INDEPENDENT BANK CORP
Form 10-Q
August 07, 2013
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 June 30, 2013
Commission File Number: 1-9047

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

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

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

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

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

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

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

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

As of August 1, 2013, there were 22,583,713 shares of the issuer’s common stock outstanding, par value $0.01 per share.

Table of Contents

INDEX

Table of Contents

Table of Contents

PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements
INDEPENDENT BANK CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited—Dollars in thousands)

	June 30, 2013	December 31, 2012
Assets		
Cash and due from banks	$139,672	$98,144
Interest earning deposits with banks	197,266	117,330
Securities		
Securities available for sale	303,855	329,286
Securities held to maturity (fair value $225,851 and $185,824)	225,278	178,318
Total securities	529,133	507,604
Loans held for sale (at fair value)	32,497	48,187
Loans		
Commercial and industrial	742,343	687,511
Commercial real estate	2,150,833	2,122,153
Commercial construction	231,719	188,768
Small business	77,283	78,594
Residential real estate	509,185	604,668
Residential construction	4,366	8,213
Home equity—1st position	481,542	487,246
Home equity—2nd position	310,908	314,903
Other consumer	21,932	26,955
Total loans	4,530,111	4,519,011
Less: allowance for loan losses	(52,976)	(51,834)
Net loans	4,477,135	4,467,177
Federal Home Loan Bank stock	38,674	41,767
Bank premises and equipment, net	56,344	55,227
Goodwill	150,391	150,391
Identifiable intangible assets	10,698	11,753
Cash surrender value of life insurance policies	98,893	97,261
Other real estate owned & other foreclosed assets	9,387	12,150
Other assets	112,505	149,994
Total assets	$5,852,595	$5,756,985
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	$1,283,301	$1,248,394
Savings and interest checking accounts	1,798,495	1,691,187
Money market	884,696	853,971
Time certificates of deposit of $100,000 and over	292,046	317,438
Other time certificates of deposits	417,925	435,687
Total deposits	4,676,463	4,546,677
Borrowings		
Federal Home Loan Bank and other borrowings	261,456	283,569
Wholesale repurchase agreements	50,000	50,000

4

Table of Contents

Customer repurchase agreements	141,826	153,359
Junior subordinated debentures	74,018	74,127
Subordinated debentures	30,000	30,000
Total borrowings	557,300	591,055
Other liabilities	75,227	89,933
Total liabilities	5,308,990	5,227,665
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $.01 par value. authorized: 1,000,000 shares, outstanding: none	—	—
Common stock, $.01 par value. authorized: 75,000,000 shares, issued and outstanding: 22,904,284 shares at June 30, 2013 and 22,774,009 shares at December 31, 2012 (includes 271,390 and 264,124 shares of unvested participating restricted stock awards, respectively)	226	225
Shares held in rabbi trust at cost 175,618 shares at June 30, 2013 and 179,814 shares at December 31, 2012	(3,294)	(3,179)
Deferred compensation obligation	3,294	3,179
Additional paid in capital	272,165	269,950
Retained earnings	278,611	263,671
Accumulated other comprehensive loss, net of tax	(7,397)	(4,526)
Total stockholders’ equity	543,605	529,320
Total liabilities and stockholders' equity	$5,852,595	$5,756,985

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 June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Interest income				
Interest on loans	$47,720	$43,813	$94,699	$86,891
Taxable interest and dividends on securities	3,506	4,415	7,035	8,942
Nontaxable interest and dividends on securities	11	23	22	52
Interest on loans held for sale	237	156	505	286
Interest on federal funds sold	21	19	55	51
Total interest and dividend income	51,495	48,426	102,316	96,222
Interest expense				
Interest on deposits	2,543	2,687	5,208	5,426
Interest on borrowings	3,337	3,111	6,630	6,316
Total interest expense	5,880	5,798	11,838	11,742
Net interest income	45,615	42,628	90,478	84,480
Provision for loan losses	3,100	8,500	4,400	10,100
Net interest income after provision for loan losses	42,515	34,128	86,078	74,380
Noninterest income				
Deposit account fees	4,343	3,923	8,559	7,812
Interchange and ATM fees	2,761	2,399	5,089	4,767
Investment management	4,357	3,827	8,242	7,390
Mortgage banking income	1,669	1,463	3,951	2,793
Increase in cash surrender value of life insurance policies	786	741	1,531	1,454
Loan level derivative income	816	1,371	1,348	1,699
Other noninterest income	1,960	1,259	3,694	2,978
Total noninterest income	16,692	14,983	32,414	28,893
Noninterest expenses				
Salaries and employee benefits	21,594	19,775	44,309	41,211
Occupancy and equipment expenses	4,919	4,234	10,169	8,534
Advertising expense	1,479	1,473	2,652	2,210
Data processing & facilities management	1,201	1,099	2,385	2,274
FDIC assessment	934	830	1,755	1,579
Debit card expense	773	637	1,443	1,196
Merger and acquisition expense	754	672	2,099	672
Mortgage operations expense	715	60	1,059	102
Consulting expense	666	583	1,377	1,209
Telecommunication expense	548	666	1,203	1,284
Other noninterest expenses	8,581	6,970	16,632	14,085
Total noninterest expenses	42,164	36,999	85,083	74,356
Income before income taxes	17,043	12,112	33,409	28,917
Provision for income taxes	4,285	3,238	8,399	7,860
Net income	$12,758	$8,874	$25,010	$21,057
Basic earnings per share	0.56	0.41	1.09	0.98
Diluted earnings per share	0.56	0.41	1.09	0.97
Weighted average common shares (basic)	22,888,155	21,623,827	22,856,132	21,592,416

Common shares equivalents	52,144	20,377	49,104	22,251
Weighted average common shares (diluted)	22,940,299	21,644,204	22,905,236	21,614,667
Cash dividends declared per common share	0.22	0.21	0.44	0.42

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

6

Table of Contents

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net income	$12,758	$8,874	$25,010	$21,057
Other comprehensive income (loss), net of tax				
Unrealized losses on securities				
Change in fair value of securities available for sale	(4,592)	(139)	(5,371)	(300)
Less: net security losses reclassified into earnings	3	45	3	45
Net change in fair value of securities available for sale	(4,589)	(94)	(5,368)	(255)
Unrealized gains (losses) on cash flow hedges				
Change in fair value of cash flow hedges	765	(1,227)	763	(1,196)
Less: net cash flow hedge gains (losses) reclassified into earnings	854	796	1,691	1,561
Net change in fair value of cash flow hedges	1,619	(431)	2,454	365
Amortization of certain costs included in net periodic retirement costs	42	23	43	46
Total other comprehensive (loss) income	(2,928)	(502)	(2,871)	156
Total comprehensive income	$9,830	$8,372	$22,139	$21,213

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

7

Table of Contents

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

	Common Stock Outstanding	Common Stock	Value of Shares Held in Rabbi Trust at Cost	Deferred Compensation Obligation	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2012	22,774,009	$225	$ (3,179)	$ 3,179	$269,950	$263,671	$ (4,526)	$529,320
Net income	—	—	—	—	—	25,010	—	25,010
Other comprehensive loss	—	—	—	—	—	—	(2,871)	(2,871)
Common dividend declared ($0.44 per share)	—	—	—	—	—	(10,070)	—	(10,070)
Proceeds from exercise of stock options	30,029	—	—	—	744	—	—	744
Tax benefit related to equity award activity	—	—	—	—	312	—	—	312
Equity based compensation	—	—	—	—	1,389	—	—	1,389
Restricted stock awards issued, net of awards surrendered	89,431	1	—	—	(669)	—	—	(668)
Shares issued under direct stock purchase plan	10,815	—	—	—	339	—	—	339
Deferred compensation obligation	—	—	(115)	115	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	100	—	—	100
Balance at June 30, 2013	22,904,284	$226	$ (3,294)	$ 3,294	$272,165	$278,611	$ (7,397)	$543,605
Balance at December 31, 2011	21,499,768	$213	$ (2,980)	$ 2,980	$233,878	$239,452	$ (4,486)	$469,057
Net income	—	—	—	—	—	21,057	—	21,057
Other comprehensive	—	—	—	—	—	—	156	156

income								
Common dividend declared ($0.42 per share)	—	—	—	—	—	(9,080)	—	(9,080)
Proceeds from exercise of stock options	21,658	—	—	—	459	—	—	459
Tax benefit related to equity award activity	—	—	—	—	59	—	—	59
Equity based compensation	—	—	—	—	1,551	—	—	1,551
Restricted stock awards issued, net of awards surrendered	85,254	1	—	—	(345)	—	—	(344)
Shares issued under direct stock purchase plan	21,030	—	—	—	591	—	—	591
Deferred compensation obligation	—	—	(98)	98	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	86	—	—	86
Balance June 30, 2012	21,627,710	$214	$ (3,078)	$ 3,078	$236,279	$251,429	$ (4,330)	$483,592

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

8

Table of Contents

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

	Six Months Ended June 30 2013	2012
Cash flow from operating activities		
Net income	$25,010	$21,057
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	4,141	5,346
Provision for loan losses	4,400	10,100
Deferred income tax expense (benefit)	5	(19)
Net loss on sale of investments	4	—
Loss on write-down of investments in securities available for sale	—	76
Loss (gain) on sale of fixed assets	28	(16)
Loss on sale of other real estate owned and foreclosed assets	127	290
Gain realized from early termination of hedging relationship	—	(22)
Realized gain on sale leaseback transaction	(517)	(517)
Stock based compensation	1,389	1,551
Excess tax benefit related to equity award activity	(312)	(59)
Increase in cash surrender value of life insurance policies	(1,531)	(1,451)
Change in fair value on loans held for sale	1,335	(112)
Net change in:		
Trading assets	—	(265)
Loans held for sale	14,355	(1,698)
Other assets	37,689	(4,975)
Other liabilities	(14,885)	831
Total adjustments	46,228	9,060
Net cash provided by operating activities	71,238	30,117
Cash flows used in investing activities		
Proceeds from sales of securities available for sale	169	—
Proceeds from maturities and principal repayments of securities available for sale	50,709	46,434
Purchase of securities available for sale	(34,878)	(71,699)
Proceeds from maturities and principal repayments of securities held to maturity	27,535	25,944
Purchase of securities held to maturity	(74,834)	(9,975)
Redemption of Federal Home Loan Bank stock	3,093	2,290
Proceeds from (purchase of) life insurance policies	(101)	63
Net increase in loans	(15,713)	(202,505)
Purchase of bank premises and equipment	(4,221)	(3,889)
Proceeds from the sale of bank premises and equipment	—	30
Proceeds resulting from early termination of hedging relationship	—	22
Proceeds from the sale of other real estate owned and foreclosed assets	5,237	1,801
Net cash used in investing activities	(43,004)	(211,484)
Cash flows provided by financing activities		
Net increase (decrease) in time deposits	(43,154)	9,373
Net increase in other deposits	172,940	191,931

Table of Contents

Net decrease in wholesale and customer repurchase agreements	(11,533)	(21,290)
Net advance of short term Federal Home Loan Bank advances	(11,695)	(40,000)
Net repayment of long term Federal Home Loan Bank advances	(9,123)	—
Proceeds from exercise of stock options	744	459
Tax benefit related to equity award activity	312	59
Restricted stock awards issued, net of awards surrendered	(668)	(344)
Tax benefit from deferred compensation distribution	100	86
Shares issued under direct stock purchase plan	339	591
Common dividends paid	(5,032)	(8,623)
Net cash provided by financing activities	93,230	132,242
Net increase (decrease) in cash and cash equivalents	121,464	(49,125)
Cash and cash equivalents at beginning of year	215,474	237,504
Cash and cash equivalents at end of period	$336,938	$188,379
Supplemental schedule of noncash investing and financing activities		
Transfer of loans to foreclosed assets	$1,138	$5,136
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 June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 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, 2012, filed with the Securities and Exchange Commission.

NOTE 2 – RECENT ACCOUNTING STANDARDS UPDATES

FASB ASC Topic No. 815 "Derivatives and Hedging" Update No. 2013-10. Update No. 2013-10 was issued in July 2013 to provide guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. Among those risks for financial assets and financial liabilities is the risk of changes in a hedged item's fair value or a hedged transaction's cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk). In the United States, currently only the interest rates on direct Treasury obligations of the U.S. government (UST) and, for practical reasons, the London Interbank Offered Rate (LIBOR) swap rate are considered benchmark interest rates. The amendments in this update permit the Fed Funds Effective Swap Rate (OIS) to now be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Topic No. 220 "Comprehensive Income" Update No. 2013-02. Update No. 2013-02 was issued in February 2013, stating that the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this standard did not have a material impact on the Company's consolidated financial position.

FASB ASC Topic No. 210 "Balance Sheet" Update No. 2013-01. Update No. 2013-01 was issued in January of 2013, the amendments in this update affect entities that have derivatives accounted for in accordance with Topic 815 "Derivatives and Hedges," including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. As a result of these amendments, entities with other types of financial assets and financial liabilities subject to a master netting arrangement or similar agreement are no longer subject to the disclosure requirements in Update No. 2011-11. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The amendments are effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those periods. The adoption of this standard did not have a material impact on the Company's consolidated financial position.

Table of Contents

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:

	June 30, 2013					December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses Other	Other-Than-Temporary (Impairment)/Recovery	Fair Value	Amortized Cost	Gross Unrealized Gains	Unrealized Losses Other	Other-Than-Temporary (Impairment)/Recovery	Fair Value
	(Dollars in thousands)									
Available for sale securities										
U.S. Government agency securities	$20,050	$—	$(457)	$—	$19,593	$20,053	$769	$—	$—	$20,822
Agency mortgage-backed securities	193,741	7,425	(2,865)	—	198,301	209,381	12,158	(114)	—	221,425
Agency collateralized mortgage obligations	66,087	612	(603)	—	66,096	67,412	1,001	(37)	—	68,376
Private mortgage-backed securities	2,820	—	—	216	3,036	3,227	—	—	305	3,532
Single issuer trust preferred securities issued by banks	2,233	11	—	—	2,244	2,255	—	(15)	—	2,240
Pooled trust preferred securities issued by banks and insurers	8,158	—	(2,044)	(2,497)	3,617	8,353	—	(2,415)	(2,957)	2,981
Marketable securities	10,771	464	(267)	—	10,968	9,875	92	(57)	—	9,910
Total available for sale securities	$303,860	$8,512	$(6,236)	$(2,281)	$303,855	$320,556	$14,020	$(2,638)	$(2,652)	$329,286
Held to maturity securities										
U.S. Treasury securities	$1,012	$62	$—	$—	$1,074	$1,013	$121	$—	$—	$1,134
Agency mortgage-backed securities	56,889	1,980	—	—	58,869	72,360	4,233	—	—	76,593
Agency collateralized mortgage obligations	159,945	1,632	(3,366)	—	158,211	97,507	2,875	(2)	—	100,380
	916	10	—	—	926	915	11	—	—	926

State, county, and municipal securities										
Single issuer trust preferred securities issued by banks	1,510	20	—	—	1,530	1,516	10	—	—	1,526
Corporate debt securities	5,006	235	—	—	5,241	5,007	258	—	—	5,265
Total held to maturity securities	$225,278	$3,939	$(3,366)	$—	$225,851	$178,318	$7,508	$(2)	$—	$185,824
Total	$529,138	$12,451	$(9,602)	$(2,281)	$529,706	$498,874	$21,528	$(2,640)	$(2,652)	$515,110

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale. The Company realized a gain of $4,000 and a net loss of $4,000 of marketable securities classified as available for sale during the three and six month periods ended June 30, 2013.

The actual maturities of certain securities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. A schedule of the contractual maturities of securities available for sale and securities held to maturity as of June 30, 2013 is presented below:

Table of Contents

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$63	$65	$240	$241
Due after one year to five years	10,495	11,038	6,318	6,597
Due after five years to ten years	81,294	80,377	1,012	1,074
Due after ten years	201,237	201,407	217,708	217,939
Total debt securities	$293,089	$292,887	$225,278	$225,851
Marketable securities	$10,771	$10,968	$—	$—
Total	$303,860	$303,855	$225,278	$225,851

The securities portfolio includes $8.0 million and $7.7 million, respectively, of callable securities in the Company's investment portfolio at June 30, 2013 and December 31, 2012.

At June 30, 2013 and December 31, 2012, investment securities carried at $353.4 million and $365.8 million, respectively, were pledged to secure public deposits, assets sold under repurchase agreements, letters of credit, and for other purposes.

At June 30, 2013 and December 31, 2012, the Company had no investments in obligations of individual states, counties, or municipalities, which exceeded 10% of Stockholders' Equity.

Other-Than-Temporary Impairment ("OTTI")

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

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

	June 30, 2013						
		Less than 12 months		12 months or longer		Total	
	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)						
U.S. Government agency securities	2	19,593	(457)	—	—	19,593	(457)
Agency mortgage-backed securities	33	$76,840	$(2,865)	$—	$—	$76,840	$(2,865)
Agency collateralized mortgage obligations	13	132,729	(3,969)	—	—	132,729	(3,969)
Pooled trust preferred securities issued by banks and insurers	2	—	—	2,244	(2,044)	2,244	(2,044)
Marketable securities	26	$6,258	$(267)	$—	$—	$6,258	$(267)
Total temporarily impaired securities	76	$235,420	$(7,558)	$2,244	$(2,044)	$237,664	$(9,602)

13

Table of Contents

	December 31, 2012						
		Less than 12 months		12 months or longer		Total	
	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)						
Agency mortgage-backed securities	17	$23,814	$(114)	$—	$—	$23,814	$(114)
Agency collateralized mortgage obligations	2	17,677	(39)	—	—	17,677	(39)
Single issuer trust preferred securities issued by banks and insurers	2	$2,240	$(15)	$—	$—	$2,240	$(15)
Pooled trust preferred securities issued by banks and insurers	2	$—	$—	$2,069	$(2,415)	$2,069	$(2,415)
Marketable securities	15	$6,613	$(57)	$—	$—	$6,613	$(57)
Total temporarily impaired securities	38	$50,344	$(225)	$2,069	$(2,415)	$52,413	$(2,640)

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 June 30, 2013:

- U.S. Government Agency Securities: Government Agency bonds have historically been considered to be of high credit quality. The bonds in the bank's portfolio consist of debt obligations of the Federal Home Loan Bank and the Federal Farm Credit Banks. Because these firms are owned by shareholders and not part of the federal government, these bonds are not backed by the government's "full faith and credit" guarantee and are therefore subject to credit and default risk. The risk of default on these entities are considered low and the credit quality is currently well above investment grade. As such, the decline in market value of these securities is attributable to changes in interest rates and not credit quality.
- Agency Mortgage-Backed Securities and Collateralized Mortgage Obligations: This portfolio has contractual terms that generally do not permit the issuer to settle the securities at a price less than the current par value of the investment. The decline in market value of these securities is attributable to changes in interest rates and not credit quality. Additionally, these securities are implicitly guaranteed by the U.S. Government or one of its agencies.
- Single Issuer Trust Preferred Securities: This portfolio consist of two securities, both of which are below investment grade. The unrealized loss on these securities is attributable to the illiquid nature of the trust preferred market in the current economic environment. Management evaluates various financial metrics for each of the issuers, including regulatory capital ratios of issuers.
- Pooled Trust Preferred Securities: This portfolio consists of two securities, both of which are below investment grade. 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 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.

Table of Contents

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 June 30, 2013, that was considered by management in determining if OTTI existed:

	Class	Amortized Cost (1)	Gross Unrealized Gain/(Loss)	Non-Credit Related Other-Than-Temporary (Impairment)/Recovery	Fair Value	Total Cumulative Credit Related Other-Than-Temporary Impairment	Total Cumulative Other-Than-Temporary (Impairment)/Recovery to Date
	(Dollars in thousands)						
Pooled trust preferred securities							
Pooled trust preferred security A	C1	$1,283	$—	$ (851)	$432	$ (3,676)	$ (4,527)
Pooled trust preferred security B	D	—	—	—	—	(3,481)	(3,481)
Pooled trust preferred security C	C1	506	—	(319)	187	(482)	(801)
Pooled trust preferred security D	D	—	—	—	—	(990)	(990)
Pooled trust preferred security E	C1	2,081	—	(1,327)	754	(1,368)	(2,695)
Pooled trust preferred security F	B	1,878	(1,082)	—	796	—	—
Pooled trust preferred security G	A1	2,410	(962)	—	1,448	—	—
Total pooled trust preferred securities		$8,158	$(2,044)	$ (2,497)	$3,617	$ (9,997)	$ (12,494)
Private mortgage-backed securities							
Private mortgage-backed securities-one	2A1	$1,974	$—	$ 125	$2,099	$ (766)	$ (641)
Private mortgage-backed securities-two	A19	846	—	91	937	(85)	6
Total private mortgage-backed securities		$2,820	$—	$ 216	$3,036	$ (851)	$ (635)
Total		$10,978	$(2,044)	$ (2,281)	$6,653	$ (10,848)	$ (13,129)

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

	Class	Number of Performing Banks and Insurance	Current Deferrals/ Defaults/Losses (As a % of	Total Projected Defaults/Losses (as a % of	Excess Subordination (After Taking into Account Best	Lowest credit Ratings to date (2)

		Cos. in Issuances (Unique)	Original Collateral)	Performing Collateral)	Estimate of Future Deferrals/ Defaults/Losses) (1)	
Pooled trust preferred securities						
Trust preferred security A	C1	56	33.08%	20.64%	—%	C (Fitch & Moody's)
Trust preferred security B	D	56	33.08%	20.64%	—%	C (Fitch)
Trust preferred security C	C1	47	29.29%	15.20%	—%	C (Fitch & Moody's)
Trust preferred security D	D	47	29.29%	15.20%	—%	C (Fitch)
Trust preferred security E	C1	46	26.86%	16.73%	0.66%	C (Fitch & Moody's)
Trust preferred security F	B	32	25.08%	18.83%	30.90%	CC (Fitch)
Trust preferred security G	A1	32	25.08%	18.83%	55.89%	CCC+ (S&P)
Private mortgage-backed securities						
Private mortgage-backed securities-one	2A1	N/A	6.53%	13.12%	—%	D (Fitch)
Private mortgage-backed securities-two	A19	N/A	4.18%	7.32%	—%	C (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.

Table of Contents

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands)			
Gross change in OTTI recorded on certain investments (gain/(losses))	$90	$(106)	$371	$168
Portion of OTTI gains (losses) recognized in OCI	(90)	30	(371)	(244)
Total credit related OTTI losses recognized in earnings	$—	$(76)	—	$(76)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance at beginning of period	$(10,847)	$(10,771)	$(10,847)	$(10,771)
Add				
Incurred on securities not previously impaired	—	—	—	—
Incurred on securities previously impaired	—	(76)	—	(76)
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)	$(10,847)	$(10,847)	$(10,847)

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 the type of impairment analysis as of the periods indicated:

	June 30, 2013 (Dollars in thousands)								
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total	
Financing receivables									
Ending balance: total loans by group	$742,343	$2,150,833	$231,719	$77,283	$513,551	$792,450	$21,932	$4,530,111	(1)
Ending balance: individually evaluated for impairment	$9,759	$36,439	$1,608	$2,039	$15,883	$4,069	$1,584	$71,381	
Ending balance: purchase credit impaired loans	$—	$18,304	$—	$—	$8,991	$380	$—	$27,675	

Ending balance: collectively evaluated for impairment	$732,584	$2,096,090	$230,111	$75,244	$488,677	$788,001	$20,348	$4,431,055

16

Table of Contents

	December 31, 2012 (Dollars in thousands)								
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total	
Financing receivables									
Ending balance: total loans by group	$687,511	$2,122,153	$188,768	$78,594	$612,881	$802,149	$26,955	$4,519,011	(1)
Ending balance: individually evaluated for impairment	$8,575	$33,868	$—	$2,279	$15,373	$4,435	$2,129	$66,659	
Ending Balance: purchase credit impaired loans	$—	$21,853	$—	$—	$9,821	$380	$—	$32,054	
Ending balance: collectively evaluated for impairment	$678,936	$2,066,432	$188,768	$76,315	$587,687	$797,334	$24,826	$4,420,298	

(1) The amount of deferred fees included in the ending balance was $2.6 million and $3.1 million at June 30, 2013 and December 31, 2012, respectively.

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

	Three Months Ended June 30, 2013 (Dollars in thousands)							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$13,443	$22,569	$3,139	$1,244	$3,048	$7,716	$747	$51,906
Charge-offs	(1,302)	(196)	—	(276)	(186)	(257)	(260)	(2,477)
Recoveries	103	8	—	37	86	30	183	447
Provision	2,081	648	283	290	11	(222)	9	3,100
Ending balance	$14,325	$23,029	$3,422	$1,295	$2,959	$7,267	$679	$52,976

	Three Months Ended June 30, 2012 (Dollars in thousands)							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$11,454	$22,829	$2,233	$1,459	$3,072	$6,077	$1,216	$48,340
Charge-offs	(4,707)	(2,133)	—	(136)	(105)	(1,391)	(296)	(8,768)
Recoveries	113	—	—	46	—	18	154	331

Provision	4,698	680	(13)	(49)	14	3,150	20	8,500
Ending balance	$11,558	$21,376	$2,220	$1,320	$2,981	$7,854	$1,094	$48,403

Table of Contents

Six Months Ended June 30, 2013 (Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$13,461	$22,598	$2,811	$1,524	$2,930	$7,703	$807	$51,834
Charge-offs	(1,725)	(603)	—	(421)	(247)	(534)	(521)	(4,051)
Recoveries	239	8	—	76	86	51	333	793
Provision	2,350	1,026	611	116	190	47	60	4,400
Ending balance	$14,325	$23,029	$3,422	$1,295	$2,959	$7,267	$679	$52,976
Ending balance: Individually evaluated for impairment	$775	$410	$—	$153	$1,670	$52	$92	$3,152
Ending balance: Collectively evaluated for impairment	$13,550	$22,619	$3,422	$1,142	$1,289	$7,215	$587	$49,824

Six Months Ended June 30, 2012 (Dollars in thousands)	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
Allowance for loan losses								
Beginning balance	$11,682	$23,514	$2,076	$1,896	$3,113	$4,597	$1,382	$48,260
Charge-offs	(4,722)	(2,737)	—	(306)	(214)	(2,141)	(593)	(10,713)
Recoveries	313	—	—	98	—	31	314	756
Provision	4,285	599	144	(368)	82	5,367	(9)	10,100
Ending balance	$11,558	$21,376	$2,220	$1,320	$2,981	$7,854	$1,094	$48,403
Ending balance: Individually evaluated for impairment	$278	$445	$—	$140	$1,209	$30	$178	$2,280
Ending balance: Collectively evaluated for impairment	$11,280	$20,931	$2,220	$1,180	$1,772	$7,824	$916	$46,123

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 or junior mortgage liens on owner-occupied 1-4 family homes, condominiums or vacation homes or on nonowner occupied 1-4 family homes with more restrictive loan to value requirements. The home equity loan has a fixed rate and is billed equal payments comprised of principal and interest. The home equity line of credit has a variable rate and is billed in interest-only payments during the draw period. At the end of the draw period, the home equity line of credit is billed as a percentage of the principal balance plus all accrued interest. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan to value ratios within established policy guidelines.

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

Credit Quality:

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

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

Table of Contents

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 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:

		June 30, 2013				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in thousands)				
Pass	1 - 6	$704,065	$1,976,410	$217,096	$ 70,108	$2,967,679
Potential weakness	7	17,088	74,143	6,955	3,036	101,222
Definite weakness-loss unlikely	8	20,410	98,818	7,668	4,106	131,002
Partial loss probable	9	780	1,462	—	33	2,275
Definite loss	10	—	—	—	—	—
Total		$742,343	$2,150,833	$231,719	$ 77,283	$3,202,178

		December 31, 2012				
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
		(Dollars in thousands)				
Pass	1 - 6	$647,984	$1,928,148	$177,693	$ 71,231	$2,825,056
Potential weakness	7	16,420	92,651	6,195	3,213	118,479
Definite weakness-loss unlikely	8	21,979	98,688	4,880	4,080	129,627
Partial loss probable	9	1,128	2,666	—	70	3,864
Definite loss	10	—	—	—	—	—
Total		$687,511	$2,122,153	$188,768	$ 78,594	$3,077,026

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 and automated valuation services and broker opinions of value are used to supplement original value data for the residential and home equity portfolios, periodically. 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 accrual 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:

	June 30, 2013		December 31, 2012	
Residential portfolio				
FICO score (re-scored) (1)	739		727	
LTV (re-valued) (2)	70.0	%	67.0	%
Home equity portfolio				
FICO score (re-scored) (1)	763		763	
LTV (re-valued) (2)	55.0	%	54.0	%

(1) The average FICO scores for June 30, 2013 are based upon rescores available from May 2013 and actual score data for loans booked between June 1 and June 30, 2013. The average FICO scores for December 31, 2012 are based upon rescores available from November 2012 and actual score data for loans booked between December 1 and December 31, 2012.

(2) The combined LTV ratios for June 30, 2013 are based upon updated automated valuations as of February 2013. The combined LTV ratios for December 31, 2012 are based upon updated automated valuations as of November 30, 2011. For home equity loans and lines in a subordinate lien, the LTV data represents a combined LTV, taking into account the senior lien data for loans and lines.

The Bank's philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. Delinquent loans are managed by a team of seasoned collection specialists and the Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. As a general rule, loans more than 90 days past due with respect to principal or interest are classified as nonaccrual loans. As permitted by banking regulations, certain consumer loans 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:

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Commercial and industrial	$3,009	$2,666
Commercial real estate	8,526	6,574
Commercial construction	1,608	—
Small business	698	570
Residential real estate	12,496	11,472
Home equity (1)	10,024	7,311
Other consumer	134	121
Total nonaccrual loans (2)	$36,495	$28,714

(1)

Includes home equity loans which are currently performing but have been placed on nonaccrual as a result of delinquency with respect to the first position, which is held by another financial institution.

(2) Included in these amounts were $9.8 million and $6.6 million of nonaccruing TDRs at June 30, 2013 and December 31, 2012, respectively.

Table of Contents

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

	June 30, 2013										
	30-59 days		60-89 days		90 days or more		Total Past Due				
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
	(Dollars in thousands)										
Loan Portfolio											
Commercial and industrial	15	$1,481	13	$1,821	22	$2,407	50	$5,709	$736,634	$742,343	$ —
Commercial real estate	51	5,454	10	9,581	27	6,529	88	21,564	2,129,269	2,150,833	—
Commercial construction	—	—	—	—	1	1,608	1	1,608	230,111	231,719	—
Small business	25	717	11	149	13	359	49	1,225	76,058	77,283	—
Residential real estate	15	3,359	4	1,768	38	6,982	57	12,109	501,442	513,551	—
Home equity	16	592	12	1,174	23	2,009	51	3,775	788,675	792,450	—
Other consumer	112	559	14	39	28	180	154	778	21,154	21,932	54
Total	234	$12,162	64	$14,532	152	$20,074	450	$46,768	$4,483,343	$4,530,111	$ 54

	December 31, 2012										
	30-59 days		60-89 days		90 days or more		Total Past Due				
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
	(Dollars in thousands)										
Loan Portfolio											
Commercial and industrial	14	$1,305	7	$336	23	$1,875	44	$3,516	$683,995	$687,511	$ —
Commercial real estate	19	5,028	8	2,316	31	6,054	58	13,398	2,108,755	2,122,153	—
Commercial construction	—	—	—	—	—	—	—	—	188,768	188,768	—
Small business	20	750	8	94	10	320	38	1,164	77,430	78,594	—
Residential real estate	17	3,053	7	1,848	40	7,501	64	12,402	600,479	612,881	—
Home equity	32	2,756	10	632	17	1,392	59	4,780	797,369	802,149	—
Other consumer	208	1,217	32	224	28	153	268	1,594	25,361	26,955	52
Total	310	$14,109	72	$5,450	149	$17,295	531	$36,854	$4,482,157	$4,519,011	$ 52

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:

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
TDRs on accrual status	$38,898	$46,764
TDRs on nonaccrual	9,777	6,554
Total TDRs	$48,675	$53,318
Amount of specific reserves included in the allowance for loan losses associated with TDRs:	$2,796	$3,049
Additional commitments to lend to a borrower who has been a party to a TDR:	$1,921	$1,847

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 June 30, 2013			Six Months Ended June 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)
	(Dollars in thousands)					
Troubled debt restructurings						
Commercial & industrial	2	$ 282	$ 282	2	$ 282	$ 282
Commercial real estate	1	664	664	2	1,063	1,063
Small business	1	$ 18	$ 18	5	282	282
Residential real estate	2	744	744	6	1,900	1,926
Home equity	1	29	29	3	194	194
Other consumer	—	—	—	2	11	11
Total	7	$ 1,737	$ 1,737	20	$ 3,732	$ 3,758

Table of Contents

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment (1)
	(Dollars in thousands)					
Troubled debt restructurings						
Commercial & industrial	7	$ 1,115	$ 1,115	11	$ 1,273	$ 1,273
Commercial real estate	7	3,839	3,839	9	4,907	4,907
Small business	1	17	17	8	360	360
Residential real estate	1	261	261	2	378	378
Home equity	1	64	66	1	64	66
Other consumer	2	65	65	4	150	150
Total	19	$ 5,361	$ 5,363	35	$ 7,132	$ 7,134

(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 June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands)		(Dollars in thousands)	
Extended maturity	$329	$313	$991	$354
Adjusted interest rate	—	2,119	—	3,557
Combination rate & maturity	1,408	2,931	2,756	3,223
Court ordered concession	—	—	11	—
Total	$1,737	$5,363	$3,758	$7,134

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.

Table of Contents

	Three Months Ended June 30			
	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Troubled debt restructurings that subsequently defaulted				
Commercial & industrial	2	$1,767	—	$—
Commercial real estate	1	398	—	—
Small business	2	22	—	—
Total	5	$2,187	—	$—

	Six Months Ended June 30			
	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Troubled debt restructurings that subsequently defaulted				
Commercial & industrial	2	$1,767	—	$—
Commercial real estate	1	398	1	250
Small business	3	253	—	—
Other consumer	—	—	1	6
Total	6	$2,418	2	$256

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

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

Table of Contents

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

	June 30, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded			
Commercial & industrial	$6,780	$8,577	$—
Commercial real estate	18,252	18,928	—
Commercial construction	1,608	1,608	—
Small business	1,297	1,455	—
Residential real estate	2,221	2,330	—
Home equity	3,664	3,717	—
Other consumer	541	542	—
Subtotal	34,363	37,157	—
With an allowance recorded			
Commercial & industrial	$2,979	$3,751	$775
Commercial real estate	18,187	18,330	410
Commercial construction	—	—	—
Small business	742	778	153
Residential real estate	13,662	14,502	1,670
Home equity	405	457	52
Other consumer	1,043	1,069	92
Subtotal	37,018	38,887	3,152
Total	$71,381	$76,044	$3,152

	December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded			
Commercial & industrial	$5,849	$7,343	$—
Commercial real estate	12,999	13,698	—
Commercial construction	—	—	—
Small business	1,085	1,147	—
Residential real estate	2,545	2,630	—
Home equity	4,119	4,166	—
Other consumer	700	705	—
Subtotal	27,297	29,689	—
With an allowance recorded			
Commercial & industrial	$2,726	$2,851	$1,084
Commercial real estate	20,869	21,438	516
Commercial construction	—	—	—
Small business	1,194	1,228	353
Residential real estate	12,828	13,601	1,302
Home equity	316	389	35

Other consumer	1,429	1,453	130
Subtotal	39,362	40,960	3,420
Total	$66,659	$70,649	$3,420

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 June 30, 2013		Six Months Ended June 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded				
Commercial & industrial	$8,396	$114	$8,836	$230
Commercial real estate	18,392	312	18,448	628
Commercial construction	1,608	13	1,608	26
Small business	1,393	22	1,454	46
Residential real estate	2,236	25	2,253	44
Home equity	3,674	43	3,691	85
Other consumer	560	10	585	23
Subtotal	36,259	539	36,875	1,082
With an allowance recorded				
Commercial & industrial	$3,076	$43	$3,221	$89
Commercial real estate	18,242	263	18,235	526
Commercial construction	—	—	—	—
Small business	748	12	760	23
Residential real estate	13,688	127	13,732	255
Home equity	407	5	410	10
Other consumer	1,074	10	1,113	20
Subtotal	37,235	460	37,471	923
Total	$73,494	$999	$74,346	$2,005

Table of Contents

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded				
Commercial & industrial	$6,401	$85	$6,490	$172
Commercial real estate	20,214	350	20,407	707
Commercial construction	—	—	—	—
Small business	1,474	25	1,517	52
Residential real estate	—	—	—	—
Home equity	100	2	100	3
Other consumer	72	1	56	1
Subtotal	28,261	463	28,570	935
With an allowance recorded				
Commercial & industrial	$1,343	$28	$1,398	$60
Commercial real estate	15,685	229	16,432	473
Commercial construction	—	—	—	—
Small business	1,043	16	1,082	32
Residential real estate	12,958	157	13,053	296
Home equity	240	4	241	8
Other consumer	1,781	16	1,822	34
Subtotal	33,050	450	34,028	903
Total	$61,311	$913	$62,598	$1,838

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Outstanding balance	$30,705	$36,278
Carrying amount	$27,675	$32,054

Table of Contents

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

	(Dollars in thousands)
Balance at January 1, 2012	$—
Acquisition	3,095
Accretion	(903)
Reclassification from nonaccretable difference for loans with improved cash flows (1)	272
Balance at December 31, 2012	2,464
Balance at January 1, 2013	$2,464
Accretion	(1,142)
Other change in expected cash flows (2)	439
Reclassification from nonaccretable difference for loans with improved cash flows (1)	335
Balance at June 30, 2013	$2,096

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

NOTE 5 – EARNINGS PER SHARE

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Net income	$12,758	$8,874	$25,010	$21,057
Weighted Average Shares				
Basic shares	22,888,155	21,623,827	22,856,132	21,592,416
Effect of diluted securities	52,144	20,377	49,104	22,251
Dilutive shares	22,940,299	21,644,204	22,905,236	21,614,667
Net income per share				
Basic EPS	$0.56	$0.41	$1.09	$0.98
Effect of diluted securities	—	—	—	(0.01)
Dilutive EPS	$0.56	$0.41	$1.09	$0.97

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 June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Stock options	241,268	804,249	245,312	807,147

29

Table of Contents

NOTE 6 – STOCK BASED COMPENSATION

During 2013, the Company made the following awards of restricted stock:

Date	Shares Granted	Plan	Fair Value	Vesting Period
1/16/2013	2,000	2005 Employee Stock Plan	$30.48	Ratably over 3 years from grant date
2/14/2013	93,800	2005 Employee Stock Plan	$31.51	Ratably over 5 years from grant date
5/21/2013	14,700	2010 Non-Employee Director Stock Plan	$33.17	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 2013.

NOTE 7 – 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

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.

Table of Contents

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:

June 30, 2013

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value
(Dollars in thousands)							
$25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.27 %	5.04 %	$(3,562)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.27 %	5.04 %	(3,563)
25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.27 %	2.65 %	(264)
25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.27 %	2.59 %	(258)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.27 %	2.94 %	(1,719)
50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.27 %	3.04 %	(1,955)
25,000	5-May-11	10-Jun-11	10-Jun-15	3 Month LIBOR	0.27 %	1.71 %	(600)
$200,000							$(11,921)

December 31, 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	0.31 %	5.04 %	$(4,416)
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.31 %	5.04 %	(4,417)
25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.31 %	2.65 %	(553)
25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.31 %	2.59 %	(539)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.31 %	2.94 %	(2,819)
50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.31 %	3.04 %	(2,647)
25,000	5-May-11	10-Jun-11	10-Jun-15	3 Month LIBOR	0.31 %	1.71 %	(798)
$200,000							$(16,189)

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 $5.0 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 June 30, 2013.

The Company had no fair value hedges as of June 30, 2013 or December 31, 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:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands)		(Dollars in thousands)	
Net amortization income	$61	$61	$122	$122

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.

31

Table of Contents

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 (1)	2013	2014	2015	2016	Thereafter	Total	Fair Value
	June 30, 2013 (Dollars in thousands)							
Loan level swaps								
Receive fixed, pay variable	158	$4,058	55,271	100,565	43,966	327,855	$531,715	$13,519
Pay fixed, receive variable	152	$4,058	55,271	100,565	43,966	327,855	$531,715	$(13,543)
Foreign exchange contracts								
Buys foreign exchange, sells US currency	13	$25,073	7,221	—	—	—	$32,294	$(64)
Buys US currency, sells foreign exchange	13	$25,073	7,221	—	—	—	$32,294	$78
	December 31, 2012 (Dollars in thousands)							
Loan level swaps								
Receive fixed, pay variable	143	$16,766	65,344	105,939	45,267	268,932	$502,248	$28,678
Pay fixed, receive variable	137	$16,766	65,344	105,939	45,267	268,932	$502,248	$(28,663)
Foreign exchange contracts								
Buys foreign exchange, sells US currency	16	$42,516	—	—	—	—	$42,516	$1,748
Buys US currency, sells foreign exchange	16	$42,516	—	—	—	—	$42,516	$(1,718)

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

Table of Contents

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

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value at June 30, 2013	Fair Value at December 31, 2012	Balance Sheet Location	Fair Value at June 30, 2013	Fair Value at December 31, 2012
	(Dollars in thousands)					
Derivatives designated as hedges						
Interest rate swaps	Other assets	$—	$ —	Other liabilities	$11,921	$ 16,189
Derivatives not designated as hedges						
Customer Related Positions:						
Loan level swaps	Other assets	$18,413	$ 28,678	Other liabilities	$18,437	$ 28,663
Foreign exchange contracts	Other assets	291	1,748	Other liabilities	277	1,718
Total		$18,704	$ 30,426		$18,714	$ 30,381

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands)		(Dollars in thousands)	
Derivatives designated as hedges				
Gain (loss) in OCI on derivatives (effective portion), net of tax	$765	$(1,227)	$763	$(1,196)
Loss reclassified from OCI into interest expense (effective portion)	$(1,443)	$(1,346)	$(2,859)	$(2,638)
Loss recognized in income on derivatives (ineffective portion & amount excluded from effectiveness testing)				
Interest expense	$—	$—	$—	$—
Other expense	—	—	—	—
Total	$—	$—	$—	$—
Derivatives not designated as hedges				
Changes in fair value of customer related positions				
Other income	$14	$51	$26	$73
Other expense	(56)	(9)	(81)	(19)
Total	$(42)	$42	$(55)	$54

By using derivatives, the Company is exposed to credit risk to the extent that counterparties to the derivative contracts do not perform as required. Should a counterparty fail to perform under the terms of a derivative contract, the Company's credit exposure on interest rate swaps is limited to the net positive fair value and accrued interest of all swaps with each counterparty. The Company seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, and obtaining collateral, where appropriate. Institutional counterparties must have an investment grade credit rating and be approved by the Company's Board of Directors. As such, management believes the risk of incurring credit losses on derivative contracts with those counterparties is remote and losses, if any, would be immaterial. The Company had no exposure relating to interest rate swaps with institutional counterparties at June 30, 2013 and December 31, 2012, as all such swaps were in a liability position. The Company’s exposure relating to customer related positions was approximately $16.7 million and $31.0 million at June 30, 2013 and December 31, 2012, respectively. Credit exposure may be reduced by the amount of collateral pledged by the counterparty.

Table of Contents

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. 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 June 30, 2013 it was determined that no additional collateral would have to be posted to immediately settle these instruments.

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

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments (1)	Cash Collateral Received	Net Amount
	(Dollars in thousands)					
	June 30, 2013					
Interest rate swaps	$—	$—	$—	$—	$—	$—
Loan level swaps	18,413	—	18,413	1,735	—	16,678
Customer foreign exchange contracts	291	—	291	108	—	183
	$18,704	$—	$18,704	$1,843	$—	$16,861
	December 31, 2012					
Interest rate swaps	$—	$—	$—	$—	$—	$—
Loan level swaps	28,678	—	28,678	—	—	28,678
Customer foreign exchange contracts	1,748	—	1,748	—	—	1,748
	$30,426	$—	$30,426	$—	$—	$30,426

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

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

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments (1)	Cash Collateral Pledged	Net Amount
	(Dollars in thousands)					
	June 30, 2013					
Interest rate swaps	$11,921	$—	$11,921	$—	$15,774	$(3,853)
Loan level swaps	18,437	—	18,437	1,735	15,797	905
Customer foreign exchange contracts	277	—	277	108	—	169
	$30,635	$—	$30,635	$1,843	$31,571	$(2,779)

	December 31, 2012					
Interest rate swaps	$16,189	$—	$16,189	$—	$19,185	$(2,996)
Loan level swaps	28,663	—	28,663	—	31,772	(3,109)
Customer foreign exchange contracts	1,718	—	1,718	—	—	1,718
	$46,570	$—	$46,570	$—	$50,957	$(4,387)

34

Table of Contents

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

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. Included in the table above are derivative instruments that contain credit-risk related contingent features that are in a net liability position, which require the Company to assign collateral. All liability position interest rate swap and customer loan level swap counterparties have credit-risk contingent instruments as of the dates indicated in the table above.

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 has elected the fair value option to carry these instruments at fair value. 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 in accordance with the Company's fair value election.

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Interest rate lock commitments	$(866)	$102
Forward sales agreements	$2,092	$(223)
Loans held for sale fair value adjustments	$(1,214)	$121

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 June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands)		(Dollars in thousands)	
Interest rate lock commitments	$(997)	$385	$(968)	$101
Forward sales agreements	2,204	(766)	2,315	(213)
Loans held for sale fair value adjustments	(1,195)	381	(1,335)	112
Total change in fair value	$12	$—	$12	$—

Table of Contents

NOTE 8 – FAIR VALUE MEASUREMENTS

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

Table of Contents

Loans Held for Sale
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 June 30, 2013 and December 31, 2012, 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.

Table of Contents

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

	Balance	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	June 30, 2013 (Dollars in thousands)			
Recurring fair value measurements				
Assets				
Securities available for sale				
U.S. Government agency securities	$19,593	$—	$19,593	$—
Agency mortgage-backed securities	198,301	—	198,301	—
Agency collateralized mortgage obligations	66,096	—	66,096	—
Private mortgage-backed securities	3,036	—	—	3,036
Single issuer trust preferred securities issued by banks	2,244	—	2,244	—
Pooled trust preferred securities issued by banks and insurers	3,617	—	—	3,617
Marketable securities	10,968	10,968	—	—
Loans held for sale	32,497	—	32,497	—
Derivative instruments	20,796	—	20,796	—
Liabilities				
Derivative instruments	31,501	—	31,501	—
Total recurring fair value measurements	$325,647	$10,968	$308,026	$6,653
Nonrecurring fair value measurements				
Assets				
Collateral dependent impaired loans	$10,105	$—	$—	$10,105
Other real estate owned	9,211	—	—	9,211
Total nonrecurring fair value measurements	$19,316	$—	$—	$19,316

Table of Contents

	December 31, 2012 (Dollars in thousands)			
Recurring fair value measurements				
Assets				
Securities available for sale				
U.S. government agency securities	$20,822	$—	$20,822	$—
Agency mortgage-backed securities	221,425	—	221,425	—
Agency collateralized mortgage obligations	68,376	—	68,376	—
Private mortgage-backed securities	3,532	—	—	3,532
Single issuer trust preferred securities issued by banks	2,240	—	2,240	—
Pooled trust preferred securities issued by banks and insurers	2,981	—	—	2,981
Marketable securities	9,910	9,910	—	—
Loans held for sale	48,187	—	48,187	—
Derivative instruments	30,528	—	30,528	—
Liabilities				
Derivative instruments	46,793	—	46,793	—
Total recurring fair value measurements	$361,208	$9,910	$344,785	$6,513
Nonrecurring fair value measurements				
Assets				
Collateral dependent impaired loans	$7,817	$—	$—	$7,817
Other real estate owned	11,974	—	—	11,974
Total nonrecurring fair value measurements	$19,791	$—	$—	$19,791

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 March 31, 2013	$3,292	$—	$3,370	$6,662
Gains and (losses) (realized/unrealized)				
Included in earnings	—	—	—	—
Included in other comprehensive income	351	—	(51)	300
Purchases	—	—	—	—
Sales	—	—	—	—
Issuances	—	—	—	—
Settlements	(26)	—	(283)	(309)
Transfers into (out of) level 3	—	—	—	—
Balance at June 30, 2013	$3,617	$—	$3,036	$6,653
Balance at January 1, 2012	$2,820	$4,210	$6,110	$13,140
Gains and (losses) (realized/unrealized)				
Included in earnings	—	—	(76)	(76)
Included in other comprehensive income	313	703	411	1,427
Purchases	—	—	—	—
Sales	—	—	—	—
Issuances	—	—	—	—
Settlements	(152)	—	(2,913)	(3,065)
Transfers into (out of) level 3	—	(4,913)	—	(4,913)
Balance at December 31, 2012	$2,981	$—	$3,532	$6,513
Gains and (losses) (realized/unrealized)				
Included in earnings	—	—	—	—
Included in other comprehensive income	831	—	(89)	742
Purchases	—	—	—	—
Sales	—	—	—	—
Issuances	—	—	—	—
Settlements	(195)	—	(407)	(602)
Transfers into (out of) level 3	—	—	—	—
Balance at June 30, 2013	$3,617	$—	$3,036	$6,653

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 quarter of 2013.

Table of Contents

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

	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average	
	(Dollars in thousands)					
	June 30, 2013					
Pooled trust preferred securities	$3,617	Discounted cash flow methodology	Cumulative Prepayment	0%-76.0%	7.2	%
			Cumulative Default	2.0%-100.0%	18.6	%
			Loss Given Default	85.0% - 100.0%	95.4	%
			Cure Given Default	0% - 75.0%	36.6	%
Private mortgage-backed securities	$3,036	Multi-dimensional spread tables	Cumulative Prepayment Rate	14.4%-14.5%	14.5	%
			Constant Default Rate	0.8% -20.3%	4.0	%
			Severity	21.0% -52.0%	34.1	%
Impaired loans	$10,105	Appraisals of collateral (1)				
Other real estate owned	$9,211	Appraisals of collateral (1)				
	December 31, 2012					
Pooled trust preferred securities	$2,981	Discounted cash flow methodology	Cumulative Prepayment	0%-76.0%	7.5	%
			Cumulative Default	3.0%-100.0%	19.6	%
			Loss Given Default	85.0% - 100.0%	94.9	%
			Cure Given Default	0% - 75.0%	33.8	%
Private mortgage-backed securities	$3,532	Multi-dimensional spread tables	Cumulative Prepayment Rate	10.3%-14.5%	13.9	%
			Constant Default Rate	0.9% -20.4%	4.0	%
			Severity	20.0% -55.0%	33.6	%
Impaired loans	$7,817	Appraisals of collateral (1)				
Other real estate owned	$11,974	Appraisals of collateral (1)				

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

For the fair value measurements in the table above, which are classified as Level 3 within the fair value hierarchy, the Company's Treasury and Finance groups determine the valuation policies and procedures. For the pricing of the securities, the Company uses third-party pricing information, without adjustment. Depending on the type of the security, management employs various techniques to analyze the pricing it receives from third-parties, such as analyzing changes in market yields and in certain instances reviewing the underlying collateral of the security. Management reviews changes in fair value from period to period and performs testing to ensure that prices received from the third parties are consistent with their expectation of the market. For the securities 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.

Table of Contents

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.

Table of Contents

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:

			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)
	June 30, 2013 (Dollars in thousands)				
Financial assets					
Securities held to maturity (a)					
U.S. Treasury securities	$1,012	$1,074	—	$ 1,074	—
Agency mortgage-backed securities	56,889	58,869	—	58,869	—
Agency collateralized mortgage obligations	159,945	158,211	—	158,211	—
State, county, and municipal securities	916	926	—	926	—
Single issuer trust preferred securities issued by banks	1,510	1,530	—	1,530	—
Corporate debt securities	5,006	5,241	—	5,241	—
Loans, net of allowance for loan losses (b)	4,477,135	4,433,316	—	—	4,433,316
Financial liabilities					
Time certificates of deposits (c)	$709,971	$713,800	—	$ 713,800	—
Federal home loan bank advances and other borrowings (c)	261,456	268,993	—	268,993	—
Wholesale and customer repurchase agreements (c)	191,826	193,497	—	—	193,497
Junior subordinated debentures (d)	74,018	75,805	—	75,805	—
Subordinated debentures (c)	30,000	20,758	—	—	20,758
	December 31, 2012 (Dollars in thousands)				
Financial assets					
Securities held to maturity (a)					
U.S. Treasury securities	$1,013	$1,134	$ —	$ 1,134	$ —
Agency mortgage-backed securities	72,360	76,593	—	76,593	—
Agency collateralized mortgage obligations	97,507	100,380	—	100,380	—
State, county, and municipal securities	915	926	—	926	—
Single issuer trust preferred securities issued by banks	1,516	1,526	—	1,526	—
Corporate debt securities	5,007	5,265	—	5,265	—
Loans, net of allowance for loan losses (b)	4,467,177	4,462,580	—	—	4,462,580
Financial liabilities					
Time certificates of deposits (c)	$753,125	$759,516	$ —	$ 759,516	$ —
Federal home loan bank advances and other borrowings (c)	283,569	293,580	—	293,580	—
Wholesale and customer repurchase agreements (c)	203,359	201,189	—	—	201,189
Junior subordinated debentures (d)	74,127	74,416	—	74,416	—

Subordinated debentures (c)	30,000	22,762	—	—	22,762

Table of Contents

(a) The fair values presented are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments and/or discounted cash flow analyses.
(b) Fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities or cash flows.
(c) Fair value was determined by discounting anticipated future cash payments using rates currently available for instruments with similar remaining maturities.
(d) Fair value was determined based upon market prices of securities with similar terms and maturities.

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

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

NOTE 9 – COMPREHENSIVE INCOME/LOSS

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

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013			
	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	
	(Dollars in thousands)			(Dollars in thousands)			
Change in fair value of securities available for sale	$(7,502)	$2,910	$(4,592)	$(8,736)	$3,365	$(5,371)	
Less: net security losses reclassified into other noninterest income (1)	4	(1)	3	4	(1)	3	(4)
Change in fair value of securities available for sale	(7,498)	2,909	(4,589)	(8,732)	3,364	(5,368)	
Change in fair value of cash flow hedges	1,294	(529)	765	1,289	(526)	763	
Less: net cash flow hedge losses reclassified into interest on borrowings expense (2)	1,443	(589)	854	2,859	(1,168)	1,691	(4)
Net change in fair value of cash flow hedges	2,737	(1,118)	1,619	4,148	(1,694)	2,454	
Amortization of certain costs included in net periodic retirement costs (3)	51	(9)	42	73	(30)	43	(4)
Total other comprehensive income (loss)	$(4,710)	$1,782	$(2,928)	$(4,511)	$1,640	$(2,871)	

Table of Contents

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012			
	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	
	(Dollars in thousands)			(Dollars in thousands)			
Change in fair value of securities available for sale	$(186)	$47	$(139)	$(432)	$132	$(300)	
Less: net security losses reclassified into other noninterest income (1)	76	(31)	45	76	(31)	45	(4)
Change in fair value of securities available for sale	(110)	16	(94)	(356)	101	(255)	
Change in fair value of cash flow hedges	(2,074)	847	(1,227)	(2,021)	825	(1,196)	
Less: net cash flow hedge losses reclassified into interest on borrowings expense (2)	1,346	(550)	796	2,638	(1,077)	1,561	(4)
Net change in fair value of cash flow hedges	(728)	297	(431)	617	(252)	365	
Amortization of certain costs included in net periodic retirement costs (3)	39	(16)	23	77	(31)	46	(4)
Total other comprehensive income	$(799)	$297	$(502)	$338	$(182)	$156	

(1) Net security losses includes pre-tax OTTI credit related losses of $0 for the three and six month ended June 30, 2013 and $76,000 for the three and six months ended June 30, 2012.

(2) 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 2018, the original maturity date of the swap. The balance of this gain has amortized to $787,000 and $931,000 at June 30, 2013 and 2012, respectively.

(3) The amortization of prior service costs is included in the computation of net periodic pension cost as disclosed in the Employee Benefit Plans footnote in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission.

(4) Total reclassifications into income for the period were $899,000 and $1,737,000 for the three and six months ending June 30, 2013 and $864,000 and $1,652,000 for the three and six months ending June 30, 2012, respectively.

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

	Unrealized Gain on Securities	Unrealized Loss on Cash Flow Hedge	Deferred Gain on Hedge Transactions	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss
	2013				
	(Dollars in thousands)				
Beginning balance January 1, 2013	$5,478	$(9,577)	$859	$(1,286)	$(4,526)
Net change in other comprehensive income (loss)	$(5,368)	$2,526	$(72)	$43	$(2,871)
Ending balance June 30, 2013	110	(7,051)	787	(1,243)	(7,397)

	2012				
Beginning balance January 1, 2012	$6,574	$(10,804)	$1,004	$(1,260)	$(4,486)
Net change in other comprehensive income (loss)	$(255)	$438	$(73)	$46	$156
Ending balance June 30, 2012	6,319	(10,366)	931	(1,214)	(4,330)

45

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, 2012, 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 2011 downgrade by Standard and Poor's of U.S. long-term sovereign debt did not directly impact the financial position of the Company, an inability by the federal government to raise the U.S. debt limit or otherwise 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;
- 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;
- 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;

46

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				
	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
	(Dollars in thousands, except per share data)				
Financial condition data					
Securities available for sale	$303,855	$335,693	$329,286	$323,156	$338,331
Securities held to maturity	225,278	209,090	178,318	186,842	188,450
Loans	4,530,111	4,487,478	4,519,011	4,056,135	3,980,789
Allowance for loan losses	(52,976)	(51,906)	(51,834)	(49,746)	(48,403)
Goodwill and core deposit intangibles	161,089	161,616	162,144	137,293	139,924
Total assets	5,852,595	5,721,120	5,756,985	5,192,094	5,124,564
Total deposits	4,676,463	4,551,410	4,546,677	4,117,847	4,078,133
Total borrowings	557,300	550,782	591,055	489,899	476,217
Stockholders' equity	543,605	537,575	529,320	492,965	483,592
Income statement					
Interest income	$51,495	$50,820	$51,414	$48,555	$48,426
Interest expense	5,880	5,958	5,935	5,717	5,798
Net interest income	45,615	44,862	45,479	42,838	42,628
Provision for loan losses	3,100	1,300	4,350	3,606	8,500
Noninterest income	16,692	15,724	17,016	16,108	14,983
Noninterest expenses	42,164	42,920	45,050	40,052	36,999
Net income	12,758	12,252	9,968	11,601	8,874

Table of Contents

Per share date					
Net income—basic	$0.56	$0.54	$0.45	$0.54	$0.41
Net income—diluted	0.56	0.54	0.45	0.53	0.41
Cash dividends declared	0.22	0.22	0.21	0.21	0.21
Book value	23.73	23.50	23.24	22.75	22.36
Performance ratios					
Return on average assets	0.89 %	0.88 %	0.73 %	0.91 %	0.71 %
Return on average common equity	9.40 %	9.25 %	7.68 %	9.39 %	7.34 %
Net interest margin (on a fully tax equivalent basis)	3.57 %	3.58 %	3.68 %	3.72 %	3.80 %
Equity to assets	9.29 %	9.40 %	9.19 %	9.49 %	9.44 %
Dividend payout ratio	39.50 %	— %	93.60 %	39.23 %	51.19 %
Asset quality					
Nonperforming loans	36,549	33,091	28,766	31,081	31,322
Nonperforming assets	48,105	46,815	42,427	41,529	43,857
Nonperforming loans as a percent of gross loans	0.81 %	0.74 %	0.64 %	0.77 %	0.79 %
Nonperforming assets as a percent of total assets	0.82 %	0.82 %	0.74 %	0.80 %	0.86 %
Allowance for loan losses as a percent of total loans	1.17 %	1.16 %	1.15 %	1.23 %	1.22 %
Allowance for loan losses as a percent of nonperforming loans	144.95 %	156.86 %	180.19 %	160.05 %	154.53 %
Capital ratios					
Tier 1 leverage capital ratio	8.56 %	8.51 %	8.65 %	8.73 %	8.68 %
Tier 1 risk-based capital ratio	10.62 %	10.57 %	10.36 %	10.72 %	10.64 %
Total risk-based capital ratio	12.49 %	12.43 %	12.23 %	12.71 %	12.63 %

Executive Level Overview

During the second quarter of 2013 the Company experienced continued business volume growth, as indicated by the growth in the commercial portfolio as the pipeline continues rebuilding nicely following the high level of closings experienced during the fourth quarter of 2012. Offsetting the growth in the commercial portfolio was a decrease in the residential portfolio due to high prepayment activity combined with management's ongoing decision to not retain long-term fixed rated mortgages on the balance sheet. Deposit balances increased during the second quarter, with core deposits now comprising 84.6% of total deposits. The cost of total deposits continued its decline, helping the Company mitigate the strong pressure on earning asset yields from the low rate environment.

Table of Contents

The following table illustrates key performance measures for the periods indicated, however the year to year comparison is somewhat affected by the loan fraud of $4.0 million, or $0.11 per share recorded in the second quarter of 2012.

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Net income	$12,758	$8,874	$25,010	$21,057
Net income on an operating basis	$13,216	$9,271	$26,516	$21,454
Noninterest income	$16,692	$14,983	$32,414	$28,893
Diluted earnings per share	$0.56	$0.41	$1.09	$0.97
Return on average assets on an operating basis	0.93 %	0.74 %	0.94 %	0.87 %
Return on common average equity on an operating basis	9.74 %	7.67 %	9.89 %	8.97 %
Net interest margin	3.57 %	3.80 %	3.58 %	3.81 %

The Company is focused on growing noninterest income as management continues to emphasize the importance of noninterest income in this prolonged low interest rate environment. The following chart shows the steady increase in noninterest income as a percentage of total revenue over the past five years.

The Company's focus on core checking accounts on both a personal and business level, as well as increased debit card usage, has led to increased interchange revenues. Deposit account fees have also increased, as has loan level derivative income. Investment management income also continues to be a large contributor to the noninterest income category as assets under administration have increased.

The net interest margin for the quarter decreased to 3.57%, down 1 basis point from the prior quarter. Although a decrease in the net interest margin was anticipated due to the prolonged low rate environment, it was countered slightly by the benefit of increased yields on purchased loans, as well as an improved balance sheet mix. Also, countering the pressure from this interest rate environment, the Company was successful in growing its interest earning assets, driven by its commercial loan portfolio, which grew by $86.7 million during the second quarter of 2013, or 11.2% on an annualized basis. The Company is focused on maintaining a relatively stable net interest margin while positioning itself to take advantage of future rate increases as noted in the chart below, which reflects the estimated impact on the Company's net interest income, assuming a static balance sheet, under the following four gradual (12 to 24 month) shifts in interest rates:

1. Down 100 basis points over 12 months (parallel yield curve shift)
2. Up 200 basis points over 12 months (parallel yield curve shift)
3. Up 400 basis points over 24 months (parallel yield curve shift)
4. Flat up 500 basis points over 12 months (asymmetrical yield curve shift with short-term rates rising

Table of Contents

500 basis points and overall flatting of the yield curve)

As noted in the chart above, the Company is fundamentally positioned for a rising rate environment. The increase in market rates, combined with the Company's asset sensitive balance sheet, should continue to provide modest relief for the remainder of 2013. Management's approach to balance sheet strategy and the net interest margin continues to emphasize growth in the commercial portfolio, funding by core deposits, and continued disciplined asset quality. Management will work to ensure that asset generation is structured with a keen view toward interest-rate sensitivity and expects to avoid significant security purchases in this low rate environment. The following tables show the trends over the past five years in the Company's interest-earning assets and funding mixes based on these principles:

Table of Contents

Asset quality remains strong, as net charge-offs decreased to $3.3 million during the first half of 2013, or 0.15% on an annualized basis of average loans, as compared to $10.0 million, or 0.52% annualized, for the first half of 2012. The prior year was negatively impacted by an isolated loan fraud of $4.0 million, inflating the prior year metrics. Accordingly, the provision for loan losses decreased to $4.4 million as compared to $10.1 million in the first six months of 2012. The allowance for loan losses as a percentage of loans was 1.17% and 1.15% as of June 30, 2013 and December 31, 2012, respectively. Nonperforming loans increased by $7.8 million to $36.5 million, or 0.81% of total loans at June 30, 2013, from $28.8 million, or 0.64% of total loans at March 31, 2013. The increase in nonperforming loans is partially driven by an increase in the home equity portfolio, relating to performing junior lien mortgages. While these loans are currently performing they are placed on nonaccrual as a result of delinquency with respect to the first position, which is held by other financial institutions. Delinquency as a percentage of loans remains low at 1.03% at June 30, 2013, an increase when compared to 0.82% at June 30, 2012.

2013 Outlook

Despite the industry-wide challenges of a modestly improving economy, increased competition, continued pressure on the net interest margin, management anticipates that its strategy to grow solid core banking relationships with existing customers, while continually adding new relationships in the attractive markets of Eastern Massachusetts and Rhode Island, will result in diluted earnings per share for 2013 in a range of $2.28 to $2.38, on an operating basis.

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 believes are unrelated to its core banking business and will not have a material financial impact on operating results in future periods, such as gains or losses on the sales of securities, merger and acquisition expenses, and other items. Management, therefore, also computes the Company’s non-GAAP operating earnings, which excludes these items, to measure the strength of the Company’s core banking business and to identify trends that may to some extent be obscured by such gains or losses.

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

Non-GAAP operating earnings should not be considered a substitute for GAAP results. An item which management deems to be noncore and excludes when computing non-GAAP operating earnings can be of substantial importance to the Company’s

Table of Contents

results for any particular quarter or year. The Company's non-GAAP operating earning information set forth is not necessarily comparable to non-GAAP information which may be presented by other companies.
The following tables summarizes the impact of noncore items recorded for the time periods indicated below and reconciles them in accordance with GAAP:

	Three Months Ended June 30			
	Net Income		Diluted Earnings Per Share	
	2013	2012	2013	2012
	(Dollars in thousands)			
As reported (GAAP)				
Net income available to common shareholders (GAAP)	$12,758	$8,874	$0.56	$0.41
Non-GAAP measures				
Noninterest expense components				
Merger and acquisition expenses, net of tax	458	397	0.02	0.02
Severance, net of tax	—	—	—	—
Total impact of noncore items	458	397	0.02	0.02
As adjusted (NON-GAAP)	$13,216	$9,271	$0.58	$0.43

	Six Months Ended June 30			
	Net Income		Diluted Earnings Per Share	
	2013	2012	2013	2012
	(Dollars in thousands)			
As reported (GAAP)				
Net income available to common shareholders (GAAP)	$25,010	$21,057	1.09	$0.97
Non-GAAP measures				
Noninterest expense components				
Merger and acquisition expenses, net of tax	1,314	397	0.06	0.02
Severance, net of tax	192	—	0.01	—
Total impact of noncore items	1,506	397	0.07	0.02
As adjusted (NON-GAAP)	$26,516	$21,454	1.16	$0.99

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 six months of 2013. Please refer to the 2012 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 increased by $21.5 million, or 4.2%, at June 30, 2013 as compared to December 31, 2012 due principal paydowns. The ratio of securities to total assets as of June 30, 2013 was 9.0%, compared to 8.8% at December 31, 2012.

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

Residential Mortgage Loan Sales The Company's primary loan sale activity arises from the sale of government sponsored enterprise eligible residential mortgage loans to other financial institutions. During 2013 and 2012, 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 six months ended June 30, 2013 the Company sold $83.6 million and $187.5 million of mortgage loans compared to $76.2 million and $139.3 million for the three and six months ended June 30, 2012.

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 three and six months ended June 30, 2013 and 2012 the Company incurred an immaterial amount of losses on loans that were agreed to be repurchased. 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. 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 June 30, 2013, the Bank's loan portfolio remained relatively flat at $4.5 billion. Loans grew in the commercial portfolio by $125.2 million for the first half of 2013, or 8.2% on an annualized basis. Offsetting the growth in commercial, the residential portfolio decreased by $99.3 million in the first half of 2013, or 32.7% on an annualized basis, due to continued high prepayment activity combined with management's ongoing decision to not retain long-term fixed rate mortgages on the balance sheet.

Table of Contents

The Bank’s commercial and industrial portfolio has shown growth of 8.0% for the six months ended June 30, 2013. 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 June 30, 2013:

	(Dollars in thousands)	
Average loan size	$212	
Largest individual commercial and industrial loan	$13,743	
Commercial and industrial nonperforming loans/commercial and industrial loans	0.41	%

The Bank’s commercial real estate portfolio, inclusive of commercial construction, is the Bank’s largest loan type concentration and has grown by 3.1% for the six months ended June 30, 2013. 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 June 30, 2013:

Table of Contents

	(Dollars in thousands)	
Average loan size	$721	
Largest individual commercial real estate mortgage	$18,000	
Commercial real estate nonperforming loans/commercial real estate loans	0.45	%
Owner occupied commercial real estate loans/commercial real estate loans	17.9	%

In addition to the commercial portfolios, the Bank also originates both fixed-rate and adjustable-rate residential real estate loans as well as residential construction lending related to single-home residential development within the Bank's market area. The Bank also provides home equity loans and lines that may be made as a fixed rate term loan or under a variable rate revolving line of credit secured by a first or second mortgage on the borrower's residence or second home. Additionally, the Bank makes loans for a wide variety of other personal needs. Consumer loans primarily consist of installment loans and overdraft protections. The residential and consumer portfolios have decreased by $115.1 million for the six months ended June 30, 2013.

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

Delinquency The Bank’s philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. The Bank 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. 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. Additionally, a junior lien mortgage may be placed on nonaccrual as a result of delinquency with respect to the first position, which is held by another financial institution, while the loan in second position is currently performing. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. A loan remains on nonaccrual status until it becomes current with respect to principal and interest (and in certain instances remains current for up to six months), when the loan is liquidated, or when the loan is determined to be uncollectible and is charged-off against the allowance for loan losses.

Troubled Debt Restructurings   In the course of resolving problem loans, the Bank may choose to restructure the contractual terms of certain loans. The Bank attempts to work out an alternative payment schedule with the borrower in order to avoid or cure a default. Any loans that are modified are reviewed by the Bank to identify if a TDR has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include adjustments to interest rates, extensions of maturity, consumer loans where the borrower's obligations have been effectively discharged through Chapter 7 Bankruptcy and the borrower has not reaffirmed the debt to the Bank, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. If such efforts by the Bank do not result in satisfactory performance, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Bank may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

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

Purchased Credit Impaired Loans   Purchased Credit Impaired ("PCI") loans are acquired loans which had evidence of deterioration in credit quality since origination and for which it is probable that all contractually required payments will not be collected. The PCI loans are recorded at fair value without any carryover of the allowance for loan losses. The excess cash flows expected to be collected over the carrying amount of the loans, referred to as the "accretable yield", is accreted into interest income over the life of the loans using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual in the same manner as originated loans, rather they are generally considered to be accruing loans to the extent there is a reasonable expectation about the timing and amount of cash flows expected to be collected, however, PCI loans can be placed on nonaccrual in limited circumstances. The carrying amount of these purchased credit impaired loans was $27.7 as of June 30, 2013 as compared to $32.1 million as of December 31, 2012. See Note 4, "Loans, Allowance for Loan Losses and Credit Quality" within Notes to Consolidated Financial Statements included in Item 1 hereof for more information.

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

Nonperforming securities consist of securities that are on nonaccrual status. The Company holds 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 real estate properties, which have served as collateral to secure loans, that are controlled or owned by the Bank. These properties are recorded at fair value less estimated costs to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated costs to sell) of the foreclosed asset is charged to the allowance for loan losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value are recorded as

reductions in the 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 non real estate assets deemed to be in control of the Company.

The following table sets forth information regarding nonperforming assets held by the Bank at the dates indicated:
Table 1—Nonperforming Assets

	June 30, 2013	December 31, 2012	June 30, 2012
	(Dollars in thousands)		
Loans Accounted for on a nonaccrual basis			
Commercial and industrial	$3,009	$2,666	$4,404
Commercial real estate	10,134	6,574	9,371
Small business	698	570	588
Residential real estate	12,496	11,472	9,939
Home equity	10,024	7,311	6,730
Other consumer	134	121	211
Total (1)	$36,495	$28,714	$31,243
Loans past due 90 days or more but still accruing			
Home equity	—	—	38
Other consumer	54	52	41
Total	$54	$52	$79
Total nonperforming loans	$36,549	$28,766	$31,322
Nonaccrual securities (2)	2,169	1,511	1,259
Other real estate owned	9,211	11,974	2,062
Other assets in possession	176	176	9,214
Total nonperforming assets	$48,105	$42,427	$43,857
Nonperforming loans as a percent of gross loans	0.81%	0.64%	0.79%
Nonperforming assets as a percent of total assets	0.82%	0.74%	0.86%

(1) Inclusive of TDRs on nonaccrual of $9.8 million, $6.6 million, and $4.6 million, at June 30, 2013, December 31, 2012, and June 30, 2012, respectively.
(2) Amounts represent the fair value of six nonaccrual securities.

Table of Contents

The following table shows the roll-forward of nonperforming assets for the periods indicated:
Table 2—Activity in Nonperforming Assets

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	(Dollars in thousands)			
Nonperforming assets beginning balance		$46,815		$42,427
New to nonperforming		11,907		22,150
Loans charged-off		(2,479)		(4,053)
Loans paid-off		(4,543)		(6,945)
Loans transferred to other real estate owned and foreclosed assets		(368)		(1,139)
Loans restored to accrual status		(1,087)		(2,183)
Change to other real estate owned				
New to other real estate owned	$368		$1,139	
Valuation write down	(167)		(653)	
Sale of Other Real Estate Owned	(3,793)		(4,711)	
Development of other real estate owned	1,158		1,462	
Total change to other real estate owned	(2,434)	(2,434)	(2,763)	(2,763)
Change in fair value on nonaccrual securities		266		658
Other		28		(47)
Nonperforming assets ending balance		$48,105		$48,105

The following table sets forth information regarding troubled debt restructured loans as of the dates indicated:
Table 3—Troubled Debt Restructurings

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Performing troubled debt restructurings	$38,898	$46,764
Nonaccrual troubled debt restructurings	9,777	6,554
Total	$48,675	$53,318
Performing troubled debt restructurings as a % of total loans	0.85 %	1.03 %
Nonaccrual troubled debt restructurings as a % of total loans	0.22 %	0.15 %
Total troubled debt restructurings as a % of total loans	1.07 %	1.18 %

Table of Contents

The following table shows the roll-forward of TDRs for the periods indicated:
Table 4—Activity in Troubled Debt Restructurings

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
	(Dollars in thousands)	
TDRs beginning balance	$50,430	$53,318
New to TDR status	1,782	3,267
Paydowns	(3,190)	(7,234)
Charge-offs	(347)	(676)
TDRs ending balance	$48,675	$48,675

The table below shows interest income on all nonaccrual loans and performing TDRs as of the dates indicated:
Table 5 - Interest Income on
Nonaccrual Loans and Troubled Debt Restructurings

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands)			
The amount of gross interest income that would have been recorded if nonaccrual loans had been current in accordance with their original terms	$467	$352	$855	$790
The amount of interest income on those loans that was included in net income	$605	$828	$1,128	$1,481

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 June 30, 2013, impaired loans included all commercial and industrial loans, commercial real estate loans, commercial construction, and small business loans that are on nonaccrual status, TDRs, and other loans that have been categorized as impaired. Total impaired loans at June 30, 2013 and December 31, 2012 were $71.4 million and $66.7 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.

59

Table of Contents

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Number of loan relationships	68	70
Aggregate outstanding balance	$93,947	$110,624

At June 30, 2013, 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.

Table of Contents

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				
	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
	(Dollars in thousands)				
Average loans	$4,540,997	$4,495,804	$4,303,254	$4,008,238	$3,947,785
Allowance for loan losses, beginning of period	$51,906	$51,834	$49,746	$48,403	$48,340
Charged-off loans					
Commercial and industrial	1,302	423	202	1,267	4,707
Commercial real estate	196	407	990	621	2,133
Commercial construction	—	—	—	—	—
Small business	276	145	212	98	136
Residential real estate	186	61	653	227	105
Home equity	257	277	672	365	1,391
Other consumer	260	261	325	247	296
Total charged-off loans	2,477	1,574	3,054	2,825	8,768
Recoveries on loans previously charged-off					
Commercial and industrial	103	136	528	122	113
Commercial real estate	8	—	—	188	—
Commercial construction	—	—	—	—	—
Small business	37	39	15	21	46
Residential real estate	86	—	72	79	—
Home equity	30	21	26	36	18
Other consumer	183	150	151	116	154
Total recoveries	447	346	792	562	331
Net loans Charged-off					
Commercial and industrial	1,199	287	(326)	1,145	4,594
Commercial real estate	188	407	990	433	2,133
Commercial construction	—	—	—	—	—
Small business	239	106	197	77	90
Residential real estate	100	61	581	148	105
Home equity	227	256	646	329	1,373
Other consumer	77	111	174	131	142
Total net loans charged-off	2,030	1,228	2,262	2,263	8,437
Provision for loan losses	3,100	1,300	4,350	3,606	8,500
Total allowances for loan losses end of period	$52,976	$51,906	$51,834	$49,746	$48,403
Net loans charged-off as a percent of average total loans (annualized)	0.18%	0.11%	0.21%	0.22%	0.86%
Total allowance for loan losses as a percent of total loans	1.17%	1.16%	1.15%	1.23%	1.22%
	144.95%	156.86%	180.19%	160.05%	154.53%

Total allowance for loan losses as a percent of nonperforming loans					
Net loans charged-off as a percent of allowance for loan losses (annualized)	15.37 %	9.59 %	17.36 %	18.10 %	70.11 %
Recoveries as a percent of charge-offs	18.05 %	21.98 %	25.93 %	19.89 %	3.78 %

61

Table of Contents

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

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

	June 30, 2013			December 31, 2012		
	Allowance Amount	Percent of Loans In Category To Total Loans		Allowance Amount	Percent of Loans In Category To Total Loans	
	(Dollars in thousands)					
Commercial and industrial	$14,325	16.4	%	$13,461	15.2	%
Commercial real estate	23,029	47.5	%	22,598	46.9	%
Commercial construction	3,422	5.1	%	2,811	4.2	%
Small business	1,295	1.7	%	1,524	1.7	%
Residential real estate	2,959	11.3	%	2,930	13.6	%
Home equity	7,267	17.5	%	7,703	17.8	%
Other consumer	679	0.5	%	807	0.6	%
Total allowance for loan losses	$52,976	100.0	%	$51,834	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 1hereof.

Federal Home Loan Bank Stock The Bank held an investment in Federal Home Loan Bank ("FHLB") of Boston of $38.7 million and $41.8 million at June 30, 2013 and December 31, 2012, respectively. 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 $161.1 million and $162.1 million at June 30, 2013 and December 31, 2012, respectively.

The Company typically performs its annual goodwill impairment testing during the third quarter of the year, unless certain indicators suggest earlier testing to be warranted. The Company plans on performing the 2013 testing during the upcoming third quarter.

Cash Surrender Value of Life Insurance Policies The Bank holds life insurance policies for the purpose of offsetting its future obligations to its employees under its retirement and benefits plans. The cash surrender value of life insurance policies was

Table of Contents

$98.9 million and $97.3 million at June 30, 2013 and December 31, 2012, respectively. The Bank recorded tax exempt income from the life insurance policies of $786,000 and $1.5 million for the three and six months ended June 30, 2013, respectively, an increase of 6.1% and 5.3%, respectively, compared to the year ago periods.

Deposits As of June 30, 2013, deposits increased by 2.9% to $4.7 billion when compared to $4.5 billion at December 31, 2012, with core deposits representing 84.6% of total deposits. Total cost of deposits was 0.23% for the quarter, reflecting management's continued emphasis on core deposits and profitable relationships.

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 June 30, 2013 and December 31, 2012, the Company had $81.1 million and $96.0 million, respectively, of brokered deposits of which $57.3 million and $72.2 million, respectively, were CDARS.

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

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Short-term borrowings - one year and under (1)		
Federal Home Loan Bank and other borrowings (2)	$150,305	$175,245
Customer repurchase agreements	141,826	153,359
Total short-term borrowings	$292,131	$328,604
Long-term borrowings - over one year (1)		
Federal Home Loan Bank borrowings	$111,151	$108,324
Wholesale repurchase agreements	50,000	50,000
Junior subordinated debentures:		
Capital Trust V	51,547	51,547
Slades Ferry Trust I	10,310	10,310
Central Trust I	5,258	5,258
Central Trust II	6,903	7,012
Subordinated debentures	30,000	30,000
Total long-term borrowings	$265,169	$262,451
Total borrowings	$557,300	$591,055

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

(2) Includes a $12.0 million, at December 31, 2012, Parent Company outstanding line of credit.

As of June 30, 2013 and December 31, 2012, the Bank had $2.8 billion and $3.0 billion, respectively, of assets pledged as collateral against borrowings. These assets are primarily pledged to the FHLB of Boston, the Federal Reserve Bank of Boston, and serve as collateral for customer repurchase agreements.

Table of Contents

Capital Resources On June 20, 2013, the Company's Board of Directors declared a cash dividend of $0.22 per share to stockholders of record as of the close of business on July 1, 2013. This dividend was paid on July 12, 2013.

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 June 30, 2013, 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	
	June 30, 2013 (Dollars in thousands)										
Company (consolidated)											
Total capital (to risk weighted assets)	$560,859	12.49	%	359,347	≥	8.00	%	N/A		N/A	
Tier 1 capital (to risk weighted assets)	477,118	10.62	%	179,673	≥	4.00	%	N/A		N/A	
Tier 1 capital (to average assets)	477,118	8.56	%	222,914	≥	4.00	%	N/A		N/A	
Bank											
Total capital (to risk weighted assets)	$548,969	12.23	%	$359,189	≥	8.00	%	$448,987	≥	10.00	%
Tier 1 capital (to risk weighted assets)	465,229	10.36	%	179,595	≥	4.00	%	269,392	≥	6.00	%
Tier 1 capital (to average assets)	465,229	8.35	%	222,961	≥	4.00	%	278,702	≥	5.00	%
	December 31, 2012 (Dollars in thousands)										
Company (consolidated)											
Total capital (to risk weighted assets)	$541,119	12.23	%	$354,086	≥	8.00	%	N/A		N/A	
Tier 1 capital (to risk weighted assets)	458,638	10.36	%	177,043	≥	4.00	%	N/A		N/A	
Tier 1 capital (to average assets)	458,638	8.65	%	212,015	≥	4.00	%	N/A		N/A	
Bank											
Total capital (to risk weighted assets)	$534,182	12.07	%	$353,965	≥	8.00	%	$442,456	≥	10.00	%
Tier 1 capital (to risk weighted assets)	451,701	10.21	%	176,983	≥	4.00	%	265,474	≥	6.00	%
Tier 1 capital (to average assets)	451,701	8.52	%	212,074	≥	4.00	%	265,093	≥	5.00	%

In July 2013, the U.S. federal banking agencies approved an interim final rule which consolidates and adopts, with revisions, the three Notices of Proposed Rulemaking (“NPR's”) that were previously issued to implement the Basel III capital standards, along with changes required by the Dodd-Frank Act. The Basel III standards are now scheduled to be phased-in beginning January 1, 2014 for advanced approaches FDIC-supervised institutions, and beginning on January 1, 2015 for all other institutions, including the Company.

The interim final rule will strengthen both the quality and quantity of risk-based capital for all banks, including placing greater emphasis on tier 1 common equity capital, and creates a new regulatory minimum capital level for common equity tier 1 ("CET1"). The new rules redefine regulatory capital, increase existing minimum amounts, and introduce a capital conservation buffer to be held in excess of minimum amounts. Additionally, the rules attempt 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. The revisions to the originally issued NPRs do not change the current risk-weighting approach for residential mortgages, include an opt-out option from the recognition of accumulated other comprehensive income as regulatory capital, and grandfather the treatment of Trust Preferred Securities as regulatory capital. 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 June 30, 2013, the Rockland Trust Investment Management Group had assets under administration of $2.3 billion, representing approximately 4,266 trust, fiduciary, and agency accounts. At December 31, 2012, assets under administration were $2.2 billion, representing approximately 4,051 trust, fiduciary, and agency accounts. Included in these amounts as of June 30, 2013 and December 31, 2012 are assets under administration of $164.3 million and $139.8 million, respectively, relating to the Company’s registered investment advisor, Bright Rock Capital Management, LLC, which provides

65

institutional quality investment management services to institutional and high net worth clients. Revenue from the Investment Management Group amounted to $4.0 million and $7.5 million for the three and six months ended June 30, 2013,respectively compared to $3.4 million and $6.6 million for the three and six months ended June 30, 2012, respectively.
Additionally, for the three and six months ended June 30, 2013 retail investments and insurance revenue was $403,000 and $751,000 respectively, compared to $401,000 and $832,000 for the three and six months ended June 30, 2012, respectively. 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 June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands)			
Held in portfolio	$8,109	$19,485	$12,147	$32,590
Sold/held for sale in secondary market	77,381	76,217	171,464	141,870
Total closed loans	$85,490	$95,702	183,611	174,460

Included in mortgage banking income 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 $212.8 million at June 30, 2013 and $198.8 million at December 31, 2012. 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 the adjusted cost of the servicing rights associated with these loans and the changes for the periods indicated:
Table 12—Mortgage Servicing Asset

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance at beginning of period	$1,014	$1,034	$899	$1,098

Additions	171	48	348	77
Amortization	(106)	(132)	(230)	(256)
Change in valuation allowance	185	(46)	247	(15)
Balance at end of period	$1,264	$904	$1,264	$904

66

Table of Contents

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 June 30				Six Months Ended June 30			
	2013		2012		2013		2012	
	(Dollars in thousands)							
Net Income	$12,758		$8,874		$25,010		$21,057	
Diluted earnings per share	$0.56		$0.41		$1.09		$0.97	
Return on average assets	0.89	%	0.71	%	0.89	%	0.86	%
Return on average equity	9.40	%	7.34	%	9.33	%	8.81	%
Net interest margin	3.57	%	3.80	%	3.58	%	3.81	%

The variances between these periods are impacted by the Central Bancorp, Inc. ("Central") acquisition which took place in the fourth quarter of 2012.

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 second quarter of 2013 increased $3.0 million, or 6.9%, to $45.9 million, when compared to the second quarter of 2012. The Company’s net interest margin was 3.57% for the quarter ended June 30, 2013 as compared to 3.80% for the quarter ended June 30, 2012. The Company’s interest rate spread was 3.42% and 3.63% for the second quarters of 2013 and 2012, 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 six months ending June 30, 2013 and 2012. 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 ("FTE") was calculated using the blended federal and state statutory tax rate.

Table of Contents

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

	Three Months Ended June 30							
	2013				2012			
	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	$34,379	$21	0.25	%	$30,890	$19	0.25	%
Securities								
Taxable investment securities	533,823	3,506	2.63	%	544,822	4,415	3.26	%
Nontaxable investment securities (1)	916	18	7.88	%	1,938	39	8.09	%
Total securities	534,739	3,524	2.64	%	546,760	4,454	3.28	%
Loans held for sale	35,945	237	2.64	%	20,079	156	3.12	%
Loans (2)								
Commercial and industrial	735,517	7,338	4.00	%	620,364	6,294	4.08	%
Commercial real estate (1)	2,149,662	24,242	4.52	%	1,896,941	22,973	4.87	%
Commercial construction	224,453	2,307	4.12	%	149,627	1,578	4.24	%
Small business	77,747	1,092	5.63	%	80,324	1,132	5.67	%
Total commercial	3,187,379	34,979	4.40	%	2,747,256	31,977	4.68	%
Residential real estate	531,322	5,338	4.03	%	393,377	4,267	4.36	%
Residential construction	5,816	51	3.52	%	15,041	161	4.31	%
Home equity	793,381	7,069	3.57	%	757,850	6,939	3.68	%
Total consumer real estate	1,330,519	12,458	3.76	%	1,166,268	11,367	3.92	%
Other consumer	23,099	517	8.98	%	34,261	728	8.55	%
Total loans	4,540,997	47,954	4.24	%	3,947,785	44,072	4.49	%
Total interest-earning assets	$5,146,060	$51,736	4.03	%	$4,545,514	$48,701	4.31	%
Cash and due from banks	131,214				63,703			
Federal Home Loan Bank stock	38,674				33,564			
Other assets	405,721				362,746			
Total assets	$5,721,669				$5,005,527			
Interest-bearing liabilities								
Deposits								
Savings and interest checking accounts	$1,681,666	$674	0.16	%	$1,482,889	$687	0.19	%
Money market	873,412	550	0.25	%	799,831	621	0.31	%
Time deposits	722,486	1,319	0.73	%	627,250	1,379	0.88	%
Total interest-bearing deposits	$3,277,564	$2,543	0.31	%	$2,909,970	$2,687	0.37	%
Borrowings								
Federal Home Loan Bank and other borrowings	$306,291	$1,453	1.90	%	$219,846	$1,280	2.34	%
Wholesale repurchase agreements	50,000	289	2.32	%	50,000	289	2.32	%
Customer repurchase agreements	135,107	45	0.13	%	145,963	83	0.23	%
Junior subordinated debentures	74,045	1,009	5.47	%	61,857	918	5.97	%

68

Table of Contents

Subordinated debentures	30,000	541	7.23	%	30,000	541	7.25	%
Total borrowings	$595,443	$3,337	2.25	%	$507,666	$3,111	2.46	%
Total interest-bearing liabilities	$3,873,007	$5,880	0.61	%	$3,417,636	$5,798	0.68	%
Demand deposits	1,227,294				1,023,048			
Other liabilities	77,177				78,430			
Total liabilities	$5,177,478				$4,519,114			
Stockholders' equity	544,191				486,413			
Total liabilities and stockholders' equity	$5,721,669				$5,005,527			
Net interest income (1)		$45,856				$42,903		
Interest rate spread (3)			3.42	%			3.63	%
Net interest margin (4)			3.57	%			3.80	%
Supplemental information								
Total deposits, including demand deposits	$4,504,858	$2,543			$3,933,018	$2,687		
Cost of total deposits			0.23	%			0.27	%
Total funding liabilities, including demand deposits	$5,100,301	$5,880			$4,440,684	$5,798		
Cost of total funding liabilities			0.46	%			0.53	%

(1) The total amount of adjustment to present interest income and yield on a FTE basis is $241,000 and $275,000 for the three months ended June 30, 2013 and 2012, respectively. The FTE adjustment relates to nontaxable investment securities of $7,000 and $16,000 and the nontaxable industrial development bonds recorded within commercial real estate of $234,000 and $259,000, for the three months ended June 30, 2013 and 2012, respectively.
(2) Average nonaccruing loans are included in loans.
(3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(4) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.

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

	Six Months Ended June 30							
	2013				2012			
	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	$43,712	$55	0.25	%	$42,059	$51	0.24	%
Securities								
Trading assets	—	—	—		2,745	38	2.78	%
Taxable investment securities	528,715	7,035	2.68	%	537,572	8,904	3.33	%
Nontaxable investment securities (1)	916	37	8.15	%	2,216	88	7.99	%
Total securities	529,631	7,072	2.69	%	542,533	9,030	3.35	%
Loans held for sale	38,901	505	2.62	%	18,634	286	3.09	%
Loans (2)								
Commercial and industrial	714,517	14,176	4.00	%	599,726	12,196	4.09	%
Commercial real estate (1)	2,135,820	47,968	4.53	%	1,872,531	45,706	4.91	%

Commercial construction	211,947	4,323	4.11 %	146,178	3,121	4.29	%
Small business	77,717	2,152	5.58 %	79,515	2,268	5.74	%
Total commercial	3,140,001	68,619	4.41 %	2,697,950	63,291	4.72	%
Residential real estate	551,904	11,175	4.08 %	401,991	8,733	4.37	%

Table of Contents

Residential construction	6,853	132	3.88	%	13,331	291	4.39	%
Home equity	795,282	14,163	3.59	%	737,735	13,599	3.71	%
Total consumer real estate	1,354,039	25,470	3.79	%	1,153,057	22,623	3.95	%
Other consumer	24,485	1,081	8.90	%	36,479	1,500	8.27	%
Total loans	4,518,525	95,170	4.25	%	3,887,486	87,414	4.52	%
Total interest-earning assets	$5,130,769	$102,802	4.04	%	$4,490,712	$96,781	4.33	%
Cash and due from banks	100,106				60,965			
Federal home loan bank stock	39,853				34,420			
Other assets	413,055				365,073			
Total assets	$5,683,783				$4,951,170			
Interest-bearing liabilities								
Deposits								
Savings and interest checking accounts	$1,647,222	$1,380	0.17	%	$1,453,672	$1,384	0.19	%
Money market	870,922	1,129	0.26	%	784,861	1,260	0.32	%
Time deposits	740,396	2,700	0.74	%	626,864	2,782	0.89	%
Total interest-bearing deposits	$3,258,540	$5,209	0.32	%	$2,865,397	$5,426	0.38	%
Borrowings								
Federal home loan bank and other borrowings	$292,849	$2,872	1.98	%	$223,105	$2,624	2.37	%
Wholesale repurchase agreements	50,000	574	2.32	%	50,000	578	2.32	%
Customer repurchase agreements	141,501	94	0.13	%	152,226	193	0.25	%
Junior subordinated debentures	74,074	2,009	5.47	%	61,857	1,838	5.98	%
Subordinated debentures	30,000	1,080	7.26	%	30,000	1,083	7.26	%
Total borrowings	$588,424	$6,629	2.27	%	$517,188	$6,316	2.46	%
Total interest-bearing liabilities	$3,846,964	$11,838	0.62	%	$3,382,585	$11,742	0.70	%
Demand Deposits	1,214,126				1,004,251			
Other liabilities	81,945				83,516			
Total liabilities	$5,143,035				$4,470,352			
Stockholders' equity	540,748				480,818			
Total liabilities and stockholders' equity	$5,683,783				$4,951,170			
Net interest income (1)		$90,964				$85,039		
Interest rate spread (3)			3.42	%			3.64	%
Net interest margin (4)			3.58	%			3.81	%
Supplemental information								
Total deposit, including demand deposits	$4,472,666	$5,209			$3,869,648	$5,426		
Cost of total deposits			0.23	%			0.28	%
Total funding liabilities, including demand deposits	$5,061,090	$11,838			$4,386,836	$11,742		
Cost of total funding liabilities			0.47	%			0.54	%

(1) The total amount of adjustment to present interest income and yield on a FTE basis is $486,000 and $559,000 for the six months ended June 30, 2013 and 2012, respectively. The FTE adjustment relates to nontaxable investment securities of $15,000 and 36,000 and the nontaxable industrial development bonds recorded within commercial real estate of $471,000 and $523,000 for the six months ended June 30, 2013 and 2012, respectively.

(2) Average nonaccruing loans are included in loans.

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

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

Table of Contents

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 June 30			Six Months Ended June 30		
	2013 Compared To 2012			2013 Compared To 2012		
	Change Due to Rate (1)	Change Due to Volume	Total Change	Change Due to Rate (1)	Change Due to Volume	Total Change
	(Dollars in thousands)					
Income on interest-earning assets						
Interest earning deposit, federal funds sold and short term investments	$—	$2	$2	$2	$2	$4
Securities						
Trading assets	—	—	—	—	(38)	(38)
Taxable securities	(820)	(89)	(909)	(1,722)	(147)	(1,869)
Nontaxable securities (2)	—	(21)	(21)	1	(52)	(51)
Total securities			(930)			(1,958)
Loans held for sale	(42)	123	81	(92)	311	219
Loans						
Commercial and industrial	(124)	1,168	1,044	(354)	2,334	1,980
Commercial real estate (2)	(1,792)	3,061	1,269	(4,164)	6,426	2,262
Commercial construction	(60)	789	729	(202)	1,404	1,202
Small business	(4)	(36)	(40)	(65)	(51)	(116)
Total commercial			3,002			5,328
Residential real estate	(425)	1,496	1,071	(815)	3,257	2,442
Residential construction	(11)	(99)	(110)	(18)	(141)	(159)
Home equity	(195)	325	130	(497)	1,061	564
Total consumer real estate			1,091			2,847
Other consumer	26	(237)	(211)	74	(493)	(419)
Total loans (2)(3)			3,882			7,756
Total income of interest-earning assets			3,035			6,021
Expense of interest-bearing liabilities						
Deposits						
Savings and interest checking accounts	$(105)	$92	$(13)	$(188)	$184	$(4)
Money market	(128)	57	(71)	(269)	138	(131)
Time certificates of deposits	(269)	209	(60)	(586)	504	(82)
Total interest bearing deposits			(144)			(217)
Borrowings						
Federal Home Loan Bank and other borrowings	(330)	503	173	(572)	820	248
Wholesale repurchase agreements	—	—	—	(4)	—	(4)
Customer repurchase agreements	(32)	(6)	(38)	(85)	(14)	(99)
Junior subordinated debentures	(90)	181	91	(192)	363	171
Subordinated debt	—	—	—	(3)	—	(3)
Total borrowings			226			313
Total expense of interest-bearing liabilities			82			96
Change in net interest income			$2,953			$5,925

Table of Contents

(1) The changes for each category of interest income and expense are divided between the portion of change 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.

(2) The total amount of adjustment to present interest income and yield on a FTE basis is $241,000 and $275,000 for the three months ended June 30, 2013 and 2012, respectively, and $486,000 and $559,000 for the six months ended June 30, 2013 and 2012, respectively. The FTE adjustment relates to nontaxable investment securities of $7,000 and $16,000 and the nontaxable industrial development bonds recorded within commercial real estate of $234,000 and $259,000, for the three months ended June 30, 2013 and 2012, respectively. The FTE adjustment relates to nontaxable investment securities of $15,000 and $36,000 and the nontaxable industrial development bonds recorded within commercial real estate of $471,000 and $523,000, for the six months ended June 30, 2013 and 2012, 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 $3.1 million and $4.4 million for the three and six months ended June 30, 2013, compared with $8.5 million and $10.1 million for the comparable year-ago period. The Company’s allowance for loan losses, as a percentage of total loans, was 1.17% at June 30, 2013, as compared to 1.15% at December 31, 2012 and 1.22% at June 30, 2012. For the three and six months ended June 30, 2013, net loan charge-offs totaled $2.0 million and $3.3 million, a decrease of $6.4 million and $6.7 million from the year ago comparative period. The fluctuations in the provision and net charge offs from the year ago periods are mainly driven by a $4.0 million fraud related loan loss that was recognized in the second quarter of 2012. Aside from the prior year fraud loss, the decrease is also a result of an improved economic outlook.

Regional and local general economic conditions continued to show improvement during the first half of 2013, as measured in terms of employment levels, statewide economic activity, and other regional economic indicators. Local residential real estate market fundamentals continued to improve during the second quarter of 2013 characterized by a higher level of home sales, lower inventory levels, and higher prices compared to the same period in 2012. Additionally, foreclosure activity continued to decline during the first six months of 2013. Regional commercial real estate market conditions were improved during the first half of 2013 in most sub-markets, experiencing improving vacancy, absorption, and leasing rates; however, some lagging sub-markets remained stagnant. Leading economic indicators signal continued economic improvement through the second half of 2013; however, economic uncertainty persists, both domestically and abroad.

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

Table of Contents

Noninterest Income The following table sets forth information regarding noninterest income for the periods shown:
Table 17—Noninterest Income - Three and Six Months Ended

	Three Months Ended June 30		Change	
	2013	2012	Amount	%
	(Dollars in thousands)			
Deposit account fees	$4,343	$3,923	$420	10.71 %
Interchange and ATM fees	2,761	2,399	362	15.09 %
Investment management	4,357	3,827	530	13.85 %
Mortgage banking	1,669	1,463	206	14.08 %
Increase in cash surrender value of life insurance policies	786	741	45	6.07 %
Loan level derivative income	816	1,371	(555)	(40.48)%
Other noninterest income	1,960	1,259	701	55.68 %
Total	$16,692	$14,983	$1,709	11.41 %

	Six Months Ended June 30		Change	
	2013	2012	Amount	%
	(Dollars in thousands)			
Deposit account fees	$8,559	$7,812	$747	9.56 %
Interchange and ATM fees	5,089	4,767	322	6.75 %
Investment management	8,242	7,390	852	11.53 %
Mortgage banking	3,951	2,793	1,158	41.46 %
Increase in cash surrender value of life insurance policies	1,531	1,454	77	5.30 %
Loan level derivative income	1,348	1,699	(351)	(20.66)%
Other noninterest income	3,694	2,978	716	24.04 %
Total	$32,414	$28,893	$3,521	12.19 %

Noninterest income amounted to $16.7 million and $32.4 million during the three and six months ended June 30, 2013, respectively, a $1.7 million, or 11.4%, increase and a $3.5 million, or 12.2%, increase, respectively, from the same periods in the prior year. Fluctuations in these categories shown in the preceding table are noted below:

Deposit account fees increased for both periods primarily due to increased overdraft fees.

Interchange and ATM fees for both periods increased due to the Company's focus on core checking accounts and increased debit card usage.

Investment management revenue increase is mainly due to an increase in assets under administration, which were $2.3 billion at June 30, 2013, an increase of $255.9 million, or 12.8%, as compared to the same period in the prior year. The increases for both periods are due to the general increases in the stock market and additional asset flows from new and existing clients.

Loan level derivative income decreased driven by a lower utilization of the loan level derivative program by the Company's commercial customers in 2013.

Other noninterest income increased by $701,000, or 55.7%, and increased by $716,000, or 24.0% for the three and six months ended June 30, 2013, respectively. The increases are mainly due to the gain on sale of other real estate owned which increased by $253,000 and $495,000 for the three ands six month periods, respectively, and asset based lending fee income which increased by $106,000 and $196,000 for the three and six months ended June 30, 2013, respectively.

Table of Contents

Noninterest Expense The following table sets forth information regarding non-interest expense for the periods shown:
Table 18—Noninterest Expense - Three and Six Months Ended

	Three Months Ended June 30		Change	
	2013	2012	Amount	%
	(Dollars in thousands)			
Salaries and employee benefits	$21,594	$19,775	$1,819	9.20 %
Occupancy and equipment expense	4,919	4,234	$685	16.18 %
Advertising expense	1,479	1,473	$6	0.41 %
Data processing & facilities management	1,201	1,099	$102	9.28 %
FDIC Assessment	934	830	$104	12.53 %
Debit card expense	773	637	$136	21.35 %
Merger and acquisition expense	754	672	$82	12.20 %
Mortgage operations expense	715	60	$655	1,091.67 %
Consulting expense	666	583	$83	14.24 %
Telecommunication expense	548	666	$(118)	(17.72)%
Other noninterest expenses	8,581	6,970	$1,611	23.11 %
Total	$42,164	$36,999	$5,165	13.96 %

	Six Months Ended June 30		Change	
	2013	2012	Amount	%
	(Dollars in thousands)			
Salaries and employee benefits	$44,309	$41,211	$3,098	7.52 %
Occupancy and equipment expense	10,169	8,534	1,635	19.16 %
Advertising expense	2,652	2,210	442	20.00 %
Data processing & facilities management	2,385	2,274	111	4.88 %
FDIC assessment	1,755	1,579	176	11.15 %
Debit card expense	1,443	1,196	247	20.65 %
Merger and acquisition expense	2,099	672	1,427	212.35 %
Mortgage operations expense	1,059	102	957	938.24 %
Consulting expenses	1,377	1,209	168	13.90 %
Telecommunication expense	1,203	1,284	(81)	(6.31)%
Other noninterest expenses	16,632	14,085	2,547	18.08 %
Total	$85,083	$74,356	$10,727	14.43 %

Noninterest expense increased by $5.2 million, or 14.0%, and $10.7 million, or 14.4%, during the three and six months ended June 30, 2013, respectively, as compared to the same period in the prior year. Fluctuations in these categories shown in the preceding table are noted below:
Salaries and employee benefits increased, attributable to salary and incentive increases and the inclusion of Central's employee base following the acquisition of Central, offset somewhat by a decrease in the pension expense.
Occupancy and equipment expense increased by $685,000, or 16.2%, due to the acquired Central facilities combined with an increase snow removal costs incurred in 2013.

Table of Contents

Merger and acquisition expense increased compared to the prior year periods and relates to the Central and Mayflower acquisitions. As previously announced the Company has reached a definitive agreement to acquire Mayflower Bancorp, Inc. which is expected to close in the fourth quarter of 2013.
Mortgage operations expense increased due to the Company's transition to an outsourced provider in 2013.
Other noninterest expense increased by $1.6 million, or 23.1%, for the three months ended June 30, 2013, driven primarily by increases in other losses and charge-offs of $366,000, legal fees of $294,000, foreclosure expenses of $178,000, exams and audit fees of $175,000, internet banking expense of $136,000, and recruitment expense of $121,000. The other noninterest expense increased by $2.5 million, or 18.1%, during the six months ended June 30, 2013, due to an increase of; OREO valuation allowances of $454,000, internet banking expense of $326,000 due to the Company's conversion to a new platform, software maintenance of $303,000, other losses and charge-offs of $268,000, and intangible amortization of $249,000.

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

Table 19 - Tax Provision and Applicable Tax Rates

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Dollars in thousands)		(Dollars in thousands)	
Combined federal and state income tax provisions	$4,285	$3,238	$8,399	$7,860
Effective income tax rates	25.14 %	26.73 %	25.14 %	27.18 %
Blended federal and state statutory tax rate	40.85 %	40.85 %	40.85 %	40.85 %

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 June 30, 2013, 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 $44.6 million in 2013 which will bring the entire investment to $191.0 million by the end of 2013 and, accordingly, recognizing tax credits totaling $74.5 million. The following table details the tax credit recognition by year associated with this program:
Table 20—New Markets Tax Credit Recognition Schedule

Table of Contents

Investment		Prior Years	2013	2014	2015	2016	2017	Thereafter	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	12,606	2,292	—	—	—	—	—	14,898
2008	6.8 M	1,836	408	408	—	—	—	—	2,652
2009	10.0 M	2,100	600	600	600	—	—	—	3,900
2010	40.0 M	6,000	2,400	2,400	2,400	2,400	—	—	15,600
2012	21.4 M	1,071	1,071	1,071	1,285	1,285	1,285	1,285	8,353
2013*	44.6 M	—	2,229	2,229	2,229	2,675	2,675	5,350	17,387
Total	191.0 M	$35,313	$9,000	$6,708	$6,514	$6,360	$3,960	$6,635	$74,490

* $14.8 million has been invested through June 30, 2013 and $29.8 million is anticipated to be invested in the second half of 2013.

Deferred tax assets generally represent items that can be used as a tax deduction or credit in future income tax returns, for which a financial statement tax benefit has already been recognized. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years' taxable income to which "carry-back" refund claims could be made. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect of a change in enacted tax rates on the deferred tax assets is recognized in income in the period that includes the enactment date. The Company had no recorded tax valuation allowance as of June 30, 2013 and 2012.

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, Residential Lending 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.

Credit Risk Credit risk represents the possibility that customers may not repay loans or other contractual obligations 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 updated quarterly and reviewed with the Board.

Table of Contents

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

Strategic and Reputation Risk Strategic and reputation risk represent the risk of loss due to impairment of reputation, failure to fully develop and execute business plans, and failure to assess current and new opportunities 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 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 loans cannot be determined exactly.

The Company's policy on interest-rate risk simulation specifies that for all "core" interest rate scenarios, estimated net interest income for the subsequent one-year period should not decline by more than 10%. The Company's core scenarios for June 30, 2013 included five instantaneous parallel shifts ("shocks") to market interest rates and four gradual shifts (12 to 24 months):

Table of Contents

Table 21—Interest Rate Sensitivity

	June 30	
	2013	2012
Parallel rate shocks (basis points)		
-100	(0.4)%	(0.2)%
+100	4.3 %	3.3 %
+200	8.6 %	6.9 %
+300	13.0 %	10.6 %
+400	17.2 %	14.3 %
Gradual rate shifts (basis points)		
-100 over 12 months	0.1 %	0.4 %
+200 over 12 months	3.9 %	2.8 %
+400 over 24 months	3.9 %	2.8 %
Flat +500 over 12 months	4.7 %	3.5 %

The Company's policy on interest rate risk simulation also specifies that estimated net interest income for the second year of all “core scenarios” should decline by less than 15.0%. The Company was within policy limits at June 30, 2013 and 2012. 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 most significant factors affecting market risk exposure of the Company’s net interest income during the six months ended June 30, 2013 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 8, “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.

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 loans anticipated to close 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. 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, as well as changes in the fair value of trading securities, if any. (See Note 3, “Securities” within the Notes to the Consolidated Financial Statements included in Item 1 hereof).

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

Table of Contents

The Company actively manages its liquidity position under the direction of the Asset/ Liability Committee (ALCO). The Company's primary measure of short-term 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 June 30, 2013. 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.

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

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

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

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

Table 22—Sources of Liquidity

	June 30, 2013			December 31, 2012		
	Outstanding	Additional Borrowing Capacity		Outstanding	Additional Borrowing Capacity	
	(Dollars in thousands)					
Federal Home Loan Bank of Boston	$261,456	$583,541		$271,569	$661,922	
Federal Reserve Bank of Boston	—	827,498		—	766,195	
Unpledged Securities	—	90,509		—	114,953	
Wholesale repurchase agreements	50,000	—	(1)	50,000	—	(1)
Customer repurchase agreements	141,826	—	(1)	153,359	—	(1)
Junior subordinated debentures	74,018	—	(1)	74,127	—	(1)
Subordinated debt	30,000	—	(1)	30,000	—	(1)
Parent Company line of credit	—	20,000		12,000	8,000	
Brokered deposits (2)	81,094	—	(1)	96,033	—	(1)
	$638,394	1,521,548		$687,088	$1,551,070	

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

(2) Inclusive of $57.3 million and $72.2 million of brokered deposits acquired through participation in the Certificate of Deposit Account Registry Service program as of June 30, 2013 and December 31, 2012, 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 June 30, 2013. Please refer to the 2012 Form 10-K for a complete table of contractual obligations, commitments, contingencies and off-balance sheet financial instruments.

Contractual Obligations, Commitments, and Contingencies There have been no material changes in contractual obligations, commitments, or contingencies during the three months ended June 30, 2013. Please refer to the 2012 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 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 second quarter of 2013 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 2012 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 June 30, 2013:

Table of Contents

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program
April 1 to April 30, 2013	—	$—	—	—
May 1 to May 31, 2013	2,411	$32.66	—	—
June 1 to June 30, 2013	13,554	$34.13	—	—
Total	15,965		—	

(1) Shares repurchased relate to the surrendering of mature shares for the exercise 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.
2.2	Agreement and Plan of Merger dated May 14, 2013 with Mayflower Bancorp, Inc. is incorporated by reference to Form 8-K filed on May 20, 2013.
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	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.
10.19	Independent Bank Corp. 2010 Nonemployee Director Stock Plan, incorporated by reference to Form 8-K filed May 24, 2010.
10.2	Independent Bank Corp. 2010 Stock Option Agreement for Nonemployee Director, incorporated by reference to Form 8-K filed May 24, 2010.
10.21	Independent Bank Corp. 2010 Restricted Stock Agreement for Nonemployee Director, incorporated by reference to Form 8-K filed May 24, 2010.
10.22	Master Data Processing Services Agreement dated and effective as of May 15, 2012 between Rockland Trust Company and Q2 Software, Inc., incorporated by reference to Form 8-K/A filed July 18, 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: August 7, 2013	/s/ Christopher Oddleifson Christopher Oddleifson President and Chief Executive Officer (Principal Executive Officer)
Date: August 7, 2013	/s/ Denis K. Sheahan Denis K. Sheahan Chief Financial Officer (Principal Financial Officer)

INDEPENDENT BANK CORP.
(registrant)