                                      | \$1,117    | \$ —                                                           | \$ 1,117                                      | \$ —                                      |
| Agency Mortgage-Backed Securities                        | 109,553                                      | 113,959    | —                                                              | 113,959                                       | —                                         |
| Agency Collateralized Mortgage Obligations               | 77,804                                       | 80,298     | —                                                              | 80,298                                        | —                                         |
| State, County, and Municipal Securities                  | 3,576                                        | 3,610      | —                                                              | 3,610                                         | —                                         |
| Single Issuer trust preferred Securities Issued by Banks | 8,000                                        | 7,346      | —                                                              | 7,346                                         | —                                         |
| Corporate Debt Securities                                | 5,009                                        | 5,164      | —                                                              | 5,164                                         | —                                         |
| LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (b)              | 3,746,130                                    | 3,807,938  | —                                                              | —                                             | 3,807,938                                 |
| FINANCIAL LIABILITIES                                    |                                              |            |                                                                |                                               |                                           |
| TIME CERTIFICATES OF DEPOSITS (c)                        | \$630,162                                    | \$639,333  | \$ —                                                           | \$ 639,333                                    | \$ —                                      |
| FEDERAL HOME LOAN BANK ADVANCES (c)                      | 229,701                                      | 233,880    | —                                                              | 233,880                                       | —                                         |
|                                                          | 216,128                                      | 219,857    | —                                                              | —                                             | 219,857                                   |

WHOLESALE AND CUSTOMER  
 REPURCHASE AGREEMENTS (c)

|                                       |        |        |   |        |        |
|---------------------------------------|--------|--------|---|--------|--------|
| JUNIOR SUBORDINATED<br>DEBENTURES (d) | 61,857 | 60,620 | — | 60,620 | —      |
| SUBORDINATED DEBENTURES (c)           | 30,000 | 27,217 | — | —      | 27,217 |

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

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

(c) Fair value was determined by discounting anticipated future cash payments using rates currently available for

Table of Contents

instruments with similar remaining maturities.

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

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

The Company believes its financial instruments current use is considered to be the highest and best use of the instruments.

**NOTE 10 – COMPREHENSIVE INCOME**

Information on the Company's comprehensive income, presented net of taxes, is set forth below for the three and nine months ended September 30, 2012 and 2011:

|                                                                                     | Three Months Ended September 30, 2012 |                             |                     | Nine Months Ended September 30, 2012 |                             |                     |
|-------------------------------------------------------------------------------------|---------------------------------------|-----------------------------|---------------------|--------------------------------------|-----------------------------|---------------------|
|                                                                                     | Pre Tax<br>Amount                     | Tax<br>(Expense)<br>Benefit | After Tax<br>Amount | Pre Tax<br>Amount                    | Tax<br>(Expense)<br>Benefit | After Tax<br>Amount |
|                                                                                     | (Dollars in Thousands)                |                             |                     | (Dollars in Thousands)               |                             |                     |
| CHANGE IN FAIR<br>VALUE OF<br>SECURITIES<br>AVAILABLE FOR<br>SALE                   | \$1,419                               | \$(582 )                    | \$837               | \$987                                | \$(450 )                    | \$537               |
| Less: Net Security<br>Losses Reclassified into<br>Earnings                          | —                                     | (1) —                       | —                   | 76                                   | (1) (31 )                   | 45                  |
| Net Change in Fair<br>Value of Securities<br>Available for Sale                     | 1,419                                 | (582 )                      | 837                 | 1,063                                | (481 )                      | 582                 |
| CHANGE IN FAIR<br>VALUE OF CASH<br>FLOW HEDGES                                      | (1,571 )                              | (2) 642                     | (929 )              | (3,593 )                             | (2) 1,468                   | (2,125 )            |
| Less: Net Security<br>Losses Reclassified into<br>Earnings                          | 1,370                                 | (560 )                      | 810                 | 4,008                                | (1,637 )                    | 2,371               |
| Net Change in Fair<br>Value of Cash Flow<br>Hedges                                  | (201 )                                | 82                          | (119 )              | 415                                  | (169 )                      | 246                 |
| AMORTIZATION OF<br>CERTAIN COSTS<br>INCLUDED IN NET<br>PERIODIC<br>RETIREMENT COSTS | 39                                    | (16 )                       | 23                  | 116                                  | (47 )                       | 69                  |
| TOTAL OTHER<br>COMPREHENSIVE<br>INCOME                                              | \$1,257                               | \$(516 )                    | \$741               | \$1,594                              | \$(697 )                    | \$897               |



Table of Contents

|                                                                                     | Three Months Ended September 30, 2011 |                             |                     | Nine Months Ended September 30, 2011 |                             |                     |
|-------------------------------------------------------------------------------------|---------------------------------------|-----------------------------|---------------------|--------------------------------------|-----------------------------|---------------------|
|                                                                                     | Pre Tax<br>Amount                     | Tax<br>(Expense)<br>Benefit | After Tax<br>Amount | Pre Tax<br>Amount                    | Tax<br>(Expense)<br>Benefit | After Tax<br>Amount |
|                                                                                     | (Dollars in Thousands)                |                             |                     | (Dollars in Thousands)               |                             |                     |
| CHANGE IN FAIR<br>VALUE OF<br>SECURITIES<br>AVAILABLE FOR<br>SALE                   | \$ (412 )                             | \$ 184                      | \$ (228 )           | \$ 879                               | \$ (334 )                   | \$ 545              |
| Less: Net Security<br>Gains Reclassified into<br>Earnings                           | 28                                    | (1) (11 )                   | 17                  | (519 ) (1)                           | 202                         | (317 )              |
| Net Change in Fair<br>Value of Securities<br>Available for Sale                     | (384 )                                | 173                         | (211 )              | 360                                  | (132 )                      | 228                 |
| CHANGE IN FAIR<br>VALUE OF CASH<br>FLOW HEDGES                                      | (6,947 ) (2)                          | 2,837                       | (4,110 )            | (11,016 ) (2)                        | 4,498                       | (6,518 )            |
| Less: Net Security<br>Losses Reclassified into<br>Earnings                          | 1,467                                 | (599 )                      | 868                 | 4,065                                | (1,699 )                    | 2,366               |
| Net Change in Fair<br>Value of Cash Flow<br>Hedges                                  | (5,480 )                              | 2,238                       | (3,242 )            | (6,951 )                             | 2,799                       | (4,152 )            |
| AMORTIZATION OF<br>CERTAIN COSTS<br>INCLUDED IN NET<br>PERIODIC<br>RETIREMENT COSTS | 131                                   | (53 )                       | 78                  | 473                                  | (143 )                      | 330                 |
| TOTAL OTHER<br>COMPREHENSIVE<br>INCOME                                              | \$ (5,733 )                           | \$ 2,358                    | \$ (3,375 )         | \$ (6,118 )                          | \$ 2,524                    | \$ (3,594 )         |

Net security losses represent pre-tax OTTI credit related losses of \$0 and \$28,000 for the three months ended September 30, 2012 and 2011, respectively, and there were no gains on the sale of securities for the three months (1) ended September 30, 2012 or 2011. For the nine months ended September 30, 2012 and 2011, net security losses represent pre-tax OTTI credit related losses of \$76,000 and \$204,000, respectively, and gains on sales of securities of \$0 and \$723,000, respectively.

Includes the remaining balance of a realized but unrecognized gain, net of tax, from the termination of interest rate swaps in June 2009. The original gain of \$1.4 million, net of tax will be recognized in earnings through December (2) 2018, the original maturity date of the swap. The balance of this gain has amortized to \$895,000 and \$1.0 million at September 30, 2012 and 2011, respectively.

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

Table of Contents

|                                                       | Unrealized Gain<br>on Securities | Unrealized<br>Loss on Cash<br>Flow Hedge | Deferred<br>Gain on Hedge<br>Transactions | Defined Benefit<br>Pension Plans | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|-------------------------------------------------------|----------------------------------|------------------------------------------|-------------------------------------------|----------------------------------|--------------------------------------------------------|
| (Dollars in Thousands)                                |                                  |                                          |                                           |                                  |                                                        |
| 2012                                                  |                                  |                                          |                                           |                                  |                                                        |
| Beginning Balance:<br>January 1, 2012                 | \$6,574                          | \$(10,804 )                              | \$1,004                                   | \$(1,260 )                       | \$(4,486 )                                             |
| Net Change in Other<br>Comprehensive Income<br>(Loss) | \$582                            | \$355                                    | \$(109 )                                  | \$69                             | \$897                                                  |
| Ending Balance:<br>September 30, 2012                 | 7,156                            | (10,449 )                                | 895                                       | (1,191 )                         | (3,589 )                                               |
| 2011                                                  |                                  |                                          |                                           |                                  |                                                        |
| Beginning Balance:<br>January 1, 2011                 | \$6,305                          | \$(7,125 )                               | \$1,148                                   | \$(1,094 )                       | \$(766 )                                               |
| Net Change in Other<br>Comprehensive Income<br>(Loss) | \$228                            | \$(4,044 )                               | \$(108 )                                  | \$330                            | \$(3,594 )                                             |
| Ending Balance:<br>September 30, 2011                 | 6,533                            | (11,169 )                                | 1,040                                     | (764 )                           | (4,360 )                                               |

## Table of Contents

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

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission.

#### Cautionary Statement Regarding Forward-Looking Statements

A number of the presentations and disclosures in this Form 10-Q, including, without limitation, statements regarding the level of allowance for loan losses, the rate of delinquencies and amounts of charge-offs, and the rates of loan growth, and any statements preceded by, followed by, or which include the words "may," "could," "should," "will," "would," "hope," "might," "believe," "expect," "anticipate," "estimate," "intend," "plan," "assume" or similar expressions constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to the beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business, of the Company including the Company's expectations and estimates with respect to the Company's revenues, expenses, earnings, return on average equity, return on average assets, asset quality and other financial data and capital and performance ratios.

Although the Company believes that the expectations reflected in the Company's forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the Company's goals, plans, objectives, intentions, expectations and other forward-looking statements:

- a weakening in the United States economy in general and the regional and local economies within the New England region and the Company's market area, which could result in a deterioration of credit quality, a change in the allowance for loan losses, or a reduced demand for the Company's credit or fee-based products and services;
- adverse changes in the local real estate market could result in a deterioration of credit quality and an increase in the allowance for loan losses, as most of the Company's loans are concentrated within the Bank's primary market area, and a substantial portion of these loans have real estate as collateral;
- a further deterioration of the credit rating for U.S. long-term sovereign debt could adversely impact the Company. Although the downgrade by Standard and Poor's of U.S. long-term sovereign debt did not directly impact the financial position for the Company, a further downgrade as a result of an ability by the federal government to address the so-called "fiscal cliff" or raise the U.S. debt limit could result in further downgrades which in turn could cause a re-evaluation of the 'risk-free' rate used in many accounting models, other-than-temporary-impairment of securities and/or impairment of goodwill and other intangibles;
- acquisitions may not produce results at levels or within time frames originally anticipated and may result in unforeseen integration issues or impairment of goodwill and/or other intangibles;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, could affect the Company's business environment or affect the Company's operations;
- the effects of, any changes in, and any failure by the Company to comply with tax laws generally and requirements of the federal New Markets Tax Credit program in particular could adversely affect the Company's tax provision and its financial results;
- inflation, interest rate, market and monetary fluctuations could reduce net interest income and could increase credit losses;
- adverse changes in asset quality could result in increasing credit risk-related losses and expenses;
- competitive pressures could intensify and affect the Company's profitability, including continued industry consolidation, the increased financial services provided by nonbanks and banking reform;
- a deterioration in the conditions of the securities markets could adversely affect the value or credit quality of the Company's assets, the availability and terms of funding necessary to meet the Company's liquidity needs,

and the Company's ability to originate loans and could lead to impairment in the value of securities in the Company's investment portfolios, having an adverse effect on the Company's earnings; the potential need to adapt to changes in information technology could adversely impact the Company's operations and require increased capital spending;

Table of Contents

the risk of electronic fraudulent activity within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting bank accounts and other customer information, which could adversely impact the Company's operations, damage its reputation and require increased capital spending;

- changes in consumer spending and savings habits could negatively impact the Company's financial results;
- new laws and regulations regarding the financial services industry including, but not limited to, the Dodd-Frank Wall Street Reform and Consumer Protection Act, may have a significant effect on the financial services industry in general, and/or the Company in particular, the exact nature and extent of which is uncertain;
- changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) generally applicable to the Company's business could adversely affect the Company's operations; and
- changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters, could negatively impact the Company's financial results.

If one or more of the factors affecting the Company's forward-looking information and statements proves incorrect, then the Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Form 10-Q. Therefore, the Company cautions you not to place undue reliance on the Company's forward-looking information and statements.

The Company does not intend to update the Company's forward-looking information and statements, whether written or oral, to reflect change. All forward-looking statements attributable to the Company are expressly qualified by these cautionary statements.

**Selected Quarterly Financial Data**

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

|                                       | Three Months Ended                            |                  |                   |                      |                       |
|---------------------------------------|-----------------------------------------------|------------------|-------------------|----------------------|-----------------------|
|                                       | September 30,<br>2012                         | June 30,<br>2012 | March 31,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|                                       | (Dollars in Thousands, Except Per Share Data) |                  |                   |                      |                       |
| FINANCIAL CONDITION DATA:             |                                               |                  |                   |                      |                       |
| Securities Available for Sale         | \$323,156                                     | \$338,331        | \$362,109         | \$305,332            | \$293,073             |
| Securities Held to Maturity           | 186,842                                       | 188,450          | 200,921           | 204,956              | 220,552               |
| Loans                                 | 4,056,135                                     | 3,980,789        | 3,869,756         | 3,794,390            | 3,723,125             |
| Allowance for Loan Losses             | (49,746 )                                     | 48,403           | 48,340            | 48,260               | 47,278                |
| Goodwill and Core Deposit Intangibles | 137,293                                       | 139,924          | 140,323           | 140,722              | 141,103               |
| Total Assets                          | 5,192,094                                     | 5,124,564        | 4,985,739         | 4,970,240            | 4,899,766             |
| Total Deposits                        | 4,117,847                                     | 4,078,133        | 3,945,713         | 3,876,829            | 3,787,533             |
| Total Borrowings                      | 489,899                                       | 476,217          | 484,115           | 537,686              | 568,264               |
| Stockholders' Equity                  | 492,965                                       | 483,592          | 478,863           | 469,057              | 461,066               |
| Nonperforming Loans                   | 31,081                                        | 31,322           | 31,646            | 28,953               | 26,625                |
| Nonperforming Assets                  | 41,529                                        | 43,857           | 40,736            | 37,149               | 36,647                |
| INCOME STATEMENT:                     |                                               |                  |                   |                      |                       |
| Interest Income                       | \$48,555                                      | \$48,426         | \$47,796          | \$48,382             | \$48,935              |

Table of Contents

|                                                               |        |   |        |   |        |   |        |   |        |
|---------------------------------------------------------------|--------|---|--------|---|--------|---|--------|---|--------|
| Interest Expense                                              | 5,717  |   | 5,798  |   | 5,943  |   | 6,528  |   | 7,261  |
| Net Interest Income                                           | 42,838 |   | 42,628 |   | 41,853 |   | 41,854 |   | 41,674 |
| Provision for Loan Losses                                     | 3,606  |   | 8,500  |   | 1,600  |   | 3,800  |   | 2,000  |
| Noninterest Income                                            | 16,108 |   | 14,983 |   | 13,909 |   | 14,315 |   | 12,315 |
| Noninterest Expenses                                          | 40,052 |   | 36,999 |   | 37,358 |   | 36,952 |   | 35,423 |
| Net Income                                                    | 11,601 |   | 8,874  |   | 12,183 |   | 11,169 |   | 11,959 |
| PER SHARE DATA:                                               |        |   |        |   |        |   |        |   |        |
| Net Income—Basic                                              | \$0.54 |   | \$0.41 |   | \$0.57 |   | \$0.52 |   | \$0.56 |
| Net Income—Diluted                                            | 0.53   |   | 0.41   |   | 0.56   |   | 0.52   |   | 0.56   |
| Cash Dividends Declared                                       | 0.21   |   | 0.21   |   | 0.21   |   | 0.19   |   | 0.19   |
| Book Value                                                    | 22.75  |   | 22.36  |   | 22.16  |   | 21.82  |   | 21.48  |
| PERFORMANCE RATIOS:                                           |        |   |        |   |        |   |        |   |        |
| Return on Average Assets                                      | 0.91   | % | 0.71   | % | 1.00   | % | 0.91   | % | 0.99   |
| Return on Average Common Equity                               | 9.39   | % | 7.34   | % | 10.31  | % | 9.45   | % | 10.28  |
| Net Interest Margin (on a Fully Tax Equivalent Basis)         | 3.72   | % | 3.80   | % | 3.82   | % | 3.78   | % | 3.84   |
| Equity to Assets                                              | 9.49   | % | 9.44   | % | 9.60   | % | 9.44   | % | 9.41   |
| Dividend Payout Ratio                                         | 39.23  | % | 51.19  | % | 37.26  | % | 36.57  | % | 34.10  |
| ASSET QUALITY RATIOS:                                         |        |   |        |   |        |   |        |   |        |
| Nonperforming Loans as a Percent of Gross Loans               | 0.77   | % | 0.79   | % | 0.82   | % | 0.76   | % | 0.72   |
| Nonperforming Assets as a Percent of Total Assets             | 0.80   | % | 0.86   | % | 0.82   | % | 0.75   | % | 0.75   |
| Allowance for Loan Losses as a Percent of Total Loans         | 1.23   | % | 1.22   | % | 1.25   | % | 1.27   | % | 1.27   |
| Allowance for Loan Losses as a Percent of Nonperforming Loans | 160.05 | % | 154.53 | % | 152.75 | % | 166.68 | % | 177.57 |
| CAPITAL RATIOS:                                               |        |   |        |   |        |   |        |   |        |
| Tier 1 Leverage Capital Ratio                                 | 8.73   | % | 8.68   | % | 8.77   | % | 8.61   | % | 8.59   |
| Tier 1 Risk-Based Capital Ratio                               | 10.72  | % | 10.64  | % | 10.71  | % | 10.74  | % | 10.62  |
| Total Risk-Based Capital Ratio                                | 12.71  | % | 12.63  | % | 12.73  | % | 12.78  | % | 12.67  |

## Executive Level Overview

During the third quarter of 2012 the Company continued to experience business volume growth, as indicated by the growth rates in the commercial and home equity loan portfolios. The Company's deposits also grew in the third quarter with core deposits now comprising 84.3% of total deposits. Growth in noninterest income year-over-year was solid at 17.2%. On an operating basis, excluding the proceeds from life insurance policies in 2012 and the gain on the sale of securities in 2011, noninterest income growth was still strong at 16.0% as compared to the prior year. Noninterest expense growth was well managed with a year-over-year increase of only 5.2%, and on an operating basis, which excludes the merger and acquisition



Table of Contents

expenses and goodwill impairment in 2012, only increased by 2.0% year-over-year.

The following table illustrates key performance measures for the periods indicated:

|                                 | Three Months Ended<br>September 30,           |           | Nine Months Ended<br>September 30, |           |
|---------------------------------|-----------------------------------------------|-----------|------------------------------------|-----------|
|                                 | 2012                                          | 2011      | 2012                               | 2011      |
|                                 | (Dollars in Thousands, Except Per Share Data) |           |                                    |           |
| NET INCOME                      | \$ 11,601                                     | \$ 11,959 | \$ 32,658                          | \$ 34,267 |
| DILUTED EARNINGS PER SHARE      | 0.53                                          | 0.56      | 1.51                               | 1.60      |
| RETURN ON AVERAGE ASSETS        | 0.91                                          | % 0.99    | % 0.87                             | % 0.97    |
| RETURN ON COMMON AVERAGE EQUITY | 9.39                                          | % 10.28   | % 9.01                             | % 10.10   |
| NET INTEREST MARGIN             | 3.72                                          | % 3.84    | % 3.78                             | % 3.94    |

The Company's net interest margin of 3.72% in the third quarter was well managed but has decreased when compared to the 3.84% of the year ago period due to the industry-wide pressure on interest margins caused by the prolonged low rate environment and disciplined interest rate risk management. Management has countered this ongoing pressure on earning asset yields by decreasing the Company's costs of funds, which decreased to 0.50% at September 30, 2012, down from 0.68% as of September 30, 2011. However, with limited ability to further reduce the overall cost of funds, management anticipates maintaining the net interest margin at this level to be challenging and expects the net interest margin to be in the 3.60%'s in the fourth quarter of this year.

Consistent with the Company's strategic emphasis, the commercial loan portfolio was a driver of loan growth during the three months ended September 30, 2012, as evidenced by annualized growth for the quarter of 11.4%. The home equity portfolio also experienced annualized growth of 9.0%, driven largely by the demand for first position mortgage refinancing fueled by historically low interest rates.

Deposits increased to \$4.1 billion, an increase of \$39.7 million, or 3.9% on an annualized basis, for the three months ended September 30, 2012. The Company continues to focus on improving the mix of deposits with core deposits increasing by \$53.8 million, or 6.3% on an annualized basis, to \$3.5 billion with growth occurring in both consumer and business customer segments.

In terms of asset quality, the Company continues to experience strong credit metrics as compared to peers in the industry. Loan delinquency measures range from stable to improving and nonperforming assets remain in a manageable position.

Table of Contents

The following table shows the levels of the Company's nonperforming loans over the trailing five quarters:

The Company considers a loan to be in early stage delinquency when it is between 30-89 days past due and a loan is considered to be in late stage delinquency when it is 90 days or more past due. Loan delinquency, both early and late stage, remained well contained as of September 30, 2012.

50

---

Table of Contents

The chart below shows the level of delinquencies over the trailing five quarters:

Net loan charge-off activity decreased on a quarter-to-quarter basis due largely to a customer loan fraud detected in the prior quarter, which resulted in a \$4.0 million charge-off last quarter. The Company's net loan charge-offs over the last five quarters are shown in the table below:

The provision for loan losses was \$3.6 million, \$3.8 million, and \$2.0 million for the three months ended September 30, 2012, December 31, 2011, and September 30, 2011, respectively, and exceeded net charge-offs in all quarters. The allowance for loan losses as a percent of loans was 1.23% at September 30, 2012 and 1.27% at both December 31, 2011 and September 30, 2011.

The Company's organic customer growth continued to be strong in the third quarter of 2012 providing deposit, loan and

## Table of Contents

fee income opportunities. Noninterest income increased over the prior quarter by 7.5% to \$16.1 million. The largest increase in noninterest income is due to the Company receiving \$1.3 million of net proceeds from life insurance policies, which is tax-exempt income to the Company. Growth in noninterest income year-over-year was solid at 17.2%. On an operating basis, excluding the proceeds from life insurance policies in 2012 and the gain on the sale of securities in 2011, noninterest income growth was still strong at 16.0% as compared to the prior year.

Noninterest expense increased over the prior quarter by 8.3% to \$40.1 million. The increase is mainly due to increases in incentive compensation of \$1.2 million, merger and acquisition expenses of \$595,000, and a \$2.2 million goodwill impairment charge, which represents the total amount of goodwill relating to Compass Exchange Advisors, LLC ("Compass"), which was acquired in January 2007. Compass is a wholly-owned subsidiary of the bank that provides like-kind exchange services pursuant to section 1031 of the Internal Revenue Code. The Company determined the goodwill associated with this purchase to be impaired due to the prolonged low rate environment and the Federal Reserve Bank's stated intent to maintain low rates for the foreseeable future. Noninterest expense was well managed with a year-over-year increase of 5.2%, however, excluding the merger and acquisition expenses and goodwill impairment in 2012 noninterest expense increased only modestly by 2.0% for the same period.

Management anticipates that the continuation of solid fundamentals and strong asset quality metrics will continue to drive the Company's results. Management expects net charge-offs for the year to be in the range of \$15-\$16 million and loan growth to be in the range of 7.0% to 8.0% particularly in the commercial category where pipelines are strong and the Company expects first position home equity to slow with a modest growth for the remainder of the year.

Management is also focused on integration planning for the upcoming acquisition of Central Bancorp, Inc. in the fourth quarter and anticipates a customer conversion during the first quarter of 2013. At the beginning of 2012 management provided diluted earnings per share estimates of \$2.05 to \$2.15 for 2012 as compared to the diluted earnings per share of \$2.12 for 2011. Management believes the \$2.05 to \$2.15 estimate to still be accurate and anticipates being in the middle of that range.

### Non-GAAP Measures

When management assesses the Company's financial performance for purposes of making day-to-day and strategic decisions, it does so based upon the performance of its core banking business, which is primarily derived from the combination of net interest income and noninterest or fee income, reduced by operating expenses, the provision for loan losses, and the impact of income taxes. The Company's financial performance is determined in accordance with Generally Accepted Accounting Principles ("GAAP") which sometimes includes gains or losses due to items that management does not believe are related to its core banking business, such as gains or losses on the sales of securities, merger and acquisition expenses, and other items. Management, therefore, also computes the Company's non-GAAP operating earnings, which excludes these items, to measure the strength of the Company's core banking business and to identify trends that may to some extent be obscured by gains or losses which management deems not to be core to the Company's operations. Management believes that the financial impact of the items excluded when computing non-GAAP operating earnings will disappear or become immaterial within a near-term finite period.

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

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

# Table of Contents

The following table summarizes the impact of noncore items recorded for the time periods indicated below and reconciles them in accordance with GAAP:

|                                                    | Three Months Ended September 30,<br>Net Income<br>Available to Common<br>Shareholders<br>2012                  2011<br>(Dollars in Thousands) |          |        |       | Diluted<br>Earnings Per Share<br>2012                  2011 |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------|--------|-------|-------------------------------------------------------------|
| AS REPORTED (GAAP)                                 |                                                                                                                                               |          |        |       |                                                             |
| Net Income available to Common Shareholders (GAAP) | \$11,601                                                                                                                                      | \$11,959 | 0.53   |       | 0.56                                                        |
| Non-GAAP Measures:                                 |                                                                                                                                               |          |        |       |                                                             |
| Non-Interest Income Components:                    |                                                                                                                                               |          |        |       |                                                             |
| Proceeds from Life Insurance Policies, tax exempt  | (1,307                                                                                                                                        | ) —      | (0.06  | ) —   |                                                             |
| Non-Interest Expense Components:                   |                                                                                                                                               |          |        |       |                                                             |
| Merger and Acquisition Expenses, net of tax        | 352                                                                                                                                           | —        | 0.02   |       | —                                                           |
| Goodwill Impairment, net of tax                    | 1,317                                                                                                                                         | —        | 0.06   |       | —                                                           |
| TOTAL IMPACT OF NON-CORE ITEMS                     | 362                                                                                                                                           | —        | 0.02   |       | —                                                           |
| AS ADJUSTED (NON-GAAP)                             | \$11,963                                                                                                                                      | \$11,959 | 0.55   |       | 0.56                                                        |
|                                                    |                                                                                                                                               |          |        |       |                                                             |
|                                                    | Nine Months Ended September 30,<br>Net Income<br>Available to Common<br>Shareholders<br>2012                  2011<br>(Dollars in Thousands)  |          |        |       | Diluted<br>Earnings Per Share<br>2012                  2011 |
| AS REPORTED (GAAP)                                 |                                                                                                                                               |          |        |       |                                                             |
| Net Income available to Common Shareholders (GAAP) | \$32,658                                                                                                                                      | \$34,267 | \$1.51 |       | \$1.60                                                      |
| Non-GAAP Measures:                                 |                                                                                                                                               |          |        |       |                                                             |
| Non-Interest Income Components:                    |                                                                                                                                               |          |        |       |                                                             |
| Net Gain on Sale of Securities, net of tax         | —                                                                                                                                             | (428     | ) —    | (0.02 | )                                                           |
| Proceeds from Life Insurance Policies, tax exempt  | (1,307                                                                                                                                        | )        | (0.06  | )     |                                                             |
| Non-Interest Expense Components:                   |                                                                                                                                               |          |        |       |                                                             |
| Merger and Acquisition Expenses, net of tax        | 749                                                                                                                                           | —        | 0.03   |       | —                                                           |
| Goodwill Impairment, net of tax                    | 1,317                                                                                                                                         | —        | 0.06   |       | —                                                           |
| TOTAL IMPACT OF NON-CORE ITEMS                     | 759                                                                                                                                           | (428     | ) 0.03 | (0.02 | )                                                           |
| AS ADJUSTED (NON-GAAP)                             | \$33,417                                                                                                                                      | \$33,839 | \$1.54 |       | \$1.58                                                      |

## Critical Accounting Policies

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

There have been no material changes in critical accounting policies during the first nine months of 2012. Please refer to the 2011 Form 10-K for a complete listing of critical accounting policies.

## Table of Contents

### FINANCIAL POSITION

**Securities Portfolio** The Company's securities portfolio consists of securities available for sale and securities which management intends to hold until maturity. Securities decreased by \$8.5 million, or 1.7%, at September 30, 2012 as compared to December 31, 2011. The ratio of securities to total assets as of September 30, 2012 was 9.8%, compared to 10.4% at December 31, 2011.

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

As of December 31, 2011 securities classified as trading were \$8.2 million and were comprised of a community development mutual fund investment and securities that are held solely for the purpose of funding certain executive nonqualified retirement obligations. During the first quarter of 2012, management reclassified these securities to be available for sale.

**Residential Mortgage Loan Sales** The Company's primary loan sale activity arises from the sale of government sponsored enterprise eligible residential mortgage loans to other financial institutions. During 2012 and 2011, the Bank originated residential loans with the intention of selling them in the secondary market. Loans may be sold with servicing rights released or with servicing rights retained. A mortgage servicing asset is recognized when a loan is sold with servicing rights retained. During the three and nine months ended September 30, 2012 the Company sold \$83.5 million and \$222.8 million of mortgage loans compared to \$60.5 million and \$186.1 million for the three and nine months ended September 30, 2011. The majority of these loans are sold with servicing rights released.

When a loan is sold, the Company enters into agreements that contain representations and warranties about the characteristics of the loans sold and their origination. The Company may be required to either repurchase mortgage loans or to indemnify the purchaser from losses if representations and warranties are breached. During the nine months ended September 30, 2011 the Company incurred losses of \$175,000 on loans that were agreed to be repurchased. There were no material losses on repurchased loans in the nine months ended September 30, 2012. The Company has not at this time established a reserve for loan repurchases as it believes future material losses are not probable.

Forward sale contracts of mortgage loans, considered derivative instruments for accounting purposes, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain one-to-four 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. See Note 7, "Derivative and Hedging Activities" within Notes to Consolidated Financial statements included in Item 1 hereof for more information on mortgage loan commitments and forward sales agreements.

**Loan Portfolio Management** continues to focus on growth in the commercial and home equity lending categories, while placing less emphasis on the other lending categories. Management believes this emphasis is prudent, given the prevailing interest rate and economic environment, as well as strategic priorities. At September 30, 2012, the Bank's loan portfolio amounted to \$4.1 billion, an increase of \$261.7 million, or 6.9%, from December 31, 2011. The commercial loan portfolio continued its strong trend and is benefiting from recent expansion initiatives in that business. Robust growth was also sustained in the first position home equity portfolio due to excellent customer response to the Company's attractive product offerings and marketing efforts. This has all resulted in total commercial portfolio growth of 8.2%, or 11.0% annualized growth for the nine months ended September 30, 2012 and home equity growth of 14.1%, or 18.9% annualized growth for the nine months ended September 30, 2012.

Table of Contents

The Bank's commercial and industrial portfolio has shown growth of 13.6% for the nine months ended September 30, 2012. This portfolio is well-diversified with loans to various types of industries. The following pie chart shows the diversification of the commercial and industrial portfolio as of September 30, 2012:

|                                              |                |   |
|----------------------------------------------|----------------|---|
| Avg Loan Size                                | \$ 191,645     |   |
| Largest Individual C&I Loan                  | \$16.1 million |   |
| C&I Nonperforming Loans/ Nonperforming Loans | 0.46           | % |

The Bank's commercial real estate portfolio, inclusive of commercial construction, is the Bank's largest loan type concentration. This portfolio is also well-diversified with loans secured by a variety of property types, such as owner-occupied and nonowner-occupied commercial, retail, office, industrial, warehouse, industrial development bonds, and other special purpose properties, such as hotels, motels, nursing homes, restaurants, churches, recreational facilities, marinas, and golf courses. Commercial real estate also includes loans secured by certain residential-related property types including multi-family apartment buildings, residential development tracts and condominiums. The following pie chart shows the diversification of the commercial real estate portfolio as of September 30, 2012:

Table of Contents

|                                              |                |   |
|----------------------------------------------|----------------|---|
| Average Loan Size                            | \$681,460      |   |
| Largest Individual CRE Mortgage              | \$16.4 million |   |
| CRE Nonperforming Loans/ Nonperforming Loans | 0.44           | % |
| Owner Occupied CRE Loans/CRE Loans           | 20.3           | % |

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

**Delinquency** The Bank's philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. The Bank considers a loan to have defaulted when it reaches 90 days past due. The Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. Generally, the Bank requires that a delinquency notice be mailed to a borrower upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices may be sent and telephone calls may be made prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of a delinquency notice, the Bank's personnel charged with managing its loan portfolios contact the borrower to ascertain the reasons for delinquency and the prospects for payment. Any subsequent actions taken to resolve the delinquency will depend upon the nature of the loan and the length of time that the loan has been delinquent. The borrower's needs are considered as much as reasonably possible without jeopardizing the Bank's position. A late charge is usually assessed on loans upon expiration of the grace period.

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

**Troubled Debt Restructurings** In the course of resolving problem loans, the Bank may choose to restructure the contractual terms of certain loans. The Bank attempts to work-out an alternative payment schedule with the borrower in order to avoid or cure a default. Any loans that are modified are reviewed by the Bank to identify if a TDR has occurred, which is

## Table of Contents

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. If such efforts by the Bank do not result in satisfactory performance, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Bank may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

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

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

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

OREO consists of properties, which when deemed to be controlled by the Bank, are recorded at fair value less cost to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated cost to sell) of the foreclosed asset is charged-off to the allowance for loan losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value are recorded as reductions in the allowance, but not below zero. All costs incurred thereafter in maintaining the property are charged to noninterest expense. In the event the real estate is utilized as a rental property, rental income and expenses are recorded as incurred and included in noninterest income and noninterest expense, respectively.

Other assets in possession primarily consist of foreclosed assets and other nonreal-estate assets deemed to be in control of the Company.

Table of Contents

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

Table 1—Nonperforming Assets/Loans

|                                                   | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |   |
|---------------------------------------------------|-----------------------|----------------------|-----------------------|---|
| (Dollars In Thousands)                            |                       |                      |                       |   |
| LOANS ACCOUNTED FOR ON A NONACCRUAL BASIS         |                       |                      |                       |   |
| Commercial and Industrial                         | \$2,981               | \$1,883              | \$1,836               |   |
| Commercial Real Estate                            | 9,249                 | 13,109               | 10,673                |   |
| Small Business                                    | 604                   | 542                  | 1,032                 |   |
| Residential Real Estate                           | 10,383                | 9,867                | 10,420                |   |
| Home Equity                                       | 7,608                 | 3,130                | 2,009                 |   |
| Consumer—Other                                    | 181                   | 381                  | 327                   |   |
| TOTAL (1)                                         | \$31,006              | \$28,912             | \$26,297              |   |
| LOANS PAST DUE 90 DAYS OR MORE BUT STILL ACCRUING |                       |                      |                       |   |
| Home Equity                                       | \$35                  | \$—                  | \$—                   |   |
| Consumer—Other                                    | 40                    | 41                   | 328                   |   |
| TOTAL                                             | \$75                  | \$41                 | \$328                 |   |
| TOTAL NONPERFORMING LOANS                         | \$31,081              | \$28,953             | \$26,625              |   |
| NONACCRUAL SECURITIES (2)                         | 1,521                 | 1,272                | 1,255                 |   |
| OTHER REAL ESTATE OWNED AND FORECLOSED ASSETS     | 8,927                 | 6,924                | 8,767                 |   |
| TOTAL NONPERFORMING ASSETS                        | \$41,529              | \$37,149             | \$36,647              |   |
| NONPERFORMING LOANS AS A PERCENT OF GROSS LOANS   | 0.77                  | % 0.76               | % 0.72                | % |
| NONPERFORMING ASSETS AS A PERCENT OF TOTAL ASSETS | 0.80                  | % 0.75               | % 0.75                | % |

(1) Inclusive of TDRs on nonaccrual of \$6.0 million, \$9.2 million, and \$8.5 million, at September 30, 2012, December 31, 2011, and September 30, 2011, respectively.

(2) Amounts represent the fair value of nonaccrual securities. The Company has six nonaccrual securities at September 30, 2012, December 31, 2011, and September 30, 2011.

Table of Contents

The following table shows the roll-forward of nonperforming assets for the periods indicated:

Table 2—Nonperforming Rollforward

|                                                                       | Three Months<br>Ended<br>September 30, 2012<br>(Dollars in Thousands) | Nine Months Ended<br>September 30, 2012 |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------|
| NONPERFORMING ASSETS BEGINNING BALANCE                                | \$43,857                                                              | \$37,149                                |
| NEW TO NONPERFORMING                                                  | 7,981                                                                 | 35,679                                  |
| LOANS CHARGED-OFF                                                     | (2,826 )                                                              | (13,538 )                               |
| LOANS PAID-OFF                                                        | (3,837 )                                                              | (7,943 )                                |
| LOANS TRANSFERRED TO OTHER REAL ESTATE OWNED AND<br>FORECLOSED ASSETS | (347 )                                                                | (5,429 )                                |
| LOANS RESTORED TO ACCRUAL STATUS                                      | (1,081 )                                                              | (6,897 )                                |
| CHANGE TO OTHER REAL ESTATE OWNED:                                    |                                                                       |                                         |
| New to Other Real Estate Owned                                        | \$347                                                                 | \$5,429                                 |
| Valuation Write Down                                                  | (459 )                                                                | (659 )                                  |
| Sale of Other Real Estate Owned                                       | (2,708 )                                                              | (4,588 )                                |
| Development of Other Real Estate Owned                                | 339                                                                   | 1,911                                   |
| Other                                                                 | (43 )                                                                 | —                                       |
| TOTAL CHANGE TO OTHER REAL ESTATE OWNED                               | (2,524 )                                                              | (2,093 )                                |
| CHANGE IN FAIR VALUE ON NONACCRUAL SECURITIES                         | 261                                                                   | 248                                     |
| OTHER                                                                 | 45                                                                    | 167                                     |
| NONPERFORMING ASSETS ENDING BALANCE                                   | \$41,529                                                              | \$41,529                                |

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

Table 3—Troubled Debt Restructurings

|                                                                  | September 30,<br>2012<br>(Dollars In Thousands) | December 31,<br>2011 |
|------------------------------------------------------------------|-------------------------------------------------|----------------------|
| PERFORMING TROUBLED DEBT RESTUCTURINGS                           | \$46,823                                        | \$37,151             |
| NONACCRUAL TROUBLED DEBT RESTRUCTURINGS                          | 5,962                                           | 9,230                |
| TOTAL                                                            | \$52,785                                        | \$46,381             |
| PERFORMING TROUBLED DEBT RESTRUCTURINGS AS A % OF TOTAL<br>LOANS | 1.15                                            | % 0.98               |
| NONACCRUAL TROUBLED DEBT RESTRUCTURINGS AS A % OF TOTAL<br>LOANS | 0.15                                            | % 0.24               |
| TOTAL TROUBLED DEBT RESTRUCTURINGS AS A % OF TOTAL LOANS         | 1.30                                            | % 1.22               |

The following table shows the roll-forward of TDRs for the periods indicated:

Table of Contents

Table 4—Troubled Debt Restructurings Rollforward

|                               | Three Months<br>Ended September<br>30, 2012 | Nine Months<br>Ended September<br>30, 2012 |
|-------------------------------|---------------------------------------------|--------------------------------------------|
|                               | (Dollars in Thousands)                      |                                            |
| TDRs BEGINNING BALANCE        | \$44,745                                    | \$46,381                                   |
| NEW TO TDR STATUS             | 2,073                                       | 10,535                                     |
| COURT ORDERED CONCESSIONS (1) | 7,279                                       | 7,279                                      |
| PAYDOWNS                      | (1,230)                                     | (10,994)                                   |
| CHARGE OFFS                   | (82)                                        | (416)                                      |
| LOANS REMOVED FROM TDR STATUS | —                                           | —                                          |
| TDRs ENDING BALANCE           | \$52,785                                    | \$52,785                                   |

(1) Represents consumer loans where the borrower's obligation has been effectively discharged through Chapter 7 Bankruptcy and the borrower has not reaffirmed the debt for all applicable prior periods.

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

Table 5 - Interest Income Recognized/Collected on  
Nonaccrual Loans and Troubled Debt Restructurings

|                                                                                                | Three Months Ended<br>September 30,<br>2012      2011 |       | Nine Months Ended<br>September 30,<br>2012      2011 |         |
|------------------------------------------------------------------------------------------------|-------------------------------------------------------|-------|------------------------------------------------------|---------|
|                                                                                                | (Dollars in Thousands)                                |       | (Dollars in Thousands)                               |         |
| INTEREST INCOME THAT WOULD HAVE BEEN<br>RECOGNIZED IF NONACCRUING LOANS HAD BEEN<br>PERFORMING | \$523                                                 | \$457 | \$1,882                                              | \$1,257 |
| INTEREST INCOME RECOGNIZED ON TDRs STILL<br>ACCRUING                                           | \$700                                                 | \$590 | \$2,209                                              | \$1,686 |
| INTEREST COLLECTED ON THESE NONACCRUAL<br>AND TDRs AND INCLUDED IN INTEREST INCOME             | \$813                                                 | \$646 | \$2,633                                              | \$2,030 |

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

At September 30, 2012, impaired loans included all commercial and industrial loans, commercial real estate loans,

60

---

Table of Contents

commercial construction, and small business loans that are on nonaccrual status, TDRs, and other loans that have been categorized as impaired. Total impaired loans at September 30, 2012 and December 31, 2011 were \$69.6 million and \$61.7 million, respectively. For additional information regarding the Bank's asset quality, including delinquent loans, nonaccruals, TDRs, and impaired loans, see Note 4, "Loans, Allowance for Loan Losses, and Credit Quality" within Notes to Consolidated Financial Statements included in Item 1 hereof.

Potential problem loans are any loans which are not included in nonaccrual or nonperforming loans, where known information about possible credit problems of the borrowers causes management to have concerns as to the ability of such borrowers to comply with present loan repayment terms. The table below shows the potential problem commercial loans at the time periods indicated:

Table 6 - Potential Problem Commercial Loans

|                               | September 30,<br>2012  | December 31,<br>2011 |
|-------------------------------|------------------------|----------------------|
|                               | (Dollars in Thousands) |                      |
| NUMBER OF LOAN RELATIONSHIPS  | 63                     | 64                   |
| AGGREGATE OUTSTANDING BALANCE | \$106,103              | \$113,641            |

At September 30, 2012, these potential problem loans continued to perform with respect to payments. Management actively monitors these loans and strives to minimize any possible adverse impact to the Bank.

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

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

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

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

Table 7—Summary of Changes in the Allowance for Loan Losses

|                                                      | Three Months Ended     |                  |                   |                      |                       |
|------------------------------------------------------|------------------------|------------------|-------------------|----------------------|-----------------------|
|                                                      | September 30,<br>2012  | June 30,<br>2012 | March 31,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|                                                      | (Dollars in Thousands) |                  |                   |                      |                       |
| AVERAGE LOANS                                        | \$4,008,238            | \$3,947,785      | \$3,827,187       | \$3,744,958          | \$3,709,864           |
| ALLOWANCE FOR LOAN<br>LOSSES, BEGINNING OF<br>PERIOD | \$48,403               | \$48,340         | \$48,260          | \$47,278             | \$46,637              |
| CHARGED-OFF LOANS:                                   |                        |                  |                   |                      |                       |
| Commercial and Industrial                            | 1,267                  | 4,707            | 15                | 434                  | 749                   |
| Commercial Real Estate                               | 621                    | 2,133            | 604               | 1,245                | 242                   |
| Commercial Construction                              | —                      | —                | —                 | —                    | —                     |
| Small Business                                       | 98                     | 136              | 170               | 220                  | 386                   |
| Residential Real Estate                              | 227                    | 105              | 109               | 69                   | 88                    |
| Consumer—Home Equity                                 | 365                    | 1,391            | 750               | 714                  | 333                   |

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

|                            |       |       |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|
| Consumer—Other             | 247   | 296   | 297   | 417   | 374   |
| TOTAL CHARGED-OFF<br>LOANS | 2,825 | 8,768 | 1,945 | 3,099 | 2,172 |

61

---

Table of ContentsRECOVERIES ON LOANS  
PREVIOUSLY  
CHARGED-OFF:

|                           |     |     |     |     |     |
|---------------------------|-----|-----|-----|-----|-----|
| Commercial and Industrial | 122 | 113 | 200 | 72  | 77  |
| Commercial Real Estate    | 188 | —   | —   | —   | 98  |
| Commercial Construction   | —   | —   | —   | —   | 425 |
| Small Business            | 21  | 46  | 52  | 88  | 18  |
| Residential Real Estate   | 79  | —   | —   | —   | —   |
| Consumer—Home Equity      | 36  | 18  | 13  | 22  | 13  |
| Consumer—Other            | 116 | 154 | 160 | 99  | 182 |
| TOTAL RECOVERIES:         | 562 | 331 | 425 | 281 | 813 |

## NET LOANS CHARGED-OFF:

|                                |       |       |        |       |        |
|--------------------------------|-------|-------|--------|-------|--------|
| Commercial and Industrial      | 1,145 | 4,594 | (185 ) | 362   | 672    |
| Commercial Real Estate         | 433   | 2,133 | 604    | 1,245 | 144    |
| Commercial Construction        | —     | —     | —      | —     | (425 ) |
| Small Business                 | 77    | 90    | 118    | 132   | 368    |
| Residential Real Estate        | 148   | 105   | 109    | 69    | 88     |
| Consumer—Home Equity           | 329   | 1,373 | 737    | 692   | 320    |
| Consumer—Other                 | 131   | 142   | 137    | 318   | 192    |
| TOTAL NET LOANS<br>CHARGED-OFF | 2,263 | 8,437 | 1,520  | 2,818 | 1,359  |
| PROVISION FOR LOAN<br>LOSSES   | 3,606 | 8,500 | 1,600  | 3,800 | 2,000  |

|                                                       |          |          |          |          |          |
|-------------------------------------------------------|----------|----------|----------|----------|----------|
| TOTAL ALLOWANCES FOR<br>LOAN LOSSES, END OF<br>PERIOD | \$49,746 | \$48,403 | \$48,340 | \$48,260 | \$47,278 |
|-------------------------------------------------------|----------|----------|----------|----------|----------|

## NET LOANS CHARGED-OFF

|                                                        |      |        |        |        |        |   |
|--------------------------------------------------------|------|--------|--------|--------|--------|---|
| AS A PERCENT OF<br>AVERAGE TOTAL LOANS<br>(ANNUALIZED) | 0.22 | % 0.86 | % 0.16 | % 0.30 | % 0.15 | % |
|--------------------------------------------------------|------|--------|--------|--------|--------|---|

|                                                                   |      |        |        |        |        |   |
|-------------------------------------------------------------------|------|--------|--------|--------|--------|---|
| TOTAL ALLOWANCE FOR<br>LOAN LOSSES AS A<br>PERCENT OF TOTAL LOANS | 1.23 | % 1.22 | % 1.25 | % 1.27 | % 1.27 | % |
|-------------------------------------------------------------------|------|--------|--------|--------|--------|---|

|                                                       |        |          |          |          |          |   |
|-------------------------------------------------------|--------|----------|----------|----------|----------|---|
| TOTAL ALLOWANCE FOR<br>LOAN LOSSES AS A<br>PERCENT OF | 160.05 | % 154.53 | % 152.75 | % 166.68 | % 177.57 | % |
|-------------------------------------------------------|--------|----------|----------|----------|----------|---|

## NONPERFORMING LOANS

|                                                                                       |       |         |         |         |         |   |
|---------------------------------------------------------------------------------------|-------|---------|---------|---------|---------|---|
| NET LOANS CHARGED-OFF<br>AS A PERCENT OF<br>ALLOWANCE FOR LOAN<br>LOSSES (ANNUALIZED) | 18.10 | % 70.11 | % 12.65 | % 23.42 | % 11.40 | % |
|---------------------------------------------------------------------------------------|-------|---------|---------|---------|---------|---|

|                                           |       |        |         |        |         |   |
|-------------------------------------------|-------|--------|---------|--------|---------|---|
| RECOVERIES AS A PERCENT<br>OF CHARGE-OFFS | 19.89 | % 3.78 | % 21.85 | % 9.07 | % 37.43 | % |
|-------------------------------------------|-------|--------|---------|--------|---------|---|

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

appropriate level of allowance for each segment. The total allowance is available to absorb losses from any segment of the loan portfolio.

Table of Contents

The following table sets forth the allocation of the allowance for loan losses by loan category at the dates indicated:  
Table 8—Summary of Allocation of Allowance for Loan Losses

|                                 | September 30,<br>2012  | Percent of<br>Loans<br>In Category<br>To Total Loans | December 31,<br>2011 | Percent of<br>Loans<br>In Category<br>To Total Loans |   |
|---------------------------------|------------------------|------------------------------------------------------|----------------------|------------------------------------------------------|---|
|                                 | Allowance<br>Amount    |                                                      | Allowance<br>Amount  |                                                      |   |
|                                 | (Dollars in Thousands) |                                                      |                      |                                                      |   |
| COMMERCIAL AND INDUSTRIAL       | \$11,968               | 16.1                                                 | % \$11,682           | 15.2                                                 | % |
| COMMERCIAL REAL ESTATE          | 21,905                 | 47.9                                                 | % 23,514             | 48.6                                                 | % |
| COMMERCIAL CONSTRUCTION         | 2,579                  | 4.3                                                  | % 2,076              | 3.4                                                  | % |
| SMALL BUSINESS                  | 1,371                  | 1.9                                                  | % 1,896              | 2.1                                                  | % |
| RESIDENTIAL REAL ESTATE         | 2,934                  | 9.5                                                  | % 3,113              | 11.3                                                 | % |
| HOME EQUITY                     | 7,968                  | 19.6                                                 | % 4,597              | 18.3                                                 | % |
| CONSUMER—OTHER                  | 1,021                  | 0.7                                                  | % 1,382              | 1.1                                                  | % |
| TOTAL ALLOWANCE FOR LOAN LOSSES | \$49,746               | 100.0                                                | % \$48,260           | 100.0                                                | % |

To determine if a loan should be charged-off, all possible sources of repayment are analyzed. Possible sources of repayment include the potential for future cash flows, the value of the Bank's collateral, and the strength of co-makers or guarantors. When available information confirms that specific loans or portions thereof are uncollectible, these amounts are promptly charged-off against the allowance for loan losses and any recoveries of such previously charged-off amounts are credited to the allowance. Regardless of whether a loan is unsecured or collateralized, the Company charges off the amount of any confirmed loan loss in the period when the loans, or portions of loans, are deemed uncollectible. For troubled, collateral-dependent loans, loss-confirming events may include an appraisal or other valuation that reflects a shortfall between the value of the collateral and the book value of the loan or receivable, or a deficiency balance following the sale of the collateral.

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

**Federal Home Loan Bank Stock** The Bank held an investment in Federal Home Loan Bank ("FHLB") of Boston of \$33.6 million and \$35.9 million at September 30, 2012 and December 31, 2011, respectively. The Company's investment in FHLB stock decreased by \$2.3 million during the first nine months of 2012, as the FHLB began to repurchase excess capital stock in 2012. The FHLB is a cooperative that provides services to its member banking institutions. The primary reason for the FHLB of Boston membership is to gain access to a reliable source of wholesale funding, particularly term funding, as a tool to manage interest rate risk. The purchase of stock in the FHLB is a requirement for a member to gain access to funding. The Company purchases FHLB stock proportional to the volume of funding received and views the purchases as a necessary long-term investment for the purposes of balance sheet liquidity and not for investment return.

**Goodwill and Identifiable Intangible Assets** Goodwill and identifiable intangible assets were \$137.3 million and \$140.7 million at September 30, 2012 and December 31, 2011, respectively. The Company performed its annual goodwill impairment testing during the third quarter of 2012, and concluded that \$2.2 million of goodwill was impaired. This amount represents the total amount of goodwill relating to Compass Exchange Advisors, LLC ("Compass"). Compass is a wholly-owned subsidiary of the Bank that provides like-kind exchange services pursuant to section 1031 of the Internal Revenue Code. While Compass remains in business and continues to operate, the Company determined the goodwill associated with the Compass purchase to be impaired due in part to the Federal Reserve Bank's stated intent to maintain low rates for the foreseeable future. The remainder of the Company's goodwill was not impaired. Goodwill is subject to impairment tests annually, or more frequently if necessary, and is evaluated using a two step impairment approach. The first step ("Step 1") of the impairment testing compares book value to the

market value of the Company's stock, or to the fair value of the reporting unit. If Step 1 is failed, a more detailed analysis is performed, which involves measuring the excess of the fair value of the reporting unit, as determined in Step 1, over the aggregate fair value of the individual assets, liabilities, and identifiable intangibles by utilizing a comparable analysis of relevant price multiples in recent market transactions. The Company's

Table of Contents

remaining goodwill relates to acquisitions that are fully integrated into the retail banking operations.

**Cash Surrender Value of Life Insurance Policies** The bank holds life insurance policies for the purpose of offsetting the Bank's future obligations to its employees under its retirement and benefits plans. The cash surrender value of life insurance policies was \$87.0 million and \$86.1 million at September 30, 2012 and December 31, 2011, respectively. The Bank recorded tax exempt income from the life insurance policies of \$757,000 and \$2.2 million for the three and nine months ended September 30, 2012, respectively, which was flat for the three months and represented a decrease of 4.8% for the nine months as compared to the year ago periods. Also, during the third quarter of 2012 the Company received death benefit proceeds on life insurance policies in the amount of \$1.3 million. The death benefit proceeds are tax-exempt income to the Company.

**Deposits** As of September 30, 2012, deposits of \$4.1 billion were \$241.0 million, or 6.2%, higher than December 31, 2011. Core deposits, which the Company defines as nontime and nonbrokered deposits, increased by \$235.8 million, or 7.3%, during the nine months ended September 30, 2012 and now comprise 84.3% of total deposits.

The Bank also participates in the Certificate of Deposit Registry Service ("CDARS") program, allowing the Bank to provide easy access to multi-million dollar FDIC deposit insurance protection on certificate of deposits investments for consumers, businesses and public entities. The economic downturn and subsequent flight to safety makes CDARS an attractive product for customers. In addition, the Bank may occasionally raise funds through brokered certificates of deposit. This channel allows the Bank to seek additional funding in potentially large quantities by attracting deposits from outside the Bank's core market. At September 30, 2012 and December 31, 2011, the Company had \$110.0 million and \$79.0 million, respectively, of brokered deposits.

**Borrowings** The Company's borrowings consist of both short-term and long-term borrowings and provide the Bank with one of its primary sources of funding. The borrowings also serve the Bank by providing a contingent source of liquidity.

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

Table 9—Borrowings

|                                    | September 30,<br>2012  | December 31,<br>2011 |
|------------------------------------|------------------------|----------------------|
|                                    | (Dollars in Thousands) |                      |
| <b>SHORT-TERM BORROWINGS:</b>      |                        |                      |
| FHLB Borrowings                    | \$ 150,000             | \$ 190,091           |
| Customer Repurchase Agreements     | 158,578                | 166,128              |
| <b>TOTAL SHORT-TERM BORROWINGS</b> | <b>\$ 308,578</b>      | <b>\$ 356,219</b>    |
| <b>LONG-TERM BORROWINGS:</b>       |                        |                      |
| Federal Home Loan Bank Borrowings  | \$ 39,464              | \$ 39,610            |
| Wholesale Repurchase Agreements    | 50,000                 | 50,000               |
| Junior Subordinated Debentures:    |                        |                      |
| Capital Trust V                    | 51,547                 | 51,547               |
| Slades Ferry Trust I               | 10,310                 | 10,310               |
| Subordinated Debentures            | 30,000                 | 30,000               |
| <b>TOTAL LONG-TERM BORROWINGS</b>  | <b>\$ 181,321</b>      | <b>\$ 181,467</b>    |
| <b>TOTAL BORROWINGS</b>            | <b>\$ 489,899</b>      | <b>\$ 537,686</b>    |

As of September 30, 2012 and December 31, 2011, the Bank had \$2.4 billion and \$2.6 billion, respectively, of assets pledged as collateral against borrowings. These assets are primarily pledged to the FHLB of Boston and the Federal Reserve Bank of Boston.



Table of Contents

Capital Resources On September 20, 2012, the Company's Board of Directors declared a cash dividend of \$0.21 per share to stockholders of record as of the close of business on October 1, 2012. This dividend was paid on October 12, 2012. For the quarter ended September 30, 2012, the dividend payout ratio amounted to 39.2%.

The Federal Reserve, the FDIC, and other regulatory agencies have established capital guidelines for banks and bank holding companies. Risk-based capital guidelines issued by the federal regulatory agencies require banks to meet a minimum Tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0%. A minimum requirement of 4.0% Tier 1 leverage capital is also mandated. At September 30, 2012, the Company and the Bank exceeded the minimum requirements for Tier 1 risk-based, total risk-based capital, and Tier 1 leverage capital.

Table of Contents

The Company's and the Bank's actual capital amounts and ratios are also presented in the following table:  
Table 10—Company and Bank's Capital Amounts and Ratios

|                                          | Actual                 |       | For Capital Adequacy Purposes |           |   |       | To Be Well Capitalized Under Prompt Corrective Action Provisions |           |           |
|------------------------------------------|------------------------|-------|-------------------------------|-----------|---|-------|------------------------------------------------------------------|-----------|-----------|
|                                          | Amount                 | Ratio |                               | Amount    |   | Ratio | Amount                                                           |           | Ratio     |
|                                          | September 30, 2012     |       |                               |           |   |       |                                                                  |           |           |
|                                          | (Dollars in Thousands) |       |                               |           |   |       |                                                                  |           |           |
| COMPANY (CONSOLIDATED):                  |                        |       |                               |           |   |       |                                                                  |           |           |
| Total Capital (to Risk Weighted Assets)  | \$513,696              | 12.71 | %                             | \$323,308 | ≥ | 8.00  | %                                                                | N/A       | N/A       |
| Tier 1 Capital (to Risk Weighted Assets) | 433,269                | 10.72 | %                             | \$161,654 | ≥ | 4.00  | %                                                                | N/A       | N/A       |
| Tier 1 Capital (to Average Assets)       | 433,269                | 8.73  | %                             | 198,472   | ≥ | 4.00  | %                                                                | N/A       | N/A       |
| BANK:                                    |                        |       |                               |           |   |       |                                                                  |           |           |
| Total Capital (to Risk Weighted Assets)  | \$482,431              | 11.94 | %                             | \$323,294 | ≥ | 8.00  | %                                                                | \$404,117 | ≥ 10.00 % |
| Tier 1 Capital (to Risk Weighted Assets) | 402,004                | 9.95  | %                             | \$161,647 | ≥ | 4.00  | %                                                                | \$242,470 | ≥ 6.00 %  |
| Tier 1 Capital (to Average Assets)       | 402,004                | 8.10  | %                             | 198,594   | ≥ | 4.00  | %                                                                | 248,243   | ≥ 5.00 %  |
|                                          | December 31, 2011      |       |                               |           |   |       |                                                                  |           |           |
|                                          | (Dollars in Thousands) |       |                               |           |   |       |                                                                  |           |           |
| COMPANY (CONSOLIDATED):                  |                        |       |                               |           |   |       |                                                                  |           |           |
| Total Capital (to Risk Weighted Assets)  | \$485,688              | 12.78 | %                             | \$304,097 | ≥ | 8.00  | %                                                                | N/A       | N/A       |
| Tier 1 Capital (to Risk Weighted Assets) | 408,157                | 10.74 | %                             | 152,049   | ≥ | 4.00  | %                                                                | N/A       | N/A       |
| Tier 1 Capital (to Average Assets)       | 408,157                | 8.61  | %                             | 189,576   | ≥ | 4.00  | %                                                                | N/A       | N/A       |
| BANK:                                    |                        |       |                               |           |   |       |                                                                  |           |           |
| Total Capital (to Risk Weighted Assets)  | \$462,715              | 12.17 | %                             | \$304,066 | ≥ | 8.00  | %                                                                | \$380,082 | ≥ 10.00 % |
| Tier 1 Capital (to Risk Weighted Assets) | 385,189                | 10.13 | %                             | 152,033   | ≥ | 4.00  | %                                                                | 228,049   | ≥ 6.00 %  |
| Tier 1 Capital (to Average Assets)       | 385,189                | 8.12  | %                             | 189,698   | ≥ | 4.00  | %                                                                | 237,123   | ≥ 5.00 %  |

In June 2012, the U.S. federal banking agencies released for comment three Notices of Proposed Rulemaking (“NPR’s”) that would implement the Basel III capital standards, along with changes required by the Dodd-Frank Act, two of which will apply to the Company and are expected to increase capital requirements along with increasing risk-weighted assets. The proposed implementation of the Basel III standards will be phased-in beginning January 1, 2013 through 2019.

The NPR entitled “Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions” redefines regulatory capital, increases minimum amounts, and introduces a capital conservation buffer to be held in excess of minimum amounts. The proposal puts an emphasis on common equity and creates a new regulatory minimum capital level for common equity tier 1 (“CET1”). CET1 will include amounts previously excluded from regulatory capital, including accumulated other comprehensive income for items

such as unrealized gains and losses on available for sale debt and equity securities and the unfunded/overfunded amount associated with defined benefit plans. The proposed minimum will be 7% of risk-weighted assets, comprised of a minimum ratio of 4.5% plus a 2.5% capital conservation buffer. Trust preferred securities would no longer be eligible for tier 1 capital treatment and will be phased out of tier 1 and into tier 2 capital at 10% a year, beginning January 1, 2013.

The second NPR that will affect the Company is entitled, "Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirement." This proposal attempts to harmonize the agencies' rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years, by incorporating certain international capital standards of the Basel Committee of Banking Supervision. Among the items impacting the Company are the additional

Table of Contents

risk-weighting of short term unused portion of loan commitments, the increase in risk-weighting of deferred tax items and mortgage servicing rights not excluded from capital, and the increased risk-weight for commercial real estate designated as high volatility commercial real estate.

The regulations ultimately applicable to the U.S. financial institutions may be substantially different from the Basel III final framework as published in December 2010 and the proposed rules issued in June 2012. Based on preliminary assessments of the proposed framework, management believes that the Company will continue to exceed all estimated well-capitalized regulatory requirements over the course of the proposed phase-in period.

Investment Management As of September 30, 2012, the Rockland Trust Investment Management Group had assets under administration of \$2.1 billion representing approximately 3,916 trust, fiduciary, and agency accounts. At December 31, 2011, assets under administration were \$1.7 billion, representing approximately 3,607 trust, fiduciary, and agency accounts. Included in these amounts as of September 30, 2012 and December 31, 2011 are assets under administration of \$137.7 million and \$119.1 million, respectively, relating to the Company's registered investment advisor, Bright Rock Capital Management, LLC, which provides institutional quality investment management services to institutional and high net worth clients. Revenue from the Investment Management Group amounted to \$3.4 million and \$9.9 million for the three and nine months ended September 30, 2012, respectively, compared to \$3.0 million and \$9.2 million for the three and nine months ended September 30, 2011, respectively.

Additionally, for the three and nine months ended September 30, 2012, retail investments and insurance revenue was \$356,000 and \$1.2 million respectively, compared to \$438,000 and \$1.1 million for the three and nine months ended September 30, 2011. Retail investments and insurance includes revenue from LPL Financial and its affiliates, LPL Insurance Associates, Inc., Savings Bank Life Insurance of Massachusetts, and Smith Companies LTD, a division of Capitas Financial, LLC.

**Mortgage Banking** The Bank originates residential loans for both its portfolio and with the intention of selling them in the secondary market. The Bank's mortgage banking income consists primarily of revenue from premiums received on loans sold with servicing released, origination fees, and gains and losses on sold mortgages less related commission expense. The gains and losses resulting from the sales of loans with servicing retained are adjusted to recognize the present value of future servicing fee income over the estimated lives of the related loans. The following table shows the total residential loans that were closed and the amounts which were held in the portfolio and sold or held for sale in the secondary market during the periods indicated:

Table 11—Closed Residential Real Estate Loans

|                                               | Three Months Ended<br>September 30,<br>2012 |          | Nine Months Ended<br>September 30,<br>2012 |          |
|-----------------------------------------------|---------------------------------------------|----------|--------------------------------------------|----------|
|                                               | 2011                                        |          | 2011                                       |          |
|                                               | (Dollars in Thousands)                      |          | (Dollars in Thousands)                     |          |
| HELD IN PORTFOLIO                             | \$7,014                                     | \$12,524 | \$39,604                                   | \$48,042 |
| SOLD OR HELD FOR SALE IN THE SECONDARY MARKET | 104,278                                     | 69,419   | 246,148                                    | 179,362  |
| TOTAL CLOSED LOANS                            | 111,292                                     | 81,943   | 285,752                                    | 227,404  |

Included in the mortgage banking income results is the impact of the Bank's mortgage servicing assets. Servicing assets are recognized as separate assets when rights are acquired through sale of loans with servicing rights retained. The principal balance of loans serviced by the Bank on behalf of investors amounted to \$196.7 million at September 30, 2012 and \$229.1 million at December 31, 2011. Upon sale, the mortgage servicing asset is established, which represents the then current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Impairment is determined by stratifying the rights based on

predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. Servicing rights are recorded in other assets in the consolidated balance sheets, are amortized in proportion to and over the period of estimated net servicing income, and are assessed for impairment based on fair value at each reporting date. The following table shows fair value of the servicing rights associated with these loans and the changes for the periods indicated:

67

---

Table of Contents

Table 12—Mortgage Servicing Asset

|                                | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|--------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                | 2012                                | 2011   | 2012                               | 2011   |
|                                | (Dollars in Thousands)              |        | (Dollars in Thousands)             |        |
| BALANCE AT BEGINNING OF PERIOD | 904                                 | 1,402  | 1,098                              | 1,619  |
| ADDITIONS                      | 47                                  | 13     | 124                                | 58     |
| AMORTIZATION                   | (132                                | ) (138 | ) (388                             | ) (416 |
| CHANGE IN VALUATION ALLOWANCE  | 24                                  | (50    | ) 9                                | (34    |
| BALANCE AT END OF PERIOD       | 843                                 | 1,227  | 843                                | 1,227  |

## RESULTS OF OPERATIONS

The Company's results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and the interest paid on deposits and borrowings. The results of operations are also affected by the level of income/fees from loans, deposits, mortgage banking and investment management, as well as the level of operating expenses, provision for loan losses, provision for income taxes, and the relative levels of interest rates and economic activity.

The following table provides a summary of results of operations:

Table 13—Summary of Results of Operations

|                                     | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|-------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                     | 2012                                | 2011     | 2012                               | 2011     |
|                                     | (Dollars in Thousands)              |          | (Dollars in Thousands)             |          |
| NET INCOME                          | \$11,601                            | \$11,959 | \$32,658                           | \$34,267 |
| DILUTED EARNINGS PER SHARE          | 0.53                                | 0.56     | 1.51                               | 1.60     |
| RETURN ON AVERAGE ASSETS            | 0.91                                | % 0.99   | % 0.87                             | % 0.97   |
| RETURN ON AVERAGE EQUITY            | 9.39                                | % 10.28  | % 9.01                             | % 10.10  |
| STOCKHOLDERS' EQUITY AS % OF ASSETS | 9.49                                | % 9.41   | % 9.49                             | % 9.41   |

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

On a fully tax equivalent basis, net interest income for the third quarter of 2012 increased \$1.1 million, or 2.6%, to \$43.1 million, when compared to the third quarter of 2011. The Company's net interest margin was 3.72% for the quarter ended September 30, 2012 as compared to 3.84% for the quarter ended September 30, 2011. The Company's interest rate spread was 3.55% and 3.63% for the third quarters of 2012 and 2011, respectively. The decline in the net interest margin is primarily the result of assets re-pricing in a lower rate environment without the ability to fully offset this impact through further reductions in funding costs.

The following tables present the Company's daily average balances, net interest income, interest rate spread, and net interest margin for the three and nine months ending September 30, 2012 and 2011. For purposes of the table and the following discussion, income from interest-earning assets and net interest income are presented on a fully-taxable equivalent basis by adjusting income and yields earned on tax-exempt interest received on securities and loans, to make them equivalent to income and yields on fully-taxable earning assets. The fully-taxable equivalent was calculated using the blended federal and state statutory tax rate:



Table of Contents

Table 14—Average Balance, Interest Earned/Paid &amp; Average Yields

|                                      | Three Months Ended September 30,<br>2012 |                             |                |   | 2011               |                             |                |   |
|--------------------------------------|------------------------------------------|-----------------------------|----------------|---|--------------------|-----------------------------|----------------|---|
|                                      | Average<br>Balance                       | Interest<br>Earned/<br>Paid | Yield/<br>Rate |   | Average<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate |   |
|                                      | (Dollars in Thousands)                   |                             |                |   |                    |                             |                |   |
| INTEREST-EARNING ASSETS              |                                          |                             |                |   |                    |                             |                |   |
| INTEREST EARNING DEPOSITS            |                                          |                             |                |   |                    |                             |                |   |
| WITH BANKS, FEDERAL FUNDS            | \$53,650                                 | \$34                        | 0.25           | % | \$78,285           | \$49                        | 0.25           | % |
| SOLD, AND SHORT-TERM                 |                                          |                             |                |   |                    |                             |                |   |
| INVESTMENTS SECURITIES               |                                          |                             |                |   |                    |                             |                |   |
| Trading Assets                       | —                                        | —                           | —              | % | 8,437              | 72                          | 3.39           | % |
| Taxable Investment Securities        | 513,712                                  | 3,995                       | 3.09           | % | 526,509            | 4,856                       | 3.66           | % |
| Nontaxable Investment Securities (1) | 1,649                                    | 34                          | 8.20           | % | 7,104              | 133                         | 7.43           | % |
| TOTAL SECURITIES                     | 515,361                                  | 4,029                       | 3.11           | % | 542,050            | 5,061                       | 3.70           | % |
| LOANS HELD FOR SALE                  | 34,106                                   | 255                         | 2.97           | % | 12,422             | 116                         | 3.70           | % |
| LOANS                                |                                          |                             |                |   |                    |                             |                |   |
| Commercial and Industrial            | 636,533                                  | 6,447                       | 4.03           | % | 555,745            | 5,840                       | 4.17           | % |
| Commercial Real Estate (1)           | 1,920,905                                | 23,173                      | 4.80           | % | 1,800,914          | 23,496                      | 5.18           | % |
| Commercial Construction              | 162,150                                  | 1,695                       | 4.16           | % | 129,540            | 1,495                       | 4.58           | % |
| Small Business                       | 78,629                                   | 1,121                       | 5.67           | % | 77,850             | 1,141                       | 5.81           | % |
| TOTAL COMMERCIAL                     | 2,798,217                                | 32,436                      | 4.61           | % | 2,564,049          | 31,972                      | 4.95           | % |
| Residential Real Estate              | 381,247                                  | 4,060                       | 4.24           | % | 450,225            | 4,915                       | 4.33           | % |
| Residential Construction             | 11,567                                   | 104                         | 3.58           | % | 6,735              | 73                          | 4.30           | % |
| Home Equity                          | 787,052                                  | 7,236                       | 3.66           | % | 638,991            | 6,103                       | 3.79           | % |
| TOTAL CONSUMER REAL                  | 1,179,866                                | 11,400                      | 3.84           | % | 1,095,951          | 11,091                      | 4.01           | % |
| ESTATE                               |                                          |                             |                |   |                    |                             |                |   |
| TOTAL OTHER CONSUMER                 | 30,155                                   | 669                         | 8.83           | % | 49,864             | 978                         | 7.78           | % |
| TOTAL LOANS                          | 4,008,238                                | 44,505                      | 4.42           | % | 3,709,864          | 44,041                      | 4.71           | % |
| TOTAL INTEREST EARNING               | \$4,611,355                              | \$48,823                    | 4.21           | % | \$4,342,621        | \$49,267                    | 4.50           | % |
| ASSETS                               |                                          |                             |                |   |                    |                             |                |   |
| CASH AND DUE FROM BANKS              | 75,876                                   |                             |                |   | 57,103             |                             |                |   |
| FEDERAL HOME LOAN BANK               | 33,564                                   |                             |                |   | 35,854             |                             |                |   |
| STOCK                                |                                          |                             |                |   |                    |                             |                |   |
| OTHER ASSETS                         | 374,208                                  |                             |                |   | 345,400            |                             |                |   |
| TOTAL ASSETS                         | \$5,095,003                              |                             |                |   | \$4,780,978        |                             |                |   |
| INTEREST-BEARING LIABILITIES         |                                          |                             |                |   |                    |                             |                |   |
| DEPOSITS                             |                                          |                             |                |   |                    |                             |                |   |
| Savings and Interest Checking        | \$1,482,213                              | \$707                       | 0.19           | % | \$1,364,307        | \$839                       | 0.24           | % |
| Accounts                             |                                          |                             |                |   |                    |                             |                |   |
| Money Market                         | 801,921                                  | 615                         | 0.31           | % | 723,736            | 763                         | 0.42           | % |
| Time Deposits                        | 635,729                                  | 1,297                       | 0.81           | % | 659,154            | 1,817                       | 1.09           | % |
| TOTAL INTEREST-BEARING               | \$2,919,863                              | \$2,619                     | 0.36           | % | \$2,747,197        | \$3,419                     | 0.49           | % |
| DEPOSITS                             |                                          |                             |                |   |                    |                             |                |   |
| BORROWINGS                           |                                          |                             |                |   |                    |                             |                |   |
| Federal Home Loan Bank and Other     | \$198,212                                | \$1,255                     | 2.52           | % | \$264,066          | \$1,814                     | 2.73           | % |
| Borrowings                           |                                          |                             |                |   |                    |                             |                |   |

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

|                                 |         |     |      |   |         |     |      |   |
|---------------------------------|---------|-----|------|---|---------|-----|------|---|
| Wholesale Repurchase Agreements | 50,000  | 292 | 2.32 | % | 50,000  | 412 | 3.27 | % |
| Customer Repurchase Agreements  | 161,097 | 76  | 0.19 | % | 151,588 | 147 | 0.38 | % |
| Junior Subordinated Debentures  | 61,857  | 928 | 5.97 | % | 61,857  | 922 | 5.91 | % |

69

---

# Table of Contents

|                                                      |             |          |      |   |             |          |      |   |
|------------------------------------------------------|-------------|----------|------|---|-------------|----------|------|---|
| Subordinated Debentures                              | 30,000      | 547      | 7.25 | % | 30,000      | 547      | 7.23 | % |
| TOTAL BORROWINGS                                     | \$501,166   | \$3,098  | 2.46 | % | \$557,511   | \$3,842  | 2.73 | % |
| TOTAL INTEREST-BEARING LIABILITIES                   | \$3,421,029 | \$5,717  | 0.66 | % | \$3,304,708 | \$7,261  | 0.87 | % |
| DEMAND DEPOSITS                                      | 1,093,387   |          |      |   | 944,518     |          |      |   |
| OTHER LIABILITIES                                    | 89,157      |          |      |   | 70,380      |          |      |   |
| TOTAL LIABILITIES                                    | \$4,603,573 |          |      |   | \$4,319,606 |          |      |   |
| STOCKHOLDERS' EQUITY                                 | 491,430     |          |      |   | 461,372     |          |      |   |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY           | \$5,095,003 |          |      |   | \$4,780,978 |          |      |   |
| NET INTEREST INCOME                                  |             | \$43,106 |      |   |             | \$42,006 |      |   |
| INTEREST RATE SPREAD (2)                             |             |          | 3.55 | % |             |          | 3.63 | % |
| NET INTEREST MARGIN (3)                              |             |          | 3.72 | % |             |          | 3.84 | % |
| SUPPLEMENTAL INFORMATION:                            |             |          |      |   |             |          |      |   |
| Total Deposits, including Demand Deposits            | \$4,013,250 | \$2,619  |      |   | \$3,691,715 | \$3,419  |      |   |
| Cost of Total Deposits                               |             |          | 0.26 | % |             |          | 0.37 | % |
| Total Funding Liabilities, including Demand Deposits | \$4,514,416 | \$5,717  |      |   | \$4,249,226 | \$7,261  |      |   |
| Cost of Total Funding Liabilities                    |             |          | 0.50 | % |             |          | 0.68 | % |

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is \$268,000 and \$332,000 for the three months ended September 30, 2012 and 2011, respectively.

(2) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.

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

|                                                                       | Nine Months Ended September 30, 2012 |                      |            |   | 2011            |                      |            |   |
|-----------------------------------------------------------------------|--------------------------------------|----------------------|------------|---|-----------------|----------------------|------------|---|
|                                                                       | Average Balance                      | Interest Earned/Paid | Yield/Rate |   | Average Balance | Interest Earned/Paid | Yield/Rate |   |
| (Dollars in Thousands)                                                |                                      |                      |            |   |                 |                      |            |   |
| INTEREST-EARNING ASSETS                                               |                                      |                      |            |   |                 |                      |            |   |
| INTEREST EARNING DEPOSITS                                             |                                      |                      |            |   |                 |                      |            |   |
| WITH BANKS, FEDERAL FUNDS SOLD, AND SHORT-TERM INVESTMENTS SECURITIES | \$45,951                             | \$85                 | 0.25       | % | \$43,181        | \$80                 | 0.25       | % |
| Trading Assets                                                        | 1,823                                | 38                   | 2.78       | % | 8,388           | 206                  | 3.28       | % |
| Taxable Investment Securities                                         | 529,560                              | 12,900               | 3.25       | % | 550,425         | 15,573               | 3.78       | % |
| Nontaxable Investment Securities (1)                                  | 2,026                                | 121                  | 7.98       | % | 8,619           | 484                  | 7.50       | % |
| TOTAL SECURITIES                                                      | 533,409                              | 13,059               | 3.27       | % | 567,432         | 16,263               | 3.83       | % |
| LOANS HELD FOR SALE                                                   | 23,829                               | 541                  | 3.03       | % | 11,750          | 305                  | 3.47       | % |
| LOANS                                                                 |                                      |                      |            |   |                 |                      |            |   |
| Commercial and Industrial                                             | 612,084                              | 18,642               | 4.07       | % | 530,774         | 16,951               | 4.27       | % |
| Commercial Real Estate (1)                                            | 1,888,773                            | 68,881               | 4.87       | % | 1,779,379       | 70,310               | 5.28       | % |
| Commercial Construction                                               | 151,541                              | 4,816                | 4.25       | % | 127,285         | 4,388                | 4.61       | % |

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

|                |        |       |      |   |        |       |      |   |
|----------------|--------|-------|------|---|--------|-------|------|---|
| Small Business | 79,218 | 3,390 | 5.72 | % | 79,314 | 3,471 | 5.85 | % |
| 70             | <hr/>  |       |      |   |        |       |      |   |

Table of Contents

|                                                      |             |           |      |   |             |           |      |   |
|------------------------------------------------------|-------------|-----------|------|---|-------------|-----------|------|---|
| TOTAL COMMERCIAL                                     | 2,731,616   | 95,729    | 4.68 | % | 2,516,752   | 95,120    | 5.05 | % |
| Residential Real Estate                              | 395,026     | 12,793    | 4.33 | % | 458,609     | 15,481    | 4.51 | % |
| Residential Construction                             | 12,739      | 395       | 4.14 | % | 5,005       | 172       | 4.59 | % |
| Home Equity                                          | 754,294     | 20,835    | 3.69 | % | 622,952     | 17,645    | 3.79 | % |
| TOTAL CONSUMER REAL ESTATE                           | 1,162,059   | 34,023    | 3.91 | % | 1,086,566   | 33,298    | 4.10 | % |
| TOTAL OTHER CONSUMER                                 | 34,355      | 2,168     | 8.43 | % | 56,688      | 3,305     | 7.79 | % |
| TOTAL LOANS                                          | 3,928,030   | 131,920   | 4.49 | % | 3,660,006   | 131,723   | 4.81 | % |
| TOTAL INTEREST EARNING ASSETS                        | \$4,531,219 | \$145,605 | 4.29 | % | \$4,282,369 | \$148,371 | 4.63 | % |
| CASH AND DUE FROM BANKS                              | 65,972      |           |      |   | 55,101      |           |      |   |
| FEDERAL HOME LOAN BANK STOCK                         | 34,133      |           |      |   | 35,854      |           |      |   |
| OTHER ASSETS                                         | 368,140     |           |      |   | 329,456     |           |      |   |
| TOTAL ASSETS                                         | \$4,999,464 |           |      |   | \$4,702,780 |           |      |   |
| INTEREST-BEARING LIABILITIES                         |             |           |      |   |             |           |      |   |
| DEPOSITS                                             |             |           |      |   |             |           |      |   |
| Savings and Interest Checking Accounts               | \$1,463,255 | \$2,091   | 0.19 | % | \$1,340,077 | \$2,449   | 0.24 | % |
| Money Market                                         | 790,589     | 1,875     | 0.32 | % | 723,675     | 2,362     | 0.44 | % |
| Time Deposits                                        | 629,840     | 4,079     | 0.87 | % | 667,279     | 5,636     | 1.13 | % |
| TOTAL INTEREST-BEARING DEPOSITS                      | \$2,883,684 | \$8,045   | 0.37 | % | \$2,731,031 | \$10,447  | 0.51 | % |
| BORROWINGS                                           |             |           |      |   |             |           |      |   |
| Federal Home Loan Bank and Other Borrowings          | \$214,747   | \$3,879   | 2.41 | % | \$293,664   | \$5,468   | 2.49 | % |
| Wholesale Repurchase Agreements                      | 50,000      | 870       | 2.32 | % | 50,000      | 1,455     | 3.89 | % |
| Customer Repurchase Agreements                       | 155,205     | 268       | 0.23 | % | 137,221     | 412       | 0.40 | % |
| Junior Subordinated Debentures                       | 61,857      | 2,766     | 5.97 | % | 61,857      | 2,738     | 5.92 | % |
| Subordinated Debentures                              | 30,000      | 1,630     | 7.26 | % | 30,000      | 1,624     | 7.24 | % |
| TOTAL BORROWINGS                                     | \$511,809   | \$9,413   | 2.46 | % | \$572,742   | \$11,697  | 2.73 | % |
| TOTAL INTEREST-BEARING LIABILITIES                   | \$3,395,493 | \$17,458  | 0.69 | % | \$3,303,773 | \$22,144  | 0.90 | % |
| DEMAND DEPOSITS                                      | 1,034,180   |           |      |   | 882,460     |           |      |   |
| OTHER LIABILITIES                                    | 85,410      |           |      |   | 62,968      |           |      |   |
| TOTAL LIABILITIES                                    | \$4,515,083 |           |      |   | \$4,249,201 |           |      |   |
| STOCKHOLDERS' EQUITY                                 | 484,381     |           |      |   | 453,579     |           |      |   |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY           | \$4,999,464 |           |      |   | \$4,702,780 |           |      |   |
| NET INTEREST INCOME                                  |             | \$128,147 |      |   |             | \$126,227 |      |   |
| INTEREST RATE SPREAD (2)                             |             |           | 3.60 | % |             |           | 3.73 | % |
| NET INTEREST MARGIN (3)                              |             |           | 3.78 | % |             |           | 3.94 | % |
| SUPPLEMENTAL INFORMATION:                            |             |           |      |   |             |           |      |   |
| Total Deposits, including Demand Deposits            | \$3,917,864 | \$8,045   |      |   | \$3,613,491 | \$10,447  |      |   |
| Cost of Total Deposits                               |             |           | 0.27 | % |             |           | 0.39 | % |
| Total Funding Liabilities, including Demand Deposits | \$4,429,673 | \$17,458  |      |   | \$4,186,233 | \$22,144  |      |   |
| Cost of Total Funding Liabilities                    |             |           | 0.53 | % |             |           | 0.71 | % |

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is \$827,000 and \$1.0 million for the nine months ended September 30, 2012 and 2011, respectively.

71

---

Table of Contents

- (2) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (3) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.

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

Table of Contents

Table 16—Volume Rate Analysis

|                                                                                            | Three Months Ended<br>September 30,<br>2012 Compared To 2011 |                            |                 | Nine Months Ended<br>September 30,<br>2012 Compared To 2011 |                            |                 |
|--------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------|-----------------|-------------------------------------------------------------|----------------------------|-----------------|
|                                                                                            | Change<br>Due to<br>Rate (1)                                 | Change<br>Due to<br>Volume | Total<br>Change | Change<br>Due to<br>Rate (1)                                | Change<br>Due to<br>Volume | Total<br>Change |
| INCOME ON INTEREST-EARNING ASSETS                                                          |                                                              |                            |                 |                                                             |                            |                 |
| INTEREST EARNING DEPOSITS, FEDERAL FUNDS<br>SOLD AND SHORT TERM INVESTMENTS<br>SECURITIES: | \$—                                                          | \$(15 )                    | \$(15 )         | \$—                                                         | \$5                        | \$5             |
| Trading Assets                                                                             | —                                                            | (72 )                      | (72 )           | (7 )                                                        | (161 )                     | (168 )          |
| Taxable Securities                                                                         | (743 )                                                       | (118 )                     | (861 )          | (2,083 )                                                    | (590 )                     | (2,673 )        |
| Nontaxable Securities (2)                                                                  | 3                                                            | (102 )                     | (99 )           | 7                                                           | (370 )                     | (363 )          |
| TOTAL SECURITIES                                                                           |                                                              |                            | (1,032 )        |                                                             |                            | (3,204 )        |
| LOANS HELD FOR SALE                                                                        | (63 )                                                        | 202                        | 139             | (78 )                                                       | 314                        | 236             |
| LOANS:                                                                                     |                                                              |                            |                 |                                                             |                            |                 |
| Commercial and Industrial                                                                  | (242 )                                                       | 849                        | 607             | (906 )                                                      | 2,597                      | 1,691           |
| Commercial Real Estate                                                                     | (1,888 )                                                     | 1,565                      | (323 )          | (5,752 )                                                    | 4,323                      | (1,429 )        |
| Commercial Construction                                                                    | (176 )                                                       | 376                        | 200             | (408 )                                                      | 836                        | 428             |
| Small Business                                                                             | (31 )                                                        | 11                         | (20 )           | (77 )                                                       | (4 )                       | (81 )           |
| TOTAL COMMERCIAL                                                                           |                                                              |                            | 464             |                                                             |                            | 609             |
| Residential Real Estate                                                                    | (102 )                                                       | (753 )                     | (855 )          | (542 )                                                      | (2,146 )                   | (2,688 )        |
| Residential Construction                                                                   | (21 )                                                        | 52                         | 31              | (43 )                                                       | 266                        | 223             |
| Home Equity                                                                                | (281 )                                                       | 1,414                      | 1,133           | (530 )                                                      | 3,720                      | 3,190           |
| TOTAL CONSUMER REAL ESATE                                                                  |                                                              |                            | 309             |                                                             |                            | 725             |
| TOTAL OTHER CONSUMER                                                                       | 78                                                           | (387 )                     | (309 )          | 165                                                         | (1,302 )                   | (1,137 )        |
| TOTAL LOANS (2)(3)                                                                         |                                                              |                            | 464             |                                                             |                            | 197             |
| TOTAL INCOME OF INTEREST-EARNING ASSETS                                                    |                                                              |                            | (444 )          |                                                             |                            | (2,766 )        |
| EXPENSE OF INTEREST-BEARING LIABILITIES                                                    |                                                              |                            |                 |                                                             |                            |                 |
| DEPOSITS:                                                                                  |                                                              |                            |                 |                                                             |                            |                 |
| Savings and Interest Checking Accounts                                                     | (205 )                                                       | \$73                       | (132 )          | (583 )                                                      | \$225                      | (358 )          |
| Money Market                                                                               | (230 )                                                       | 82                         | (148 )          | (705 )                                                      | 218                        | (487 )          |
| Time Certificates of Deposits                                                              | (455 )                                                       | (65 )                      | (520 )          | (1,241 )                                                    | (316 )                     | (1,557 )        |
| TOTAL INTEREST BEARING DEPOSITS                                                            |                                                              |                            | (800 )          |                                                             |                            | (2,402 )        |
| BORROWINGS:                                                                                |                                                              |                            |                 |                                                             |                            |                 |
| Federal Home Loan Bank and Other Borrowings                                                | (107 )                                                       | (452 )                     | (559 )          | (120 )                                                      | (1,469 )                   | (1,589 )        |
| Wholesale Repurchase Agreements                                                            | (120 )                                                       | —                          | (120 )          | (585 )                                                      | —                          | (585 )          |
| Customer Repurchase Agreements                                                             | (80 )                                                        | 9                          | (71 )           | (198 )                                                      | 54                         | (144 )          |
| Junior Subordinated Debentures                                                             | 6                                                            | —                          | 6               | 28                                                          | —                          | 28              |
| Subordinated Debt                                                                          | —                                                            | —                          | —               | 6                                                           | —                          | 6               |
| TOTAL BORROWINGS                                                                           |                                                              |                            | (744 )          |                                                             |                            | (2,284 )        |
| TOTAL EXPENSE OF INTEREST-BEARING<br>LIABILITIES                                           |                                                              |                            | (1,544 )        |                                                             |                            | (4,686 )        |
| CHANGE IN NET INTEREST INCOME                                                              |                                                              |                            | \$1,100         |                                                             |                            | \$1,920         |



## Table of Contents

The changes for each category of interest income and expense are divided between the portion of change (1) attributable to the variance in volume and the portion of the change attributable to the variances in rate for that category. The unallocated change in rate or volume variance has been allocated to the rate variances.

The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is \$268,000 and (2) \$332,000 for the three months ended September 30, 2012 and 2011, respectively, and \$827,000 and \$1.0 million for the nine months ended September 30, 2012 and 2011, respectively.

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

**Provision For Loan Losses** The provision for loan losses represents the charge to expense that is required to maintain an adequate level of allowance for loan losses. The provision for loan losses totaled \$3.6 million and \$13.7 million for the three and nine months ended September 30, 2012, compared with \$2.0 million and \$7.7 million for the comparable year-ago periods. The Company's allowance for loan losses, as a percentage of total loans, was 1.23% at September 30, 2012, as compared to 1.27% at December 31, 2011 and at September 30, 2011. For the three and nine months ended September 30, 2012, net loan charge-offs totaled \$2.3 million and \$12.2 million, an increase of \$904,000 and \$5.6 million from the year ago comparative periods. The increase in net charge-offs for the nine months ending September 30, 2012 was driven by a customer fraud, resulting in a \$4.0 million charge-off during the second quarter of 2012.

The increase in the amount of the provision for loan losses is the result of shifts in the composition of loan portfolio mix, as certain portfolios require different levels of allowance allocation based upon the risks associated with each portfolio, and portfolio growth of outstanding balances.

Although the national economic environment remains challenging, regional and local general economic conditions continued to show gradual improvement through the third quarter of 2012, as measured in terms of employment levels, statewide economic activity, and other regional economic indicators. Local residential real estate market fundamentals improved during the third quarter, characterized by a higher level of home sales compared to the same period in 2011, lower inventory levels, stabilizing median sales prices, and lower foreclosure levels. Regional commercial real estate market conditions were mixed, with some areas experiencing continued improvement, and others still exhibiting weaker fundamentals. Leading economic indicators signal continued, slow economic improvement through the end of 2012, however many downside risks still exist.

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

Table of Contents

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

|                                                                    | Three Months Ended<br>September 30, |          | Change  |          |    |
|--------------------------------------------------------------------|-------------------------------------|----------|---------|----------|----|
|                                                                    | 2012                                | 2011     | Amount  | %        |    |
|                                                                    | (Dollars In Thousands)              |          |         |          |    |
| SERVICE CHARGES ON DEPOSIT ACCOUNTS                                | \$3,959                             | \$4,223  | \$(264) | (6.25)   | )% |
| INTERCHANGE AND ATM FEES                                           | 2,422                               | 2,005    | 417     | 20.80    | %  |
| INVESTMENT MANAGEMENT                                              | 3,723                               | 3,491    | 232     | 6.65     | %  |
| MORTGAGE BANKING                                                   | 1,445                               | 907      | 538     | 59.32    | %  |
| INCREASE IN CASH SURRENDER VALUE OF LIFE<br>INSURANCE POLICIES     | 757                                 | 757      | —       | —        | %  |
| PROCEEDS FROM LIFE INSURANCE POLICIES                              | 1,307                               | —        | 1,307   | 100.00   | %  |
| LOAN LEVEL DERIVATIVE INCOME                                       | 1,047                               | 295      | 752     | 254.92   | %  |
| GROSS CHANGE ON WRITE-DOWN OF CERTAIN<br>INVESTMENTS TO FAIR VALUE | 403                                 | (318)    | ) 721   | (226.73) | )% |
| LESS: NON-CREDIT RELATED<br>OTHER-THAN-TEMPORARY IMPAIRMENT        | (403)                               | ) 290    | (693)   | (238.97) | )% |
| NET LOSS ON WRITE-DOWN OF CERTAIN<br>INVESTMENTS TO FAIR VALUE     | —                                   | (28)     | ) 28    | (100.00) | )% |
| OTHER NONINTEREST INCOME                                           | 1,448                               | 665      | 783     | 117.74   | %  |
| TOTAL                                                              | \$16,108                            | \$12,315 | \$3,793 | 30.80    | %  |

Noninterest income amounted to \$16.1 million during the three months ended September 30, 2012, a \$3.8 million, or 30.8%, increase from the same period in the prior year. The primary reasons for the variances in the noninterest income category shown in the preceding table are noted below:

Service charges on deposit accounts decreased by 264,000, or 6.3%, during the three months ended September 30, 2012 mainly due to decreased overdraft fees.

Interchange and ATM fees increased by \$417,000 or 20.8%, during the three months ended September 30, 2012, driven by strong debit card income growth related to successful sales and marketing programs.

Investment management revenue increased by \$232,000, or 6.6%, during the three months ended September 30, 2012, as compared to the same period in the prior year. This increase is mainly due to increases in assets under administration, which were \$2.1 billion at September 30, 2012 an increase of \$567.8 million, or 36.4%, as compared to the same period in the prior year. The increase is due to the general increases in the stock market in these comparable periods and additional asset flows from new and existing clients.

Mortgage banking increased by \$538,000, or 59.3%, during the three months ended September 30, 2012, due to increased volume driven by mortgage refinancing.

The Company received net proceeds on life insurance policies in the amount of \$1.3 million. The proceeds represent tax-exempt income to the Company.

Loan level derivative activity income increased by \$752,000 during the three months ended September 30, 2012, driven by increased activity by the Company's commercial customers.

Other noninterest income increased by \$783,000, due to an increase in the net unrealized gain/loss on trading assets of \$549,000, an increase in checkbook fees of \$97,000 and merchant processing income increase of \$68,000.

The following table sets forth information regarding noninterest income for the periods shown:

Table of Contents

Table 18—Noninterest Income

|                                                                    | Nine Months Ended<br>September 30, |          | Change  |   |           |
|--------------------------------------------------------------------|------------------------------------|----------|---------|---|-----------|
|                                                                    | 2012                               | 2011     | Amount  |   | %         |
|                                                                    | (Dollars In Thousands)             |          |         |   |           |
| SERVICE CHARGES ON DEPOSIT ACCOUNTS                                | \$11,771                           | \$12,374 | \$(603) | ) | (4.87)%   |
| INTERCHANGE AND ATM FEES                                           | 7,189                              | 5,681    | 1,508   |   | 26.54%    |
| INVESTMENT MANAGEMENT                                              | 11,113                             | 10,310   | 803     |   | 7.79%     |
| MORTGAGE BANKING                                                   | 4,238                              | 2,637    | 1,601   |   | 60.71%    |
| INCREASE IN CASH SURRENDER VALUE OF LIFE<br>INSURANCE POLICIES     | 2,211                              | 2,323    | (112)   | ) | (4.82)%   |
| PROCEEDS FROM LIFE INSURANCE POLICIES                              | 1,307                              | —        | 1,307   |   | 100.00%   |
| NET GAIN/(LOSS) ON SALE OF SECURITIES AVAILABLE<br>FOR SALE        | —                                  | 723      | (723)   | ) | (100.00)% |
| LOAN LEVEL DERIVATIVE INCOME                                       | 2,747                              | 1,241    | 1,506   |   | 121.35%   |
| GROSS CHANGE ON WRITE-DOWN OF CERTAIN<br>INVESTMENTS TO FAIR VALUE | 571                                | 101      | 470     |   | 465.35%   |
| LESS: NON-CREDIT RELATED<br>OTHER-THAN-TEMPORARY IMPAIRMENT        | (647)                              | (305)    | (342)   | ) | 112.13%   |
| NET LOSS ON WRITE-DOWN OF CERTAIN<br>INVESTMENTS TO FAIR VALUE     | (76)                               | (204)    | 128     |   | (62.75)%  |
| OTHER NONINTEREST INCOME                                           | 4,500                              | 3,301    | 1,199   |   | 36.32%    |
| TOTAL                                                              | \$45,000                           | \$38,386 | \$6,614 |   | 17.23%    |

Noninterest income amounted to \$45.0 million during the nine months ended September 30, 2012, a \$6.6 million, or 17.2%, increase from the same period in the prior year. The primary reasons for the variances in the noninterest income category shown in the preceding table are noted below:

Service charges on deposit accounts decreased \$603,000, or 4.9% due to decreased overdraft fees.

Interchange and ATM fees increased by \$1.5 million, or 26.5%, during the nine months ended September 30, 2012, driven by strong debit card income growth related to successful sales and marketing programs as well as a one-time vendor rebate of \$296,000.

Investment management revenue increased by \$803,000, or 7.8%, during the nine months ended September 30, 2012, as compared to the same period in the prior year. The increase is due to the general increases in the stock market in these comparable periods and additional asset flows from new and existing clients.

Mortgage banking increased by \$1.6 million, or 60.7%, during the nine months ended September 30, 2012, due to increased volume driven by mortgage refinancing.

The Company received net proceeds on life insurance policies in the amount of \$1.3 million. The proceeds represent tax-exempt income to the Company.

Loan level derivative income increased by \$1.5 million during the nine months ended September 30, 2012, driven by increased activity by the Company's commercial customers.

Other noninterest income increased by \$1.2 million, or 36.3%, due to an increase in the net unrealized gain/loss on trading assets of \$752,000, merchant processing income increase of \$188,000, Massachusetts historical tax credits of \$176,000, and an increase in checkbook fees of \$155,000.

Table of Contents

Noninterest Expense The following table sets forth information regarding non-interest expense for the periods shown:  
Table 19—Noninterest Expense

|                                          | Three Months Ended September 30, |          | Change  |          |    |
|------------------------------------------|----------------------------------|----------|---------|----------|----|
|                                          | 2012                             | 2011     | Amount  | %        |    |
|                                          | (Dollars in Thousands)           |          |         |          |    |
| SALARIES AND EMPLOYEE BENEFITS           | \$20,704                         | \$20,568 | \$136   | 0.66     | %  |
| OCCUPANCY AND EQUIPMENT EXPENSE          | 4,218                            | 4,107    | 111     | 2.70     | %  |
| GOODWILL IMPAIRMENT                      | 2,227                            | —        | 2,227   | 100.00   | %  |
| ADVERTISING                              | 1,267                            | 703      | 564     | 80.23    | %  |
| DATA PROCESING AND FACILITIES MANAGEMENT | 1,144                            | 1,152    | (8      | ) (0.69  | )% |
| FDIC ASSESSMENT                          | 775                              | 691      | 84      | 12.16    | %  |
| CONSULTING EXPENSE                       | 691                              | 685      | 6       | 0.88     | %  |
| MERGER AND ACQUISITION EXPENSES          | 595                              | —        | 595     | 100.00   | %  |
| LEGAL FEES                               | 503                              | 580      | (77     | ) (13.28 | )% |
| TELECOMMUNICATIONS                       | 479                              | 522      | (43     | ) (8.24  | )% |
| OTHER NONINTEREST EXPENSE                | 7,449                            | 6,415    | 1,034   | 16.12    | %  |
| TOTAL                                    | \$40,052                         | \$35,423 | \$4,629 | 13.07    | %  |

Noninterest expense increased by \$4.6 million, or 13.1%, during the three months ended September 30, 2012, as compared to the same period in the prior year. The primary reasons for the variances in the noninterest expense category shown in the preceding table are noted below:

During the third quarter of 2012, the Company, recorded a \$2.2 million goodwill impairment charge, which represented the total amount of goodwill relating to Compass. Compass is a wholly-owned subsidiary of the Bank that provides like-kind exchange services pursuant to section 1031 of the Internal Revenue Code. While Compass remains in business and continues to operate, the Company determined the goodwill associated with the Compass purchase to be impaired due in part, to the prolonged low rate environment and the Federal Reserve Bank's stated intent to maintain low rates for the foreseeable future.

Merger and acquisition expenses were \$595,000 for the third quarter relating to the previously announced acquisition of Central Bancorp, Inc., which is expected to close in the fourth quarter of 2012.

Other noninterest expense increased by \$1.0 million, or 16.1%, driven by increases in appraisal fees of \$215,000, contract labor of \$164,000, and internet banking of \$118,000.

Table of Contents

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

Table 20—Noninterest Expense

|                                          | Nine Months Ended<br>September 30, |           | Change  |         |    |
|------------------------------------------|------------------------------------|-----------|---------|---------|----|
|                                          | 2012                               | 2011      | Amount  | %       |    |
|                                          | (Dollars in Thousands)             |           |         |         |    |
| SALARIES AND EMPLOYEE BENEFITS           | \$61,915                           | \$60,582  | \$1,333 | 2.20    | %  |
| OCCUPANCY AND EQUIPMENT EXPENSE          | 12,752                             | 12,946    | (194)   | (1.50)  | )% |
| ADVERTISING                              | 3,478                              | 3,247     | 231     | 7.11    | %  |
| DATA PROCESING AND FACILITIES MANAGEMENT | 3,418                              | 3,828     | (410)   | (10.71) | )% |
| FDIC ASSESSMENT                          | 2,354                              | 2,760     | (406)   | (14.71) | )% |
| GOODWILL IMPAIRMENT                      | 2,227                              | —         | 2,227   | 100.00  | %  |
| CONSULTING EXPENSE                       | 1,900                              | 1,715     | 185     | 10.79   | %  |
| TELECOMMUNICATIONS                       | 1,763                              | 1,584     | 179     | 11.30   | %  |
| LEGAL FEES                               | 1,598                              | 1,647     | (49)    | (2.98)  | )% |
| MERGER AND ACQUISITION EXPENSES          | 1,267                              | —         | 1,267   | 100.00  | %  |
| OTHER NONINTEREST EXPENSE                | 21,738                             | 20,451    | 1,287   | 6.29    | %  |
| TOTAL                                    | \$114,410                          | \$108,760 | \$5,650 | 5.19    | %  |

Noninterest expense increased by \$5.7 million, or 5.2%, during the nine months ended September 30, 2012, as compared to the same period in the prior year. The primary reasons for the variances in the noninterest expense category shown in the preceding table are noted below:

Salaries and employee benefits increased by \$1.3 million, or 2.2%, during the nine months ended September 30, 2012, as compared to the same period in 2011, with the increase attributable to salary merit increases and increased equity compensation offset by a decrease in incentive plan accruals.

Data processing and facilities management expense decreased by \$410,000, or 10.7%, during the nine months ended September 30, 2012, due primarily to a change to a lower cost service provider.

Merger and acquisition expenses were \$1.3 million for the first nine months of 2012 relating to the previously announced acquisition of Central Bancorp, Inc., which is expected to close in the fourth quarter of 2012.

FDIC Assessment decreased by \$406,000 or 14.7%, during the nine months ended September 30, 2012, due to a lower assessment rate that became effective during the second quarter of 2011.

During the third quarter of 2012, the Company, recorded a \$2.2 million goodwill impairment charge, which represented the total amount of goodwill relating to Compass. Compass is a wholly-owned subsidiary of the Bank that provides like-kind exchange services pursuant to section 1031 of the Internal Revenue Code. While Compass remains in business and continues to operate, the Company determined the goodwill associated with the Compass purchase to be impaired due in part, to the prolonged low rate environment and the Federal Reserve Bank's stated intent to maintain low rates for the foreseeable future.

Other noninterest expense increased, by \$1.3 million, or 6.3%, during the nine months ended September 30, 2012, primarily due to increases in contract labor of \$396,000, internet banking of \$246,000, debit card expense of \$245,000, and ATM expense of \$149,000.



Table of Contents

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

Table 21—Tax Provision and Applicable Tax Rates

|                                                  | Three Months Ended<br>September 30,<br>2012 |   | 2011    |   | Nine Months Ended<br>September 30,<br>2012 |   | 2011     |   |
|--------------------------------------------------|---------------------------------------------|---|---------|---|--------------------------------------------|---|----------|---|
|                                                  | (Dollars in Thousands)                      |   |         |   | (Dollars in Thousands)                     |   |          |   |
| COMBINED FEDERAL AND STATE INCOME TAX PROVISIONS | \$3,687                                     |   | \$4,607 |   | \$11,546                                   |   | \$12,900 |   |
| EFFECTIVE INCOME TAX RATES                       | 24.12                                       | % | 27.81   | % | 26.12                                      | % | 27.35    | % |
| BLENDED FEDERAL AND STATE STATUTORY TAX RATE     | 40.85                                       | % | 41.18   | % | 40.85                                      | % | 41.18    | % |

The lower statutory rate in 2012 is driven by a change in Massachusetts state legislation which was enacted in 2008, which reduced the state tax rate by 1.5% over a three year period. The state tax rate was 9.0% and 9.5% for 2012 and 2011, respectively. The effective income tax rates are lower than the blended statutory tax rates, due to certain tax preference assets such as life insurance policies and tax exempt bonds as well as federal tax credits recognized, primarily in connection with the New Markets Tax Credit ("NMTC") program.

As of September 30, 2012, the Company has been awarded a total of \$191.0 million in tax credit allocation authority under the federal New Markets Tax Credit Program. Tax credits are eligible to be recognized over a seven year period totaling 39.0% of the total award, as capital is invested into a subsidiary which will lend to qualifying businesses in low income communities. The Company anticipates investing \$145.0 million by the end of 2012 and, accordingly, recognizing tax credits totaling \$56.6 million. The total amount awarded to the Company will result in aggregate tax credits totaling \$74.5 million. The following table details the tax credit recognition by year associated with this program:

Table 22—New Markets Tax Credit Recognition Schedule

| Investment      | 2004 - 2011            | 2012    | 2013    | 2014    | 2015    | 2016    | 2017    | 2018    | Total Credits |
|-----------------|------------------------|---------|---------|---------|---------|---------|---------|---------|---------------|
|                 | (Dollars in Thousands) |         |         |         |         |         |         |         |               |
| 2004 \$15.0 M   | \$5,850                | \$—     | \$—     | \$—     | \$—     | \$—     | \$—     | \$—     | \$5,850       |
| 2005 15.0 M     | 5,850                  | —       | —       | —       | —       | —       | —       | —       | 5,850         |
| 2007 38.2 M     | 10,314                 | 2,292   | 2,292   | —       | —       | —       | —       | —       | 14,898        |
| 2008 6.8 M      | 1,428                  | 408     | 408     | 408     | —       | —       | —       | —       | 2,652         |
| 2009 10.0 M     | 1,500                  | 600     | 600     | 600     | 600     | —       | —       | —       | 3,900         |
| 2010 40.0 M     | 4,000                  | 2,000   | 2,400   | 2,400   | 2,400   | 2,400   | —       | —       | 15,600        |
| 2012 20.0 M (1) | —                      | 1,000   | 1,000   | 1,000   | 1,200   | 1,200   | 1,200   | 1,200   | 7,800         |
| TOTAL \$145.0 M | \$28,942               | \$6,300 | \$6,700 | \$4,408 | \$4,200 | \$3,600 | \$1,200 | \$1,200 | \$56,550      |

(1) The Company anticipated \$20 million of investment during 2012, which would leave an additional \$46 million related to these awards to be invested into a subsidiary in the future.

Deferred tax assets generally represent items that can be used as a tax deduction or credit in future income tax returns, for which a financial statement tax benefit has already been recognized. The realization of the net deferred tax asset

generally depends upon future levels of taxable income and the existence of prior years' taxable income to which "carry-back" refund claims could be made. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect of a change in enacted tax rates on

## Table of Contents

the deferred tax assets is recognized in income in the period that includes the enactment date. The Company had no recorded tax valuation allowance as of September 30, 2012 and 2011.

### **Risk Management**

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

The Asset/Liability Management Committee ("ALCO"), whose members are comprised of the Bank's senior management, develop procedures consistent with policies established by the Board of Directors, which monitor and coordinate the Bank's interest rate sensitivity and the sources, uses, and pricing of funds. This committee also monitors and manages, among other things, the interest rate sensitivity of the balance sheet, the composition of the securities portfolio, funding needs and sources, and the liquidity position. All of these factors, as well as projected asset growth, current and potential pricing actions, competitive influences, national monetary and fiscal policy, and the regional economic environment are considered in the asset/liability management process. In addition, the Bank engages an independent consultant to render advice with respect to asset and liability management strategy.

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

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

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

**Strategic and Reputation Risk** Strategic and reputation risk represent the risk of loss due to impairment of reputation, failure to fully develop and execute business plans, failure to assess current and new opportunities in business, markets and products. Mitigation of strategic and/or reputational risk is achieved through robust annual strategic planning and frequent executive strategic reviews, ongoing competitive and technological observation, rigorous assessment processes of new product, new branch, and new business initiatives, adherence to ethical standards and a

philosophy of customer advocacy, a structured process of customer complaint resolution, and ongoing reputational monitoring and management tools.

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

Interest rate risk is the sensitivity of income to changes in interest rates. Changes in interest rates, as well as fluctuations in the level and duration of assets and liabilities, affect net interest income, the Company's primary source of revenue. Interest

Table of Contents

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

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

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

The Company's policy on interest rate risk simulation specifies that if interest rates were to shift gradually up or down 200 basis points, estimated net interest income for the subsequent 12 months should decline by less than 6.0%. Given the unusually low rate environment at September 30, 2012 and 2011, the Company also assumed a 100 basis point decline in interest rates, for certain points of the yield curve, in addition to the normal 200 basis point increase in rates. The Company also reviews numerous other scenarios, such as the 500 basis point increasing rate scenario. This scenario assumes a flattening yield curve where short-term rates move up by 500 basis points while longer term rates increase less dramatically. The following table sets forth the estimated effects on the Company's net interest income over a 12-month period following the indicated dates in the event of the designated increases or decreases in market interest rates:

Table 23—Interest Rate Sensitivity

|                                                | September 30, |   |      |   |
|------------------------------------------------|---------------|---|------|---|
|                                                | 2012          |   | 2011 |   |
| 200 BASIS POINT RATE INCREASE                  | 3.1           | % | 2.6  | % |
| 100 BASIS POINT RATE DECREASE                  | 0.3           | % | 0.1  | % |
| 500 BASIS POINT RATE INCREASE FLATTENING CURVE | 4.0           | % | 3.3  | % |

It should be emphasized, however, that the results are dependent on material assumptions such as those discussed above. For instance, asymmetrical rate behavior can have a material impact on the simulation results. If competition for deposits forced the Company to raise rates on those liabilities quicker than is assumed in the simulation analysis without a corresponding increase in asset yields, net interest income may be negatively impacted. Alternatively, if the Company is able to lag increases in deposit rates as loans re-price upward, net interest income would be positively impacted.

The Company's policy on interest rate risk simulation specifies that estimated net interest income for the subsequent 12 months for all simulations should decline by less than 10.0%. The Company was well within policy limits at September 30, 2012 and 2011. The most significant factors affecting the market risk exposure of the Company's net interest income during 2012 and 2011 were (i) the shape of the U.S. Government securities and interest rate swap yield curve, (ii) the level of U.S. prime interest rate and LIBOR rates, and (iii) the level of interest rates being offered on long-term fixed rate loans.

The Company manages the interest rate risk inherent in both its loan and borrowing portfolios by utilizing interest rate swap agreements and interest rate caps and floors. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount for a predetermined period of time from a second party. Interest rate caps and floors are agreements whereby one party agrees to pay a floating rate of interest on a notional principal amount for a predetermined period of time to a second party if certain market interest rate thresholds are realized. The amounts relating to the notional principal amount are not actually exchanged. See Note 7, "Derivatives and Hedging Activities" within Notes to Consolidated Financial Statements included in Item 1 hereof for additional information regarding the Company's Derivative Financial Instruments.

## Table of Contents

The Company manages the interest rate risk inherent in its mortgage banking operations by entering into forward sales contracts. An increase in market interest rates between the time the Company commits to terms on a loan and the time the Company ultimately sells the loan in the secondary market will have the effect of reducing the gain (or increasing the loss) the Company records on the sale. The Company attempts to mitigate this risk by entering into forward sales commitments in amounts sufficient to cover all closed loans and interest rate-locked loan commitments.

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

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

The Bank is careful to increase deposits without adversely impacting the weighted average cost of those funds. Accordingly, management has implemented funding strategies that include FHLB advances, Federal Reserve Bank borrowing capacity and repurchase agreement lines. These nondeposit funds are also viewed as a contingent source of liquidity and, when profitable lending and investment opportunities exist, access to such funds provides a means to grow the balance sheet.

The Company actively manages its liquidity position under the direction of the Asset/ Liability Committee (ALCO). The Company's primary measure of liquidity is the Basic Surplus/Deficit as a percentage of assets. This ratio, which is an analysis of the relationship between liquid assets and short-term liabilities relative to total assets, was within policy limits at September 30, 2012. The Basic Surplus measure is affected primarily by changes in deposits, securities and short-term investments, loans and borrowings. An increase in deposits, without a corresponding increase in nonliquid assets, will improve the Basic Surplus measure, whereas, an increase in loans, with no increase in deposits, will decrease the measure. Other factors affecting the Basic Surplus measure include collateral requirements at the FHLB, changes in the securities portfolio, and the mix of deposits.

As part of a prudent liquidity risk management practice, the Company maintains various liquidity sources, some of which are only accessed on a contingency basis.

Borrowing capacity at the FHLB and the Federal Reserve is impacted by the amount and type of assets available to be pledged. For example, a prime, one-to-four family, residential loan, may provide 85 cents of borrowing capacity for every \$1.00 pledged, whereas, a commercial loan may only provide 50 cents or less. As a result, the Company's strategic lending decisions can also affect its liquidity position.

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

Table of Contents

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

Table 24—Sources of Liquidity

|                                  | September 30, 2012     |                                     | December 31, 2011 |                                     |
|----------------------------------|------------------------|-------------------------------------|-------------------|-------------------------------------|
|                                  | Outstanding            | Additional<br>Borrowing<br>Capacity | Outstanding       | Additional<br>Borrowing<br>Capacity |
|                                  | (Dollars in Thousands) |                                     |                   |                                     |
| FEDERAL HOME LOAN BANK OF BOSTON | \$189,464              | \$581,334                           | \$229,701         | \$526,556                           |
| FEDERAL RESERVE BANK OF BOSTON   | —                      | 911,501                             | —                 | 618,787                             |
| UNPLEDGED SECURITIES             | —                      | 128,887                             | —                 | 83,791                              |
| WHOLESALE REPURCHASE AGREEMENTS  | 50,000                 | —                                   | (1) 50,000        | — (1)                               |
| CUSTOMER REPURCHASE AGREEMENTS   | 158,578                | —                                   | (1) 166,128       | — (1)                               |
| JUNIOR SUBORDINATED DEBENTURES   | 61,857                 | —                                   | (1) 61,857        | — (1)                               |
| SUBORDINATED DEBT                | 30,000                 | —                                   | (1) 30,000        | — (1)                               |
| BROKERED DEPOSITS(2)             | 110,004                | —                                   | (1) 78,965        | — (1)                               |
|                                  | \$599,903              | 1,621,722                           | \$616,651         | \$1,229,134                         |

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

(2) Inclusive of \$81.3 million and \$55.2 million of brokered deposits acquired through participation in the Certificate of Deposit Account Registry Service program as of September 30, 2012 and December 31, 2011, respectively.

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

**Off-Balance Sheet Arrangements** There have been no material changes in off-balance sheet financial instruments during the three months ended September 30, 2012. Please refer to the 2011 Form 10-K for a complete table of contractual obligations, commitments, contingencies and off-balance sheet financial instruments. Subsequent to September 30, 2012, the Company entered into a committed revolving line of credit with PNC Bank, National Association, in which it may make advances at any time, not exceeding \$20.0 million.

**Contractual Obligations, Commitments, and Contingencies** There have been no material changes in contractual obligations, commitments, or contingencies during the three months ended September 30, 2012. Please refer to the 2011 Form 10-K for a complete table of contractual obligations, commitments, contingencies, and off-balance sheet financial instruments.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information required by this Item 3 is included in Item 2 of Part I of this Form 10-Q, entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

### Item 4. Controls and Procedures

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.** The Company carried out an



Table of Contents

evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in Internal Controls over Financial Reporting. There were no changes in our internal control over financial reporting that occurred through the third quarter of 2012 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

As of the date of this report, there have been no material changes with regard to the Risk Factors disclosed in Item 1A of our 2011 Annual Report on Form 10-K, which are incorporated herein by reference.

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

(a) Not applicable.

(b) Not applicable.

(c) The following table sets forth information regarding the Company's repurchases of its common stock during the three months ended September 30, 2012:

|                                   | Issuer Purchases of Equity Securities      |                                       |                                                                                                |                                                                                       |
|-----------------------------------|--------------------------------------------|---------------------------------------|------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
|                                   | Total Number of<br>Shares<br>Purchased (1) | Average<br>Price<br>Paid Per<br>Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plan or<br>Program (2) | Maximum Number of Shares<br>That May Yet Be<br>Purchased Under the Plan<br>or Program |
| PERIOD:                           |                                            |                                       |                                                                                                |                                                                                       |
| July 1 to July 31, 2012           | —                                          | —                                     | —                                                                                              | —                                                                                     |
| August 1 to August 31, 2012       | 44,094                                     | 29.26                                 | —                                                                                              | —                                                                                     |
| September 1 to September 30, 2012 | 655                                        | 30.99                                 | —                                                                                              | —                                                                                     |
| TOTAL                             | 44,749                                     |                                       | —                                                                                              |                                                                                       |

(1) Shares repurchased relate to the surrendering of mature shares for the exercise and/or vesting of stock compensation grants.

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

**Item 3. Defaults Upon Senior Securities—None****Item 4. Mine Safety Disclosures—None****Item 5. Other Information—None**



Table of Contents

Item 6. Exhibits

Exhibits Index

| No.    | Exhibit                                                                                                                                                                                                                   |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1    | Agreement and Plan of Merger dated April 30, 2012 with Central Bancorp, Inc. is incorporated by reference to Form 8-K filed on May 3, 2012.                                                                               |
| 3.(i)  | Restated Articles of Organization, as adopted May 20, 2010, incorporated by reference to Form 8-K filed on May 24, 2010.                                                                                                  |
| 3.(ii) | Amended and Restated Bylaws of the Company, incorporated by reference to Form 8-K filed on May 24, 2010.                                                                                                                  |
| 4.1    | Specimen Common Stock Certificate, incorporated by reference to Form 10-K for the year ended December 31, 1992.                                                                                                           |
| 4.2    | Specimen preferred Stock Purchase Rights Certificate, incorporated by reference to Form 8-A Registration Statement filed on November 5, 2001.                                                                             |
| 4.3    | Indenture of Registrant relating the Junior Subordinated Debt Securities issued to Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007. |
| 4.4    | Form of Certificate of Junior Subordinated Debt Security for Independent Capital Trust V (included as Exhibit A to Exhibit 4.9)                                                                                           |
| 4.5    | Amended and Restated Declaration of Trust for Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.                                      |
| 4.6    | Form of Capital Security Certificate for Independent Capital Trust V (included as Exhibit A-1 to Exhibit 4.9).                                                                                                            |
| 4.7    | Guarantee Agreement relating to Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.                                                    |
| 4.8    | Forms of Capital Securities Purchase Agreements for Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.                                |
| 4.9    | Subordinated Debt Purchase Agreement between USB Capital Resources and Rockland Trust Company dated as of August 27, 2008 is incorporated by reference to Form 8-K filed on September 2, 2008.                            |
| 4.10   | Rockland Trust Company Employee Savings, Profit Sharing and Stock Ownership Plan incorporated by reference to Form S-8 filed on April 16, 2010.                                                                           |
| 4.11   | Independent Bank Corp. 2010 Dividend Reinvestment and Stock Purchase Plan incorporated by reference to Form S-3 filed on August 24, 2010.                                                                                 |
| 10.1   | Independent Bank Corp. 1996 Nonemployee Directors' Stock Option Plan incorporated by reference to Definitive Proxy Statement for the 1996 Annual Meeting of Stockholders filed on March 19, 1996.                         |
| 10.2   | Independent Bank Corp. 1997 Employee Stock Option Plan incorporated by reference to the Definitive Proxy Statement for the 1997 Annual Meeting of Stockholders filed on March 20, 1997.                                   |

Table of Contents

|       |                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.3  | Independent Bank Corp. Amended and Restated 2005 Employee Stock Plan incorporated by reference to Form S-8 filed on June 17, 2011.                                                                                                                                                                                                                                                                                  |
| 10.4  | Renewal Rights Agreement dated as of September 14, 2000 by and between the Company and Rockland Trust, as Rights Agent, is incorporated by reference to Form 8-K filed on October 23, 2000.                                                                                                                                                                                                                         |
| 10.5  | Independent Bank Corp. Deferred Compensation Program for Directors (restated as amended as of December 1, 2000) is incorporated by reference to Form 10-K for the year ended December 31, 2000.                                                                                                                                                                                                                     |
| 10.6  | Master Securities Repurchase Agreement, incorporated by reference to Form S-1 Registration Statement filed on September 18, 1992.                                                                                                                                                                                                                                                                                   |
| 10.7  | Revised employment agreements between Christopher Oddleifson, Raymond G. Fuerschbach, Edward F. Jankowski, Jane L. Lundquist, Gerard F. Nadeau, Edward H. Seksay, and Denis K. Sheahan and the Company and/or Rockland Trust and a Rockland Trust Company amended and restated Supplemental Executive Retirement Plan dated November 20, 2008 are incorporated by reference to Form 8-K filed on November 21, 2008. |
| 10.8  | Specimen forms of stock option agreements for the Company's Chief Executive and other executive officers are incorporated by reference to Form 8-K filed on December 20, 2005.                                                                                                                                                                                                                                      |
| 10.9  | On-Site Outsourcing Agreement by and between Fidelity Information Services, Inc. and Independent Bank Corp., effective as of November 1, 2004 is incorporated by reference to Form 10-K for the year ended December 31, 2004 filed on March 4, 2005. Amendment to On-Site Outsourcing Agreement incorporated by reference to Form 8-K filed on May 7, 2008.                                                         |
| 10.10 | Independent Bank Corp. entered into a revolving credit facility with PNC Bank NA allowing the Company to borrow, repay and reborrow up to \$20 million on or prior to October 18, 2013. The letter agreement is incorporated by reference to Form 8-K filed on October 25, 2012.                                                                                                                                    |
| 10.11 | Independent Bank Corp. 2006 Nonemployee Director Stock Plan incorporated by reference to Form S-8 filed on April 17, 2006.                                                                                                                                                                                                                                                                                          |
| 10.12 | Independent Bank Corp. 2006 Stock Option Agreement for Nonemployee Director is incorporated by reference to Form 10-Q filed on May 9, 2006.                                                                                                                                                                                                                                                                         |
| 10.13 | Independent Bank Corp. 2006 Restricted Stock Agreement for Nonemployee Director is incorporated by reference to Form 10-Q filed on May 9, 2006.                                                                                                                                                                                                                                                                     |

Table of Contents

|         |                                                                                                                                                                                                                                                                                                                                                                      |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.14   | New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of September 22, 2004 is incorporated by reference to Form 8-K filed on October 14, 2004.                                     |
| 10.15   | New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of January 9, 2007 is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007. |
| 10.16   | New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of June 18, 2009 is incorporated by reference to the third quarter 2009 Form 10-Q.                                            |
| 10.17   | New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of April 17, 2012 is incorporated by reference to Form 8-K filed on April 26, 2012.                                           |
| 10.18   | Independent Bank Corp. 2010 Nonemployee Director Stock Plan, incorporated by reference to Form 8-K filed May 24, 2010.                                                                                                                                                                                                                                               |
| 10.19   | Independent Bank Corp. 2010 Stock Option Agreement for Nonemployee Director, incorporated by reference to Form 8-K filed May 24, 2010.                                                                                                                                                                                                                               |
| 10.2    | Independent Bank Corp. 2010 Restricted Stock Agreement for Nonemployee Director, incorporated by reference to Form 8-K filed May 24, 2010.                                                                                                                                                                                                                           |
| 10.21   | Master Data processing Services Agreement dated May 15, 2012 and commencing on October 12, 2012 by and between Q2 ebanking and Independent Bank Corp. is incorporated by reference to Form 8-K/A filed on July 18, 2012.                                                                                                                                             |
| 10.21   | Item Processing and Other Services Agreement dated and effective as of May 11, 2012 by and between Fidelity Information Services, Inc. and Independent Bank Corp. is incorporated by reference to Form 8-K/A filed on July 24, 2012.                                                                                                                                 |
| 31.1    | Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*                                                                                                                                                                                                                                                                                         |
| 31.2    | Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*                                                                                                                                                                                                                                                                                         |
| 32.1    | Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+                                                                                                                                                                                                                                                                                         |
| 32.2    | Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+                                                                                                                                                                                                                                                                                         |
| 101.INS | XBRL Instance Document +                                                                                                                                                                                                                                                                                                                                             |
| 101.SCH | XBRL Taxonomy Extension Schema Document +                                                                                                                                                                                                                                                                                                                            |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document +                                                                                                                                                                                                                                                                                                              |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document +                                                                                                                                                                                                                                                                                                               |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Documents +                                                                                                                                                                                                                                                                                                                   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document +                                                                                                                                                                                                                                                                                                             |

\* Filed herewith  
+ Furnished herewith

Table of Contents

SIGNATURES

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

INDEPENDENT BANK CORP.

(registrant)

Date: November 6, 2012

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

Date: November 6, 2012

/s/ Denis K. Sheahan  
Denis K. Sheahan  
Chief Financial Officer  
(Principal Financial Officer)

INDEPENDENT BANK CORP.

(registrant)