

INDEPENDENT BANK CORP  
Form 10-K  
February 27, 2015  
Table of Contents

United States Securities and Exchange Commission  
Washington, D.C. 20549  
FORM 10-K

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

(I.R.S. Employer

incorporation or organization)

Identification No.)

Office Address: 2036 Washington Street,

02339

Hanover, Massachusetts

Mailing Address: 288 Union Street,

02370

Rockland, Massachusetts

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code:

(781) 878-6100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$.01 par value per share

NASDAQ Global Select Market

Securities registered pursuant to section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

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. (check one):

Large Accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on June 30, 2014, was approximately \$871,400,514.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date. February 1, 2015 - 24,019,698

---

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

Portions of the Registrant's definitive proxy statement for its 2015 Annual Meeting of Stockholders are incorporated into Part III, Items 10-13 of this Form 10-K. The 2015 definitive proxy statement will be filed within 120 days of December 31, 2014.

---

Table of Contents

INDEPENDENT BANK CORP.  
 2014 ANNUAL REPORT ON FORM 10-K  
 TABLE OF CONTENTS

	Page #
Part I	
Item 1. <u>Business</u>	4
<u>General</u>	4
<u>Market Area and Competition</u>	5
<u>Lending Activities</u>	5
<u>Investment Activities</u>	10
<u>Sources of Funds</u>	10
<u>Investment Management</u>	11
<u>Regulation</u>	11
<u>Statistical Disclosure by Bank Holding Companies</u>	20
<u>Available Information</u>	20
Item 1A. <u>Risk Factors</u>	21
Item 1B. <u>Unresolved Staff Comments</u>	25
Item 2. <u>Properties</u>	25
Item 3. <u>Legal Proceedings</u>	25
Item 4. <u>Mine Safety Disclosures</u>	26
Part II	
Item 5. <u>Market for Independent Bank Corp.'s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	26
Item 6. <u>Selected Financial Data</u>	29
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Table 1 - Securities Portfolio Composition</u>	36
<u>Table 2 - Securities Portfolio, Amounts Maturing</u>	37
<u>Table 3 - Closed Residential Real Estate Loans</u>	38
<u>Table 4 - Residential Mortgage Loan Sales</u>	38
<u>Table 5 - Mortgage Servicing Asset</u>	39
<u>Table 6 - Loan Portfolio Composition</u>	39
<u>Table 7 - Scheduled Contractual Loan Amortization</u>	40
<u>Table 8 - Nonperforming Assets</u>	42
<u>Table 9 - Activity in Nonperforming Assets</u>	43
<u>Table 10 - Troubled Debt Restructurings</u>	43
<u>Table 11 - Activity in Troubled Debt Restructurings</u>	43
<u>Table 12 - Interest Income Recognized/Collected on Nonaccrual Loans and Troubled Debt Restructurings</u>	44
<u>Table 13 - Summary of Changes in the Allowance for Loan Losses</u>	45
<u>Table 14 - Summary of Allocation of Allowance for Loan Losses</u>	46
<u>Table 15 - Average Balances of Deposits</u>	47
<u>Table 16 - Maturities of Time Certificate of Deposits \$100,000 and over</u>	47
<u>Table 17 - Brokered Deposits</u>	48
<u>Table 18 - Borrowings by Category</u>	48
<u>Table 19 - Summary of Results of Operations</u>	49
<u>Table 20 - Average Balance, Interest Earned/Paid &amp; Average Yields</u>	49
<u>Table 21 - Volume Rate Analysis</u>	51
<u>Table 22 - Noninterest Income</u>	52

<u>Table 23 - Noninterest Expense</u>	<u>53</u>
<u>Table 24 - Tax Provision and Applicable Tax Rates</u>	<u>54</u>
<u>Table 25 - New Markets Tax Credit Recognition Schedule</u>	<u>54</u>
<u>Table 26 - Interest Rate Sensitivity</u>	<u>58</u>

Table of Contents

	Page #
<u>Table 27 - Sources of Liquidity</u>	<u>60</u>
<u>Table 28 - Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Financial Instruments by Maturity</u>	<u>61</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>64</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>65</u>
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>139</u>
Item 9A. <u>Controls and Procedures</u>	<u>139</u>
Item 9B. <u>Other Information</u>	<u>142</u>
 Part III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>142</u>
Item 11. <u>Executive Compensation</u>	<u>142</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>142</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>142</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>143</u>
 Part IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>144</u>
<u>Signatures</u>	<u>148</u>

Table of Contents

Cautionary Statement Regarding Forward-Looking Statements

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

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

Except as required by law, the Company disclaims any intent or obligation to update publicly any such forward-looking statements, whether in response to new information, future events or otherwise. Any public statements or disclosures by the Company following this Annual Report on Form 10-K which modify or impact any of

the forward-looking statements contained in this Annual Report on Form 10-K will be deemed to modify or supersede such statements in this Annual Report on Form 10-K.



Table of Contents

PART I.

ITEM 1. BUSINESS

General

Independent Bank Corp. (the "Company") is a state chartered, federally registered bank holding company headquartered in Rockland, Massachusetts that was incorporated under Massachusetts law in 1985. The Company is the sole stockholder of Rockland Trust Company ("Rockland" or the "Bank"), a Massachusetts trust company chartered in 1907. Rockland is a community-oriented commercial bank, and the community banking business is the Company's only reportable operating segment. The community banking business is managed as a single strategic unit and derives its revenues from a wide range of banking services, including lending activities, acceptance of demand, savings, and time deposits, and investment management. At December 31, 2014, the Company had total assets of \$6.4 billion, total deposits of \$5.2 billion, stockholders' equity of \$640.5 million, and 980 full-time equivalent employees.

During the third quarter of 2014 the Company announced the signing of a definitive merger agreement for the acquisition of Peoples Federal Bancshares, Inc. ("Peoples"). On February 20, 2015, the Company completed the Peoples acquisition, adding eight full service bank branches. The Company paid total consideration of \$141.8 million to Peoples shareholders using stock and cash, issuing 2,052,137 shares of common stock and paying \$55.4 million in cash, in the aggregate. See Note 22 "Subsequent Events" to the Consolidated Financial Statements in Item 8 hereof for further discussion of the acquisition.

The Company is currently the sponsor of Independent Capital Trust V, a Delaware statutory trust, Slade's Ferry Statutory Trust I, a Connecticut statutory trust, Central Bancorp Capital Trust I, a Delaware statutory trust, and Central Bancorp Statutory Trust II, a Connecticut statutory trust, each of which was formed to issue trust preferred securities. These statutory trusts are not included in the Company's consolidated financial statements in accordance with the requirements of the consolidation topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

As of December 31, 2014, the Bank had the following corporate subsidiaries, all of which were wholly-owned by the Bank and included in the Company's consolidated financial statements:

Six Massachusetts security corporations, namely Rockland Borrowing Collateral Securities Corp., Rockland Deposit Collateral Securities Corp., Taunton Avenue Securities Corp., Goddard Ave Securities Corp., Central Securities Corporation, and MFLR Securities Corporation;

Rockland Trust Community Development Corporation, which has two wholly-owned subsidiaries, Rockland Trust Community Development LLC and Rockland Trust Community Development Corporation II, and which also serves as the manager of three Limited Liability Company subsidiaries wholly-owned by the Bank, Rockland Trust Community Development III LLC, Rockland Trust Community Development IV LLC, and Rockland Trust Community Development V LLC, which are all qualified as community development entities under federal New Markets Tax Credit Program criteria;

Rockland MHEF Fund LLC was established as a wholly-owned subsidiary of Rockland Trust. Massachusetts Housing Equity Fund, Inc. is the third party nonmember manager of Rockland MHEF Fund LLC which was established to invest in certain low-income housing tax credit projects;

RTC LIHTC Investments LLC, which was established to invest primarily in Massachusetts based low-income housing tax credit projects;

•

Rockland Trust Phoenix LLC, formed for the purpose of holding, maintaining, and disposing of certain foreclosed properties;

Compass Exchange Advisors LLC, which provides like-kind exchange services pursuant to section 1031 of the Internal Revenue Code;

Bright Rock Capital Management LLC, which was established to act as a registered investment advisor under the Investment Advisors Act of 1940; and,

Mayflower Plaza LLC, a subsidiary of a bank acquired in 2013 which owns a small retail plaza in Lakeville, Massachusetts.

4

---

## Table of Contents

Periodically, Compass Exchange Advisors LLC, a wholly-owned subsidiary of the Bank, acts as an Exchange Accommodation Titleholder (“EAT”) in connection with customers' like-kind exchanges under Section 1031 of the Internal Revenue Code. When Compass Exchange Advisors LLC provides EAT services, it establishes an EAT entity to hold title to property for its customers for up to 180 days in accordance with Internal Revenue Service guidelines. EAT entities are considered the property owner solely for federal income tax purposes, and in no other instances, in order to facilitate a customer's like kind exchange. A typical EAT entity is a Massachusetts corporation whose directors are all Rockland Trust officers and which has Compass Exchange Advisors LLC as its sole shareholder. The EAT entity owns all of the membership interest in a LLC which holds title to the property and is managed by the customer. All financial benefits and burdens of property ownership are borne by the customer. EAT entities are therefore not consolidated onto Compass Exchange Advisors LLC's balance sheet in accordance with requirements of the consolidation topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

### Market Area and Competition

The Bank contends with considerable competition both in generating loans and attracting deposits. The Bank's competition for generating loans is primarily from other commercial banks, savings banks, credit unions, mortgage banking companies, finance companies, and other institutional lenders. Competitive factors considered for loan generation include interest rates, terms offered, loan fees charged, loan products offered, services provided, and geographic locations.

In attracting deposits, the Bank's primary competitors are savings banks, commercial and co-operative banks, credit unions, internet banks, as well as other nonbank institutions that offer financial alternatives such as brokerage firms and insurance companies. Competitive factors considered in attracting and retaining deposits include deposit and investment products and their respective rates of return, liquidity, and risk, among other factors, such as convenient branch locations and hours of operation, personalized customer service, online and mobile access to accounts, and automated teller machines.

The Bank's market area is attractive and entry into the market by financial institutions previously not competing in the market area may continue to occur which could impact the Bank's growth or profitability. The Bank's market area is generally comprised of Eastern Massachusetts, including Cape Cod, and Rhode Island.

### Lending Activities

The Bank's gross loan portfolio (loans before allowance for loan losses) amounted to \$5.0 billion on December 31, 2014, or 78.1% of total assets. The Bank classifies loans as commercial, consumer real estate, or other consumer. Commercial loans consist of commercial and industrial loans, asset-based loans, commercial real estate, commercial construction, and small business loans. Commercial and industrial loans generally consist of loans with credit needs in excess of \$250,000 and revenue in excess of \$2.5 million, for working capital and other business-related purposes and floor plan financing. Asset-based loans consist primarily of revolving lines of credit but also include term loans. Asset-based revolving lines of credit are typically structured as committed lines with terms of three to five years, have variable rates of interest, and are collateralized by accounts receivable and inventory. Asset based term loans are typically secured by owner occupied commercial real estate and machinery and equipment. Commercial real estate loans are comprised of commercial mortgages, including mortgages for construction purposes that are secured by nonresidential properties, multifamily properties, or one-to-four family rental properties. Small business loans, including real estate loans, generally consist of loans to businesses with commercial credit needs of less than or equal to \$250,000 and revenues of less than \$2.5 million. Consumer real estate consists of residential mortgages and home equity loans and lines that are secured primarily by owner-occupied residences and mortgages for the construction of residential properties. Other consumer loans are mainly personal loans and automobile loans.

The Bank's borrowers consist of small-to-medium sized businesses and consumers. Substantially all of the Bank's commercial, consumer real estate, and other consumer loan portfolios consist of loans made to residents of and

businesses located in the Bank's market area. The majority of the real estate loans in the Bank's loan portfolio are secured by properties located within this market area.

Interest rates charged on loans may be fixed or variable and vary with the degree of risk, loan term, underwriting and servicing costs, loan amount, and the extent of other banking relationships maintained with customers. Rates are further subject to competitive pressures, the current interest rate environment, availability of funds, and government regulations.

The Bank's principal earning assets are its loans. Although the Bank judges its borrowers' creditworthiness, the risk of deterioration in borrowers' abilities to repay their loans in accordance with their existing loan agreements is inherent in any lending function. Participating as a lender in the credit market requires a strict underwriting and monitoring process to minimize credit risk. This process requires substantial analysis of the loan application, an evaluation of the customer's capacity to repay according

Table of Contents

to the loan's contractual terms, and an objective determination of the value of the collateral. The Bank also utilizes the services of an independent third-party to provide loan review services, which consist of a variety of monitoring techniques performed after a loan becomes part of the Bank's portfolio.

The Bank's Controlled Asset and Consumer Collections departments are responsible for the management and resolution of nonperforming loans. Nonperforming loans consist of nonaccrual loans and loans that are more than 90 days past due but still accruing interest. In the course of resolving nonperforming loans, the Bank may choose to foreclose on the loan or restructure the contractual terms of certain loans, by modifying the terms of the loan to fit the ability of the borrower to repay in line with its current financial status.

Other Real Estate Owned ("OREO") includes real estate properties, which have served as collateral to secure loans, that are controlled or owned by the Bank. In order to facilitate the disposition of OREO, the Bank may finance the purchase of such properties at market rates if the borrower qualifies under the Bank's standard underwriting guidelines.

The Bank had eighteen properties held as OREO at December 31, 2014 with a balance of \$7.7 million.

**Origination of Loans** Commercial and industrial, asset-based, commercial real estate, and construction loan applications are obtained through existing customers, solicitation by Bank personnel, referrals from current or past customers, or walk-in customers. Small business loan applications are typically originated by the Bank's retail staff, through a dedicated team of business officers, by referrals from other areas of the Bank, referrals from current or past customers, or through walk-in customers. Residential real estate loan applications primarily result from referrals by real estate brokers, homebuilders, and existing or walk-in customers. Other consumer loan applications are directly obtained through existing or walk-in customers who have been made aware of the Bank's consumer loan services through advertising, direct mail, and other media.

Loans are approved based upon a hierarchy of authority, predicated upon the size of the loan. Levels within the hierarchy of lending authorities range from individual lenders to the Executive Committee of the Board of Directors. In accordance with governing banking statutes, the Bank is permitted, with certain exceptions, to make loans and commitments to any one borrower, including related entities, in the aggregate amount of not more than 20% of the Bank's stockholders' equity, or \$137.8 million, at December 31, 2014, which is the Bank's legal lending limit. Notwithstanding the foregoing, the Bank has established a more restrictive limit of not more than 75% of the Bank's legal lending limit, or \$103.4 million, at December 31, 2014, which may only be exceeded with the approval of the Board of Directors. There were no borrowers whose total indebtedness in aggregate exceeded the Bank's self-imposed restrictive limit. The Bank's largest relationship as of December 31, 2014 consisted of forty-seven loans with an aggregate of \$69.6 million in exposure.

**Sale of Loans** The Bank's residential mortgage loans are generally originated in compliance with terms, conditions and documentation which permit the sale of such loans to investors, such as the Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("Fannie Mae"), and other investors in the secondary market. Loan sales in the secondary market provide funds for additional lending and other banking activities. Depending on market conditions, the Bank may sell the servicing of the sold loans for a servicing released premium, simultaneous with the sale of the loan. For the remainder of the sold loans for which the Company retains the servicing, a mortgage servicing rights asset is recognized. As part of its asset/liability management strategy, the Bank may retain a portion of the adjustable rate and fixed rate residential real estate loan originations for its portfolio. During 2014, the Bank originated \$215.5 million in residential real estate loans of which \$67.9 million were retained in its portfolio.

**Loan Portfolio** The following table shows the balance of the loans, the percentage of the gross loan portfolio, and the percentage of total interest income that the loans generated, by category, for the fiscal years indicated:

	As of December 31, 2014 (Dollars in thousands)	% of Total Loans	% of Total Interest Income Generated For the Years Ended December 31,			
			2014	2013	2012	
Commercial	\$ 3,559,403	71.7	% 66.6	% 66.9	% 65.8	%

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Consumer real estate	1,394,122	28.0	% 23.6	% 24.2	% 23.7	%
Other consumer	17,208	0.3	% 0.8	% 1.0	% 1.4	%
Total	\$ 4,970,733	100.0	% 91.0	% 92.1	% 90.9	%

Commercial Loans Commercial loans consist of commercial and industrial loans, asset-based loans, commercial real estate loans, commercial construction loans and small business loans. The Bank offers secured and unsecured commercial loans for business purposes. Commercial loans may be structured as term loans or as revolving or nonrevolving lines of credit including

6

---

Table of Contents

overdraft protection, credit cards, automatic clearinghouse (“ACH”) exposure, owner and nonowner-occupied commercial mortgages as well as issuing standby letters of credit.

The following pie chart shows the diversification of the commercial and industrial portfolio as of December 31, 2014: Select Statistics Regarding the Commercial and Industrial Portfolio

	(Dollars in thousands)	
Average loan size	\$234	
Largest individual commercial and industrial loan outstanding	\$24,000	
Commercial and industrial nonperforming loans/commercial and industrial loans	0.33	%

Commercial and industrial term loans generally have a repayment schedule of five years or less and, although the Bank occasionally originates some commercial term loans with interest rates which float in accordance with a designated index rate, the majority of commercial term loans have fixed rates of interest and are collateralized by equipment, machinery or other corporate assets. In addition, the Bank generally obtains personal guarantees from the principals of the borrower for virtually all of its commercial loans. At December 31, 2014, there were \$483.9 million of term loans in the commercial and industrial loan portfolio.

Collateral for commercial and industrial revolving lines of credit may consist of accounts receivable, inventory, or both, as well as other business assets. Commercial revolving lines of credit generally are reviewed on an annual basis and usually require substantial repayment of principal during the course of a year. The vast majority of these revolving lines of credit have variable rates of interest. At December 31, 2014, there were \$376.9 million of revolving lines of credit in the commercial and industrial loan portfolio.

Also included in the commercial and industrial portfolio are automobile and, to a lesser extent, boat, recreational vehicle, and other vehicle floor plan financing. Floor plan loans are secured by the automobiles, boats, or other vehicles, which constitute the dealer’s inventory. Upon the sale of a floor plan unit, the proceeds of the sale are applied to reduce the loan balance. In the event a unit financed under a floor plan line of credit remains in the dealer’s inventory for an extended period, the Bank requires the dealer to pay-down the outstanding balance associated with such unit. Contractors hired by the Bank make unannounced periodic inspections of each dealer to review the condition of the underlying collateral and ensure that each unit that the Company has financed is accounted for. At December 31, 2014, there were \$72.4 million in floor plan loans, all of which have variable rates of interest.

Small business lending caters to all of the banking needs of businesses with commercial credit requirements and revenues typically less than or equal to \$250,000 and \$2.5 million, respectively, and uses partially automated loan underwriting capabilities. Additionally, the Company makes use of the Bank’s authority as a preferred lender with the U.S. Small Business Administration (“SBA”). At December 31, 2014, there were \$30.5 million of SBA guaranteed loans in the commercial and industrial and commercial real estate loan categories, and \$4.8 million of SBA guaranteed loans in the small business loan category.

Table of Contents

The Bank's commercial real estate portfolio, inclusive of commercial construction, is the Bank's largest loan type concentration. This portfolio is 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 December 31, 2014:

## Select Statistics Regarding the Commercial Real Estate Portfolio

	(Dollars in thousands)	
Average loan size	\$779	
Largest individual commercial real estate mortgage outstanding	\$28,000	
Commercial real estate nonperforming loans/commercial real estate loans	0.29	%
Owner occupied commercial real estate loans/commercial real estate loans	17.5	%

Although terms vary, commercial real estate loans typically are underwritten with maturities of five to ten years.

These loans generally have amortization periods of 20 to 25 years, with interest rates that float in accordance with a designated index or that are fixed during the origination process. For loans with terms greater than five years, with certain exceptions, interest rates may be fixed for no longer than five years and are reset typically on the fifth anniversary of the loan. It is the Bank's policy to obtain personal guarantees from the principals of the borrower on commercial real estate loans and to obtain financial statements at least annually from all actively managed commercial and multi-family borrowers.

Commercial real estate lending entails additional risks as compared to residential real estate lending. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. Development of commercial real estate projects also may be subject to numerous land use and environmental issues. The payment experience on such loans is typically dependent on the successful operation of the real estate project, which can be significantly impacted by supply and demand conditions within the markets for commercial, retail, office, industrial/warehouse and multi-family tenancy.

Also included in the commercial real estate portfolio are industrial developmental bonds. The Bank owns certain bonds issued by various state agencies, municipalities and nonprofit organizations that it categorizes as loans. This categorization is made on the basis that another entity (i.e. the Bank's customer), not the issuing agency, is responsible for the payment to the Bank of the principal and interest on the debt. Furthermore, credit underwriting is based solely on the credit of the customer (and guarantors, if any), the banking relationship is with the customer and not the agency, there is no active secondary market for the bonds, and the bonds are not available for sale, but are intended to be held by the Bank until maturity. Therefore, the Bank believes



Table of Contents

that such bonds are more appropriately characterized as loans, rather than securities. At December 31, 2014, the balance of industrial development bonds was \$71.3 million.

Construction loans are intended to finance the construction of residential and commercial properties, including loans for the acquisition and development of land or rehabilitation of existing properties. Nonpermanent construction loans generally have terms of at least six months, but not more than two years. They usually do not provide for amortization of the loan balance during the construction term. The majority of the Bank's commercial construction loans have floating rates of interest. At December 31, 2014 the commercial construction portfolio amounted to \$266.0 million. Construction loans are generally considered to present a higher degree of risk than permanent real estate loans and may be affected by a variety of factors, such as adverse changes in interest rates and the borrower's ability to control costs and adhere to time schedules. Other construction-related risks may include market risk, that is, the risk that "for-sale" or "for-lease" units may or may not be absorbed by the market within a developer's anticipated time-frame or at a developer's anticipated price. When the Company enters into a loan agreement with a borrower on a construction loan, an interest reserve may be included in the amount of the loan commitment to the borrower and it allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan. The interest may be capitalized and added to the loan balance. Management actively tracks and monitors these accounts. At December 31, 2014 the amount of interest reserves relating to construction loans was approximately \$4.0 million.

**Consumer Real Estate Loans** The Bank's consumer real estate loans consist of loans and lines secured by one-to-four family residential properties.

The Bank originates both fixed-rate and adjustable-rate residential real estate loans. The Bank will lend up to 97% of the lesser of the appraised value of the residential property securing the loan or the purchase price, and generally requires borrowers to obtain private mortgage insurance when the amount of the loan exceeds 80% of the value of the property. In certain instances for loans that qualify for the Fannie Mae Home Affordable Refinance Initiative and other similar programs, the Bank will lend up to 125% of the appraised value of the residential property, and such loans are then subsequently sold by the Bank. The rates of these loans are typically competitive with market rates. The Bank's residential real estate loans are generally originated only under terms, conditions and documentation which permit sale in the secondary market. The Bank generally requires title insurance protecting the priority of its mortgage lien, as well as fire, extended coverage casualty and flood insurance, when necessary, in order to protect the properties securing its residential and other real estate loans. Independent appraisers assess properties securing all of the Bank's first mortgage real estate loans, as required by regulatory standards.

Home equity loans and lines 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. At December 31, 2014, 59.4% of the home equity portfolio was in first lien position and 40.6% of the portfolio was in second lien position. At December 31, 2014, \$352.1 million, or 40.8%, of the home equity portfolio were term loans and \$511.8 million, or 59.2%, of the home equity portfolio was comprised of revolving lines of credit. The Bank will typically originate home equity loans and lines in an amount up to 80% of the appraised value or on-line valuation, reduced for any loans outstanding which are secured by such collateral. Home equity loans and lines are underwritten in accordance with the Bank's loan policy, which includes a combination of credit score, loan-to-value ("LTV") ratio, employment history and debt-to-income ratio.

The Bank does supplement performance data with current Fair Isaac Corporation ("FICO") and LTV estimates. Current FICO data is purchased and appended to all consumer loans on a quarterly basis. In addition, automated valuation services and broker opinions of value are used to supplement original value data for the residential and home equity portfolios. Use of re-score and re-value data enables the Bank to better understand the current credit risk associated with these loans, but is not the only factor relied upon in determining a borrower's creditworthiness. See Note 4, "Loans, Allowance for Loan Losses and Credit Quality" within Notes to the Consolidated Financial Statements included in Item 8 hereof for more information regarding FICO and LTV estimates.

**Other Consumer Loans** The Bank makes loans for a wide variety of personal needs. Consumer loans primarily consist of installment loans and overdraft protection. The Bank's consumer loans also include auto, unsecured loans, loans secured by deposit accounts and loans to purchase motorcycles, recreational vehicles, or boats. Effective January 1, 2015, the Bank no longer offers consumer unsecured loans, or loans to purchase or refinance automobiles,

motorcycles, boats or recreational vehicles.

9

---

## Table of Contents

### Investment Activities

The Bank's securities portfolio consists of U.S. Treasury securities, U.S. Government agency securities, agency mortgage-backed securities, agency collateralized mortgage obligations, state, county, and municipal securities, corporate debt, single issuer and pooled trust preferred securities issued by banks and insurers and equity securities, comprised primarily of investments in mutual funds. The majority of these securities are investment grade debt obligations with average lives of five years or less. U.S. Treasury and U.S. Government Agency securities entail a lesser degree of risk than loans made by the Bank by virtue of the guarantees that back them, require less capital under risk-based capital rules than noninsured or nonguaranteed mortgage loans, are more liquid than individual mortgage loans, and may be used to collateralize borrowings or other obligations of the Bank. The Bank views its securities portfolio as a source of income and liquidity. Interest and principal payments generated from securities provide a source of liquidity to fund loans and meet short-term cash needs. The Bank's securities portfolio is managed in accordance with the Rockland Trust Company Investment Policy ("Investment Policy") adopted by the Board of Directors. The Chief Executive Officer or the Chief Financial Officer may make investments with the approval of one additional member of the Asset/Liability Management Committee, subject to limits on the type, size and quality of all investments, which are specified in the Investment Policy. The Bank's Asset/Liability Management Committee, or its appointee, is required to evaluate any purchase from the standpoint of overall diversification of the portfolio. At December 31, 2014, the Company's securities totaled \$724.0 million, and generated interest and dividends of 8.7%, 7.4%, and 8.5% of total interest income for the fiscal years ended December 31, 2014, 2013, and 2012, respectively. The Company reviews its security portfolio for impairment and to ensure collection of principal and interest. If any securities are deferring interest payments, as they may be contractually entitled to do, the Company would place these securities on nonaccrual status and reverse any accrued but uncollected interest. The Company held five nonaccrual securities with a fair value of \$3.6 million at December 31, 2014.

### Sources of Funds

**Deposits** At December 31, 2014, total deposits were \$5.2 billion. Deposits obtained through the Bank's branch banking network have traditionally been the principal source of the Bank's funds for use in lending and for other general business purposes. The Bank has built a stable base of in-market core deposits from consumers, businesses, and municipalities. The Bank offers a range of demand deposits, interest checking, money market accounts, savings accounts, and time certificates of deposit. Interest rates on deposits are based on factors that include loan demand, deposit maturities, alternative costs of funds, and interest rates offered by competing financial institutions in the Bank's market area. The Bank believes it has been able to attract and maintain satisfactory levels of deposits based on the level of service it provides to its customers, the convenience of its banking locations, its electronic banking options, and its interest rates, that are generally competitive with those of competing financial institutions. Additionally, the Bank has a municipal banking department that focuses on providing core depository services to local municipalities. As of December 31, 2014, municipal deposits totaled \$535.5 million. Occasionally when rates and terms are favorable, and in keeping with the Bank's interest rate risk and liquidity strategy, the Bank will supplement its customer deposit base with brokered deposits. As of December 31, 2014, brokered deposits totaled \$65.9 million. Included in this amount are balances associated with the Bank's participation in the Certificate of Deposit Account Registry Service ("CDARS") program, which allows the Bank to provide easy access to multi-million dollar Federal Deposit Insurance Corporation ("FDIC") insurance protection on Certificate of Deposit investments for consumers, businesses and public entities. As of December 31, 2014, CDARS deposits totaled \$44.9 million, or 68.1% of total brokered deposits.

Rockland Trust's seventy-eight branch locations are supplemented by the Bank's internet and mobile banking services as well as automated teller machine ("ATM") cards and debit cards which may be used to conduct various banking transactions at ATMs maintained at each of the Bank's full-service offices and seven additional remote ATM locations. The ATM cards and debit cards also allow customers access to a variety of national and international ATM networks. The Bank's mobile banking services gives customers the ability to use a variety of mobile devices to check balances, track account activity, search transactions, and set up alerts for text or e-mail messages for changes in their account. Customers can also transfer funds between Rockland Trust accounts and identify the nearest branch or ATM directly

from their phone and deposit checks into their account directly from their mobile device.

**Borrowings** As of December 31, 2014, total borrowings were \$406.7 million. Borrowings consist of short-term and long-term obligations and may consist of Federal Home Loan Bank (“FHLB”) advances, federal funds purchased, securities sold under repurchase agreements, junior subordinated debentures, and other borrowings.

Rockland is a member of the FHLB of Boston. The primary reason for FHLB membership is to gain access to a reliable source of wholesale funding, particularly term funding, as a tool to manage interest rate risk. As a member of the FHLB of Boston, the Bank is required to purchase stock in the FHLB. Accordingly, the Company had invested \$33.2 million in FHLB stock and had \$69.9 million outstanding, exclusive of fair value marks associated with previous acquisitions, in FHLB borrowings with initial maturities ranging from 3 months to 17 years at December 31, 2014. In addition, the Bank had \$755.7 million of borrowing capacity remaining with the FHLB at December 31, 2014, inclusive of a \$5.0 million line of credit.

## Table of Contents

The Company also has access to other forms of borrowing, such as securities repurchase agreements. In a security repurchase agreement transaction, the Bank will generally sell a security, agreeing to repurchase either the same or a substantially identical security on a specified later date, at a price greater than the original sales price. The difference between the sale price and purchase price is the cost of the proceeds, which is recorded as interest expense. The securities underlying the agreements are delivered to counterparties as security for the repurchase obligation. Since the securities are treated as collateral and the agreement does not qualify for the full transfer of effective control, the transaction does not meet the criteria to be classified as a sale and is therefore considered a secured borrowing transaction for accounting purposes. Payments on such borrowings are interest only until the scheduled repurchase date. In a repurchase agreement the Bank is subject to the risk that the purchaser may default at maturity and not return the securities underlying the agreements. In order to minimize this potential risk, the Bank either deals with established firms when entering into these transactions or with customers whose agreements stipulate that the securities underlying the agreement are not delivered to the customer and instead are held in segregated safekeeping accounts by the Bank's safekeeping agents. At December 31, 2014, the Bank had \$50.0 million and \$147.9 million of repurchase agreements with investment brokerage firms and customers, respectively.

Also included in borrowings at December 31, 2014 were \$73.2 million, exclusive of fair value marks associated with previous acquisitions, of junior subordinated debentures and \$65.0 million of subordinated debt. These instruments provide long-term funding as well as regulatory capital benefits. See Note 8, "Borrowings" within Notes to the Consolidated Financial Statements included in Item 8 hereof for more information regarding borrowings.

Subsequent to year end upon receiving regulatory approval, the Company redeemed \$30.0 million of Subordinated Debt held at the Bank. See Note 22, "Subsequent Event" within Notes to the Consolidated Financial Statements included in Item 8 hereof for more information regarding the redemption.

## Investment Management

The Rockland Trust Investment Management Group provides investment management and trust services to individuals, institutions, small businesses, and charitable institutions throughout Eastern Massachusetts, including Cape Cod, and Rhode Island.

Accounts maintained by the Rockland Trust Investment Management Group consist of managed and nonmanaged accounts. Managed accounts are those for which the Bank is responsible for administration and investment management and/or investment advice, while nonmanaged accounts are those for which the Bank acts solely as a custodian or directed trustee. The Bank receives fees dependent upon the level and type of service(s) provided. For the year ended December 31, 2014, the Investment Management Group generated gross fee revenues of \$17.4 million. Total assets under administration as of December 31, 2014 were \$2.5 billion, of which \$2.3 billion was related to managed accounts. Included in these amounts as of December 31, 2014 are assets under administration of \$215.6 million, relating to the Company's registered investment advisor, Bright Rock Capital Management, LLC, which provides institutional quality investment management services to both institutional and high net worth clients. The administration of trust and fiduciary accounts is monitored by the Trust Committee of the Bank's Board of Directors. The Trust Committee has delegated administrative responsibilities to three committees, one for investments, one for administration, and one for operations, all of which are comprised of Investment Management Group officers who meet no less than quarterly.

The Bank has an agreement with LPL Financial ("LPL") and its affiliates and their insurance subsidiary, LPL Insurance Associates, Inc., to offer the sale of mutual fund shares, unit investment trust shares, general securities, fixed and variable annuities and life insurance. Registered representatives who are both employed by the Bank and licensed and contracted with LPL are onsite to offer these products to the Bank's customer base. These same agents are also approved and appointed with the Smith Companies LTD, a division of Capitas Financial, LLC, an insurance general agent, to offer term, whole and universal life insurance, disability insurance, and long term care insurance. The Bank also has an agreement with Savings Bank Life Insurance of Massachusetts ("SBLI") to enable appropriately licensed Bank employees to offer SBLI's fixed annuities and life insurance to the Bank's customer base. For the year ended December 31, 2014, the retail investments and insurance group generated gross fee revenues of \$2.2 million.

Regulation

The following discussion sets forth certain material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides certain specific information relevant to the Company. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on the Company's business. The laws and regulations governing the Company and the Bank that are described in the following discussion generally have been promulgated to protect depositors and not for the purpose of protecting stockholders.

## Table of Contents

**General** The Company is registered as a bank holding company under the Bank Holding Company Act of 1956 (“BHCA”), as amended, and as such is subject to regulation by the Board of Governors of the Federal Reserve System (“Federal Reserve”). Rockland Trust is subject to regulation and examination by the Commissioner of Banks of the Commonwealth of Massachusetts (the “Commissioner”) and the FDIC.

**The Bank Holding Company Act** The BHCA prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any bank, or increasing such ownership or control of any bank, without prior approval of the Federal Reserve. The BHCA also prohibits the Company from, with certain exceptions, acquiring more than 5% of any class of voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks.

Under the BHCA, the Federal Reserve is authorized to approve the ownership by the Company of shares in any company, the activities of which the Federal Reserve has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. The Federal Reserve has, by regulation, determined that some activities are closely related to banking within the meaning of the BHCA. These activities include, but are not limited to, operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing data processing operations; providing some securities brokerage services; acting as an investment or financial adviser; acting as an insurance agent for types of credit-related insurance; engaging in insurance underwriting under limited circumstances; leasing personal property on a full-payout, nonoperating basis; providing tax planning and preparation services; operating a collection agency and a credit bureau; providing consumer financial counseling and courier services. The Federal Reserve also has determined that other activities, including real estate brokerage and syndication, land development, property management and, except under limited circumstances, underwriting of life insurance not related to credit transactions, are not closely related to banking and are not a proper incident thereto.

**Financial Services Modernization Legislation** The Gramm-Leach-Bliley Act of 1999 (“GLB”) repealed provisions of the Glass-Steagall Act which restricted the affiliation of Federal Reserve member banks with firms “engaged principally” in specified securities activities, and which restricted officer, director, or employee interlocks between a member bank and any company or person “primarily engaged” in specified securities activities.

In addition, the GLB preempts any state law restricting the establishment of financial affiliations, primarily related to insurance. The general effect of the law has been to establish a comprehensive framework permitting affiliations among commercial banks, insurance companies, securities firms and other financial service providers, by revising and expanding the BHCA framework to permit a holding company to engage in a full range of financial activities through a new entity known as a “financial holding company.” “Financial activities” is broadly defined to include not only banking, insurance and securities activities, but also merchant banking and additional activities that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

The GLB also permits national banks to engage in expanded activities through the formation of financial subsidiaries. A national bank may have a subsidiary engaged in any activity authorized for national banks directly or any financial activity, except for insurance underwriting, insurance investments, real estate investment or development, or merchant banking, which may only be conducted through a subsidiary of a financial holding company. Financial activities include all activities permitted under the BHCA or permitted by regulation.

Because the GLB permits banks, securities firms and insurance companies to affiliate, the financial services industry has experienced further consolidation which has increased the amount of competition that the Company faces from larger institutions and other types of companies offering financial products, many of which may have substantially more financial resources than the Company.

**Interstate Banking** The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Riegle-Neal Amendments Act of 1997 (the “Interstate Banking Act”), permits bank holding companies to acquire banks in states other than their home state without regard to state laws that previously restricted or prohibited such acquisitions except for any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, after the proposed acquisition,

controls no more than 10 percent of the total amount of deposits of insured depository institutions in the United States and no more than 30 percent or such lesser or greater amount set by state law of such deposits in that state. The Interstate Banking Act also facilitates the operation by state-chartered banks of branch networks across state lines. Pursuant to Massachusetts law, no approval to acquire a banking institution, acquire additional shares in a banking institution, acquire substantially all the assets of a banking institution, or merge or consolidate with another bank holding company, may be given if the bank being acquired has been in existence for a period less than three years or, as a result, the bank holding company



Table of Contents

would control, in excess of 30% of the total deposits of all state and federally chartered banks in Massachusetts, unless waived by the Commissioner. With the prior written approval of the Commissioner, Massachusetts also permits the establishment of de novo branches in Massachusetts to the full extent permitted by the Interstate Banking Act, provided the laws of the home state of such out-of-state bank expressly authorize, under conditions no more restrictive than those of Massachusetts, Massachusetts' banks to establish and operate de novo branches in such state.

**Capital Requirements** The Federal Reserve has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. The Federal Reserve's capital adequacy guidelines which generally require bank holding companies to maintain total capital equal to 8% of total risk-weighted assets, with at least one-half of that amount consisting of Tier 1, or core capital, and up to one-half of that amount consisting of Tier 2, or supplementary capital. Tier 1 capital, for bank holding companies generally consists of the sum of common stockholders' equity and perpetual preferred stock (subject in the latter case to limitations on the kind and amount of such stocks which may be included as Tier 1 capital), less net unrealized gains and losses on available for sale securities and on cash flow hedges, post retirement adjustments recorded in accumulated other comprehensive income ("AOCI"), and goodwill and other intangible assets required to be deducted from capital. Tier 2 capital generally consists of perpetual preferred stock which is not eligible to be included as Tier 1 capital; hybrid capital instruments such as perpetual debt and mandatory convertible debt securities, and term subordinated debt and intermediate-term preferred stock; and, subject to limitations, the allowance for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no additional capital), for assets such as cash, up to 1250%, which is a dollar-for-dollar capital charge on certain assets such as securities that are not eligible for the ratings based approach. The majority of assets held by a bank holding company are risk-weighted at 100%, including certain commercial and consumer loans. Single family residential first mortgage loans which are not 90 days or more past due or nonperforming and which have been made in accordance with prudent underwriting standards are assigned a 50% level in the risk-weighting system, as are certain privately-issued mortgage-backed securities representing indirect ownership of such loans and certain multi-family housing loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics.

In addition to the risk-based capital requirements, the Federal Reserve requires bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital to total assets of 3.0%. Total assets for this purpose do not include goodwill and any other intangible assets or investments that the Federal Reserve determines should be deducted from Tier 1 capital. The Federal Reserve also limits the inclusion of restricted core capital elements, which include trust preferred securities, in Tier 1 capital of bank holding companies. The inclusion of these elements is limited to an amount equal to one-third of the sum of unrestricted core capital less goodwill, net of deferred tax liabilities. Based on these limits, the Company has not had to exclude its trust preferred securities when calculating Tier 1 capital. Additionally, the Collins Amendment of the Dodd-Frank Act, which was enacted in 2010, includes regulation regarding the inclusion of hybrid capital instruments, which includes trust preferred securities, as regulatory capital. The Collins Amendment results in a three-year phase out of such instruments from inclusion in regulatory capital; however the Company's capital position will not be impacted, as companies with less than \$15 billion in assets receive grandfathered capital treatment on its trust preferred securities issued before May 19, 2010. The Federal Reserve has announced that the 3.0% Tier 1 leverage capital ratio requirement is the minimum for the top-rated bank holding companies without any supervisory, financial or operational weaknesses or deficiencies or those which are not experiencing or anticipating significant growth. Other bank holding companies are expected to maintain Tier 1 leverage capital ratios of at least 4.0% to 5.0% or more, depending on their overall condition.

The Company currently is in compliance with the above-described regulatory capital requirements. At December 31, 2014, the Company had Tier 1 capital and total capital equal to 10.88% and 13.15% of total risk-weighted adjusted assets, respectively, and Tier 1 leverage capital equal to 8.84% of total average assets. As of such date, the Bank complied with the applicable bank federal regulatory risk based capital requirements, with Tier 1 capital and total capital equal to 10.40% and 11.98% of total risk-weighted assets, respectively, and Tier 1 leverage capital equal to 8.44% of total average assets.

The FDIC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks, which, like the Bank, are not members of the Federal Reserve System. These requirements are substantially similar to those adopted by the Federal Reserve regarding bank holding companies, as described above. The FDIC's capital regulations establish a minimum 3.0% Tier 1 leverage capital to total assets requirement for the most highly-rated state-chartered, nonmember banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, nonmember banks, which effectively will increase the minimum Tier 1 leverage capital ratio for such banks to 4.0% or 5.0% or more.

Table of Contents

Each federal banking agency has broad powers to implement a system of prompt corrective action to resolve problems of financial institutions that it regulates which are not adequately capitalized. The current minimum levels are set forth below:

Category	Bank			Holding Company		
	Total Risk-Based Ratio	Tier 1 Risk-Based Ratio	Tier 1 Leverage Capital Ratio	Total Risk-Based Ratio	Tier 1 Risk-Based Ratio	Tier 1 Leverage Capital Ratio
Well capitalized	> 10%	and > 6%	and > 5%	n/a	n/a	n/a
Adequately capitalized	> 8%	and > 4%	and > 4%*	> 8%	and > 4%	and > 4%
Undercapitalized	< 8%	or < 4%	or < 4%*	< 8%	or < 4%	or < 4%
Significantly undercapitalized	< 6%	or < 3%	or < 3%	n/a	n/a	n/a

\*3% for institutions with a rating of one under the regulatory CAMELS or related rating system that are not anticipating or experiencing significant growth and have well-diversified risk.

A bank is considered critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. At December 31, 2014, the Company's tangible equity ratio was 7.44% and the Bank had capital in amounts which met or exceeded the minimum amounts to be considered a "well-capitalized institution" as defined by federal banking agencies.

In July 2013, the Federal Reserve published final rules establishing a new comprehensive capital framework for U.S. banking organizations, referred to herein as the "Rules". The FDIC has adopted substantially identical rules (as interim final rules). The Rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank, compared to the current U.S. risk-based capital rules. The Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach, which was derived from Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 Basel II capital accords. The Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Rules are effective for the Company on January 1, 2015 (subject to phase-in periods for certain components).

The Rules, among other things: (i) introduce a new capital measure called "Common Equity Tier 1," or CET1; (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements; (iii) apply most deductions/adjustments to regulatory capital measures to CET1 and not to the other components of capital, thus potentially requiring higher levels of CET1 in order to meet minimum ratios; and (iv) expand the scope of the reductions/adjustments from capital as compared to existing regulations.

Under the Rules, the minimum capital ratios for the Company and the Bank as of January 1, 2015 will be as follows:

- 4.5% CET1 to risk-weighted assets.
- 6.0% Tier 1 capital (i.e., CET1 plus Additional Tier 1) to risk-weighted assets.
- 8.0% Total capital (i.e., Tier 1 plus Tier 2) to risk-weighted assets.
- 4.0% Tier 1 leverage capital ratio.

When fully phased in on January 1, 2019, the Rules will also require the Company and the Bank to maintain a "capital conservation buffer" in an amount greater than 2.5%, composed entirely of CET1, on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions that meet the minimum capital requirements of 4.5%, 6.0% and 8.0% for CET1, Tier 1 and Total capital, respectively, but fall below the capital conservation buffer, will face constraints on capital distributions and discretionary bonus payments to executive officers based on the amount of the shortfall. The capital conservation

buffer effectively increases the minimum CET1 capital ratio to 7.0%, the minimum Tier 1 risk-based capital ratio to 8.5%, and the minimum total risk-based capital ratio to 10.5%, for banking organizations seeking to avoid the limitations on capital distributions and discretionary bonus payments to executive officers. The implementation of the capital conservation buffer will begin on January 1, 2016 at an amount of 0.625% and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

Table of Contents

The Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in common equity issued by nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Rules, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items effective as of January 1, 2015.

The deductions and other adjustments to CET1 will be phased in incrementally between January 1, 2015 and January 1, 2018.

With respect to the Bank, the Rules also revised the “prompt corrective action” regulations pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each capital quality level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) requiring a leverage ratio of 5% to be well-capitalized (as compared to the current required leverage ratio of 3 or 4%). The Rules did not change the total risk-based capital requirement for any “prompt corrective action” category. When the capital conservation buffer is fully phased in, the capital ratios applicable to depository institutions under the Rules will exceed the ratios to be considered well-capitalized under the prompt corrective action regulations.

The Rules prescribe a standardized approach for calculating risk-weighted assets that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In addition, the Rules also provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

The revised minimum capital levels under the Rules which are applicable to the Bank and the Company as of January 1, 2015 are set forth below:

Category	Bank				Holding Company		
	Total Risk-Based Ratio	Tier 1 Risk-Based Ratio	Common Equity Tier 1 Capital	Tier 1 Leverage Capital Ratio	Total Risk-Based Ratio	Tier 1 Risk-Based Ratio	Tier 1 Leverage Capital Ratio
Well capitalized	> 10%	and > 8%	and > 6.5%	> 5%	n/a	n/a	n/a
Adequately capitalized	> 8%	and > 6%	and > 4.5%	> 4%	> 8%	and > 6%	and > 4%
Undercapitalized	< 8%	or < 6%	or > 4.5%	< 4%	< 8%	or < 6%	or < 4%
Significantly undercapitalized	< 6%	or < 4%	or > 3%	< 3%	n/a	n/a	n/a

The Company believes that, as of December 31, 2014, the Company and the Bank would meet all capital adequacy requirements under the Rules on a fully phased-in basis if such requirements were currently effective, including after giving effect to the deductions described above.

**Commitments to Affiliated Institutions** Under Federal Reserve policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank. This support may be required at times when the Company may not be able to provide such support. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC - either as a result of default of a banking or thrift subsidiary of a bank holding company such as the Company or related to FDIC assistance

provided to a subsidiary in danger of default - the other banking subsidiaries of such bank holding company may be assessed for the FDIC's loss, subject to certain exceptions.

**Limitations on Acquisitions of Common Stock** The federal Change in Bank Control Act ("CBCA") prohibits a person or group of persons from acquiring control of a bank holding company or bank unless the appropriate federal bank regulator has

15

---

Table of Contents

been given 60 days prior written notice of such proposed acquisition and within that time period such regulator has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days the period during which such a disapproval may be issued. The acquisition of 25% or more of any class of voting securities constitutes the acquisition of control under the CBCA. In addition, under a rebuttal presumption established under the CBCA regulations, the acquisition of 10% or more of a class of voting stock of a bank holding company or a FDIC insured bank, with a class of securities registered under or subject to the requirements of Section 12 of the Securities Exchange Act of 1934 would, under the circumstances set forth in the presumption, constitute the acquisition of control.

Any company would be required to obtain the approval of the Federal Reserve under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of the outstanding common stock of, or such lesser number of shares as constitute control over the company. Such approval would be contingent upon, among other things, the acquirer registering as a bank holding company, divesting all impermissible holdings and ceasing any activities not permissible for a bank holding company. The Company does not own more than 5% voting stock in any banking institution other than the Bank.

**FDIC Deposit Insurance** The Bank's deposit accounts are insured to the maximum extent permitted by law by the Deposit Insurance Fund which is administered by the FDIC. The FDIC offers insurance coverage on deposits up to the federally insured limit of \$250,000. At December 31, 2014 the Company held \$1.9 billion in deposits with balances over \$250,000, inclusive of time deposits greater than \$250,000 which total \$53.5 million.

The Bank is currently assessed a deposit insurance charge from the FDIC based upon the Bank's overall assessment base multiplied by an assessment rate, determined from five established risk categories. The Bank's assessment base is defined as average consolidated total assets minus average tangible equity, adjusted for the impact of the risk category factors. During 2014, the Company expensed \$3.8 million for this assessment.

**Community Reinvestment Act ("CRA")** Pursuant to the CRA and similar provisions of Massachusetts law, regulatory authorities review the performance of the Company and the Bank in meeting the credit needs of the communities served by the Bank. The applicable regulatory authorities consider compliance with this law in connection with applications for, among other things, approval of new branches, branch relocations, engaging in certain additional financial activities under the GLB, and acquisitions of banks and bank holding companies. The FDIC and the Massachusetts Division of Banks have assigned the Bank a CRA rating of Outstanding as of the latest examination.

**Bank Secrecy Act** The Bank Secrecy Act requires financial institutions to keep records and file reports that are determined to have a high degree of usefulness in criminal, tax and regulatory matters, and to implement counter-money laundering programs and compliance procedures.

**USA Patriot Act of 2001** The Patriot Act strengthens U.S. law enforcement's and the intelligence communities' abilities to work cohesively to combat terrorism on a variety of fronts. The impact of the Patriot Act on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

**Sarbanes-Oxley Act of 2002** The Sarbanes-Oxley Act of 2002 ("SOX") implemented a broad range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at public companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. Among other things, SOX and/or its implementing regulations have established new membership requirements and additional responsibilities for the Company's audit committee, imposed restrictions on the relationship between the Company and its external auditors (including restrictions on the types of non-audit services the external auditors may provide), imposed additional responsibilities for the external financial statements on the Chief Executive Officer and Chief Financial Officer, expanded the disclosure requirements for corporate insiders, required management to evaluate disclosure controls and procedures, as well as internal control over financial reporting, and required the auditors to issue a report on the internal control over financial reporting.

Regulation W Transactions between a bank and its “affiliates” are quantitatively and qualitatively restricted under the Federal Reserve Act. The Federal Deposit Insurance Act applies Sections 23A and 23B to insured nonmember banks in the same manner and to the same extent as if they were members of the Federal Reserve System. The Federal Reserve Board has also issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretative guidance with respect to affiliate transactions. Regulation W incorporates the exemption from the affiliate transaction rules, but expands the exemption to cover the purchase of any type of loan or extension of credit from an affiliate. Affiliates of a bank include, among other entities, the bank’s holding company and companies that are under common control with the bank. The Company is considered



Table of Contents

to be an affiliate of the Bank. In general, subject to certain specified exemptions, a bank and its subsidiaries are limited in their ability to engage in “covered transactions” with affiliates:

- to an amount equal to 10% of the bank’s capital and surplus, in the case of covered transactions with any one affiliate;
- and

- to an amount equal to 20% of the bank’s capital and surplus, in the case of covered transactions with all affiliates.

In addition, a bank and its subsidiaries may engage in covered transactions and other specified transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A “covered transaction” includes:

- a loan or extension of credit to an affiliate;
- a purchase of, or an investment in, securities issued by an affiliate;
- a purchase of assets from an affiliate, with some exceptions;
- the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; and
- the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, under Regulation W:

- a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;
- covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and
- with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by collateral with a market value ranging from 100% to 130%, depending on the type of collateral, or the amount of the loan or extension of credit.

Regulation W generally excludes all nonbank and nonsavings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates.

**New Markets Tax Credit Program** The New Markets Tax Credit Program was created in December 2000 under federal law to provide federal tax incentives to induce private-sector, market-driven investment in businesses and real estate development projects located in low-income urban and rural communities across the nation. The New Markets Tax Credit Program is part of the United States Department of the Treasury Community Development Financial Institutions Fund. The New Markets Tax Credit Program enables investors to acquire federal tax credits by making equity investments for a period of at least seven years in qualified community development entities which have been awarded tax credit allocation authority by, and entered into an Allocation Agreement with, the United States Treasury. Community development entities must use equity investments to make loans to, or other investments in, qualified businesses and individuals in low-income communities in accordance with New Markets Tax Credit Program criteria. Investors receive an overall tax credit equal to 39% of their total equity investment, credited at a rate of 5% in each of the first 3 years and 6% in each of the final 4 years. More information on the New Markets Tax Credit Program may be obtained at [www.cdfifund.gov](http://www.cdfifund.gov). (The Company has included the web address only as inactive textual references and does not intend it to be an active link to the New Markets Tax Credit Programs website.) For further details about the Bank’s New Markets Tax Credit Program, see the paragraph entitled “Income Taxes” included in Item 7 below.

**Dodd-Frank Wall Street Reform and Consumer Protection Act** During 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). This significant law affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. Various federal agencies are given significant discretion in drafting and implementing a broad range of new rules and regulations, and consequently, while many new rules and regulations have been adopted, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Key provisions of the Dodd-Frank Act are as follows:

- eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Since the regulations became effective, the Company has not seen an increased demand for interest bearing checking accounts. Depending on future competitive responses, this significant change to existing law could have an adverse impact on the Company’s interest expense.



Table of Contents

broadened the base for Federal Deposit Insurance Corporation insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution and the Company has seen a reduction in the amount of the FDIC assessment as a result of these changes. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor.

requires publicly traded companies to give stockholders a nonbinding vote on executive compensation and so-called "golden parachute" payments. The Company provides its shareholder with the opportunity to vote on executive compensation every year. The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not. Additionally, pursuant to the Dodd-Frank Act, the SEC and NASDAQ have adopted rules regarding compensation committee independence and compensation consultant conflicts of interest. As currently composed, the Company's compensation committee complies with the new independence requirements.

broadened the scope of derivative instruments, and the Company will be subject to increased regulation of its derivative business, including margin requirements, record keeping and reporting requirements, and heightened supervision. The Company is actively monitoring regulations that are likely to impact its business operations and does not believe the regulations finalized to date will materially affect the Company's business results.

created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. Banks and savings institutions with \$10 billion or less in assets will continue to be examined for compliance with consumer laws by their primary bank regulators. The CFPB, along with the Department of Justice and bank regulatory authorities, also seek to enforce discriminatory lending laws. In such actions, the CFPB and others have used a disparate impact analysis, which measures discriminatory results without regard to intent.

Consequently, unintentional actions by the Bank could have a material adverse impact on our lending and results of operations if the actions are found to be discriminatory by our regulators.

debit card and interchange fees must be reasonable and proportional to the issuer's cost for processing the transaction. The Federal Reserve Board has approved a debit card interchange regulation which caps an issuer's base fee at \$0.21 per transaction plus an additional fee computed at five basis-points of the transaction value. These standards apply to issuers that, together with their affiliates, have assets of \$10 billion or more. The Company's assets are under \$10 billion and therefore it is not directly impacted by these provisions.

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, the CFPB issued a final rule amending Regulation Z to implement certain amendments to the Truth in Lending Act. The rule implements statutory changes that lengthen the time for which a mandatory escrow account established for a higher-priced mortgage loan must be maintained. The rule also exempts certain transactions from the statute's escrow requirement. The CFPB issued a final rule implementing amendments to the Truth in Lending Act and the Real Estate Settlement Procedures Act. The rule amends Regulation Z by expanding the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 (HOEPA), revising and expanding the tests for coverage under HOEPA, and imposing additional restrictions on mortgages that are covered by HOEPA, including a pre-loan counseling requirement. The rule also amends Regulation Z and Regulation X by imposing other requirements related to homeownership counseling.

In addition, the CFPB amended Regulation B to implement changes to the Equal Credit Opportunity Act. The revisions to Regulation B require creditors to provide applicants with free copies of all appraisals and other written valuations developed in connection with an application for a loan to be secured by a first lien on a dwelling, and require creditors to notify applicants in writing that copies of appraisals will be provided to them promptly. The CFPB also amended Regulation Z to implement requirements and restrictions to the Truth in Lending Act concerning loan originator compensation, qualifications of, and registration or licensing of loan originators, compliance procedures for depository institutions, mandatory arbitration, and the financing of single-premium credit insurance. These amendments revise or provide additional commentary on Regulation Z's restrictions on loan originator compensation, including application of these restrictions to prohibitions on dual compensation and compensation based on a term of a transaction or a proxy for a term of a transaction, and to record keeping requirements. This rule also establishes tests for when loan originators can be compensated through certain profits-based compensation arrangements.

The final rules also implement the ability-to-repay and qualified mortgage (QM) provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the “QM Rule”). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of “qualified mortgage” are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM

## Table of Contents

requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a “qualified mortgage” incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43 percent debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet GSE, FHA and VA underwriting and eligibility guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43 percent debt-to-income limits.

The CFPB has continued to issue final rules regarding mortgages. There is no assurance you that existing or future regulations will not have a material adverse impact on the Bank’s residential mortgage loan business or the housing market in which we participate.

The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on the Bank’s operating environment in substantial and unpredictable ways. Consequently, the Dodd-Frank Act may continue to increase the Company's cost of doing business, it may limit or expand the Bank's permissible activities, and it may affect the competitive balance within the industry and market areas. The nature and extent of future legislative and regulatory changes affecting financial institutions, including as a result of the Dodd-Frank Act, remains unpredictable at this time.

**Incentive Compensation** The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as the Company and the Bank, with at least \$1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which the Company may structure compensation for its executives.

In June 2010, the FRB, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization’s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed in the immediately preceding paragraph.

The FRB will review, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not “large, complex banking organizations.” These reviews will be tailored to each organization based on the scope and complexity of the organization’s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization’s supervisory ratings, which can affect the organization’s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

**Volcker Rule** On December 10, 2013, the Federal Reserve, the Office of the Comptroller of the Currency, the FDIC, the CFTC and the SEC issued final rules to implement the Volcker Rule contained in section 619 of the Dodd-Frank

Act, generally to become effective on July 21, 2015. The Volcker Rule prohibits an insured depository institution and its affiliates from: (i) engaging in “proprietary trading” and (ii) investing in or sponsoring certain types of funds (defined as “Covered Funds”) subject to certain limited exceptions. The rule also effectively prohibits short-term trading strategies by any U.S. banking entity if those strategies involve instruments other than those specifically permitted for trading and prohibits the use of some hedging strategies. The Company identified no investments held as of December 31, 2014 that meet the definition of Covered Funds and that are required to be divested by July 21, 2015 under the foregoing rules.

Consumer Protection Regulations The Bank is subject to federal consumer protection statutes and regulations, including, but not limited to the following:

- Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide certain information about home mortgage and refinanced loans;

## Table of Contents

Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;

Fair Credit Reporting Act and Regulation V, governing the provision of consumer information to credit reporting agencies and the use of consumer information; and

Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies.

The Bank's deposit operations are also subject to the following federal statutes and regulations, among others:

The Truth in Savings Act and Regulation DD, which requires disclosure of deposit terms to consumers;

Regulation CC, which relates to the availability of deposit funds to consumers;

The Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and

Electronic Funds Transfer Act and Regulation E, governing automatic deposits to, and withdrawals from, deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Many of the foregoing laws and regulations are subject to change resulting from the provisions in the Dodd-Frank Act, which in many cases calls for revisions to implementing regulations, such as the amendments described above in the discussion on the Dodd-Frank Act.

**Regulation E** Federal Reserve Board Regulation E governs electronic fund transfers and provides a basic framework that establishes the rights, liabilities, and responsibilities of participants in electronic fund transfer systems such as automated teller machine transfers, telephone bill-payment services, point-of-sale terminal transfers in stores, and preauthorized transfers from or to a consumer's account (such as direct deposit and social security payments). The term "electronic fund transfer" generally refers to a transaction initiated through an electronic terminal, telephone, computer, or magnetic tape that instructs a financial institution either to credit or to debit a consumer's asset account. Regulation E describes the disclosures which financial institutions are required to make to consumers who engage in electronic fund transfers and generally limits a consumer's liability for unauthorized electronic fund transfers, such as those arising from loss or theft of an access device, to \$50 for consumers who notify their bank in a timely manner.

**Employees** As of December 31, 2014, the Bank had 980 full time equivalent employees. None of the Company's employees are represented by a labor union and management considers its relationship with employees to be good.

### Statistical Disclosure by Bank Holding Companies

The statistical disclosure relating to Independent Bank Corp. required under the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies," is included in the section of Independent Bank Corp.'s 2014 SEC Form 10-K captioned, Selected Financial Data in Item 6 hereof, Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 hereof and Note 8, "Borrowings" within Notes to the Consolidated Financial Statements included in Item 8 hereof.

### Available Information

Under Section 13 and 15(d) of the Securities Exchange Act of 1934 the Company must file periodic and current reports with the SEC. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street N.E. Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Public Reference Room at 1-800-SEC-0330. The Company electronically files the following reports with the SEC: Form 10-K (Annual Report), Form 10-Q (Quarterly Report), Form 11-K (Annual Report for Employees' Savings, Profit Sharing and Stock Ownership Plan), Form 8-K (Report of Unscheduled Material Events), Forms S-4, S-3 and 8-A (Registration Statements), Form DEF 14A (Proxy Statement), and the Company may file additional forms as well. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, at [www.sec.gov](http://www.sec.gov), in which all forms filed electronically may be accessed. Additionally, the Company's SEC filings and additional shareholder

information are available free of charge on the Company's website: [www.RocklandTrust.com](http://www.RocklandTrust.com) (within the Investor Relations tab). Information contained on the Company's website and the SEC website is not incorporated by reference into this Form 10-K. (The Company has included the web address and the SEC website address only as inactive textual references and does not intend them to be active links to our website or the SEC website.) The Company's Code of Ethics and other Corporate Governance documents are also available on the Company's website in the Investor Relations section of the website.



Table of Contents

ITEM 1A. RISK FACTORS

Changes in interest rates could adversely impact the Company's financial condition and results of operations. The Company's ability to make a profit, like that of most financial institutions, substantially depends upon its net interest income, which is the difference between the interest income earned on interest earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. However, certain assets and liabilities may react differently to changes in market interest rates. Further, interest rates on some types of assets and liabilities may fluctuate prior to changes in broader market interest rates, while rates on other types of assets may lag behind. Additionally, some assets such as adjustable-rate mortgages have features, such as rate caps and floors, which restrict changes in their interest rates.

Factors such as inflation, recession, unemployment, money supply, global disorder, instability in domestic and foreign financial markets, and other factors beyond the Company's control, may affect interest rates. Changes in market interest rates will also affect the level of voluntary prepayments on loans and the receipt of payments on mortgage-backed securities, resulting in the receipt of proceeds that may have to be reinvested at a lower rate than the loan or mortgage-backed security being prepaid.

The state of the financial and credit markets, and potential sovereign debt defaults may severely impact the global and domestic economies and may lead to a significantly tighter environment in terms of liquidity and availability of credit. Economic growth may slow down and the national economy may experience additional recession periods. Market disruption, government and central bank policy actions intended to counteract the effects of recession, changes in investor expectations regarding compensation for market risk, credit risk and liquidity risk and changing economic data could continue to have dramatic effects on both the volatility of and the magnitude of the directional movements of interest rates. Although the Company pursues an asset/liability management strategy designed to control its risk from changes in interest rates, changes in market interest rates can have a material adverse effect on the Company's profitability.

If the Company has higher than anticipated loan losses than it has modeled, its earnings could materially decrease. The Company's loan customers may not repay loans according to their terms, and the collateral securing the payment of loans may be insufficient to assure repayment. The Company may therefore experience significant credit losses which could have a material adverse effect on its operating results and capital ratios. 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. In determining the amount of the allowance for loan losses, the Company relies on its experience and its evaluation of economic conditions. If its assumptions prove to be incorrect, its current allowance for loan losses may not be sufficient to cover losses inherent in its loan portfolio and an adjustment may be necessary to allow for different economic conditions or adverse developments in its loan portfolio. Consequently, a problem with one or more loans could require the Company to significantly increase the level of its provision for loan losses. In addition, federal and state regulators periodically review the Company's allowance for loan losses and may require it to increase its provision for loan losses or recognize further loan charge-offs. Material additions to the allowance would materially decrease the Company's net income.

A significant amount of the Company's loans are concentrated in the Bank's geographic footprint and adverse conditions in this area could negatively impact its operations. Substantially all of the loans the Company originates are secured by properties located in, or are made to businesses which operate in Massachusetts, and to a lesser extent Rhode Island. Because of the current concentration of the Company's loan origination activities in its geographic footprint, in the event of adverse economic conditions, including, but not limited to, increased unemployment, downward pressure on the value of residential and commercial real estate, political or business developments, that may affect the ability of property owners and businesses to make payments of principal and interest on the underlying loans in the Bank's geographic footprint. The Company would likely experience higher rates of loss and delinquency on its loans than if its loans were more geographically diversified, which could have an adverse effect on its results of operations or financial condition.

The Company operates in a highly regulated environment and may be adversely impacted by changes in law, regulations, and accounting policies. The Company is subject to extensive regulation, supervision and examination. See “Regulation” in Item 1 hereof, Business. Any change in the laws or regulations and failure by the Company to comply with applicable law and regulation, or a change in regulators’ supervisory policies or examination procedures, whether by the Massachusetts Commissioner of Banks, the FDIC, the Federal Reserve Board, other state or federal regulators, the United States Congress, or the Massachusetts legislature could have a material adverse effect on the Company’s business, financial condition, results of operations, and cash flows. 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 also negatively impact the Company’s financial results.

The Dodd-Frank Act has had and will continue to have a significant impact on the regulatory structure of the financial markets and will impose additional costs on the Company. The Dodd-Frank Act could adversely affect certain of the Company’s business operations and competitive position. The Dodd-Frank Act, among other things, establishes a new Financial Stability

Table of Contents

Oversight Council to monitor systemic risk posed by financial institutions, restricts proprietary trading and private fund investment activities by banking institutions, creates a new framework for the regulation of derivatives and revises the FDIC's assessment base for deposit insurance. Provisions in the Dodd-Frank Act may also restrict the flexibility of financial institutions to compensate their employees. In addition, provisions in the Dodd-Frank Act have resulted in changes to existing capital rules, which could have an adverse effect on the Company's business operations, capital structure, capital ratios or financial performance. The final effects of the Dodd-Frank Act on the Company's business will depend largely on the implementation of the Dodd-Frank Act by regulatory bodies and the exercise of discretion by these regulatory bodies.

The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is unknown. In 2013, the FDIC, the OCC and the Federal Reserve Board approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to the Company. The final rule implements the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. The application of more stringent capital requirements for the Company could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions such as a prohibition on the payment of dividends or on the repurchase shares if we were unable to comply with such requirements.

The Company has strong competition within its market area which may limit the Company's growth and profitability. The Company faces significant competition both in attracting deposits and in the origination of loans. See "Market Area and Competition" in Item 1 hereof, Business. Additional mergers and acquisitions of financial institutions within the Company's market area may also occur given the current difficult banking environment and add more competitive pressure. If the Company is unable to compete effectively, it may lose market share and income generated from loans, deposits, and other financial products may decline.

The success of the Company is dependent on hiring and retaining certain key personnel. The Company's performance is largely dependent on the talents and efforts of highly skilled individuals. The Company relies on key personnel to manage and operate its business, including major revenue generating functions such as loan and deposit generation. The loss of key staff may adversely affect the Company's ability to maintain and manage these functions effectively, which could negatively affect the Company's revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in the Company's net income. The Company's continued ability to compete effectively depends on its ability to attract new employees and to retain and motivate its existing employees.

The Company's business strategy of growth in part through acquisitions could have an impact on its earnings and results of operations that may negatively impact the value of the Company's stock. In recent years, the Company has focused, in part, on growth through acquisitions. From time to time in the ordinary course of business, the Company engages in preliminary discussions with potential acquisition targets. The consummation of any future acquisitions may dilute stockholder value. Although the Company's business strategy emphasizes organic expansion combined with acquisitions, there can be no assurance that, in the future, the Company will successfully identify suitable acquisition candidates, complete acquisitions and successfully integrate acquired operations into our existing operations or expand into new markets. There can be no assurance that acquisitions will not have an adverse effect upon the Company's operating results while the operations of the acquired business are being integrated into the Company's operations. In addition, once integrated, acquired operations may not achieve levels of profitability comparable to those achieved by the Company's existing operations, or otherwise perform as expected. Further, transaction-related expenses may adversely affect the Company's earnings. These adverse effects on the Company's earnings and results of operations may have a negative impact on the value of the Company's stock.

Difficult market conditions have adversely affected the industry in which the Company operates. In recent years, dramatic declines in the housing market, with falling real estate values and increasing foreclosures, unemployment, and under-employment negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative and cash securities, in turn, caused many financial institutions to seek additional

capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. A resumption of economic pressure on consumers and lack of confidence in the financial markets could materially affect the Company's business, financial condition and results of operations. A worsening of these conditions would likely have adverse effects on the Company and others in the financial services industry. In particular, the Company may face the following risks in connection with these events:

- The Company could face increased regulation of its industry. Compliance with such regulation may increase its costs and limit its ability to pursue business opportunities.

Table of Contents

Market developments may affect customer confidence levels and may cause increases in loan delinquencies and default rates, which the Company expects could impact its loan charge-offs and provision for loan losses.

Deterioration or defaults made by issuers of the underlying collateral of the Company's investment securities may cause credit related other-than-temporary impairment charges to the Company's income statement.

The Company's ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.

Competition in the industry could intensify as a result of the increasing consolidation of financial services companies in connection with adverse market conditions.

The Company could be required to pay significantly higher FDIC premiums if market developments significantly deplete the insurance fund of the FDIC and reduce the ratio of reserves to insured deposits.

It may become necessary or advisable for the Company, due to changes in regulatory requirements, change in market conditions, or for other reasons, to hold more capital or to alter the forms of capital it currently maintains.

The Company's securities portfolio performance in difficult market conditions could have adverse effects on the Company's results of operations. Under U.S. Generally Accepted Accounting Principles ("GAAP"), the Company is required to review the Company's investment portfolio periodically for the presence of other-than-temporary impairment of its securities, taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, volatility of earnings, current analysts' evaluations, the Company's ability and intent to hold investments until a recovery of amortized cost, as well as other factors. Adverse developments with respect to one or more of the foregoing factors may require the Company to deem particular securities to be other-than-temporarily impaired, with the credit related portion of the reduction in the value recognized as a charge to the Company's earnings. Market volatility may make it extremely difficult to value certain securities of the Company. Subsequent valuations, in light of factors prevailing at that time, may result in significant changes in the values of these securities in future periods. Any of these factors could require the Company to recognize further impairments in the value of the Company's securities portfolio, which may have an adverse effect on the Company's results of operations in future periods.

Impairment of goodwill and/or intangible assets could require charges to earnings, which could result in a negative impact on our results of operations. Goodwill arises when a business is purchased for an amount greater than the net fair value of its assets. The Bank has recognized goodwill as an asset on the balance sheet in connection with several acquisitions (see Note 6, "Goodwill and Identifiable Intangible Assets" within Notes to the Consolidated Financial Statements included in Item 8 hereof). When an intangible asset is determined to have an indefinite useful life, it is not amortized, and instead is evaluated for impairment. Goodwill is subject to impairment tests annually, or more frequently if necessary, and is evaluated using a two-step impairment approach. A significant and sustained decline in the Company's stock price and market capitalization, a significant decline in the Company's expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in impairment of goodwill or other intangible assets. If the Company were to conclude that a future write-down of the goodwill or intangible assets is necessary, then the Company would record the appropriate charge to earnings, which could be materially adverse to the results of operations and financial position.

Deterioration in the Federal Home Loan Bank ("FHLB") of Boston's capital might restrict the FHLB of Boston's ability to meet the funding needs of its members, cause a suspension of its dividend, and cause its stock to be determined to be impaired. Significant components of the Bank's liquidity needs are met through its access to funding pursuant to its membership in the FHLB of Boston. The FHLB is a cooperative that provides services to its member banking institutions. The primary reason for joining the FHLB is to obtain funding from the FHLB of Boston. The purchase of stock in the FHLB is a requirement for a member to gain access to funding. Any deterioration in the FHLB's performance may affect the Company's access to funding and/or require the Company to deem the required investment in FHLB stock to be impaired.

Reductions in the value of the Company's deferred tax assets could affect earnings adversely. A deferred tax asset is created by the tax effect of the differences between an asset's book value and its tax basis. The Company assesses the deferred tax assets periodically to determine the likelihood of the Company's ability to realize their benefits. These

assessments consider the performance of the associated business and its ability to generate future taxable income. If the information available to the Company at the time of assessment indicates there is a greater than 50% chance that the Company will not realize the deferred tax asset benefit, the Company is required to establish a valuation allowance for it and reduce its future tax assets to the amount the Company believes could be realized in future tax returns. Recording such a valuation allowance could have a material adverse effect on the results of operations or financial position. Additionally the deferred tax asset is 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. Accordingly a change in enacted tax rates may result in a decrease/increase to the Company's deferred tax asset.

Table of Contents

The Company will need to keep pace with evolving information technology, guard against and react to increased cyber security risks and electronic fraud. The potential need to adapt to changes in information technology could adversely impact the Company's operations and require increased capital spending. 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, could adversely impact the Company's operations, damage its reputation and require increased capital spending. Our information technology infrastructure and systems may be vulnerable to cyber terrorism, computer viruses, system failures and other intentional or unintentional interference, negligence, fraud and other unauthorized attempts to access or interfere with these systems and proprietary information. Although we believe we have implemented and maintain reasonable security controls over proprietary information as well as information of our customers, stockholders and employees, a breach of these security controls may have a material adverse effect on our business, financial condition and results of operations and could subject us to significant regulatory actions and fines, litigation, loss, third-party damages and other liabilities.

The Company's business depends on maintaining the trust and confidence of customers and other market participants, and the resulting good reputation is critical to its business. The Company's ability to originate and maintain accounts is highly dependent upon the perceptions of consumer and commercial borrowers and deposit holders and other external perceptions of the Company's business practices or financial health. The Company's reputation is vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate. Regulatory inquiries, employee misconduct and rumors, among other things, can substantially damage the Company's reputation, even if they are baseless or satisfactorily addressed. Adverse perceptions regarding the Company's reputation in the consumer, commercial and funding markets could lead to difficulties in generating and maintaining accounts as well as in financing them and to decreases in the levels of deposits that consumer and commercial customers and potential customers choose to maintain with the Company, any of which could have a material adverse effect on the Company's business and financial results.

If the Company's risk management framework does not effectively identify or mitigate the Company's risks, the Company could suffer unexpected losses and could be materially adversely affected. The Company's risk management framework seeks to mitigate risk and appropriately balance risk and return. The Company has established processes and procedures intended to identify, measure, monitor and report the types of risk to which its subject, including credit risk, operations risk, compliance risk, reputation risk, strategic risk, market risk and liquidity risk. The Company seeks to monitor and control its risk exposure through a framework of policies, procedures and reporting requirements. Management of the Company's risks in some cases depends upon the use of analytical and/or forecasting models. If the models used to mitigate these risks are inadequate, the Company may incur losses. In addition, there may be risks that exist, or that develop in the future, that the Company has not appropriately anticipated, identified or mitigated. If the Company's risk management framework does not effectively identify or mitigate its risks, the Company could suffer unexpected losses and could be materially adversely affected.

A significant portion of the Company's loan portfolio is secured by real estate, and events that negatively impact the real estate market could adversely affect the Company's asset quality and profitability for those loans secured by real property and increase the number of defaults and the level of losses within the Company's loan portfolio. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and could deteriorate in value during the time the credit is extended. A downturn in the real estate market in the Company's primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on the Company's profitability and asset quality. If the Company is required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, its earnings and shareholders' equity could be adversely affected. The declines in real estate prices in the Company's markets also may result in increases in delinquencies and losses in its loan portfolios. Unexpected decreases in real estate prices coupled with a prolonged economic recovery and elevated levels of unemployment could drive losses beyond that which is provided for in the Company's allowance for loan losses. In that event, the Company's earnings could be adversely affected.

Changes in accounting policies or accounting standards could cause the Company to change the manner in which it reports its financial results and condition in adverse ways and could subject the Company to additional costs and

expenses. The Company's accounting policies are fundamental to understanding its financial results and condition. Some of these policies require the use of estimates and assumptions that may affect the value of the Company's assets or liabilities and financial results. The Company identified its accounting policies regarding the allowance for loan losses, security valuations and impairments, goodwill and other intangible assets, and income taxes to be critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. Under each of these policies, it is possible that materially different amounts would be reported under different conditions, using different assumptions, or as new information becomes available.

From time to time, the FASB and the SEC change their guidance governing the form and content of the Company's external financial statements. In addition, accounting standard setters and those who interpret U.S. GAAP, such as the FASB, SEC, and banking regulators, may change or even reverse their previous interpretations or positions on how these standards should be



Table of Contents

applied. Such changes are expected to continue, and may accelerate dependent upon the FASB and International Accounting Standards Board commitments to achieving convergence between U.S. GAAP and International Financial Reporting Standards. Changes in U.S. GAAP and changes in current interpretations are beyond the Company's control, can be hard to predict and could materially impact how the Company reports its financial results and condition. In certain cases, the Company could be required to apply new or revised guidance retroactively or apply existing guidance differently (also retroactively) which may result in the Company restating prior period financial statements for material amounts. Additionally, significant changes to U.S. GAAP may require costly technology changes, additional training and personnel, and other expenses that will negatively impact the Company's results of operations. The Company may be unable to adequately manage its liquidity risk, which could affect its ability to meet its obligations as they become due, capitalize on growth opportunities, or pay regular dividends on its common stock. Liquidity risk is the potential that the Company will be unable to meet its obligations as they come due, capitalize on growth opportunities as they arise, or pay regular dividends on its common stock because of an inability to liquidate assets or obtain adequate funding in a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures. Liquidity is derived primarily from retail deposit growth and retention; principal and interest payments on loans; principal and interest payments on investment securities; sale, maturity and prepayment of investment securities; net cash provided from operations, and access to other funding sources. The Company is subject to environmental liability risk associated with lending activities which could have a material adverse effect on its financial condition and results of operations. A significant portion of the Company's loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company's exposure to environmental liability. Although the Company has policies and procedures to perform an environmental review prior to originating certain commercial real estate loans, as well as before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company's financial condition and results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES**

At December 31, 2014, the Bank conducted its business from its main office located at 288 Union Street, Rockland, Massachusetts and seventy-four banking offices and three limited service branches located within Barnstable, Bristol, Middlesex, Norfolk, Plymouth and Worcester counties in Eastern Massachusetts. In addition to its main office, the Bank leased fifty-two of its branches (including three limited service branches) and owned the remaining twenty-five branches. Also, the Bank had seven remote ATM locations all of which were leased.

The Bank's executive administration offices are located in Hanover, Massachusetts while the remaining administrative and operations locations are housed in several different campuses. Additionally, there are a number of sales offices not associated with a branch location throughout the Bank's footprint.

For additional information regarding the Bank's premises and equipment and lease obligations, see Notes 5, "Bank Premises and Equipment" and 18, "Commitments and Contingencies," respectively, within Notes to Consolidated Financial Statements included in Item 8 hereof.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2014, Rockland Trust was involved in pending lawsuits that arose in the ordinary course of business or due to acquisitions. Management has reviewed these pending lawsuits with legal counsel and has taken into consideration the view of counsel as to their outcome. In the opinion of management, the final disposition of pending lawsuits is not expected to have a material adverse effect on the Company's financial position or results of operations.

Table of Contents

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

## PART II

## ITEM 5. MARKET FOR INDEPENDENT BANK CORP.'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a.) Independent Bank Corp.'s common stock trades on the NASDAQ Global Select Market under the symbol INDB. The Company declared cash dividends of \$0.96 and \$0.88 per share in 2014 and in 2013, respectively. The ratio of dividends paid to earnings in 2014 and 2013 was 38.37% and 30.09%, respectively.

Payment of dividends by the Company on its common stock is subject to various regulatory restrictions and guidelines. Since substantially all of the funds available for the payment of dividends are derived from the Bank, future dividends will depend on the earnings of the Bank, its financial condition, its need for funds, applicable governmental policies and regulations, and other such matters as the Board of Directors deem appropriate. Management believes that the Bank will continue to generate adequate earnings to continue to pay common dividends on a quarterly basis.

The following schedule summarizes the closing price range of common stock and the cash dividends paid for the fiscal years 2014 and 2013:

	2014		
	High	Low	Dividend
4th Quarter	\$43.35	\$35.49	\$0.24
3rd Quarter	39.42	35.06	0.24
2nd Quarter	40.40	34.96	0.24
1st Quarter	40.45	34.66	0.24
	2013		
	High	Low	Dividend
4th Quarter	\$39.40	\$34.94	\$0.22
3rd Quarter	38.04	34.72	0.22
2nd Quarter	34.50	30.00	0.22
1st Quarter	32.77	29.68	0.22

As of December 31, 2014, there were 23,998,738 shares of common stock outstanding which were held by approximately 2,567 holders of record. The number of record-holders may not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms, and other nominees. The closing price of the Company's stock on December 31, 2014 was \$42.81.

The information required by S-K Item 201(d) is incorporated by reference from Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters hereof.

## Comparative Stock Performance Graph

The stock performance graph below and associated table compare the cumulative total shareholder return of the Company's common stock from December 31, 2009 to December 31, 2014 with the cumulative total return of the NASDAQ Composite Index (U.S. Companies) and the SNL Bank NASDAQ Index. The lines in the graph and the numbers in the table below represent yearly index levels derived from compounded daily returns that include reinvestment or retention of all dividends. If the yearly interval, based on the last day of a fiscal year, was not a trading day, the preceding trading day was used. The index value for all of the series was set to 100.00 on December 31, 2009 (which assumes that \$100.00 was invested in each of the series on December 31, 2009).

The following information in this Item 5 of this Annual Report on Form 10-K is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we

specifically incorporate it by reference into such a filing. The stock price performance shown on the stock performance graph and associated table below is not necessarily

Table of Contents

indicative of future price performance. Information used in the graph and table was obtained from a third party provider, a source believed to be reliable, but the Company is not responsible for any errors or omissions in such information.

The following chart depicts the total return performance of the Company:

Source: SNL Financial LC, Charlottesville, VA

(b.) Not applicable

27

---

Table of Contents

(c.) The following table sets forth information regarding the Company's repurchases of its common stock during the three months ended December 31, 2014:

Period	Issuer Purchases of Equity Securities			
	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
October 1 to October 31, 2014	58,446	\$38.09	—	—
November 1 to November 30, 2014	11,738	39.96	—	—
December 1 to December 31, 2014	6,776	40.41	—	—
Total	76,960		—	—

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

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

Table of Contents

## ITEM 6. SELECTED 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.

	Years Ended December 31					
	2014	2013	2012	2011	2010	
	(Dollars in thousands, except per share data)					
Financial condition data						
Securities available for sale	\$ 348,554	\$ 356,862	\$ 329,286	\$ 305,332	\$ 377,457	
Securities held to maturity	375,453	350,652	178,318	204,956	202,732	
Loans	4,970,733	4,718,307	4,519,011	3,794,390	3,555,679	
Allowance for loan losses	(55,100 )	(53,239 )	(51,834 )	(48,260 )	(46,255 )	
Goodwill and core deposit intangibles	180,306	182,642	162,144	140,722	141,956	
Total assets	6,364,912	6,099,234	5,756,985	4,970,240	4,695,738	
Deposits	5,210,466	4,986,418	4,546,677	3,876,829	3,627,783	
Borrowings	406,655	448,488	591,055	537,686	565,434	
Stockholders' equity	640,527	591,540	529,320	469,057	436,472	
Nonperforming loans	27,512	34,659	28,766	28,953	23,108	
Nonperforming assets	38,894	43,833	42,427	37,149	31,493	
Operating data						
Interest income	\$ 216,459	\$ 205,914	\$ 196,192	\$ 195,751	\$ 202,724	
Interest expense	20,417	23,336	23,393	28,672	38,763	
Net interest income	196,042	182,578	172,799	167,079	163,961	
Provision for loan losses	10,403	10,200	18,056	11,482	18,655	
Noninterest income	69,943	68,009	62,016	52,700	46,906	
Noninterest expenses	171,838	173,649	159,459	145,713	139,745	
Net income	59,845	50,254	42,627	45,436	40,240	
Per share data						
Net income — basic	\$ 2.50	\$ 2.18	\$ 1.96	\$ 2.12	\$ 1.90	
Net income — diluted	2.49	2.18	1.95	2.12	1.90	
Cash dividends declared	0.96	0.88	0.84	0.76	0.72	
Book value	26.69	24.85	23.24	21.82	20.57	
Performance ratios						
Return on average assets	0.95	% 0.87	% 0.83	% 0.96	% 0.88	%
Return on average common equity	9.66	% 9.09	% 8.66	% 9.93	% 9.46	%
Net interest margin (on a fully tax equivalent basis)	3.45	% 3.51	% 3.75	% 3.90	% 3.95	%
Equity to assets	10.06	% 9.70	% 9.19	% 9.44	% 9.30	%
Dividend payout ratio	38.37	% 30.09	% 52.77	% 35.88	% 37.93	%
Asset quality ratios						
Nonperforming loans as a percent of gross loans	0.55	% 0.73	% 0.64	% 0.76	% 0.65	%
Nonperforming assets as a percent of total assets	0.61	% 0.72	% 0.74	% 0.75	% 0.67	%
Allowance for loan losses as a percent of total loans	1.11	% 1.13	% 1.15	% 1.27	% 1.30	%
	200.28	% 153.61	% 180.19	% 166.68	% 200.17	%

Allowance for loan losses as a  
percent of nonperforming loans  
Capital ratios

Tier 1 leverage capital ratio	8.84	% 8.64	% 8.65	% 8.61	% 8.19	%
Tier 1 risk-based capital ratio	10.88	% 10.78	% 10.36	% 10.74	% 10.28	%
Total risk-based capital ratio	13.15	% 12.58	% 12.23	% 12.78	% 12.37	%



Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is a state chartered, federally registered bank holding company, incorporated in 1985. The Company is the sole stockholder of Rockland Trust, a Massachusetts trust company chartered in 1907. For a full list of corporate entities see Item 1 "Business — General."

All material intercompany balances and transactions have been eliminated in consolidation. When necessary, certain amounts in prior year financial statements have been reclassified to conform to the current year's presentation. The following should be read in conjunction with the Consolidated Financial Statements and related notes.

Executive Level Overview

Management evaluates the Company's operating results and financial condition using measures that include net income, earnings per share, return on assets and equity, return on tangible common equity, net interest margin, tangible book value per share, asset quality indicators, and many others. These metrics help management make key decisions regarding the Bank's balance sheet, liquidity, interest rate sensitivity, and capital resources and assist with identifying areas to improve. The Company is focused on organic growth, but will consider acquisition opportunities that are believed will provide a satisfactory financial return. The Company announced during 2014 the signing of a definitive merger agreement for the acquisition of Peoples Federal Bancshares, Inc., which closed subsequent to year end.

Loans and Asset Quality

Management's balance sheet strategy emphasizes commercial and home equity lending. The results depicted in the following table reflect the focus on those asset classes:

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

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

Table of Contents

Funding and the Net Interest Margin

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

Core deposits increased by 7.5% during 2014 and represented 87.3% of total deposits at year end.

The net interest margin decreased to 3.45% for the year ended December 31, 2014, reflecting higher average liquid balances and a decline in overall loan yields, partially offset by reduced funding costs. The Company has countered net interest margin pressure with consistent loan growth which, when combined with asset and liability pricing discipline, has led to net interest income growth.

Noninterest Income

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

Table of Contents

Expense Control

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

Tax Effectiveness

The Company participates in federal and state tax credit programs designed to promote economic development, affordable housing, and job creation. During 2014 the Company continues to participate in the federal New Markets Tax Credit program and has also made low-income housing tax credit investments. The Company has also established security corporation subsidiaries and, through its subsidiaries, purchased tax-exempt bonds. Federal and state tax credit program participation and other tax strategies permit the Company to operate in a tax effective manner and sometimes also creates a competitive advantage for Rockland Trust and its community development subsidiaries. During 2014, the Company's effective tax rate was 28.54%.

## Table of Contents

### Capital

The Company's disciplined approach with respect to revenue, expense, and tax effectiveness is designed to promote long-term shareholder value, and is reflected in the strong capital growth experienced during 2014. The Company's consistent profitability has steadily increased tangible book value per share by 38.2% over the past five years and tangible common equity as a percentage of tangible assets has increased to 7.44% at December 31, 2014. The following chart shows the trend of the Company's tangible book value per share over the past five years:

This strong growth in capital has led to a consistent cash dividend which increased from \$0.72 per share in 2010 to \$0.96 per share in 2014, a 33.3% increase.

### 2014 Results

Implementation of the disciplined approach and strategies described above led the Company to 2014 net operating earnings of \$59.9 million, or \$2.50 on a diluted earnings per share basis, a record high for the Company, and an increase of 8.6% and 4.6%, respectively, when compared to net operating earnings of \$55.2 million, or \$2.39 per diluted share for 2013. Net income for 2014 computed in accordance with generally accepted accounting principles was \$59.8 million, or \$2.49 on a diluted earnings per share basis, as compared to \$50.3 million, or \$2.18 for the prior year.

### 2015 Earnings Outlook

The Company anticipates 2015 diluted earnings per share performance to be in a range between \$2.63 and \$2.73.

Key assumptions in the 2015 outlook include:

- Total organic loan growth of 4-6%;
- Total organic deposit growth of 3-4%;
- A net interest margin in the high 3.30%'s range;
- Stable asset quality outlook, with a provision for loan loss in the range of \$10-\$13 million and net charge-offs in the range of \$8-\$11 million;
- Noninterest income growing by 3-4%, excluding the addition of Peoples Federal;
- Noninterest expense increasing by 3-4%, excluding the addition of Peoples Federal;
- An effective tax rate slightly higher than the 28.5% realized in 2014; and,
- Tangible Common Equity ratio increasing to a range of 7.75% to 8.00% by the end of 2015.

Table of Contents

## 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 income taxes, along with the impact of noncore items shown in the table that follows. The Company's financial performance is determined in accordance with Generally Accepted Accounting Principles 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 on life insurance benefits, 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.

Non-GAAP operating earnings should not be considered a substitute for GAAP results. An item which management deems to be noncore and excludes when computing non-GAAP operating earnings can be of substantial importance to the Company's results for any particular quarter or year. The Company's non-GAAP operating 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:

	Net Income		Diluted Earnings Per Share	
	2014	2013	2014	2013
As reported (GAAP)				
Net income	\$59,845	\$50,254	\$2.49	\$2.18
Non-GAAP measures				
Noninterest income components				
Gain on extinguishment of debt, net of tax	—	(451)	—	(0.02)
Gain on life insurance benefits, tax exempt	(1,964)	(227)	(0.08)	(0.01)
Gain on sale of fixed income securities, net of tax	(72)	(153)	—	(0.01)
Noninterest expense components				
Goodwill impairment, net of tax	—	—	—	—
Impairment on acquired facilities, net of tax	310	—	0.01	—
Loss on sale of fixed income securities, net of tax	13	—	—	—
Loss on termination of derivatives, net of tax	663	—	0.03	—
Merger and acquisition expenses, net of tax	1,105	5,564	0.05	0.24
Prepayment fees on borrowings, net of tax	—	—	—	—
Severance, net of tax	—	192	—	0.01
Total impact of noncore items	55	4,925	0.01	0.21
As adjusted (non-GAAP)	\$59,900	\$55,179	\$2.50	\$2.39



Table of Contents

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

	Years Ended December 31					
	2014	2013	2012	2011	2010	
	(Dollars in thousands)					
Net interest income	\$196,042	\$182,578	\$172,799	\$167,079	\$163,961	(a)
Noninterest income (GAAP)	\$69,943	\$68,009	\$62,016	\$52,700	\$46,906	(b)
Gain on extinguishment of debt	—	(763 )	—	—	—	
Gain on life insurance benefits	(1,964 )	(227 )	(1,307 )	—	—	
Gain on sale of fixed income securities	(121 )	(258 )	(5 )	(723 )	(458 )	
Noninterest income on an operating basis	\$67,858	\$66,761	\$60,704	\$51,977	\$46,448	(c)
Noninterest expense (GAAP)	\$171,838	\$173,649	\$159,459	\$145,713	\$139,745	(d)
Goodwill impairment	—	—	(2,227 )	—	—	
Impairment on acquired facilities	(524 )	—	—	—	—	
Loss on sale of fixed income securities	(21 )	—	—	—	—	
Loss on termination of derivatives	(1,122 )	—	—	—	(554 )	
Merger & acquisition	(1,339 )	(8,685 )	(6,741 )	—	—	
Severance	—	(325 )	—	—	—	
Prepayment fees on borrowings	—	—	(7 )	(757 )	—	
Noninterest expense on an operating basis	\$168,832	\$164,639	\$150,484	\$144,956	\$139,191	(e)
Total revenue (GAAP)	\$265,985	\$250,587	\$234,815	\$219,779	\$210,867	(a+b)
Total operating revenue	\$263,900	\$249,339	\$233,503	\$219,056	\$210,409	(a+c)
Ratios						
Efficiency ratio (GAAP)	64.60	% 69.30	% 67.91	% 66.30	% 66.27	% (d/(a+b))
Operating efficiency ratio	63.98	% 66.03	% 64.45	% 66.17	% 66.15	% (e/(a+c))
Noninterest income as a % of revenue	26.30	% 27.14	% 26.41	% 23.98	% 22.24	% (b/(a+b))
Noninterest income as a % of revenue on an operating basis	25.71	% 26.78	% 26.00	% 23.73	% 22.08	% (c/(a+c))

The following table summarizes the the calculation of the Company's tangible book value for the periods indicated:

	Years Ended December 31					
	2014	2013	2012	2011	2010	
	(Dollars in Thousands)					
Stockholders' equity	640,527	591,540	529,320	469,057	436,472	(a)
Goodwill and core deposit intangibles	180,306	182,642	162,144	140,722	141,956	(b)
Common shares	23,998,738	23,805,984	22,774,009	21,499,768	21,220,801	(c)
Tangible book value per share	\$19.18	\$17.18	\$16.12	\$15.27	\$13.88	((a-b)/c)





Table of Contents

## Financial Position

**Securities Portfolio** The Company's securities portfolio may consist of trading securities, securities available for sale, and securities which management intends to hold until maturity. Securities increased by \$16.5 million, or 2.3%, at December 31, 2014 as compared to December 31, 2013. The ratio of securities to total assets as of December 31, 2014 was 11.4%, compared to 11.6% at December 31, 2013.

The Company continually reviews investment securities for the presence of other-than-temporary impairment ("OTTI"). For debt securities, the primary consideration in determining whether impairment is OTTI is whether or not the Bank expects to collect all contractual cash flows. Further analysis of the Company's OTTI can be found in Note 3, "Securities" within Notes to Consolidated Financial Statements included in Item 8 hereof.

The following table sets forth the fair value of available for sale securities and the amortized cost of held to maturity securities along with the percentage distribution:

Table 1 — Securities Portfolio Composition

	December 31			2013			2012		
	Amount	Percent		Amount	Percent		Amount	Percent	
(Dollars in thousands)									
Fair value of securities available for sale									
U.S. government agency securities	\$41,486	11.9	%	\$40,449	11.3	%	\$20,822	6.3	%
Agency mortgage-backed securities	217,678	62.5	%	234,591	65.8	%	221,425	67.2	%
Agency collateralized mortgage obligations	63,035	18.1	%	58,153	16.3	%	68,376	20.8	%
Private mortgage-backed securities	—	—	%	—	—	%	3,532	1.1	%
State, county and municipal securities	5,223	1.5	%	5,412	1.5	%	—	—	%
Single issuer trust preferred securities issued by banks	2,909	0.8	%	2,952	0.8	%	2,240	0.7	%
Pooled trust preferred securities issued by banks and insurers	6,321	1.8	%	3,841	1.1	%	2,981	0.9	%
Equity securities	11,902	3.4	%	11,464	3.2	%	9,910	3.0	%
Total fair value of securities available for sale	\$348,554	100.0	%	\$356,862	100.0	%	\$329,286	100.0	%
Amortized Cost of Securities Held to Maturity									
U.S. treasury securities	\$1,010	0.3	%	\$1,011	0.3	%	\$1,013	0.6	%
Agency mortgage-backed securities	159,522	42.5	%	155,067	44.2	%	72,360	40.6	%
Agency collateralized mortgage obligations	207,995	55.4	%	187,388	53.5	%	97,507	54.6	%
State, county and municipal securities	424	0.1	%	678	0.2	%	915	0.5	%
Single issuer trust preferred securities issued by banks	1,500	0.4	%	1,503	0.4	%	1,516	0.9	%
Corporate debt securities	5,002	1.3	%	5,005	1.4	%	5,007	2.8	%
Total amortized cost of securities held to maturity	\$375,453	100.0	%	\$350,652	100.0	%	\$178,318	100.0	%
Total	\$724,007			\$707,514			\$507,604		

The Company's available for sale securities are carried at fair value and are categorized within the fair value hierarchy based on the observability of model inputs. Securities which require inputs that are both significant to the fair value measurement and unobservable are classified as Level 3. As of December 31, 2014 and 2013, the Company had \$6.3

million and \$3.8 million of securities categorized as Level 3.

36

---

Table of Contents

The following tables set forth contractual maturities of the Bank's securities portfolio at December 31, 2014. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table 2 — Securities Portfolio, Amounts Maturing

	Within One Year		One year to Five Years		Five Years to Ten Years		Over Ten Years		Total	
	Weighted Amount	Average Yield	Weighted Amount	Average Yield	Weighted Amount	Average Yield	Weighted Amount	Average Yield	Weighted Amount	Weighted Average Yield
	(Dollars in thousands)									
Fair value of securities available for sale										
U.S. government agency securities	\$—	—	\$21,359	1.3 %	\$20,127	2.1 %	\$—	—	\$41,486	1.7 %
Agency mortgage-backed securities	—	—	13,571	4.5 %	67,320	2.6 %	136,787	3.2 %	217,678	3.1 %
Agency collateralized mortgage obligations	—	—	855	4.1 %	147	0.9 %	62,033	1.9 %	63,035	2.0 %
State, county and municipal securities	—	—	1,034	1.6 %	3,466	2.5 %	723	2.2 %	5,223	2.2 %
Single issuer trust preferred securities issued by banks	—	—	—	—	—	—	2,909	5.6 %	2,909	5.6 %
Pooled trust preferred securities issued by banks and insurers	—	—	—	—	—	—	6,321	1.0 %	6,321	1.0 %
Equity securities(1)	—	—	—	—	—	—	11,902	—	11,902	—
Total fair value of securities available for sale	\$—	— %	\$36,819	2.6 %	\$91,060	2.5 %	\$220,675	2.8 %	\$348,554	2.7 %
Amortized cost of securities held to maturity										
U.S. Treasury securities	\$—	—	\$—	—	\$1,010	3.0 %	\$—	—	\$1,010	3.0 %
Agency mortgage-backed securities	—	—	228	5.5 %	24,800	2.4 %	134,494	3.0 %	159,522	2.9 %
Agency collateralized mortgage obligations	—	—	—	—	5,995	2.9 %	202,000	2.3 %	207,995	2.4 %
State, county and municipal securities	200	4.7 %	224	4.8 %	—	—	—	—	424	4.8 %
Single issuer trust preferred securities issued by banks	—	—	—	—	—	—	1,500	8.3 %	1,500	8.3 %
Corporate debt securities	—	—	5,002	3.4 %	—	—	—	—	5,002	3.4 %
Total amortized cost of securities held to	\$200	4.7 %	\$5,454	3.5 %	\$31,805	2.5 %	\$337,994	2.6 %	\$375,453	2.6 %

maturity

Total \$200 4.7 % \$42,273 2.7 % \$122,865 2.5 % \$558,669 4.3 % \$724,007 2.6 %

(1) Equity securities have no contractual maturity and typically do not pay contractual interest or dividend income, therefore they are reported above in the over ten year maturity column with no weighted average yield.

As of December 31, 2014, the weighted average life of the securities portfolio was 4.7 years and the modified duration was 4.2 years.

Table of Contents

**Residential Mortgage Loan Sales** The Company's primary loan sale activity arises from the sale of government sponsored enterprise eligible residential mortgage loans to government sponsored agencies and other financial institutions. During 2014 and 2013, the Bank originated residential loans with the intention of selling them in the secondary market, and to a lesser extent, to hold in the Company's residential portfolio. When a loan is sold, the Company enters into agreements that contain representations and warranties about the characteristics of the loans sold and their origination. The Company may be required to either repurchase mortgage loans or to indemnify the purchaser from losses if representations and warranties are breached. The Company has established a reserve of \$250,000 at December 31, 2014 related to such losses. At December 31, 2013 there was no reserve recognized.

The following table shows the total residential loans that were closed and whether the amounts were held in the portfolio or sold/held for sale in the secondary market during the period indicated:

Table 3 — Closed Residential Real Estate Loans

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Held in portfolio	\$67,888	\$31,839	\$47,205
Sold or held for sale in the secondary market	147,648	260,950	373,063
Total closed loans	\$215,536	\$292,789	\$420,268

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

Table 4 — Residential Mortgage Loan Sales

	December 31	
	2014	2013
	(Dollars in thousands)	
Sold with servicing rights released	\$30,639	\$210,073
Sold with servicing rights retained	115,288	87,229
Total loans sold	\$145,927	\$297,302

As noted in the table above, loans may be sold with servicing rights released or with servicing rights retained. Upon sale with servicing rights retained, the mortgage servicing asset is established, which represents the then current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Servicing rights are recorded in other assets in the consolidated balance sheets, are amortized in proportion to and over the period of estimated net servicing income, and are assessed for impairment based on fair value at each reporting date. Impairment is determined by stratifying the rights based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. The principal balance of loans serviced by the Bank on behalf of investors amounted to \$403.0 million at December 31, 2014 and \$331.4 million at December 31, 2013.

Table of Contents

The following table shows the adjusted cost of the servicing rights associated with these loans and the changes for the periods indicated:

Table 5 — Mortgage Servicing Asset

	2014	2013
	(Dollars in thousands)	
Beginning balance	\$2,368	\$899
Additions	1,045	800
Acquired portfolio	—	760
Amortization	(602	) (462
Change in valuation allowance	101	371
Ending balance	\$2,912	\$2,368

Forward sale contracts of mortgage loans and forward to-be-announced ("TBA") mortgage contracts, considered derivative instruments for accounting purposes, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain one-to-four family residential mortgage loans, an interest rate lock commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans, resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to various investors, or forward TBA mortgage contracts are entered into with a counterparty, which economically hedges this market risk. See Note 11, "Derivatives and Hedging Activities" within Notes to Consolidated Financial Statements included in Item 8 hereof for more information on mortgage activity and mortgage related derivatives.

**Loan Portfolio** Management continues to focus on growth in the commercial and home equity lending categories. Management believes this emphasis is prudent, given the prevailing interest rate and economic environment, as well as strategic priorities. The following table sets forth information concerning the composition of the Bank's loan portfolio by loan type at the dates indicated:

Table 6 — Loan Portfolio Composition

	December 31		2013		2012		2011		2010	
	(Dollars in thousands)									
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial and industrial	\$860,839	17.3 %	\$784,202	16.6 %	\$687,511	15.2 %	\$575,716	15.2 %	\$502,952	14.1 %
Commercial real estate	2,347,323	47.2 %	2,249,260	47.7 %	2,122,153	46.9 %	1,847,654	48.6 %	1,717,118	48.4 %
Commercial construction	265,994	5.4 %	223,859	4.7 %	188,768	4.2 %	128,904	3.4 %	129,421	3.6 %
Small business	85,247	1.7 %	77,240	1.6 %	78,594	1.7 %	78,509	2.1 %	80,026	2.3 %
Residential real estate	530,259	10.7 %	541,443	11.5 %	612,881	13.6 %	426,201	11.3 %	478,111	13.4 %
Home equity	863,863	17.4 %	822,141	17.5 %	802,149	17.8 %	696,063	18.3 %	579,278	16.3 %
Other consumer	17,208	0.3 %	20,162	0.4 %	26,955	0.6 %	41,343	1.1 %	68,773	1.9 %

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Gross loans	4,970,733	100.0%	4,718,307	100.0%	4,519,011	100.0%	3,794,390	100.0%	3,555,679	100.0%
Allowance for loan losses	55,100		53,239		51,834		48,260		46,255	
Net loans	\$4,915,633		\$4,665,068		\$4,467,177		\$3,746,130		\$3,509,424	

Table of Contents

The following table sets forth the scheduled contractual amortization of the Bank's loan portfolio at December 31, 2014. Loans having no schedule of repayments or no stated maturity are reported as being due in greater than five years. The following table also sets forth the rate structure of loans scheduled to mature after one year:

Table 7 — Scheduled Contractual Loan Amortization

	December 31, 2014							
	Commercial	Commercial	Commercial	Small	Residential		Consumer	Total
		Real Estate	Construction	Business	Real Estate	Home Equity	Other	
			(1)					
	(Dollars in thousands)							
Amounts due in:								
One year or less	\$247,258	\$537,011	\$74,430	\$27,945	\$17,589	\$22,582	\$10,834	\$937,649
After one year through five years	385,748	1,235,517	146,401	33,829	78,312	94,465	4,776	1,979,048
Beyond five years	227,833	574,795	45,163	23,473	434,358	746,816	1,598	2,054,036
Total	\$860,839	\$2,347,323	\$265,994	\$85,247	\$530,259	\$863,863	\$17,208	\$4,970,733
Interest rate terms on amounts due after one year:								
Fixed rate	\$240,540	\$590,361	\$57,828	\$33,309	\$364,886	\$330,079	\$6,374	1,623,377
Adjustable rate	373,041	1,219,951	133,736	23,993	147,784	511,202	—	2,409,707

(1) Includes certain construction loans that will convert to commercial mortgages and will be reclassified to commercial real estate upon the completion of the construction phase.

As of December 31, 2014, \$17.2 million of loans scheduled to mature within one year were nonperforming. Generally, the actual maturity of loans is substantially shorter than their contractual maturity due to prepayments and, in the case of real estate loans, due-on-sale clauses, which generally gives the Bank the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells the property subject to the mortgage and the loan is not repaid. The average life of real estate loans tends to increase when current real estate loan rates are higher than rates on mortgages in the portfolio and, conversely, tends to decrease when rates on mortgages in the portfolio are higher than current real estate loan rates. Under the latter scenario, the weighted average yield on the portfolio tends to decrease as higher yielding loans are repaid or refinanced at lower rates. Due to the fact that the Bank may, consistent with industry practice, renew a significant portion of commercial and commercial real estate loans at or immediately prior to their maturity by renewing the loans on substantially similar or revised terms, the principal repayments actually received by the Bank are anticipated to be significantly less than the amounts contractually due in any particular period. In other circumstances, a loan, or a portion of a loan, may not be repaid due to the borrower's inability to satisfy the contractual obligations of the loan.

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

**Delinquency** The Bank's philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. The Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. Generally, the Bank requires that a delinquency notice be mailed to a borrower upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices may be sent and telephone calls may be made prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of a



delinquency notice, the Bank's personnel charged with managing its loan portfolios contact the borrower to ascertain the reasons for delinquency and the prospects for payment. Any subsequent actions taken to resolve the delinquency will depend upon the nature of the loan and the length of time that the loan has been delinquent. The borrower's needs are considered as much as reasonably possible without jeopardizing the Bank's position. A late charge is usually assessed on loans upon expiration of the grace period.

**Nonaccrual Loans** As a general rule, within commercial real estate or home equity categories, loans more than 90 days past due with respect to principal or interest are classified as nonaccrual loans. As permitted by banking regulations, certain consumer loans past due 90 days or more continue to accrue interest. In addition, certain commercial and real estate loans that are more than 90 days past due may be kept on an accruing status if the loans are well secured and in the process of collection. The Company may also put a junior lien mortgage on nonaccrual status as a result of delinquency with respect to the first position,

Table of Contents

which is held by another financial institution, while the junior lien is currently performing. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. A loan remains on nonaccrual status until it becomes current with respect to principal and interest (and in certain instances remains current for up to six months), the loan is liquidated, or when the loan is determined to be uncollectible and is charged-off against the allowance for loan losses.

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

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

**Purchased Credit Impaired Loans** Purchased Credit Impaired ("PCI") loans are acquired loans which had evidence of deterioration in credit quality at the purchase date and for which it is probable that all contractually required payments will not be collected. PCI loans are recorded at fair value without any carryover of the allowance for loan losses. The excess cash flows expected to be collected over the carrying amount of the loans, referred to as the "accretable yield," is accreted into interest income over the life of the loans using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual in the same manner as originated loans, rather they are generally considered to be accruing loans because their interest income recognized relates to the accretable yield and not to contractual interest payments. See Note 4, "Loans, Allowance for Loan Losses and Credit Quality" within Notes to Consolidated Financial Statements included in Item 8 hereof for more information.

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

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

OREO consists of real estate properties, which have served as collateral to secure loans, that are controlled or owned by the Bank. These properties are recorded at fair value less estimated costs to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated costs to sell) of the foreclosed asset is charged to the allowance for loan losses. Subsequent declines in the

fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value are recorded as reductions in the valuation allowance, but not below zero. All costs incurred thereafter in maintaining the property are generally charged to noninterest expense. In the event the real estate is utilized as a rental property, net rental income and expenses are recorded as incurred within noninterest expense.

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

Table of Contents

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

Table 8 — Nonperforming Assets

	December 31					
	2014	2013	2012	2011	2010	
	(Dollars in thousands)					
Loans accounted for on a nonaccrual basis(1)						
Commercial and industrial	\$2,822	\$4,178	\$2,666	\$1,883	\$3,123	
Commercial real estate	7,590	11,834	6,574	13,109	9,836	
Small business	246	633	570	542	887	
Residential real estate	8,697	10,329	11,472	9,867	6,728	
Home equity	8,038	7,068	7,311	3,130	1,752	
Other consumer	—	92	121	381	505	
Total	\$27,393	\$34,134	\$28,714	\$28,912	\$22,831	
Loans past due 90 days or more but still accruing						
Residential real estate(2)	\$106	\$462	\$—	\$—	\$—	
Home equity	—	—	—	—	4	
Other consumer	13	63	52	41	273	
Total	\$119	\$525	\$52	\$41	\$277	
Total nonperforming loans	\$27,512	\$34,659	\$28,766	\$28,953	\$23,108	
Nonaccrual securities(3)	3,639	1,541	1,511	1,272	1,051	
Other assets in possession	—	167	176	266	61	
Other real estate owned	7,743	7,466	11,974	6,658	7,273	
Total nonperforming assets	\$38,894	\$43,833	\$42,427	\$37,149	\$31,493	
Nonperforming loans as a percent of gross loans	0.55	% 0.73	% 0.64	% 0.76	% 0.65	%
Nonperforming assets as a percent of total assets	0.61	% 0.72	% 0.74	% 0.75	% 0.67	%

(1) Included in these amounts were \$5.2 million, \$7.5 million, \$6.6 million, \$9.2 million, and \$4.0 million of TDRs on nonaccrual at December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

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

(3) Amounts represent the fair value of nonaccrual securities. The Company had five nonaccrual securities in 2014 and 2013, and six nonaccrual securities in 2012, 2011, and 2010.

Table of Contents

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

Table 9 — Activity in Nonperforming Assets

	Years Ended December 31	
	2014	2013
	(Dollars in thousands)	
Nonperforming assets beginning balance	\$43,833	\$42,427
New to nonperforming	29,737	56,288
Loans charged-off	(10,947 )	(10,518 )
Loans paid-off	(14,934 )	(26,617 )
Loans restored to accrual status	(5,488 )	(9,808 )
Loans transferred to other real estate owned/other assets	(5,248 )	(2,869 )
Change to other real estate owned:		
New to other real estate owned	\$5,248	\$2,869
Acquired other real estate owned	—	419
Valuation write down	(736 )	(1,483 )
Sale of other real estate owned	(7,445 )	(8,854 )
Capital improvements to other real estate owned	3,255	2,541
Total change to other real estate owned	322	(4,508 )
Net change in nonaccrual securities	2,098	31
Other	(479 )	(593 )
Nonperforming assets ending balance	\$38,894	\$43,833

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

Table 10 — Troubled Debt Restructurings

	December 31					
	2014	2013	2012	2011	2010	
	(Dollars in thousands)					
Performing troubled debt restructurings	\$38,382	\$38,410	\$46,764	\$37,151	\$26,091	
Nonaccrual troubled debt restructurings	5,248	7,454	6,554	9,230	3,982	
Total	\$43,630	\$45,864	\$53,318	\$46,381	\$30,073	
Performing troubled debt restructurings as a % of total loans	0.77	% 0.81	% 1.03	% 0.98	% 0.73	%
Nonaccrual troubled debt restructurings as a % of total loans	0.11	% 0.16	% 0.15	% 0.24	% 0.11	%
Total troubled debt restructurings as a % of total loans	0.88	% 0.97	% 1.18	% 1.22	% 0.84	%

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

Table 11 — Activity in Troubled Debt Restructurings

	December 31	
	2014	2013
	(Dollars in thousands)	
TDRs beginning balance	\$45,864	\$53,318
New to TDR status	6,007	6,789
Paydowns	(5,693 )	(13,307 )
Charge-offs	(2,548 )	(936 )
Loans removed from TDR status	—	—
TDRs ending balance	\$43,630	\$45,864



Table of Contents

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

Table 12 — Interest Income Recognized/Collected on Nonaccrual Loans and Troubled Debt Restructurings

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
The amount of incremental gross interest income that would have been recorded if nonaccrual loans had been current in accordance with their original terms	\$1,580	\$2,154	\$2,022
The amount of interest income on nonaccrual loans and performing TDRs that was included in net income	2,419	2,510	2,879

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.

Impaired loans include 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. Impairment is measured on a loan by loan basis 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.

Total impaired loans at December 31, 2014 and 2013 were \$58.0 million and \$72.1 million, respectively. For additional information regarding the Bank's asset quality, including delinquent loans, nonaccruals, TDRs, and impaired loans, see Note 4, "Loans, Allowance for Loan Losses, and Credit Quality" within Notes to Consolidated Financial Statements included in Item 8 hereof.

Potential problem loans are any loans which are not included in nonaccrual or nonperforming loans, where known information about possible credit problems of the borrowers causes management to have concerns as to the ability of such borrowers to comply with present loan repayment terms. At December 31, 2014, there were 71 relationships, with an aggregate balance of \$61.0 million, deemed to be potential problem loans. These potential problem loans continued to perform with respect to payments. Management actively monitors these loans and strives to minimize any possible adverse impact to the Bank.

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

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on increases in nonperforming loans, changes in economic conditions, or for other reasons. Additionally, various regulatory agencies, as an integral part of the Bank's examination process, periodically assess the appropriateness of the allowance for loan losses and may require it to increase its provision for loan losses or

recognize further loan charge-offs, in accordance with U.S. GAAP.

As of December 31, 2014, the allowance for loan losses totaled \$55.1 million, or 1.11% of total loans, as compared to \$53.2 million, or 1.13% of total loans, at December 31, 2013.



Table of Contents

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

Table 13 — Summary of Changes in the Allowance for Loan Losses

	December 31					
	2014	2013	2012	2011	2010	
	(Dollars in thousands)					
Average total loans	\$4,871,197	\$4,556,351	\$4,022,349	\$3,681,418	\$3,434,769	
Allowance for loan losses, beginning of year	\$53,239	\$51,834	\$48,260	\$46,255	\$42,361	
Charged-off loans:						
Commercial and industrial	2,097	2,683	6,191	2,888	5,170	
Commercial real estate	5,454	3,587	4,348	2,631	3,448	
Commercial construction	—	308	—	769	1,716	
Small business	605	773	616	1,190	2,279	
Residential real estate	826	622	1,094	559	557	
Home equity	750	1,370	3,178	1,626	939	
Other consumer	1,215	1,175	1,165	1,678	2,078	
Total charged-off loans	10,947	10,518	16,592	11,341	16,187	
Recoveries on loans previously charged-off						
Commercial and industrial	462	272	963	420	361	
Commercial real estate	404	206	188	97	1	
Commercial construction	—	100	—	500	—	
Small business	275	279	134	160	217	
Residential real estate	424	143	151	—	59	
Home equity	249	135	93	52	131	
Other consumer	591	588	581	635	657	
Total recoveries	2,405	1,723	2,110	1,864	1,426	
Net loans charged-off						
Commercial and industrial	1,635	2,411	5,228	2,468	4,809	
Commercial real estate	5,050	3,381	4,160	2,534	3,447	
Commercial construction	—	208	—	269	1,716	
Small business	330	494	482	1,030	2,062	
Residential real estate	402	479	943	559	498	
Home equity	501	1,235	3,085	1,574	808	
Other consumer	624	587	584	1,043	1,421	
Total net loans charged-off	8,542	8,795	14,482	9,477	14,761	
Provision for loan losses	10,403	10,200	18,056	11,482	18,655	
Total allowances for loan losses, end of year	\$55,100	\$53,239	\$51,834	\$48,260	\$46,255	
Net loans charged-off as a percent of average total loans	0.18	% 0.19	% 0.36	% 0.26	% 0.43	%
Allowance for loan losses as a percent of total loans	1.11	% 1.13	% 1.15	% 1.27	% 1.30	%
Allowance for loan losses as a percent of nonperforming loans	200.28	% 153.61	% 180.19	% 166.68	% 200.17	%
Net loans charged-off as a percent of allowance for loan losses	15.50	% 16.52	% 27.94	% 19.64	% 31.91	%
	21.97	% 16.38	% 12.72	% 16.44	% 8.81	%

Recoveries as a percent of gross  
charge-offs

45

---

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 14 — Summary of Allocation of Allowance for Loan Losses

	December 31											
	2014		2013		2012		2011		2010			
	Allowance	Percent of	Allowance	Percent of	Allowance	Percent of	Allowance	Percent of	Allowance	Percent of	Allowance	Percent of
	Amount	Loans	Amount	Loans	Amount	Loans	Amount	Loans	Amount	Loans	Amount	Loans
		Category		Category		Category		Category		Category		Category
		To Total		To Total		To Total		To Total		To Total		To Total
		Loans		Loans		Loans		Loans		Loans		Loans
(Dollars in thousands)												
Allocated Allowance												
Commercial and industrial	\$15,573	17.3 %	\$15,622	16.6 %	\$13,461	15.2 %	\$11,682	15.2 %	\$10,423	14.1 %		
Commercial real estate	25,873	47.2 %	24,541	47.7 %	22,598	46.9 %	23,514	48.6 %	21,939	48.4 %		
Commercial construction	3,945	5.4 %	3,371	4.7 %	2,811	4.2 %	2,076	3.4 %	2,145	3.6 %		
Small business	1,171	1.7 %	1,215	1.6 %	1,524	1.7 %	1,896	2.1 %	3,740	2.3 %		
Residential real estate	2,834	10.7 %	2,760	11.5 %	2,930	13.6 %	3,113	11.3 %	2,915	13.4 %		
Home equity	4,956	17.4 %	5,036	17.5 %	7,703	17.8 %	4,597	18.3 %	3,369	16.3 %		
Other consumer	748	0.3 %	694	0.4 %	807	0.6 %	1,382	1.1 %	1,724	1.9 %		
Total	\$55,100	100.0 %	\$53,239	100.0 %	\$51,834	100.0 %	\$48,260	100.0 %	\$46,255	100.0 %		

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

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

For additional information regarding the Bank’s allowance for loan losses, see Note 1, “Summary of Significant Accounting Policies” and Note 4, “Loans, Allowance for Loan Losses, and Credit Quality” within Notes to Consolidated Financial Statements included in Item 8 hereof.

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

Table of Contents

**Goodwill and Identifiable Intangible Assets** Goodwill and Identifiable Intangible Assets were \$180.3 million and \$182.6 million at December 31, 2014 and December 31, 2013, respectively.

The Company typically performs its annual goodwill impairment testing during the third quarter of the year, unless certain indicators suggest earlier testing to be warranted. The Company performed its annual goodwill impairment testing during the third quarter of 2014 and determined that the Company's goodwill was not impaired. Identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. There were no events or changes that indicated impairment of identifiable intangible assets. For additional information regarding the goodwill and identifiable intangible assets, see Note 6, "Goodwill and Identifiable Intangible Assets" within Notes to Consolidated Financial Statements included in Item 8 hereof.

**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 \$109.9 million and \$100.4 million at December 31, 2014 and December 31, 2013, respectively, reflective of an additional \$10.0 million of policies purchased during 2014. The Bank recorded tax exempt income from the life insurance policies of \$3.1 million, \$3.2 million, and \$3.1 million in 2014, 2013, and 2012, respectively. Also during 2014, 2013, and 2012, the Company recognized gains on life insurance benefits in the amount of \$1.9 million, \$227,000, and \$1.3 million, respectively. These gains are also tax-exempt income to the Company.

**Deposits** As of December 31, 2014, deposits of \$5.2 billion were \$224.0 million, or 4.5%, higher than the prior year-end. The growth in deposits was fueled primarily by increases in business deposits from commercial loan customers, as well as small business customers, inflows of municipal deposits and higher consumer deposits. Time deposits decreased by 12.6%, as the Company continues to focus on core deposits. Core deposits, which the Company defines as nontime and nonbrokered deposits, increased by \$318.1 million, or 7.5%, during 2014 and now comprise 87.3% of total deposits.

The following table sets forth the average balances of the Bank's deposits for the periods indicated:

Table 15 — Average Balances of Deposits

	December 31			2013		2012			
	2014			Amount	Percent	Amount	Percent		
	Amount	Percent							
	(Dollars in thousands)								
Demand deposits	\$1,422,510	27.4	%	\$1,271,616	27.5	%	\$1,070,577	26.7	%
Savings and interest checking	2,087,973	40.3	%	1,735,211	37.6	%	1,484,758	37.1	%
Money market	972,664	18.8	%	887,936	19.2	%	803,656	20.1	%
Time certificates of deposits	698,070	13.5	%	724,644	15.7	%	646,873	16.1	%
Total	\$5,181,217	100.0	%	\$4,619,407	100.0	%	\$4,005,864	100.0	%

The following table sets forth the maturities of the Bank's time certificates of deposits in the amount of \$100,000 or more as of December 31, 2014:

Table 16 — Maturities of Time Certificates of Deposits \$100,000 and Over

	Balance	Percentage	
	(Dollars in thousands)		
1 to 3 months	\$73,776	29.0	%
4 to 6 months	45,829	18.0	%
7 to 12 months	64,984	25.5	%
Over 12 months	70,129	27.5	%
Total	\$254,718	100.0	%

Table of Contents

The Bank also participates in the Certificate of Deposit Registry Service ("CDARS") program, allowing the Bank to provide easy access to multi-million dollar FDIC deposit insurance protection on certificate of deposits investments for consumers, businesses and public entities. In addition, the Bank may occasionally raise funds through brokered certificates of deposit. This channel allows the Bank to seek additional funding in potentially large quantities by attracting deposits from outside the Bank's core market.

The following table sets forth the Bank's brokered deposits as of the dates indicated:

Table 17 — Brokered Deposits

	December 31	
	2014	2013
	(Dollars in thousands)	
CDARS	\$44,855	\$53,748
Brokered certificates of deposit	11,058	13,753
Brokered money market	10,000	10,000
Total brokered deposits	\$65,913	\$77,501

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

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

The following table sets forth the balance of borrowings at the periods indicated:

Table 18 — Borrowings by Category

	December 31			
	2014	2013	% Change	
	(Dollars in thousands)			
Federal home loan bank borrowings	\$70,080	\$140,294	(50.0)	)%
Customer repurchase agreements and other short-term borrowings	147,890	154,288	(4.1)	)%
Wholesale repurchase agreements	50,000	50,000	—	%
Junior subordinated debentures	73,685	73,906	(0.3)	)%
Subordinated debentures	65,000	30,000	116.7	%
Total	\$406,655	\$448,488	(9.3)	)%

See Note 8, "Borrowings" within Notes to Consolidated Financial Statements included in Item 8 hereof for more information regarding borrowings.

**Capital Resources** The Federal Reserve Board (Federal Reserve), the FDIC, and other regulatory agencies have established capital guidelines for banks and bank holding companies. Risk-based capital guidelines issued by the federal regulatory agencies require banks to meet a minimum Tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0%. A minimum requirement of 4.0% Tier 1 leverage capital is also mandated. At December 31, 2014, the Company and the Bank exceeded the minimum requirements for Tier 1 risk-based, total risk-based capital, and Tier 1 leverage capital. See Note 19, "Regulatory Matters" within Notes to Consolidated Financial Statements included in Item 8 hereof for more information regarding capital requirements.



Table of Contents

## Results of Operations

Table 19 — Summary of Results of Operations

	Years Ended December 31			
	2014	2013		
	(Dollars in thousands)			
Net income	\$59,845	\$50,254		
Diluted earnings per share	\$2.49	\$2.18		
Return on average assets	0.95	% 0.87		%
Return on average equity	9.66	% 9.09		%
Stockholders' equity as % of assets	10.06	% 9.70		%
Net Interest Margin	3.45	% 3.51		%

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

On a fully tax-equivalent basis, net interest income was \$197.4 million in 2014, a 7.5% increase from 2013 net interest income of \$183.5 million.

The following table presents the Company's average balances, net interest income, interest rate spread, and net interest margin for 2014, 2013, and 2012. Nontaxable income from loans and securities is presented on a fully tax-equivalent basis by adjusting tax-exempt income upward by an amount equivalent to the prevailing income taxes that would have been paid if the income had been fully taxable.

Table 20 — Average Balance, Interest Earned/Paid &amp; Average Yields

	Years Ended December 31									
	2014			2013			2012			
	AVERAGE BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD	AVERAGE BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD	AVERAGE BALANCE	AVERAGE BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD
	(Dollars in thousands)									
Interest-earning assets										
Interest-earning deposits with banks, federal funds sold, and short term investments	\$111,764	\$279	0.25 %	\$80,349	\$200	0.25 %	\$54,483	\$132	0.24 %	
Securities										
Trading assets	—	—	— %	—	—	— %	1,365	37	2.71 %	
Taxable investment securities	713,969	18,610	2.61 %	566,764	15,137	2.67 %	524,466	16,643	3.17 %	
Nontaxable investment securities(1)	5,944	233	3.92 %	1,523	88	5.78 %	1,746	140	8.02 %	
Total securities	719,913	18,843	2.62 %	568,287	15,225	2.68 %	527,577	16,820	3.19 %	
Loans held for sale	11,125	405	3.64 %	27,693	774	2.79 %	29,928	988	3.30 %	
Loans(2)										



Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Commercial and industrial	837,618	32,442	3.87 %	736,814	29,241	3.97 %	625,789	25,309	4.04 %
Commercial real estate (1)	2,306,901	97,971	4.25 %	2,166,073	96,165	4.44 %	1,923,602	93,582	4.86 %
Commercial construction	249,389	10,682	4.28 %	218,894	9,066	4.14 %	159,271	6,698	4.21 %
Small business	79,736	4,431	5.56 %	76,700	4,272	5.57 %	79,092	4,509	5.70 %
Total commercial	3,473,644	145,526	4.19 %	3,198,481	138,744	4.34 %	2,787,754	130,098	4.67 %
Residential real estate	538,171	21,462	3.99 %	534,696	21,179	3.96 %	436,737	18,330	4.20 %
Home equity	841,710	29,568	3.51 %	800,646	28,712	3.59 %	765,228	28,124	3.68 %
Total consumer real estate	1,379,881	51,030	3.70 %	1,335,342	49,891	3.74 %	1,201,965	46,454	3.86 %
Other consumer	17,672	1,732	9.80 %	22,528	2,047	9.09 %	32,630	2,785	8.54 %
Total loans	4,871,197	198,288	4.07 %	4,556,351	190,682	4.18 %	4,022,349	179,337	4.46 %
Total									
Interest-Earning Assets	\$5,713,999	\$217,815	3.81 %	\$5,232,680	\$206,881	3.95 %	\$4,634,337	\$197,277	4.26 %
Cash and Due from Banks	113,394			127,171			67,085		
Federal Home Loan Bank Stock	36,467			39,416			35,155		
Other Assets	422,598			400,805			377,450		
Total Assets	\$6,286,458			\$5,800,072			\$5,114,027		

Table of Contents

Interest-bearing liabilities										
Deposits										
Savings and interest checking accounts	\$2,087,973	\$3,573	0.17 %	\$1,735,211	\$3,107	0.18 %	\$1,484,758	\$2,820	0.19 %	
Money market	972,664	2,487	0.26 %	887,936	2,271	0.26 %	803,656	2,461	0.31 %	
Time certificates of deposits	698,070	4,979	0.71 %	724,644	5,246	0.72 %	646,873	5,422	0.84 %	
Total interest bearing deposits	3,758,707	11,039	0.29 %	3,347,791	10,624	0.32 %	2,935,287	10,703	0.36 %	
Borrowings										
Federal Home Loan Bank borrowings	100,631	2,784	2.77 %	245,392	5,446	2.22 %	224,553	5,277	2.35 %	
Customer repurchase agreements and other short-term borrowings	144,358	200	0.14 %	150,286	276	0.18 %	160,589	325	0.20 %	
Wholesale repurchase agreements	50,000	1,158	2.32 %	50,000	1,158	2.32 %	50,000	1,162	2.32 %	
Junior subordinated debentures	73,797	4,008	5.43 %	74,017	4,049	5.47 %	63,549	3,749	5.90 %	
Subordinated debt	34,315	1,228	3.58 %	30,000	1,783	5.94 %	30,000	2,177	7.26 %	
Total borrowings	403,101	9,378	2.33 %	549,695	12,712	2.31 %	528,691	12,690	2.40 %	
Total interest-bearing liabilities	\$4,161,808	\$20,417	0.49 %	\$3,897,486	\$23,336	0.60 %	\$3,463,978	\$23,393	0.68 %	
Demand deposits	1,422,510			1,271,616			1,070,577			
Other liabilities	82,310			78,392			87,104			
Total liabilities	\$5,666,628			\$5,247,494			\$4,621,659			
Stockholders' equity	619,830			552,578			492,368			
Total liabilities and stockholders' equity	\$6,286,458			\$5,800,072			\$5,114,027			
Net interest income(1)		\$197,398			\$183,545			\$173,884		
Interest rate spread(3)			3.32 %			3.35 %			3.58 %	
Net interest margin(4)			3.45 %			3.51 %			3.75 %	
Supplemental Information										
Total deposits, including demand	\$5,181,217	\$11,039		\$4,619,407	\$10,624		\$4,005,864	\$10,703		

deposits						
Cost of total deposits		0.21 %		0.23 %		0.27 %
Total funding liabilities, including demand deposits	\$5,584,318	\$20,417	\$5,169,102	\$23,336	\$4,534,555	\$23,393
Cost of total funding liabilities		0.37 %		0.45 %		0.52 %

The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is \$1.4 million, \$967,000, and \$1.1 million in 2014, 2013, and 2012, respectively. The FTE adjustment relates to nontaxable (1) investment securities with average balances of \$5.9 million, \$1.5 million, and \$1.7 million, in 2014, 2013, and 2012, respectively, and nontaxable industrial development bonds with average balances of \$51.3 million, \$39.4 million, and \$36.3 million in 2014, 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 costs of interest-bearing liabilities.

(4) Net interest margin represents 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 prior year volume), (2) changes in volume (change in volume multiplied by prior year rate) and (3) changes in volume/rate (change in rate multiplied by change in volume) which is allocated to the change due to rate column:

Table 21 — Volume Rate Analysis

	Years Ended December 31								
	2014 Compared To 2013			2013 Compared To 2012			2012 Compared To 2011		
	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change
	(Dollars in thousands)								
Income on interest-earning assets									
Interest-earning deposits, federal funds sold and short term investments	\$1	\$78	\$79	\$5	\$63	\$68	\$(4)	\$(26)	\$(30)
Securities									
Trading assets	—	—	—	—	(37)	(37)	(10)	(238)	(248)
Taxable securities	(459)	3,932	3,473	(2,848)	1,342	(1,506)	(2,801)	(597)	(3,398)
Nontaxable securities(1)	(110)	255	145	(34)	(18)	(52)	9	(429)	(420)
Total securities			3,618			(1,595)			(4,066)
Loans held for sale	94	(463)	(369)	(140)	(74)	(214)	3	503	506
Loans									
Commercial and industrial	(799)	4,000	3,201	(558)	4,490	3,932	(1,250)	3,692	2,442
Commercial real estate	(4,446)	6,252	1,806	(9,213)	11,796	2,583	(6,882)	6,860	(22)
Commercial construction	353	1,263	1,616	(139)	2,507	2,368	(635)	1,528	893
Small business	(10)	169	159	(101)	(136)	(237)	(111)	14	(97)
Total commercial			6,782			8,646			3,216
Residential real estate	145	138	283	(1,262)	4,111	2,849	(1,266)	(867)	(2,133)
Home equity	(617)	1,473	856	(714)	1,302	588	(784)	4,893	4,109
Total consumer real estate			1,139			3,437			1,976
Total other consumer	126	(441)	(315)	124	(862)	(738)	244	(1,630)	(1,386)
Loans(1)(2)			7,606			11,345			3,806
Total			\$10,934			\$9,604			\$216
Expense of interest-bearing liabilities									
Deposits									
Savings and interest checking accounts	\$(166)	\$632	\$466	\$(189)	\$476	\$287	\$(703)	\$307	\$(396)
Money market	(1)	217	216	(448)	258	(190)	(904)	315	(589)
Time certificates of deposits	(75)	(192)	(267)	(828)	652	(176)	(1,563)	(104)	(1,667)
Total interest-bearing deposits			415			(79)			(2,652)
Borrowings									
Federal Home Loan Bank borrowings	551	(3,213)	(2,662)	(333)	534	201	(407)	(1,515)	(1,922)
Customer repurchase agreements and other	(65)	(11)	(76)	(54)	(27)	(81)	(273)	62	(211)

short-term borrowings									
Wholesale repurchase agreements	—	—	—	(4 )	—	(4 )	(586 )	—	(586 )
Junior subordinated debentures	(29 )	(12 )	(41 )	(317 )	617	300	(14 )	100	86
Subordinated debt	(811 )	256	(555 )	(394 )	—	(394 )	6	—	6
Total borrowings			(3,334 )			22			(2,627 )
Total			\$(2,919 )			\$(57 )			\$(5,279)
Change in net interest income			\$13,853			\$9,661			\$5,495

(1) The table above reflects income determined on a fully tax equivalent basis. See footnote (1) to table 20 above for the related adjustments.

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

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

Table of Contents

**Provision For Loan Losses** The provision for loan losses represents the charge to expense that is required to maintain an appropriate level of allowance for loan losses. The provision for loan losses totaled \$10.4 million in 2014, compared with \$10.2 million in 2013, an increase of \$203,000. The Company's allowance for loan losses, as a percentage of total loans, was 1.11% at year end, as compared to 1.13% at December 31, 2013. Net charge-offs for the year ended December 31, 2014 totaled \$8.5 million, a decrease of \$253,000 from the prior year.

Regional and local general economic conditions improved during 2014, as measured by employment levels, economic activity, and other regional economic indicators. Job growth has been steady and unemployment levels have decreased. Local residential real estate market fundamentals were mixed to improving in 2014. Rising residential home prices and stable to improving inventory was observed as the residential market has shifted from under supply to approaching equilibrium in greater Boston markets. In Rhode Island, sales volume and prices were lower compared to 2013. Lower oil and gas prices are benefiting consumers and lowering business costs in the region. Commercial real estate market conditions were steady to improving, with most markets experiencing unchanged to positive trends. Leading economic indicators suggest continued growth in the near term.

Management's periodic evaluation of the appropriate 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.

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

Table 22 — Noninterest Income

	Years Ended December 31				
	2014	2013	Change Amount	%	
	(Dollars in thousands)				
Deposit account fees	\$18,065	\$17,940	\$125	0.7	%
Interchange and ATM fees	12,975	10,883	2,092	19.2	%
Investment management	19,642	16,832	2,810	16.7	%
Mortgage banking income	3,384	6,734	(3,350)	(49.7)	)%
Increase in cash surrender value of life insurance policies	3,128	3,229	(101)	(3.1)	)%
Gain on life insurance benefits	1,964	227	1,737	765.2	%
Gain on extinguishment of debt	—	763	(763)	100.0	%
Loan level derivative income	2,477	3,439	(962)	(28.0)	)%
Gain on sales of fixed income securities	121	258	(137)	(53.1)	)%
Net gain (loss) on sale of equity securities	91	(28)	119	(425.0)	)%
Other noninterest income	8,096	7,732	364	4.7	%
Total	\$69,943	\$68,009	\$1,934	2.8	%

Noninterest income, which is generated by deposit account service charges, interchange and ATM fees, investment management services, mortgage banking activities, cash surrender value of life insurance, and miscellaneous other sources, amounted to \$69.9 million in 2014, a \$1.9 million, or 2.8%, increase from the prior year. The increase was partially driven by the full year impact of the Company's Mayflower acquisition, which occurred in the fourth quarter of the prior year. Additionally, the primary reasons for significant variances in the noninterest income category shown in the preceding table are noted below:

Interchange and ATM fees increased \$2.1 million, or 19.2%, due to an increase in fee structure as well as increased debit card usage by the Bank's customers, driven by increased promotion, marketing campaigns, and sales activity.

Investment management revenue increased by \$2.8 million, or 16.7%, for the year ended December 31, 2014, as compared to the same period in 2013. The increase is attributable to a 9.4% increase in assets under management, from \$2.3 billion at December 31, 2013 to \$2.5 billion at December 31, 2014, combined with strong retail sales.

Mortgage banking income decreased \$3.4 million, or 49.7%, due to significant declines in refinance related closing volumes.

52

---

Table of Contents

The Company recognized gains on life insurance benefits in the amount of \$2.0 million and \$227,000 during 2014 and 2013, respectively, which represented tax-exempt income to the Company.

During 2013 the Company recognized a gain on the extinguishment of debt of \$763,000 related to the repayment of \$60.0 million of Federal Home Loan Bank Advances, which were assumed as part of the acquisition of Central Bancorp, Inc. ("Central") in November 2012. During 2014 the Company did repay additional Federal Home Loan Bank Advances, but recognized no gains on the extinguishment of debt.

Loan level derivative income decreased by \$962,000, or 28.0%, for the year due to the mix of commercial loan closings during the year and related customer demand.

**Noninterest Expense** The following table sets forth information regarding noninterest expense for the periods shown:

Table 23 — Noninterest Expense

	Years Ended December 31		Change Amount	%	
	2014	2013			
	(Dollars in thousands)				
Salaries and employee benefits	\$94,044	\$89,894	\$4,150	4.6	%
Occupancy and equipment	21,820	19,650	2,170	11.0	%
Data processing and facilities management	4,765	4,748	17	0.4	%
Advertising	3,859	4,280	(421)	(9.8)	)%
FDIC assessment	3,770	3,579	191	5.3	%
Consulting	2,923	3,322	(399)	(12.0)	)%
Debit card fees	2,362	2,994	(632)	-21.1	%
Loss on sale of fixed income securities	21	—			
Merger & acquisitions	1,339	8,685	(7,346)	-84.6	%
Other noninterest expense	36,935	36,497	438	1.2	%
<b>Total</b>	<b>\$171,838</b>	<b>\$173,649</b>	<b>\$(1,832)</b>	<b>(1.1)</b>	<b>)%</b>

Inclusive of merger and acquisition costs, noninterest expense decreased by \$1.8 million, or 1.1%, during the year ended December 31, 2014 as compared to the same period in 2013. The decrease was partially driven by the full year impact of the Company's Mayflower acquisition, which occurred in the fourth quarter of the prior year. Additionally, the primary reasons for the variances in the noninterest expense category shown in the preceding tables are noted below:

Salaries and employee benefits increased by \$4.2 million, or 4.6%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, driven mainly by increases in the following categories; base salaries, commissions earned, performance based incentive compensation, post-retirement benefit expenses and payroll taxes. Occupancy and equipment expenses increased by \$2.2 million, or 11.0%, due to recognized impairment on certain fixed assets and increases in rent expense, office equipment expense and depreciation on real estates, as well as the previously noted full year impact of the Mayflower acquisition.

Advertising expenses decreased during 2014 due to a considerable media program that took place in the prior year.

Consulting expense decreased during 2014 due to the timing of certain initiatives.

Merger and acquisition expenses were \$1.3 million during 2014 mainly related to the previously announced Peoples acquisition, which closed in February 2015. During 2013, the Company incurred \$6.9 million of merger and acquisition expenses related to the Mayflower acquisition and \$1.8 million related to the Central acquisition.



Table of Contents

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

Table 24 — Tax Provision and Applicable Tax Rates

	December 31			
	2014	2013	2012	
	(Dollars in thousands)			
Combined federal and state income tax provisions	\$23,899	\$16,484	\$14,673	
Effective income tax rates	28.54	% 24.70	% 25.61	%
Blended Statutory tax rate	40.70	% 40.85	% 40.85	%

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

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

Table 25 — New Markets Tax Credit Recognition Schedule

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

The Company invests in various Low Income Housing Projects which are real estate limited partnerships that acquire, develop, own and operate low and moderate-income housing developments. As a limited partner in these operating partnerships, the Company will receive tax credits and tax deductions for losses incurred by the underlying properties. The investments are accounted for using the proportional amortization method and will be amortized over various periods through 2030, which represents the period that the tax credits and other tax benefits will be utilized. The total committed investment in these partnerships is \$40.5 million, of which \$12.5 million has been funded. The Company recognized a net tax benefit of approximately \$594,000 for the 2014 calendar year, and anticipates a total of net tax benefits of \$14.9 million over the remaining life of the investments.

For additional information related to the Company's income taxes see Note 13, "Income Taxes" and Note 14, "Low Income Housing Project Investments" within Notes to the Consolidated Financial Statements included in Item 8 hereof.

**Dividends** The Company declared cash dividends of \$0.96 per common share in 2014 and \$0.88 in 2013. The 2014 and 2013 ratio of dividends paid to earnings was 38.37% and 30.09%, respectively.

Since substantially all of the funds available for the payment of dividends are derived from the Bank, future dividends of the Company will depend on the earnings of the Bank, its financial condition, its need for funds, applicable

governmental policies and regulations, and other such matters as the Board of Directors deem appropriate.

Comparison of 2013 vs. 2012 As of December 31, 2013, the Company's total assets were \$6.1 billion, which represented an increase of \$342.2 million, or 5.9%, as compared to December 31, 2012. A large driver of this increase was the Mayflower Bancorp, Inc. acquisition that was completed on November 15, 2013. Total average assets were \$5.8 billion and \$5.1 billion in

Table of Contents

2013 and 2012, respectively. Total securities of \$707.5 million, at December 31, 2013, increased \$199.9 million compared to the \$507.6 million reported on December 31, 2012. Total loans of \$4.7 billion, at December 31, 2013, increased \$199.3 million compared to the prior year end. Total deposits of \$5.0 billion at December 31, 2013 reflected an increase of \$439.7 million, or 9.7%, compared to December 31, 2012. Borrowings decreased by \$142.6 million, or 24.1%, during the year ended December 31, 2013. Stockholders' equity increased by \$62.2 million in 2013.

Net income for 2013 was \$50.3 million, or \$2.18 per diluted share, compared to \$42.6 million, or \$1.95 per diluted share, in 2012. Return on average assets and return on average common equity were 0.87% and 9.09%, respectively, for 2013 and 0.83% and 8.66%, respectively, for 2012.

On a fully tax-equivalent basis, net interest income was \$183.5 million in 2013, a 5.6% increase from 2012 net interest income of \$173.9 million. The increase in net interest income was impacted by the additional loans acquired during the Central acquisition, as well as by reductions in the Company's overall cost of funding, stemming from the Company's strategy to create a funding mix that focuses on core deposits. Although average loan balances increased, a reduction in loan yields, as well as a decline in the yield on the securities portfolio, reduced overall growth in interest income.

Interest expense for the year ended December 31, 2013 decreased to \$23.3 million from the \$23.4 million recorded in 2012, a decrease of \$57,000, or 0.2%. The total cost of funds decreased seven basis points to 0.45% for 2013 as compared to 0.52% for 2012. Average interest-bearing deposits increased \$412.5 million, or 14.1%, over the prior year while the cost of these deposits decreased from 0.36% in 2012 to 0.32% in 2013 primarily attributable to the active management of the Company's deposit costs.

Average borrowings increased in 2013 by \$21.0 million, or 4.0%, from the 2012 average balance, with the average cost of borrowings decreasing to 2.31% from 2.40%.

The provision for loan losses represents the charge to expense that is required to maintain an appropriate level of allowance for loan losses. The provision for loan losses totaled \$10.2 million in 2013, compared with \$18.1 million in 2012, a decrease of \$7.9 million. Net charge-offs for the year ended December 31, 2013 totaled \$8.8 million, a decrease of \$5.7 million from the prior year.

The Company's allowance for loan losses, as a percentage of total loans, was 1.13% at year end December 31, 2013, as compared to 1.15% at December 31, 2012. The decrease in this percentage is the result of combined factors, including: 1) the additional loan portfolio acquired from Mayflower, which has been recorded at fair value; 2.) the resolution of certain impaired loans that previously carried specific loan loss allocations; and 3.) improvements observed in certain portfolio asset quality measures and other qualitative factors.

Noninterest income, which is generated by deposit account service charges, interchange and ATM fees, investment management services, mortgage banking activities, cash surrender value of life insurance, and miscellaneous other sources, amounted to \$68.0 million in 2013, a \$6.0 million, or 9.7%, increase from the prior year. The primary reasons for the increase in the noninterest income category are noted below:

Deposit account fees, which represented 26.4% of total noninterest income, increased from \$15.9 million in 2012 to \$17.9 million in 2013, mainly due to an increase in customer utilization of overdraft privileges on checking accounts.

Interchange and ATM fees increased \$1.1 million, or 11.2%, due to increased debit card usage by the Bank's customers, driven by increased promotion, marketing campaigns, and sales activity. The Bank's also experienced strong household growth during 2013.

Investment management revenue increased by \$2.1 million, or 13.9%, for the year ended December 31, 2013, as compared to the same period in 2012. The increase is attributable to strong sales results and general market appreciation, as well as an increase in assets under administration, which had risen to \$2.3 billion at December 31, 2013 representing a 4.1% increase from the prior year.

The Company recognized gains on life insurance benefits in the amount of \$227,000 and \$1.3 million during 2013 and 2012, respectively, which represented tax-exempt income to the Company.

During 2013 the Company recognized a gain on the extinguishment of debt of \$763,000 related to the payment of \$60.0 million of Federal Home Loan Bank Advances, which were assumed as part of the acquisition of Central Bancorp, Inc. in November 2012.

Other noninterest income increased by \$702,000, or 10.0%, for the year ended December 31, 2013, as compared to the same period in 2012, driven by gains on sale of OREO properties which increased by \$763,000, increases in asset-based lending fee income of \$260,000, merchant processing income of \$178,000, foreign currency exchange fees of \$136,000, as well as capital

## Table of Contents

gain distributions of \$260,000 related to the Company's equity portfolio. These increases were offset by a decrease of \$798,000 associated with income in the prior year relating to the purchase of tax credits.

Inclusive of merger and acquisition costs, noninterest expense increased by \$14.2 million, or 8.9%, during the year ended December 31, 2013 as compared to the same period in 2012. The primary reasons for the variances in the noninterest expense category are noted below:

Salaries and employee benefits increased by \$5.9 million, or 7.0%, for the year ended December 31, 2013, as compared to the same period in 2012, mainly attributable to increases in base salaries and commissions earned, as well as incentive compensation.

Occupancy and equipment expenses increased by \$2.3 million, or 13.5% due partly to acquired facilities and snow removal costs during 2013, as well as the full year impact of the Central acquisition which occurred in the fourth quarter of 2012.

Consulting expense increased during 2013 due to a number of strategic initiatives and projects performed throughout the various business units during the year.

Merger and acquisition expenses associated with the Mayflower and central acquisitions were \$6.9 million and \$1.8 million, respectively, in 2013 as compared to \$6.7 million relating solely to the Central acquisition in 2012.

During 2012 the Company recorded a \$2.2 million goodwill impairment charge, which represented the total amount of goodwill relating to Compass Exchange Advisors, LLC which was acquired in January 2007. There were no goodwill impairment charges recognized by the Company during 2013.

Total other noninterest expense increased by \$4.5 million, or 14.0%, for the year ended December 31, 2013, as compared to the same period in 2012. The increase was primarily attributable to the following: mortgage operations expense increased \$1.8 million, driven by the outsourcing of various mortgage banking functions, loan workout costs increased by \$847,000, software maintenance increased by \$468,000, intangible amortization increased by \$461,000 and online banking expense increased by \$439,000. Offsetting these increases were decreases in the following accounts: contract labor by \$339,000, and other losses and charge-offs by \$364,000 and other legal expenses which decreased by \$250,000.

## Risk Management

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

**Credit Risk** Credit risk represents the possibility that the Company's borrowing customers or other counterparties may not repay loans or other contractual obligations according to their terms due to changes in the financial capacity and ability of such borrowing customers or counterparties to meet their obligations. In some cases, the collateral securing the payment of the loans may be sufficient to assure repayment, but in other cases the Company may experience significant credit losses which could have an adverse effect on its operating results. The Company makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and counterparties and the value of the real estate and other assets serving as collateral for the repayment of loans. For further discussion regarding the credit risk and the credit quality of the Company's loan portfolio, see Note 4, "Loans, Allowance for Loan Losses, and Credit Quality" within Notes to Consolidated Financial Statements included in Item 8 hereof.

**Operations Risk** Operations risk is the risk of loss due to human behavior, inadequate or failed internal systems and controls, and external influences such as market conditions, fraudulent activities, disasters and security risks. The Company continuously strives to strengthen its system of internal controls, operating processes and employee awareness. The Bank has an Operations Risk Management Committee that meets monthly and reports to the Board

quarterly or more frequently if warranted. The Committee is chaired by the Chief Information Officer and members of the Committee include representatives from Audit, Finance, Technology, Operations, Information Security and periodic attendance from business units throughout the organization. An operations risk management dashboard is updated quarterly and reviewed with the Board.

**Compliance Risk** Compliance risk represents the risk of regulatory sanctions or financial loss resulting from the Company's failure to comply with rules and regulations issued by the various banking agencies, the U.S. Securities and Exchange Commission, the NASDAQ Stock Market, and standards of good banking practice. Activities which may expose the Company to compliance risk include, but are not limited to, those dealing with the prevention of money laundering, privacy and data

Table of Contents

protection, adherence to all applicable laws and regulations, community reinvestment initiatives and employment and tax matters. Compliance risk is mitigated through the use of written policies and procedures, training of staff, and monitoring of activities for adherence to those procedures.

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

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

Interest rate risk is the sensitivity of income to changes in interest rates. Changes in interest rates, as well as fluctuations in the level and duration of assets and liabilities, affect net interest income, the Company's primary source of revenue. Interest rate risk arises directly from the Company's core banking activities. In addition to directly impacting net interest income, changes in the level of interest rates can also affect the amount of loans originated, the timing of cash flows on loans and securities, and the fair value of securities and derivatives, as well as other effects. The primary goal of interest rate risk management is to control this risk within limits approved by the Board of Directors. These limits reflect the Company's tolerance for interest rate risk over both short-term and long-term horizons. The Company attempts to control interest rate risk by identifying, quantifying, and where appropriate, hedging its exposure. If assets and liabilities do not re-price simultaneously and in equal volume, the potential for interest rate exposure exists. It is management's objective to maintain stability in the growth of net interest income through the maintenance of an appropriate mix of interest-earning assets and interest-bearing liabilities and, when necessary, within prudent limits, through the use of off-balance sheet hedging instruments such as interest rate swaps, floors and caps.

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 December 31, 2014 included five instantaneous parallel shifts ("shocks") to market interest rates and four gradual (12 to 24 months) shifts in interest. Additionally, for 2014, the Company analyzed a separate alternative scenario, labeled "Flat Up 200". In this scenario the short end of the yield curve increases 200 bps over the first 12 months of the simulation, while the long term end of the curve remains relatively flat. This causes the treasury yield curve to flatten within a range of 2.00% on the short end to 2.65% on the long end.

Table of Contents

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

Table 26 — Interest Rate Sensitivity

	Years Ended December 31			
	2014		2013	
	Year 1	Year 2	Year 1	Year 2
Parallel rate shocks (basis points)				
-100	(0.3)%	(4.6)%	0.1%	(3.2)%
+100	4.8%	7.1%	3.4%	5.4%
+200	9.8%	14.6%	7.0%	11.0%
+300	14.7%	22.2%	10.6%	16.7%
+400	19.5%	29.6%	14.1%	22.4%
Gradual rate shifts (basis points)				
-100 over 12 months	0.2%	(3.0)%	0.4%	(2.0)%
+200 over 12 months	4.3%	12.4%	3.0%	9.4%
+400 over 24 months	4.4%	17.1%	3.0%	12.8%
Flat +500 over 12 months	5.4%	20.2%	3.6%	14.3%
Alternative scenarios				
Flat up 200 basis points scenario	4.1%	9.9%	n/a	n/a

The Company's policy on interest rate risk simulation also specifies that estimated net interest income for the second year of all "core scenarios" should not decline by more than 15.0%. The Company was within policy limits at December 31, 2014 and 2013. It should be emphasized, however, that the results are dependent on material assumptions such as those discussed above. For instance, asymmetrical rate behavior can have a material impact on the simulation results. If competition for deposits forced the Company to raise rates on those liabilities more quickly than is assumed in the simulation analysis without a corresponding increase in asset yields, net interest income may be negatively impacted. Alternatively, if the Company is able to lag increases in deposit rates as loans re-price upward, net interest income would be positively impacted.

The most significant factors affecting market risk exposure of the Company's net interest income during the year ended December 31, 2014 were the shape of the U.S. Government securities and interest rate swap yield curve, the level of U.S. prime interest rate and LIBOR rates, and the level of interest rates being offered on long-term fixed rate loans. The Company manages the interest rate risk inherent in both its loan and borrowing portfolios by utilizing interest rate swap agreements and interest rate caps and floors. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount for a predetermined period of time from a second party. Interest rate caps and floors are agreements whereby one party agrees to pay a floating rate of interest on a notional principal amount for a predetermined period of time to a second party if certain market interest rate thresholds are realized. The amounts relating to the notional principal amount are not actually exchanged. Additionally, the Company may manage the interest rate risk inherent in its mortgage banking operations by entering into forward sales contracts and forward TBA mortgage contracts. The level of hedging activity the bank engages in, with regards to its mortgage portfolio, depends on whether the investor purchases the loan with a forward rate lock commitment. Loans with a predefined commitment are not hedged as the price is fixed by the investor at commitment. For loans without a predefined commitment from an investor, a change in market interest rates between the time the Company commits to terms on a loans and the time the Company ultimately sells the loan in the secondary market could reduce the gain (or increase the loss) the Company records on the sale. The Company may attempt to mitigate this risk by entering into forward sales commitments and forward TBA mortgage contracts in amounts sufficient to cover loans not locked by the



investor. See Note 11, "Derivatives and Hedging Activities" within Notes to Consolidated Financial Statements included in Item 8 hereof for additional information regarding the Company's Derivative Financial Instruments.

Table of Contents

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. (See Note 3, "Securities" within the Notes to the Consolidated Financial Statements included in Item 8 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.

The Company actively manages its liquidity position under the direction of the Asset Liability Committee of the Bank (ALCO). The Company's primary measure of short-term liquidity is the Total Basic Surplus/Deficit as a percentage of assets. This ratio, which is an analysis of the relationship between liquid assets plus available funding at the FHLB less short-term liabilities relative to total assets, was within policy limits at December 31, 2014. The Total Basic Surplus/Deficit measure is affected primarily by changes in deposits, securities and short-term investments, loans and borrowings. An increase in deposits, without a corresponding increase in nonliquid assets, will improve the Total Basic Surplus/Deficit measure, whereas, an increase in loans, with no increase in deposits, will decrease the measure. Other factors affecting the Total Basic Surplus/Deficit measure include collateral requirements at the FHLB, changes in the securities portfolio, and the mix of deposits.

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

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

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

Table of Contents

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

Table 27 — Sources of Liquidity

	December 31 2014		2013	
	Outstanding	Additional Borrowing Capacity	Outstanding	Additional Borrowing Capacity
	(Dollars in thousands)			
Federal Home Loan Bank borrowings(1)	\$ 70,080	\$ 755,712	\$ 140,294	\$ 668,143
Federal Reserve Bank of Boston Unpledged securities	—	801,740	—	856,013
Wholesale repurchase agreements	50,000	—	(3) 50,000	—
Customer repurchase agreements	147,890	—	(3) 149,288	—
Junior subordinated debentures(1)	73,685	—	(3) 73,906	—
Subordinated debt	65,000	—	(3) 30,000	—
Parent Company line of credit	—	20,000	5,000	5,000
Brokered deposits(2)	65,914	—	(3) 77,501	—
	\$ 472,569	\$ 1,875,323	\$ 525,989	\$ 1,801,277

(1) Amounts shown are inclusive of fair value marks associated with previous acquisitions.

(2) Inclusive of \$44.9 million and \$53.7 million million of brokered deposits acquired through participation in the CDARS program as of December 31, 2014 and 2013, respectively.

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

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

Table of Contents

## Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Financial Instruments

The Company has entered into contractual obligations, commitments, and off-balance sheet financial instruments. The following tables summarize the Company's contractual obligations, other commitments, contingencies, and off-balance sheet financial instruments at December 31, 2014:

Table 28 — Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Financial Instruments by Maturity

Contractual Obligations, Commitments and Contingencies	Payments Due — By Period				
	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
	(Dollars in thousands)				
FHLB advances(1)	\$70,080	\$38,001	\$31,203	\$—	\$876
Junior subordinated debentures(1)	73,685	—	—	—	73,685
Subordinated debt	65,000	—	—	30,000	35,000
Time certificates of deposits	649,620	462,506	131,429	55,685	—
All other deposits with no maturity	4,560,846	—	—	—	4,560,846
Lease obligations	42,859	7,945	14,580	10,591	9,743
Vendor contracts	38,345	9,210	15,665	9,389	4,081
Retirement benefit obligations(2)	36,416	404	1,042	1,155	33,815
Wholesale repurchase agreements	50,000	50,000	—	—	—
Customer repurchase agreements	147,890	147,890	—	—	—
Total Contractual Obligations	\$5,734,741	\$715,956	\$193,919	\$106,820	\$4,718,046

Off-Balance Sheet Financial Instruments	Amount of Commitment Expiring — By Period				
	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
	(Dollars in thousands)				
Commitments to extend credit	\$1,822,369	\$442,719	\$174,310	\$59,638	\$1,145,702
Standby letters of credit	18,516	15,930	2,586	—	—
Mortgage derivatives	38,593	38,593	—	—	—
Interest rate swaps - notional value(3)	75,000	—	50,000	25,000	—
Customer-related positions		—			
Foreign exchange contracts - notional value(4)	57,112	57,112	—	—	—
Loan level interest rate swaps - notional value(5)	617,275	88,147	87,812	126,712	314,604
Total Commitments	\$2,628,865	\$642,501	\$314,708	\$211,350	\$1,460,306

The Company has hedged certain short-term borrowings and variable rate junior subordinated debentures, (1) effectively converting the borrowings to a fixed rate. Amounts maturing represent contractual amounts due, inclusive of fair value marks associated with acquired borrowings.

Retirement benefit obligations include expected contributions to the Company's frozen pension plan, post retirement plan, and supplemental executive retirement plans. Expected contributions for the pension plan have (2) been included only through plan year July 1, 2014 — June 30, 2015. Contributions beyond this plan year cannot be quantified as they will be determined based upon the return on the investments in the plan and the discount rate used to quantify the liability. Expected contributions for the post retirement plan and supplemental executive retirement plans include obligations that are payable over the life of the participants.

(3) Interest rate swaps on borrowings and junior subordinated debentures (Bank pays fixed, receives variable). Amounts relating to the notional principal amounts are not actually exchanged.

(4) Offsetting positions to foreign exchange contracts offered to commercial borrowers through the Company's derivative program. Amounts relating to the notional principal amounts are exchanged.

(5) Offsetting positions to Interest rate swaps offered to commercial borrowers through the Company's derivative program. Amounts relating to the notional principal amounts are not actually exchanged.

61

---

## Table of Contents

### Impact of Inflation and Changing Prices

The consolidated financial statements and related notes thereto presented elsewhere herein have been prepared in accordance with accounting principles generally accepted in the United States of America which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

The financial nature of the Company's consolidated financial statements is more clearly affected by changes in interest rates than by inflation. Interest rates do not necessarily fluctuate in the same direction or in the same magnitude as the prices of goods and services. However, inflation does affect the Company because, as prices increase, the money supply grows and interest rates are affected by inflationary expectations. The impact on the Company is a noted increase in the size of loan requests with resulting growth in total assets. In addition, operating expenses may increase without a corresponding increase in productivity. There is no precise method, however, to measure the effects of inflation on the Company's consolidated financial statements. Accordingly, any examination or analysis of the financial statements should take into consideration the possible effects of inflation.

### Critical Accounting Policies and Estimates

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. Management believes that the Company's most critical accounting policies upon which the Company's financial condition depends, and which involve the most complex or subjective decisions or assessments, are as follows:

**Allowance for Loan Losses** The Company's allowance for loan losses provides for probable losses based upon evaluations of known and inherent risks in the loan portfolio. Arriving at an appropriate amount of allowance for loan losses involves a high degree of judgment.

The Company makes use of two types of allowances for loan losses: specific and general. A specific allowance may be assigned to a loan that is considered to be impaired. Certain loans are evaluated individually for impairment and are judged to be impaired when management believes it is probable that the Bank will not collect all of the contractual interest and principal payments as scheduled in the loan agreement. Judgment is required with respect to designating a loan as impaired and determining the amount of the required specific allowance. Management's judgment is based upon its assessment of probability of default, loss given default, and exposure at default. Changes in these estimates could be due to a number of circumstances which may have a direct impact on the provision for loan losses and may result in changes to the amount of allowance.

The general allowance is determined based upon the application of the Company's methodology for assessing the adequacy of the allowance for loan losses, which considers historical and expected loss factors, loan portfolio composition and other relevant indicators. This methodology involves management's judgment regarding the application and use of such factors, including the effects of changes to the prevailing economic environment in its estimate of the required amounts of general allowance.

The allowance is increased by provisions for loan losses and by recoveries of loans previously charged-off and is reduced by loans charged-off. For additional discussion of the Company's methodology of assessing the adequacy of the allowance for loan losses, see Note 4, "Loans, Allowance for Loan Losses, and Credit Quality" within Notes to Consolidated Financial Statements included in Item 8 hereof.

**Income Taxes** The Company accounts for income taxes using two components of income tax expense, current and deferred. Current taxes represent the net estimated amount due to or to be received from taxing authorities in the current year. In estimating accrued taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial, and regulatory guidance in the context of the Company's tax position. Deferred tax assets and liabilities represent the future effects on income taxes that result from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, and carry-forwards that exist at the end of a period. Deferred tax assets and liabilities are measured using enacted tax rates and provisions of the enacted tax law and are not discounted to reflect the time-value of money. The effect of any change in enacted tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred tax assets are assessed for recoverability and the Company would record a valuation allowance if it believes based on available evidence that it is more likely than not that the deferred tax assets

recognized will not be realized before their expiration. The amount of the deferred tax asset recognized and considered realizable could be reduced if projected income is not achieved due to various factors such as unfavorable business conditions. If projected income is not expected to be achieved, the Company would record a valuation allowance to reduce its deferred tax assets to the amount that it believes can be realized in its future tax returns. The Company had no recorded deferred tax valuation allowance as of December 31, 2014. Additionally, deferred tax assets and liabilities are calculated based on tax rates expected to be in effect in future periods. Previously recorded tax assets and liabilities need to be adjusted when the expected date of the future event is revised based upon current information. The Company may also record an unrecognized tax benefit related to uncertain tax

Table of Contents

positions taken by the Company on its tax returns for which there is less than a 50% likelihood of being recognized upon a tax examination. All movements in unrecognized tax benefits are recognized through the provision for income taxes. Taxes are discussed in more detail in Note 13, "Income Taxes" within Notes to the Consolidated Financial Statements included in Item 8 hereof.

**Valuation of Goodwill/Intangible Assets and Analysis for Impairment** The Company has increased its market share through the acquisition of entire financial institutions accounted for under the acquisition method of accounting, as well as from the acquisition of branches (not the entire institution) and other nonbanking entities. For all acquisitions, the Company is required to record assets acquired and liabilities assumed at their fair value, which is an estimate determined by the use of internal or other valuation techniques. Goodwill is evaluated for impairment at least annually, or more often if warranted, using a combined qualitative and quantitative impairment approach. The initial qualitative approach assesses whether the existence of events or circumstances led to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the fair value is less than carrying value the two step quantitative impairment test is performed. Step one of the quantitative impairment testing compares book value to the fair value of the reporting unit. If test one is failed, a more detailed analysis is performed, which involves measuring the excess of the fair value of the reporting unit, as determined in step one, over the aggregate fair value of the individual assets, liabilities, and identifiable intangibles as if the reporting unit was being acquired in a business combination. Step one of the impairment testing was passed for all reporting units during 2014. The remainder of the Company's goodwill relates to acquisitions that are fully integrated into the retail banking operations, which management does not consider to be at risk of failing step one in the near future. The Company's intangible assets are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If applicable, the Company tests each of the intangibles by comparing the carrying value of the intangible to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

**Valuation of Securities and Analysis for Impairment** Securities that the Company has the ability and intent to hold until maturity are classified as securities held-to-maturity and are accounted for using historical cost, adjusted for amortization of premium and accretion of discount. Trading securities are carried at fair value, with unrealized gains and losses recorded in other noninterest income. All other securities are classified as securities available-for-sale and are carried at fair market value. The fair values of securities are based on either quoted market price or third party pricing services. In general, the third-party pricing services employ various methodologies, including but not limited to, broker quotes and proprietary models. Management does not typically adjust the prices received from third-party pricing services. Depending upon the type of security, management employs various techniques to analyze the pricing it receives from third-parties, such as reviewing model inputs, reviewing comparable trades, analyzing changes in market yields and, in certain instances, reviewing the underlying collateral of the security. Management reviews changes in fair values from period to period and performs testing to ensure that the prices received from the third parties are consistent with their expectation of the market.

Management determines if the market for a security is active primarily based upon the frequency of which the security, or similar securities, are traded. For securities which are determined to have an inactive market, fair value models are calibrated and to the extent possible, significant inputs are back tested on a quarterly basis. The third-party service provider performs calibration and testing of the models by comparing anticipated inputs to actual results, on a quarterly basis. Unrealized gains and losses on securities available-for-sale are reported, on an after-tax basis, as a separate component of stockholders' equity in accumulated other comprehensive income.

On a quarterly basis, the Company makes an assessment to determine whether there have been any events or circumstances to indicate that a security for which there is an unrealized loss is impaired on an other-than-temporary basis. The Company considers many factors, including the severity and duration of the impairment; 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, recent events specific to the issuer or industry; and for debt securities, external credit ratings and recent downgrades. The term other-than-temporary is not intended to indicate that the decline is permanent. It indicates that the prospects for near-term recovery are not necessarily favorable or that there is a lack of



evidence to support fair values greater than or equal to the carrying value of the investment. Estimates of the expected cash flows for investment securities that potentially may be deemed to have OTTI begin with the contractual cash flows of the security. This amount is then reduced by an estimate of probable credit losses associated with the security. When estimating the extent of probable losses on the securities, management considers the strength of the underlying issuers of the securities. Indicators of diminished credit quality of the issuers include defaults, interest deferrals, or "payments in kind." Numerous factors are considered when estimating the ultimate realizability of the cash flow for each individual security. The resulting estimate of cash flows after considering credit is then subject to a present value computation using a discount rate equal to the current yield used to accrete the beneficial interest or, the effective interest rate implicit in the security at the date of acquisition. If the present value of the estimated cash flows is less than the current amortized cost basis, an OTTI is considered to have occurred and the security is written down to the fair value indicated by the cash flows analysis. Any portion of decline in fair value considered to be an OTTI charge that is not due to the reduction in cash flows due to credit is considered

Table of Contents

a decline due to other factors such as liquidity or interest rates and accordingly is recorded in other comprehensive income. Any portion of the decline which is related to credit is recorded in earnings.

Recent Accounting Developments

See Note 1, “Summary of Significant Accounting Policies” within Notes to Consolidated Financial Statements included in Item 8 hereof.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management” in Item 7 hereof.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Independent Bank Corp.:

We have audited the accompanying consolidated balance sheets of Independent Bank Corp. and subsidiaries ("the Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Independent Bank Corp. and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 27, 2015 expressed an unqualified opinion thereon.

Boston, Massachusetts

February 27, 2015

Table of Contents

## CONSOLIDATED BALANCE SHEETS

	December 31	
	2014	2013
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$143,342	\$168,106
Interest-earning deposits with banks	34,912	48,219
Securities		
Securities available for sale	348,554	356,862
Securities held to maturity (fair value \$379,699 and \$346,455)	375,453	350,652
Total securities	724,007	707,514
Loans held for sale (at fair value)	6,888	8,882
Loans		
Commercial and industrial	860,839	784,202
Commercial real estate	2,347,323	2,249,260
Commercial construction	265,994	223,859
Small business	85,247	77,240
Residential real estate	530,259	541,443
Home equity - 1st position	513,518	497,075
Home equity - subordinate positions	350,345	325,066
Other consumer	17,208	20,162
Total loans	4,970,733	4,718,307
Less: allowance for loan losses	(55,100)	(53,239)
Net loans	4,915,633	4,665,068
Federal Home Loan Bank stock	33,233	39,926
Bank premises and equipment, net	64,074	64,950
Goodwill	170,421	170,421
Identifiable intangible assets	9,885	12,221
Cash surrender value of life insurance policies	109,854	100,406
Other real estate owned and other foreclosed assets	7,743	7,633
Other assets	144,920	105,888
Total assets	\$6,364,912	\$6,099,234
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	\$1,462,200	\$1,369,432
Savings and interest checking accounts	2,108,486	1,940,153
Money market	990,160	933,205
Time certificates of deposit of \$100,000 and over	254,718	297,984
Other time certificates of deposits	394,902	445,644
Total deposits	5,210,466	4,986,418
Borrowings		
Federal home loan bank borrowings	70,080	140,294
Customer repurchase agreements and other short-term borrowings	147,890	154,288
Wholesale repurchase agreements	50,000	50,000
Junior subordinated debentures	73,685	73,906
Subordinated debentures	65,000	30,000
Total borrowings	406,655	448,488
Other liabilities	107,264	72,788
Total liabilities	5,724,385	5,507,694

## Commitments and contingencies

## Stockholders' Equity

Preferred stock, \$.01 par value. authorized: 1,000,000 shares, outstanding: none	—	—
Common stock, \$.01 par value. authorized: 75,000,000 shares, issued and outstanding: 23,998,738 shares in 2014 and 23,805,984 shares in 2013 (includes 254,500 and 268,290 shares of unvested participating restricted stock awards, respectively)	237	235
Shares held in rabbi trust at cost: 176,849 shares in 2014 and 178,765 shares in 2013	(3,666	) (3,404
Deferred compensation obligation	3,666	3,404
Additional paid in capital	311,978	305,179
Retained earnings	330,444	293,560
Accumulated other comprehensive loss, net of tax	(2,132	) (7,434
Total stockholders' equity	640,527	591,540
Total liabilities and stockholders' equity	\$6,364,912	\$6,099,234

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

Table of Contents

## CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands, except per share data)		
Interest income			
Interest and fees on loans	\$ 197,021	\$ 189,748	\$ 178,309
Taxable interest and dividends on securities	18,610	15,137	16,681
Nontaxable interest and dividends on securities	144	55	82
Interest on loans held for sale	405	774	988
Interest on federal funds sold and short-term investments	279	200	132
Total interest and dividend income	216,459	205,914	196,192
Interest expense			
Interest on deposits	11,039	10,624	10,703
Interest on borrowings	9,378	12,712	12,690
Total interest expense	20,417	23,336	23,393
Net interest income	196,042	182,578	172,799
Provision for loan losses	10,403	10,200	18,056
Net interest income after provision for loan losses	185,639	172,378	154,743
Noninterest income			
Deposit account fees	18,065	17,940	15,930
Interchange and ATM fees	12,975	10,883	9,783
Investment management	19,642	16,832	14,779
Mortgage banking income	3,384	6,734	6,500
Increase in cash surrender value of life insurance policies	3,128	3,229	3,114
Gain on life insurance benefits	1,964	227	1,307
Gain on extinguishment of debt	—	763	—
Loan level derivative income	2,477	3,439	3,457
Gain on sales of fixed income securities	121	258	5
Net gain (loss) on sale of equity securities	91	(28	) 111
Other noninterest income	8,096	7,732	7,030
Total noninterest income	69,943	68,009	62,016
Noninterest expenses			
Salaries and employee benefits	94,044	89,894	84,014
Occupancy and equipment expenses	21,820	19,650	17,307
Data processing & facilities management	4,765	4,748	4,644
FDIC assessment	3,770	3,579	3,232
Advertising expense	3,859	4,280	3,949
Consulting expense	2,923	3,322	2,801
Debit card expense	2,362	2,994	2,510
Goodwill impairment	—	—	2,227
Loss on sale of fixed income securities	21	—	—
Merger and acquisition expense	1,339	8,685	6,741
Prepayment fee on borrowings	—	—	7
Other noninterest expenses	36,935	36,497	32,027
Total noninterest expenses	171,838	173,649	159,459
Income before income taxes	83,744	66,738	57,300
Provision for income taxes	23,899	16,484	14,673
Net Income	\$ 59,845	\$ 50,254	\$ 42,627

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Basic earnings per share	\$2.50	\$2.18	\$1.96
Diluted earnings per share	\$2.49	\$2.18	\$1.95
Weighted average common shares (basic)	23,899,562	23,011,814	21,782,499
Common share equivalents	93,815	76,764	29,817
Weighted average common shares (diluted)	23,993,377	23,088,578	21,812,316
Cash dividends declared per common share	\$0.96	\$0.88	\$0.84

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

67

---

Table of Contents

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Net income	\$59,845	\$50,254	\$42,627
Other comprehensive income (loss), net of tax			
Net change in fair value of securities available for sale	5,412	(7,501 )	(1,096 )
Net change in fair value of cash flow hedges	2,256	3,735	1,082
Net change in other comprehensive income for defined benefit postretirement plans	(2,366 )	858	(26 )
Total other comprehensive income (loss)	5,302	(2,908 )	(40 )
Total comprehensive income	\$65,147	\$47,346	\$42,587

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



Table of Contents

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	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
(Dollars in thousands, except per share data)								
Balance December 31, 2011	21,499,768	\$ 213	\$(2,980 )	\$ 2,980	\$233,878	\$239,452	\$(4,486 )	\$469,057
Net income	—	—	—	—	—	42,627	—	42,627
Other comprehensive loss	—	—	—	—	—	—	(40 )	(40 )
Common dividend declared (\$0.84 per share)	—	—	—	—	—	(18,408 )	—	(18,408 )
Common stock issued for acquisition	1,068,514	11	—	—	30,378	—	—	30,389
Proceeds from exercise of stock options	61,326	1	—	—	1,107	—	—	1,108
Tax benefit related to equity award activity	—	—	—	—	426	—	—	426
Stock based compensation	—	—	—	—	2,845	—	—	2,845
Restricted stock awards issued, net of 86,254 awards surrendered	—	—	—	—	(467 )	—	—	(467 )
Shares issued under direct stock purchase plan	58,147	—	—	—	1,691	—	—	1,691
Deferred compensation obligation	—	—	(199 )	199	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	92	—	—	92
Balance December 31, 2012	22,774,009	\$ 225	\$(3,179 )	\$ 3,179	\$269,950	\$263,671	\$(4,526 )	\$529,320
Net income	—	—	—	—	—	50,254	—	50,254
Other comprehensive loss	—	—	—	—	—	—	(2,908 )	(2,908 )
Common dividend declared (\$0.88 per share)	—	—	—	—	—	(20,365 )	—	(20,365 )
Common stock issued for acquisition	818,650	8	—	—	29,382	—	—	29,390
	98,807	1	—	—	2,474	—	—	2,475

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Proceeds from exercise of stock options, net of cash paid								
Tax benefit related to equity award activity	—	—	—	—	503	—	—	503
Stock based compensation	—	—	—	—	2,462	—	—	2,462
Restricted stock awards issued, net of 86,331 awards surrendered	1	—	—	—	(670)	)	—	(669)
Shares issued under direct stock purchase plan	28,187	—	—	—	969	—	—	969
Deferred compensation obligation	—	—	(225)	) 225	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	109	—	—	109
Balance December 31, 2013	23,805,984	\$ 235	\$(3,404)	) \$ 3,404	\$ 305,179	\$ 293,560	\$(7,434)	) \$ 591,540
Net income	—	—	—	—	—	59,845	—	59,845
Other comprehensive income	—	—	—	—	—	—	5,302	5,302
Common dividend declared (\$0.96 per share)	—	—	—	—	—	(22,961)	)	(22,961)
Proceeds from exercise of stock options, net of cash paid	91,171	1	—	—	2,332	—	—	2,333
Tax benefit related to equity award activity	—	—	—	—	704	—	—	704
Stock based compensation	—	—	—	—	2,712	—	—	2,712
Restricted stock awards issued, net of 59,675 awards surrendered	1	—	—	—	(642)	)	—	(641)
Shares issued under direct stock purchase plan	41,908	—	—	—	1,555	—	—	1,555
Deferred compensation obligation	—	—	(262)	) 262	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	138	—	—	138
	23,998,738	\$ 237	\$(3,666)	) \$ 3,666	\$ 311,978	\$ 330,444	\$(2,132)	) \$ 640,527

Balance December  
31, 2014

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

69

---

Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Cash flow from operating activities			
Net income	\$59,845	\$50,254	\$42,627
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	11,011	8,490	10,212
Goodwill impairment	—	—	2,227
Provision for loan losses	10,403	10,200	18,056
Deferred income tax expense (benefit)	2,840	2,557	(1,919)
Net gain on sale of securities	(191)	(230)	(116)
Loss on write-down of investments in securities available for sale	—	—	76
Net (gain) loss on fixed assets	469	560	(30)
Gain on extinguishment of debt	—	(763)	—
(Gain) loss on termination of derivatives	1,122	—	(22)
Net loss on sale of other real estate owned and foreclosed assets	723	606	996
Realized gain on sale leaseback transaction	(1,034)	(1,034)	(1,034)
Stock based compensation	2,712	2,462	2,845
Excess tax benefit related to equity award activity	(704)	(503)	(426)
Increase in cash surrender value of life insurance policies	(3,128)	(3,229)	(3,114)
Gain on life insurance benefits	(1,964)	(227)	(1,307)
Change in fair value on loans held for sale	(18)	—	141
Net change in:			
Trading assets	—	—	(265)
Loans held for sale	2,012	39,305	(27,828)
Other assets	(6,617)	48,903	(1,575)
Other liabilities	7,258	(16,016)	4,408
Total adjustments	24,894	91,081	1,325
Net cash provided by operating activities	84,739	141,335	43,952
Cash flows used in investing activities			
Proceeds from sales of securities available for sale	5,438	3,506	2,101
Proceeds from maturities and principal repayments of securities available for sale	47,720	81,727	101,808
Purchases of securities available for sale	(37,047)	(47,975)	(93,647)
Proceeds from maturities and principal repayments of securities held to maturity	44,710	49,165	59,887
Purchases of securities held to maturity	(69,544)	(222,027)	(34,239)
Redemption of Federal Home Loan Bank stock	6,693	3,093	2,290
Investments in Low Income Housing Projects	(10,886)	—	—
Purchases of life insurance policies	(10,161)	(267)	(267)
Proceeds from life insurance policies	6,310	—	3,280
Net increase in loans	(266,961)	(84,264)	(297,394)
Cash provided by (used in) business combinations	—	10,520	(8,965)
Purchases of bank premises and equipment	(7,678)	(9,293)	(6,263)
Proceeds from the sale of bank premises and equipment	1,219	29	67
Proceeds (payments) on early termination of hedging relationship	(1,122)	—	22
Proceeds from the sale of other real estate owned and foreclosed assets	7,458	9,731	5,649

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Net capital improvements to other real estate owned	(3,255	) (2,541	) (2,268	)
Net cash used in investing activities	(287,106	) (208,596	) (267,939	)
Cash flows provided by financing activities				
Net decrease in time deposits	(94,008	) (79,136	) (21,074	)
Net increase in other deposits	318,056	300,000	333,488	
Net repayments of short-term Federal Home Loan Bank borrowings	(65,000	) (50,000	) —	
Repayments of long-term Federal Home Loan Bank borrowings	(5,000	) (79,946	) (79,991	)
Net decrease in customer repurchase agreements	(1,398	) (4,071	) (12,769	)
Net increase (decrease) in other short term borrowings	(5,000	) (7,000	) 1,947	
Proceeds from issuance of subordinated debentures	35,000	—	—	
Proceeds from exercise of stock options, net of cash paid	2,333	2,475	1,108	

70

---

Table of Contents

Restricted stock awards issued, net of awards surrendered	(641	) (669	) (467	)
Excess tax benefit from stock based compensation	704	503	426	
Tax benefit from deferred compensation distribution	138	109	92	
Proceeds from shares issued under direct stock purchase plan	1,555	969	1,691	
Common dividends paid	(22,443	) (15,122	) (22,494	)
Net cash provided by financing activities	164,296	68,112	201,957	
Net increase (decrease) in cash and cash equivalents	(38,071	) 851	(22,030	)
Cash and cash equivalents at beginning of year	216,325	215,474	237,504	
Cash and cash equivalents at end of period	\$ 178,254	\$ 216,325	\$ 215,474	
Cash paid during the year for				
Interest on deposits and borrowings	\$ 20,257	\$ 23,475	\$ 23,205	
Income taxes	\$ 14,547	\$ 12,171	\$ 11,059	
Supplemental schedule of noncash investing and financing activities				
Transfer of loans to other real estate owned & foreclosed assets	\$ 5,248	\$ 2,869	\$ 7,061	
Capital commitment relating to Low Income Housing Project investments	\$ 28,004	\$ 51	\$ —	
In conjunction with the purchase acquisitions detailed in note 2 to the consolidated financial statements, assets were acquired and liabilities were assumed as follows				
Common stock issued for acquisition	\$ —	\$ 29,390	\$ 30,389	
Fair value of assets acquired, net of cash acquired	—	241,395	547,219	
Fair value of liabilities assumed	—	222,525	507,865	
The accompanying notes are an integral part of these consolidated financial statements.				

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Independent Bank Corp. (the "Company") is a bank holding company whose principal subsidiary is Rockland Trust Company ("Rockland Trust" or the "Bank"). Rockland Trust is a state-chartered commercial bank, which operates 75 full service and three limited service retail branches, eleven commercial banking centers, five investment management offices and three mortgage lending centers, all of which are located in Eastern Massachusetts, including Cape Cod, with the exception of an investment management group/commercial lending office located in Providence, Rhode Island. Rockland Trust deposits are insured by the Federal Deposit Insurance Corporation, subject to regulatory limits. The Company's primary source of income is from providing loans to individuals and small-to-medium sized businesses in its market area. Rockland Trust is a community-oriented commercial bank, and the community banking business is the Company's only reportable operating segment.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank and other wholly-owned subsidiaries, except subsidiaries that are not deemed necessary to be consolidated. All significant intercompany balances and transactions have been eliminated in consolidation. The Company consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights and where it exercises control. Entities where the Company holds 20% to 50% of the voting rights, or has the ability to exercise significant influence or both, are accounted for under the equity method. The Company would consolidate entities deemed to be variable interest entities (VIEs) when it is determined to be the primary beneficiary, which is the party involved with the VIE that will absorb a majority of the expected losses, receive a majority of the expected residual returns or both. A legal entity is referred to as a VIE if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

Reclassification

Certain previously reported amounts have been reclassified to conform to the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could vary from these estimates. Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for loan losses, income taxes, valuation and potential impairment of investment securities, other-than-temporary impairment ("OTTI") of certain investment securities, as well as valuation of goodwill and other intangibles and their respective analyses of impairment.

Significant Concentrations of Credit Risk

The vast majority of the Bank's lending activities are conducted in the Commonwealth of Massachusetts and Rhode Island. The Bank originates commercial and industrial loans, commercial and residential real estate loans, including construction loans, small business loans, home equity loans, and other consumer loans for its portfolio. The Bank considers a concentration of credit to a particular industry to exist when the aggregate credit exposure which includes direct, indirect or contingent obligations to a borrower, an affiliated group of borrowers or a nonaffiliated group of borrowers engaged in one industry, exceeds 10% of the Bank's loan portfolio.

Loans originated by the Bank to lessors of nonresidential buildings represented 16.4% and 16.0% of the total loan portfolio as of December 31, 2014 and 2013, respectively. Within this concentration category the Company believes it is well diversified among collateral property types and tenant industries.

Cash and Cash Equivalents





For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, inclusive of interest-earning deposits held at the Federal Reserve Bank and Federal Home Loan Bank, and federal funds sold. Generally, federal funds are sold for up to two week periods.

#### Securities

Investment securities are classified at the time of purchase as “available for sale,” “held to maturity,” or “trading.” Classification is constantly re-evaluated for consistency with corporate goals and objectives. Trading securities would be recorded at fair value with subsequent changes in fair value recorded in earnings. Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with changes in fair value excluded from earnings and reported in other comprehensive income, net of related tax. Purchase premiums and discounts are recognized in interest income, using the interest method, to arrive at periodic interest income at a constant effective yield, thereby reflecting the securities market yield. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of held to maturity and available for sale securities below their amortized cost deemed to be OTTI are written down to fair value as determined by a cash flow analysis. To the extent the estimated cash flows do not support the amortized cost, the deficiency is considered to be due to credit loss and recognized in earnings. Unless the Company intends 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, the remainder of the OTTI charge is considered to be due to other factors, such as liquidity or interest rates, and thus is not recognized in earnings, but rather through other comprehensive income, net of related tax. The Company evaluates individual securities that have fair values below cost for six months or longer, or for a shorter period of time if considered appropriate by management, to determine if the decline in fair value is other-than-temporary. Consideration is given to the obligor of the security, whether the security is guaranteed, whether there is a projected adverse change in cash flows, the liquidity of the security, the type of security, the capital position of security issuers, and payment history of the security, amongst other factors when evaluating such securities.

#### Loans Held for Sale

The Bank primarily classifies new residential real estate mortgage loans as held for sale based on intent, which is determined when loans are underwritten. Residential real estate mortgage loans not designated as held for sale are retained based upon available liquidity, for interest rate risk management and other business purposes.

The Company has elected the fair value option to account for originated closed loans intended for sale. Accordingly, changes in fair value relating to loans intended for sale are recorded in earnings and are offset by changes in fair value relating to interest rate lock commitments, forward sales commitments, and forward To Be Announced ("TBA") mortgage contracts. Gains and losses on residential loan sales (sales proceeds minus carrying amount) are recorded in mortgage banking income. Direct loan origination costs and fees are deferred upon origination and are recognized on the date of sale.

#### Loans

Loans are carried at the principal amounts outstanding, or amortized acquired fair value in the case of acquired loans, adjusted by partial charge-offs and net of deferred loan costs or fees. For originated loans, loan fees and certain direct origination costs are deferred and amortized into interest income over the expected term of the loan using the level-yield method. When a loan is paid off, the unamortized portion is recognized in interest income. Interest income on loans is accrued based upon the daily principal amount outstanding except for loans on nonaccrual status. For acquired loans which did not show signs of credit deterioration at acquisition, interest income is also accrued based upon the daily principal amount outstanding and is then further adjusted by the amortization of any discount or accretion of any premium associated with the loan.

Loans are generally placed on nonaccrual status if the payment of principal or interest is past due more than 90 days, or sooner if management considers such action to be prudent. As permitted by banking regulations, consumer loans past due 90 days or more may continue to accrue interest, however, such loans are usually charged-off after 120 days

of delinquency. As a general rule, a commercial or real estate loan more than 90 days past due with respect to principal or interest is classified as a nonaccrual loan. However, certain commercial and real estate loans that are more than 90 days past due may be kept on an accruing status if the loan is well secured and in the process of collection. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. A loan remains on nonaccrual status until; it becomes current with respect to principal and interest (and in certain instances remains current for up to six

months), management no longer has doubt about the collection of principal and interest, the loan is liquidated, or the loan is determined to be uncollectible and is charged-off against the allowance for loan losses. When doubt exists as to the collectability of a loan, any payments received are applied to reduce the recorded investment in the asset to the extent necessary to eliminate such doubt. For all loan portfolios, a charge-off occurs when the Company determines that a specific loan, or portion thereof, is uncollectible. This determination is made based on management's review of specific facts and circumstances of the individual loan, including assessing the viability of the customer's business or project as a going concern, the expected cash flows to repay the loan, the value of the collateral and the ability and willingness of any guarantors to perform.

In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring ("TDR"). Modifications 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. The recorded investment of loans classified as TDRs is adjusted to reflect the changes in value, if any, resulting from the granting of a concession. Nonaccrual loans that are restructured remain on nonaccrual for a period of six months to demonstrate that the borrower can meet the restructured terms. 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. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. Loans classified as TDRs remain classified as such for the life of the loan, except in limited circumstances, when it is determined that the borrower is performing under the 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.

#### Acquired loans

All acquired loans are recorded at fair value with no carryover of the allowance for loan losses. At acquisition, loans are also reviewed to determine if the loan has evidence of deterioration in credit quality and to review if it is probable, at acquisition, that all contractually required payments will not be collected. Such loans are deemed to be purchased credit impaired ("PCI") loans. Under the accounting model for PCI loans, the excess of 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, acquired loans are generally considered to be accruing loans because their interest income relates to the accretable yield recognized and not to contractual interest payments at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the "nonaccretable difference", includes estimates of both the impact of prepayments and future credit losses expected to be incurred over the life of the loans.

The estimate of cash flows expected to be collected is regularly re-assessed subsequent to acquisition. These re-assessments involve updates, as necessary, of the key assumptions and estimates used in the initial estimate of fair value. Generally speaking, expected cash flows are affected by:

Changes in the expected principal and interest payments over the estimated life - Changes in expected cash flows may be driven by the credit outlook and actions taken with borrowers. Changes in expected future cash flows resulting from loan modifications are included in the assessment of expected cash flows.

Change in prepayment assumptions - Prepayments affect the estimated life of the loans, which may change the amount of interest income expected to be collected.

Change in interest rate indices for variable rate loans - Expected future cash flows are based, as applicable, on the variable rates in effect at the time of the assessment of expected cash flows.

A decrease in expected cash flows in subsequent periods may indicate that the loan is impaired which would likely require the recognition of a charge-off against the allowance for loan losses. An increase in expected cash flows in subsequent periods serves, first, to reduce any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield

for the loan. The adjustment of accretable yield due to an increase in expected cash flows is accounted for as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans.

A PCI loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, or foreclosure of the collateral. In the event of a sale of the loan, a gain or loss on sale would be recognized and reported within noninterest income based on the difference between the sales proceeds and the carrying amount of the loan. For PCI loans accounted for on an individual loan basis and resolved directly with the borrower, any amount received from resolution in excess of the carrying amount of the loan is recognized and reported within interest income.

A refinancing or modification of a PCI loan accounted for individually is assessed to determine whether the modification represents a TDR. If the loan is considered to be a TDR, it will be included in the total impaired loans reported by the Company. The loan will continue to recognize interest income based upon the excess of cash flows expected to be collected over the carrying amount of the loan.

#### Allowance for Loan Losses

The allowance for loan losses is established based upon the level of estimated probable losses in the current loan portfolio. Loan losses are charged against the allowance when management believes the collectability of a loan balance is doubtful. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is allocated to loan types using both a formula-based approach applied to groups of loans and an analysis of certain individual loans for impairment. The formula-based approach emphasizes loss factors derived from actual historical portfolio loss rates, which are combined with an assessment of certain qualitative factors to determine the allowance amounts allocated to the various loan categories. Allowance amounts are determined based on an estimate of the historical average annual percentage rate of loan loss for each loan category, a temporal estimate of the incurred loss emergence and confirmation period for each loan category, and certain qualitative risk factors considered in the computation of the allowance for loan losses.

The qualitative risk factors impacting the inherent risk of loss within the portfolio include the following:

- National and local economic and business conditions
- Level and trend of delinquencies
- Level and trend of charge-offs and recoveries
- Trends in volume and terms of loans
- Risk selection, lending policy and underwriting standards
- Experience and depth of management
- Banking industry conditions and other external factors
- Concentration risk

The formula-based approach evaluates groups of loans with common characteristics, which consist of similar loan types with similar terms and conditions, to determine the appropriate allocation within each portfolio section. This approach incorporates qualitative adjustments based upon management's assessment of various market and portfolio specific risk factors into its formula-based estimate. Due to the imprecise nature of the loan loss estimation process and ever changing conditions, the qualitative risk attributes may not adequately capture amounts of incurred loss in the formula-based loan loss components used to determine the Bank's analysis of the adequacy of the allowance for loan losses.

The Bank evaluates certain loans within the commercial and industrial, commercial real estate, commercial construction and small business portfolios individually for specific impairment. 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, contractual interest rates 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. Loans are selected for evaluation based upon a change in internal risk rating, occurrence of delinquency, loan classification, troubled debt restructuring or nonaccrual status. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of the probable loss is able to be estimated. Estimates of loss may be determined by the present value of anticipated future cash flows, the loan's observable fair market value, or the fair value of the

collateral, if the loan is collateral dependent. However, for collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral less costs to sell is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance amount when such an amount has been identified definitively as uncollectible.

75

---

Large groups of small-balance homogeneous loans such as the residential real estate, residential construction, home equity and other consumer portfolios are collectively evaluated for impairment. As such, the Bank does not typically identify individual loans within these groupings as impaired loans for impairment evaluation and disclosure. However, the Bank evaluates all TDRs for impairment on an individual loan basis regardless of loan type.

In the ordinary course of business, the Bank enters into commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these commitments is evaluated in a manner similar to the allowance for loan losses. The reserve for unfunded lending commitments is included in other liabilities in the balance sheet. At December 31, 2014 and 2013, the reserve for unfunded loan commitments was \$813,000 and \$716,000, respectively.

#### Transfers and Servicing of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Servicing assets are recognized as separate assets when rights are acquired through sale of loans with servicing rights retained. Servicing rights are originally recorded at fair value within other assets, but subsequently are amortized in proportion to and over the period of estimated net servicing income, and are assessed for impairment at each reporting date. Fair value is 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, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, 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 fee income is recorded for fees earned for servicing loans for investors. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan, and are recorded as income when earned. The amortization of mortgage servicing rights is recorded as a reduction of loan servicing fee income.

#### Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank (“FHLB”) of Boston, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions, the stock has no quoted market value and is carried at cost. The Company continually reviews its investment to determine if OTTI exists. The Company reviews recent public filings, rating agency analysis and other factors, when making its determination.

#### Bank Premises and Equipment

Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line convention method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease terms or the estimated useful lives of the improvements. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured, not to exceed fifteen years.

#### Goodwill and Identifiable Intangible Assets

Goodwill is the price paid which exceeds the net fair value of acquired businesses and is not amortized. Goodwill is evaluated for impairment at least annually, or more often if warranted, using a combined qualitative and quantitative impairment approach. The initial qualitative approach assesses whether the existence of events or circumstances led to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company determines it is more likely than not that the fair value is less than carrying value, the two step quantitative impairment test is performed. Step one of the quantitative impairment test compares book value to the fair value of the reporting unit. If test one is failed, a more detailed

analysis is performed, which involves measuring the excess of the fair value of the reporting unit, as determined in step one, over the aggregate fair value of the individual assets, liabilities, and identifiable intangibles as if the reporting unit was being acquired in a business combination.



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Identifiable intangible assets subject to amortization consist of core deposit intangibles, noncompete agreements, customer lists, as well as a brand name, and are amortized over the estimated lives of the intangibles using a method that approximates the amount of economic benefits that are realized by the Company. Identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The range of useful lives is as follows:

Core deposit intangibles	9-10 years
Noncompete agreements	2-3 years
Customer lists	10 years
Brand name	5 years
Leases	29 years

The determination of which intangible assets have finite lives is subjective, as is the determination of the amortization period for such intangible assets.

**Impairment of Long-Lived Assets Other Than Goodwill**

The Company reviews long-lived assets, including premises and equipment, for impairment whenever events or changes in business circumstances indicate that the remaining useful life may warrant revision or that the carrying amount of the long-lived asset may not be fully recoverable. The Company performs undiscounted cash flow analysis to determine if impairment exists. If impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

**Cash Surrender Value of Life Insurance Policies**

Increases in the cash surrender value (“CSV”) of life insurance policies, as well as benefits received net of any CSV, are recorded in other noninterest income, and are not subject to income taxes. The CSV of the policies are recorded as assets of the Bank, with liabilities recognized for any split dollar arrangements associated with the policies. The Company reviews the financial strength of the insurance carriers prior to the purchase of life insurance policies and no less than annually thereafter. A life insurance policy with any individual carrier is limited to 15% of Tier 1 capital (as defined for regulatory purposes) and the total CSV of life insurance policies is limited to 25% of Tier 1 capital.

**Other Real Estate Owned and Other Foreclosed Assets**

Real estate properties and other assets, which have served as collateral to secure loans, are held for sale and are initially recorded at fair value less estimated costs to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated costs to sell) of the foreclosed asset is charged to the allowance for loan losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value are recorded as reductions in the valuation allowance, but not below zero. Upon a sale of a foreclosed asset, any excess of the carrying value over the sale proceeds is recognized as a loss on sale. Any excess of sale proceeds over the carrying value of the foreclosed asset is first applied as a recovery to the valuation allowance, if any, with the remainder being recognized as a gain on sale. Operating expenses and changes in the valuation allowance relating to foreclosed assets are included in other noninterest expense.

**Derivatives**

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 determined by whether it has been designated and qualifies as part of a hedging relationship, and further, by the type of hedging relationship. At the inception of a hedge, the Company documents certain items, including but not limited to the following: the relationship between hedging instruments and hedged items, the Company risk management objectives, hedging strategies, and the evaluation of hedge transaction effectiveness. Documentation includes linking all derivatives designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions.

For those derivative instruments that are designated and qualify as hedging instruments, the Company designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in

expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is

77

---

reported as a component of other comprehensive income, net of related tax, and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item (i.e., the ineffective portion), if any, is recognized in current earnings during the period. For derivative instruments designated and qualifying as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or liability or an identified portion thereof that is attributable to the hedged risk), the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. Hedge accounting is discontinued prospectively when (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flow of a hedged item, (2) a derivative expires or is settled, (3) it is no longer likely that a forecasted transaction associated with the hedge will occur, or (4) it is determined that designation of a derivative as a hedge is no longer appropriate.

To the extent the Company enters into new or re-designates existing hedging relationships, it is the Company's policy to include the Overnight Index Swap Rate in the spectrum of available benchmark interest rates for hedge accounting. For derivative instruments not designated as hedging instruments, such as loan level derivatives, foreign exchange contracts and mortgage derivatives, changes in fair value are recognized in other noninterest income during the period of change.

#### Retirement Plans

The Company has various retirement plans in place for current and former employees, including postretirement benefit plans, supplemental executive retirement plans and frozen multiemployer pension plans.

The postretirement benefit plans and the supplemental executive retirement plans are unfunded and therefore have no plan assets. The actuarial cost method used to compute the benefit liabilities and related expense is the projected unit credit method. The projected benefit obligation is principally determined based on the present value of the projected benefit distributions at an assumed discount rate. The discount rate which is utilized is based on the investment yield of high quality corporate bonds available in the market place with maturities approximately equal to projected cash flows of future benefit payments as of the measurement date. Periodic benefit expense (or income) includes service costs and interest costs based on the assumed discount rate, amortization of prior service costs due to plan amendments and amortization of actuarial gains and losses. The underfunded status of the plans is recorded as a liability on the balance sheet.

The multiemployer pension plans assets are determined based on fair value, generally representing observable market prices. The actuarial cost method used to compute the pension liabilities and related expense is the unit credit method. The pension expense is equal to the plan contribution requirement of the Company for the plan year.

#### Stock-Based Compensation

The Company recognizes stock-based compensation based on the grant-date fair value of the award adjusted for forfeitures. For restricted stock awards and units, the Company recognizes compensation expense ratably over the vesting period for the fair value of the award, measured at the grant date. For stock option awards, the Company values awards granted using the Black-Scholes option-pricing model. The Company recognizes compensation expense for these awards on a straight-line basis over the requisite service period for the entire award (straight-line attribution method), ensuring that the amount of compensation cost recognized at any date at least equals the portion of the grant-date fair value of the award that is vested at that time.

#### Income Taxes

Deferred income tax assets and liabilities are determined using the asset and liability (or balance sheet) method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in enacted tax rates is recognized in income in the period that includes the enactment date. Income taxes are allocated to each entity in the consolidated

group based on its share of taxable income. Management exercises significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets, including projections of future taxable income. Additionally, a liability for unrecognized tax benefits is recorded for uncertain tax positions taken by the Company on its tax returns for which there is less than a 50% likelihood of being recognized upon a tax examination.

Tax credits generated from the New Markets Tax Credit program are reflected in earnings when realized for federal income tax purposes.

#### Low Income Housing Tax Credits

The Company accounts for its investments in qualified affordable housing projects using the proportional amortization method. Under the proportional amortization method the Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits, received and recognizes the net investment performance as a component of income tax expense.

#### Assets Under Administration

Assets held in a fiduciary or agency capacity for customers are not included in the accompanying consolidated balance sheet, as such assets are not assets of the Company. Revenue from administrative and management activities associated with these assets is recorded on an accrual basis.

#### Extinguishment of Debt

Upon extinguishment of an outstanding debt, the Company records the difference between the exit price and the net carrying amount of the debt as a gain or loss on the extinguishment. The gain or loss would be a component of other noninterest income or other noninterest expense, respectively.

#### Earnings Per Share

Basic earnings per share is calculated using the two-class method. The two-class method is an earnings allocation formula under which earnings per share is calculated from common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings distributed and undistributed, are allocated to participating securities and common shares based on their respective rights to receive dividends. Unvested share-based payment awards that contain nonforfeitable rights to dividends are considered participating securities (i.e. unvested restricted stock), not subject to performance based measures. Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding (inclusive of participating securities). Diluted earnings per share have been calculated in a manner similar to that of basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares (such as those resulting from the exercise of stock options or the attainment of performance measures) were issued during the period, computed using the treasury stock method.

#### Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, unrealized losses related to factors other than credit on debt securities, unrealized gains and losses on cash flow hedges, deferred gains on hedge accounting transactions, and changes in the funded status of the Company's postretirement and supplemental retirement plans.

#### Fair Value Measurements

In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial statements are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters.

#### Recent Accounting Standards

FASB ASC Topic 805 "Business Combinations" Update No. 2014-17. Update No. 2014-17 was issued in November 2014 to provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the

reporting period in which the

79

---

change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with Topic 250, Accounting Changes and Error Corrections. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. The amendments in this Update are effective on November 18, 2014. The adoption of this standard did not have a material impact on the Company's consolidated financial position.

FASB ASC Subtopic 205-40 "Presentation of Financial Statements - Going Concern" Update No. 2014-15. Update No. 2014-15 was issued in August 2014 to provide guidance in U.S. Generally accepted accounting principles ("GAAP") about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Subtopic 310-40 "Receivables - Troubled Debt Restructurings by Creditors" Update No. 2014-14. Update No. 2014-14 was issued in August 2014 to address the diversity in practice related to how creditors classify government-guaranteed mortgage loans, including Federal Housing Administration (FHA) or the U.S. Department of Veterans Affairs (VA) guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The objective of this update is to reduce that diversity by addressing the classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Topic 718 "Compensation - Stock Compensation" Update No. 2014-12. Update No. 2014-12 was issued in June 2014 to resolve the diverse accounting treatment of share-based payment awards that require, as a condition to vesting, achievement of a specific performance target after the requisite service period. Many reporting entities account for these performance targets as performance conditions that affect the vesting of the award and, therefore, do not reflect the performance target in the estimate of the grant-date fair value of the award, while other reporting entities treat those performance targets as nonvesting conditions that affect the grant-date fair value of the award. This amendment requires that these performance targets that affect vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 "Compensation - Stock Compensation" as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Topic 860 "Transfers and Servicing" Update No. 2014-11. Update No. 2014-11 was issued in June 2014 to respond to stakeholders' concerns about current accounting and disclosures for repurchase agreements and similar transactions. The amendments in this Update require two accounting changes. First, the amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments in this Update require disclosures for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same

transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For those transactions outstanding at the reporting date, the transferor is required to disclose certain information by type of transaction. The amendments in this Update also require certain disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The accounting changes in this Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application for a public business entity is prohibited. For public business entities, the disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and



for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

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

FASB ASC Subtopic 310-40 "Receivables - Troubled Debt Restructurings by Creditors" Update No. 2014-04. Update No. 2014-04 was issued in January 2014 to reduce diversity by clarifying when an in substance repossession of foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update should be applied prospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

## (2) ACQUISITIONS

## Mayflower Bancorp, Inc.

On November 15, 2013, the Company completed its acquisition of Mayflower Bancorp, Inc. ("Mayflower"), the parent of Mayflower Co-operative Bank. The transaction qualified as a tax-free reorganization for federal income tax purposes and Mayflower shareholders received either the right to receive \$17.50 in cash per share or 0.565 shares of the Company's stock (valued at \$20.28 per share, based upon the highest trading value of the Company's stock on November 15, 2013 of \$35.90). The total deal consideration was \$40.3 million and was comprised of 30% cash and 70% stock consideration. The cash consideration was \$10.9 million in the aggregate, inclusive of cash paid in lieu of fractional shares. The total stock consideration was \$29.4 million and resulted in an increase to the Company's outstanding shares of 818,650 shares. In addition to increasing its loan and deposit base, the Company will be able to provide a deeper product set to new customers, as well as benefit from increased operating synergies, improving the long-term operating and financial results of the Company.

The Company accounted for the acquisition using the acquisition method pursuant to the Business Combinations Topic of the FASB ASC. Accordingly, the Company recorded merger and acquisition expenses of \$6.9 million during the year ended December 31, 2013. Additionally, the acquisition method requires the acquirer to recognize the assets acquired and the liabilities assumed at their fair values as of the acquisition date. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition:

	Net Assets Acquired at Fair Value (Dollars in thousands)
Assets	
Cash	\$ 21,390
Investments	77,953
Loans	126,570
Premises and equipment	7,128
Goodwill	20,030
Core deposit intangible	2,610
Other assets	7,104
Total assets acquired	262,785
Liabilities	
Deposits	218,877
Borrowings	1,121
Other liabilities	2,527
Total liabilities assumed	222,525
Purchase price	\$ 40,260

Fair value adjustments to assets acquired (other than PCI loans, see Note 1, "Summary of Significant Accounting Policies" herein) and liabilities assumed are generally amortized using either an effective yield or straight-line basis over periods consistent with the average life, useful life and/or contractual term of the related assets and liabilities.

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

## Cash and Cash Equivalents

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



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Investments**

The fair values of securities were based on quoted market prices for identical securities received from an independent, nationally-recognized, third-party pricing service. When quoted market prices for identical securities were unavailable, prices provided by the independent pricing service were based on recent trading activity and other observable information including, but not limited to, market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable.

**Loans**

The loans acquired were recorded at fair value without a carryover of the allowance for loan losses. Fair value of the loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then applying a market-based discount rate to those cash flows. The overall discount on the loans acquired in this transaction was due primarily to anticipated credit loss, as well as considerations for liquidity and market interest rates. For the year ended December 31, 2013 the Company recorded approximately \$641,000 of interest income attributable to these acquired loans since the acquisition date.

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

	(Dollars in thousands)	
Contractually required principal and interest at acquisition	\$4,440	
Contractual cash flows not expected to be collected	(1,296	)
Expected cash flows at acquisition	3,144	
Interest component of expected cash flows	(386	)
Basis in PCI loans at acquisition - estimated fair value	\$2,758	

**Core Deposit Intangible**

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

**Premises and Equipment**

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

**Deposits**

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

**Borrowings**

The fair values of FHLB advances were derived based upon the present value of the principal and interest payments using a current market discount rate.



**Selected Pro Forma Results**

The following summarizes the unaudited pro forma results of operations as if the Company acquired Mayflower on January 1, 2013 (2012 amounts represent combined results for the Company and Mayflower). The selected pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the acquisition actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period.

	Years Ended December 31	
	2013	2012
	(Dollars in thousands)	
Net interest income after provision for loan losses	\$178,556	\$162,781
Net income	55,103	44,133

Excluded from the pro forma results of operations for the year ended December 31, 2013 are merger costs, net of tax, of \$4.5 million, or \$0.19 per diluted share, respectively, primarily made up of contract terminations arising due to the change in control, the acceleration of certain compensation and benefit costs, and other merger expenses.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Central Bancorp, Inc.

On November 9, 2012, the Company completed its acquisition of Central Bancorp, Inc. (“Central”), the parent of Central Co-operative Bank. The transaction qualified as a tax-free reorganization for federal income tax purposes and Central shareholders received either the right to receive \$32.00 in cash per share or 1.0533 shares of the Company's stock (valued at \$29.95 per share, based upon the highest trading value of the Company's stock on November 9, 2012 of \$28.44). The total deal consideration was \$52.0 million and was comprised of 40% cash and 60% stock consideration. The cash consideration was \$21.6 million in the aggregate, inclusive of cash paid in lieu of fractional shares. The total stock consideration was \$30.4 million and resulted in an increase to the Company's outstanding shares of 1,068,514 shares. In addition to increasing its loan and deposit base, the Company will be able to provide a deeper product set to new customers, as well as benefit from increased operating synergies, improving the long-term operating and financial results of the Company.

The Company accounted for the acquisition using the acquisition method pursuant to the Business Combinations Topic of the FASB ASC. Accordingly, the Company recorded merger and acquisition expenses of \$1.8 million and \$6.7 million during the years ended December 31, 2013 and 2012, respectively. Additionally, the acquisition method requires the acquirer to recognize the assets acquired and the liabilities assumed at their fair values as of the acquisition date. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition:

	Net Assets Acquired at Fair Value (Dollars in thousands)
Assets	
Cash	\$ 12,683
Investments	28,268
Loans	450,671
Premises and equipment	6,277
Goodwill	22,544
Core deposit intangible	2,150
Other assets	37,309
Total assets acquired	559,902
Liabilities	
Deposits	357,434
Borrowings	144,920
Other liabilities	5,511
Total liabilities assumed	507,865
Purchase price	\$ 52,037

As noted above, the Company acquired loans at fair value of \$450.7 million. Subsequent to the acquisition, on November 9, 2012, the Company sold approximately \$42.2 million of performing jumbo residential mortgages acquired in the transaction and paid down \$25.0 million of acquired Federal Home Loan Bank Advances.

Fair value adjustments to assets acquired (other than PCI loans, see Note 1, "Summary of Significant Accounting Policies" herein.) and liabilities assumed are generally amortized using either an effective yield or straight-line basis over periods consistent with the average life, useful life and / or contractual term of the related assets and liabilities. Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

**Cash and Cash Equivalents**

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





**Investments**

The fair values of securities were based on quoted market prices for identical securities received from an independent, nationally-recognized, third-party pricing service. When quoted market prices for identical securities were unavailable, prices provided by the independent pricing service were based on recent trading activity and other observable information including, but not limited to, market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable.

**Loans**

The loans acquired were recorded at fair value without a carryover of the allowance for loan losses. Fair value of the loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then applying a market-based discount rate to those cash flows. The overall discount on the loans acquired in this transaction was due primarily to anticipated credit loss, as well as considerations for liquidity and market interest rates. For the year ended December 31, 2012 the Company recorded approximately \$3.1 million of interest income attributable to these acquired loans since the acquisition date.

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

	(Dollars in thousands)	
Contractually required principal and interest at acquisition	\$47,548	
Contractual cash flows not expected to be collected	(8,733	)
Expected cash flows at acquisition	38,815	
Interest component of expected cash flows	(3,095	)
Basis in PCI loans at acquisition - estimated fair value	\$35,720	

**Core Deposit Intangible**

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

**Deposits**

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

**Borrowings**

The fair values of these borrowings were derived based upon present value of the principal and interest payments using a current market discount rate.

## Selected Pro Forma Results

The following summarizes the unaudited pro forma results of operations as if the Company acquired Central on January 1, 2012 (2011 amounts represent combined results for the Company and Central). The selected pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the acquisition actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period.

	Years Ended December 31	
	2012	2011
	(Dollars in thousands)	
Net interest income after provision for loan losses	\$165,860	\$170,514
Net income	47,261	46,477

Excluded from the pro forma results of operations for the year ended December 31, 2012 are merger costs, net of tax, of \$4.5 million, or \$0.20 per diluted share, respectively, primarily made up of contract terminations arising due to the change in control, the acceleration of certain compensation and benefit costs, and other merger expenses.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## (3) SECURITIES

## Trading Securities

During 2012 the Company transferred equity securities classified previously as trading to available for sale. The majority of these securities are held solely for the purpose of funding certain executive nonqualified retirement obligations (see Note 15 “Employee Benefit Plans”). The remainder of the portfolio is comprised of equity securities, which consists of a fund whose investment objective is to invest in geographically specific private placement debt securities designed to support underlying economic activities such as community development and affordable housing. The Company realized a gain on trading activities of \$285,000 in 2012, which was included in other income.

## Available for Sale and Held to Maturity Securities

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

	December 31, 2014				December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)							
Available for sale securities								
U.S. government agency securities	\$41,369	\$139	\$(22)	\$41,486	\$41,331	\$3	\$(885)	\$40,449
Agency mortgage-backed securities	211,168	7,203	(693)	217,678	232,742	6,405	(4,556)	234,591
Agency collateralized mortgage obligations	63,059	599	(623)	63,035	58,765	490	(1,102)	58,153
State, county, and municipal securities	5,106	117	—	5,223	5,439	1	(28)	5,412
Single issuer trust preferred securities issued by banks	2,913	12	(16)	2,909	2,960	14	(22)	2,952
Pooled trust preferred securities issued by banks and insurers (1)	7,906	195	(1,780)	6,321	8,083	—	(4,242)	3,841
Equity securities	11,572	567	(237)	11,902	10,997	762	(295)	11,464
Total available for sale securities	\$343,093	\$8,832	\$(3,371)	\$348,554	\$360,317	\$7,675	\$(11,130)	\$356,862
Held to maturity securities								
U.S. treasury securities	\$1,010	\$63	\$—	\$1,073	\$1,011	\$31	\$—	\$1,042
Agency mortgage-backed securities	159,522	5,422	—	164,944	155,067	1,917	(1,033)	155,951
Agency collateralized mortgage obligations	207,995	2,141	(3,478)	206,658	187,388	824	(6,176)	182,036
State, county, and municipal securities	424	4	—	428	678	7	—	685
Single issuer trust preferred securities issued by banks	1,500	—	(23)	1,477	1,503	23	—	1,526
Corporate debt securities	5,002	117	—	5,119	5,005	210	—	5,215
Total held to maturity securities	\$375,453	\$7,747	\$(3,501)	\$379,699	\$350,652	\$3,012	\$(7,209)	\$346,455

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Total \$718,546 \$16,579 \$(6,872 ) \$728,253 \$710,969 \$10,687 \$(18,339 ) \$703,317

(1) Gross unrealized gains and gross unrealized losses include \$230,000 and \$2.3 million of net non-credit related OTTI at December 31, 2014 and December 31, 2013, respectively.

88

---

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale. The following table shows the gross realized gains and losses on available for sale securities for the periods indicated:

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Gross realized gains on fixed income securities	\$121	\$258	\$5
Gross realized losses on fixed income securities	(21	) —	—
Gain (loss) on equity investments	\$91	\$(28	) \$111
Net gains on investments	\$191	\$230	\$116

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 December 31, 2014 is presented below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	\$—	\$—	\$200	\$202
Due after one year to five years	36,094	36,819	5,454	5,586
Due after five to ten years	90,680	91,060	31,805	32,429
Due after ten years	204,747	208,773	337,994	341,482
Total debt securities	\$331,521	\$336,652	\$375,453	\$379,699
Equity securities	\$11,572	\$11,902	\$—	\$—
Total	\$343,093	\$348,554	\$375,453	\$379,699

Inclusive in the table above is \$34.8 million of callable securities at December 31, 2014.

The carrying value of securities pledged to secure public funds, trust deposits, repurchase agreements and for other purposes, as required or permitted by law, was \$340.0 million and \$360.1 million at December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the Company had no investments in obligations of individual states, counties, or municipalities, which exceeded 10% of stockholders' equity.

#### Other-Than-Temporary Impairment

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

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

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Description of securities	# of holdings	December 31, 2014				Total Fair Value	Unrealized Losses
		Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses		
(Dollars in thousands)							
U.S. government agency securities	22	\$21,950	\$(22)	\$—	\$—	\$21,950	\$(22)
Agency mortgage-backed securities	17	3,471	(1)	42,222	(692)	45,693	(693)
Agency collateralized mortgage obligations	14	35,083	(331)	94,974	(3,770)	130,057	(4,101)
Single issuer trust preferred securities issued by banks and insurers	2	2,553	(39)	—	—	2,553	(39)
Pooled trust preferred securities issued by banks and insurers	2	—	—	2,681	(1,356)	2,681	(1,356)
Equity securities	23	1,480	(74)	4,072	(163)	5,552	(237)
Total temporarily impaired securities	80	\$64,537	\$(467)	\$143,949	\$(5,981)	\$208,486	\$(6,448)

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

The Company does not intend to sell these investments and has determined based upon available evidence that it is more likely than not that the Company will not be required to sell the security before the recovery of its amortized cost basis. As a result, the Company does not consider these investments to be OTTI. The Company made this

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

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 December 31, 2014:

**U.S. Government Agency Securities, Agency Mortgage-Backed Securities and Collateralized Mortgage Obligations:** This portfolio has contractual terms that generally do not permit the issuer to settle the securities at a price less than the current par value of the investment. The decline in market value of these securities is attributable to changes in interest rates and not credit quality. Additionally, these securities are implicitly guaranteed by the U.S. Government or one of its agencies.

**Single Issuer Trust Preferred Securities:** This portfolio consists of two securities, one of which is 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 the issuers.

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

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

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

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Gross change in OTTI recorded on certain investments	\$2,098	\$588	\$678
Portion of OTTI recognized in OCI	(2,098)	(588)	(754)
Total credit related OTTI recognized in earnings	\$—	\$—	\$(76)

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

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Balance at beginning of period	\$(9,997)	\$(10,847)	\$(10,771)
Add			
Incurred on securities not previously impaired	—	—	—
Incurred on securities previously impaired	—	—	(76)
Less			
Securities sold during the period	—	850	—
Reclassification due to changes in Company's intent	—	—	—
Increases in cash flow expected to be collected	—	—	—
Balance at end of period	\$(9,997)	\$(9,997)	\$(10,847)





Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## (4) LOANS, ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

## Allowance for Loan Losses

The following table summarizes changes in the allowance for loan losses by loan category and bifurcates the amount of allowance allocated to each loan category based on collective impairment analysis and loans evaluated individually for impairment:

	December 31, 2014							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
	(Dollars in thousands)							
Allowance for loan losses								
Beginning balance	\$15,622	\$24,541	\$3,371	\$1,215	\$2,760	\$5,036	\$694	\$53,239
Charge-offs	(2,097 )	(5,454 )	—	(605 )	(826 )	(750 )	(1,215 )	(10,947 )
Recoveries	462	404	—	275	424	249	591	2,405
Provision	1,586	6,382	574	286	476	421	678	10,403
Ending balance	\$15,573	\$25,873	\$3,945	\$1,171	\$2,834	\$4,956	\$748	\$55,100
Ending balance: individually evaluated for impairment	\$412	\$197	\$—	\$7	\$1,500	\$262	\$38	\$2,416
Ending balance: collectively evaluated for impairment	\$15,161	\$25,676	\$3,945	\$1,164	\$1,334	\$4,694	\$710	\$52,684
Financing receivables ending balance: Individually evaluated for impairment	\$4,654	\$30,729	\$311	\$1,088	\$15,055	\$5,330	\$868	\$58,035
Collectively evaluated for impairment	856,185	2,304,099	265,501	84,159	505,799	858,305	16,335	4,890,383
Purchase credit impaired loans	—	12,495	182	—	9,405	228	5	22,315
Total loans by group	\$860,839	\$2,347,323	\$265,994	\$85,247	\$530,259	\$863,863	\$17,208	\$4,970,733 (1)
	December 31, 2013							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
	(Dollars in thousands)							
Allowance for loan losses								
Beginning balance	\$13,461	\$22,598	\$2,811	\$1,524	\$2,930	\$7,703	\$807	\$51,834
Charge-offs	(2,683 )	(3,587 )	(308 )	(773 )	(622 )	(1,370 )	(1,175 )	(10,518 )

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Recoveries	272	206	100	279	143	135	588	1,723
Provision	\$4,572	\$5,324	\$ 768	\$185	\$309	\$(1,432 )	\$ 474	\$10,200
Ending balance	\$15,622	\$24,541	\$ 3,371	\$1,215	\$2,760	\$5,036	\$ 694	\$53,239
Ending balance: individually evaluated for impairment	\$1,150	\$765	\$—	\$109	\$1,564	\$116	\$70	\$3,774
Ending balance: collectively evaluated for impairment	\$14,472	\$23,776	\$ 3,371	\$1,106	\$1,196	\$4,920	\$ 624	\$49,465
Financing receivables ending balance: Individually evaluated for impairment	\$9,148	\$39,516	\$ 100	\$1,903	\$15,200	\$4,890	\$1,298	\$72,055
Collectively evaluated for impairment	775,053	2,191,132	223,562	75,337	515,854	816,925	18,845	4,616,708
Purchase credit impaired loans	1	18,612	197	—	10,389	326	19	29,544
Total loans by group	\$784,202	\$2,249,260	\$ 223,859	\$77,240	\$541,443	\$822,141	\$20,162	\$4,718,307 (1)

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2012							
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Home Equity	Other Consumer	Total
	(Dollars in thousands)							
Allowance for loan losses								
Beginning balance	\$11,682	\$23,514	\$2,076	\$1,896	\$3,113	\$4,597	\$1,382	\$48,260
Charge-offs	(6,191)	(4,348)	—	(616)	(1,094)	(3,178)	(1,165)	(16,592)
Recoveries	963	188	—	134	151	93	581	2,110
Provision	7,007	3,244	735	110	760	6,191	9	18,056
Ending balance	\$13,461	\$22,598	\$2,811	\$1,524	\$2,930	\$7,703	\$807	\$51,834
Ending balance: individually evaluated for impairment	\$1,084	\$516	\$—	\$353	\$1,302	\$35	\$130	\$3,420
Ending balance: collectively evaluated for impairment	\$12,377	\$22,082	\$2,811	\$1,171	\$1,628	\$7,668	\$677	\$48,414
Financing receivables ending balance: Individually evaluated for impairment	\$8,575	\$33,868	\$—	\$2,279	\$15,373	\$4,435	\$2,129	\$66,659
Collectively evaluated for impairment	678,936	2,066,432	188,768	76,315	587,687	797,334	24,826	4,420,298
Purchase credit impaired loans	—	21,853	—	—	9,821	380	—	32,054
Total loans by group	\$687,511	\$2,122,153	\$188,768	\$78,594	\$612,881	\$802,149	\$26,955	\$4,519,011 (1)

(1) The amount of net deferred fees included in the ending balance was \$2.8 million, \$2.3 million, and \$3.1 million at December 31, 2014, 2013, and 2012, respectively.

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

#### Commercial Portfolio

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

**Commercial Real Estate:** Loans in this category consist of mortgage loans to finance investment in real property such as multi-family residential, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans are typically written with amortizing payment structures. Collateral values are

determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources consist of: primarily, cash flow from operating leases and rents, and secondarily, liquidation of assets.

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

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

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

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

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

**Consumer Portfolio**

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

**Home Equity:** Home equity loans and lines are made to qualified individuals and are secured by senior or junior mortgage liens on owner-occupied 1-4 family homes, condominiums or vacation homes or on nonowner occupied 1-4 family homes with more restrictive loan to value requirements. The home equity loan has a fixed rate and is billed in equal payments comprised of principal and interest. The home equity line of credit has a variable rate and is billed in interest-only payments during the draw period. At the end of the draw period, the home equity line of credit is billed as a percentage of the principal balance plus all accrued interest. Additionally, the Bank has the option of renewing the line of credit for additional draw periods. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan to value ratios within established policy guidelines.

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

**Credit Quality**

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

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

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

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

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

**9 Rating — Partial Loss Probable:** Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt with the added provision that the weaknesses make collection of the debt in full, on the basis of currently existing

facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 financial condition. 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 a significant review of the commercial loan portfolio exposure 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:

December 31, 2014						
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
(Dollars in thousands)						
Pass	1 - 6	\$801,578	\$2,196,109	\$248,696	\$81,255	\$3,327,638
Potential weakness	7	37,802	82,372	15,464	2,932	138,570
Definite weakness	8	20,241	67,571	1,834	949	90,595
Partial loss probable	9	1,218	1,271	—	111	2,600
Definite loss	10	—	—	—	—	—
Total		\$860,839	\$2,347,323	\$265,994	\$85,247	\$3,559,403
December 31, 2013						
Category	Risk Rating	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Total
(Dollars in thousands)						
Pass	1 - 6	\$736,996	\$2,068,995	\$210,372	\$71,514	\$3,087,877
Potential weakness	7	21,841	91,984	8,608	3,031	125,464
Definite weakness	8	24,409	85,767	4,779	2,552	117,507
Partial loss probable	9	956	2,514	100	143	3,713
Definite loss	10	—	—	—	—	—
Total		\$784,202	\$2,249,260	\$223,859	\$77,240	\$3,334,561



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For the Company's consumer portfolio, the quality of the loan is best indicated by the repayment performance of an individual borrower. However, the Company does supplement performance data with current Fair Isaac Corporation ("FICO") and Loan to Value ("LTV") estimates. Current FICO data is purchased and appended to all consumer loans on a quarterly basis. In addition, automated valuation services and broker opinions of value are used to supplement original value data for the residential and home equity portfolios, periodically. The following table shows the weighted average FICO scores and the weighted average combined LTV ratios as of the periods indicated below:

	December 31			
	2014	2013		
Residential portfolio				
FICO score (re-scored)(1)	739	738		
LTV (re-valued)(2)	67.1	% 67.0	%	%
Home equity portfolio				
FICO score (re-scored)(1)	764	763		
LTV (re-valued)(2)	53.6	% 53.0	%	%

(1) The average FICO scores above are based upon rescues available from November and origination score data for loans booked between December 1 and December 31, for the years indicated.

(2) The combined LTV ratios for December 31, 2014 and 2013 are based upon updated automated valuations as of February 28, 2013 and actual score data for loans booked from March 1, 2013 through December 31, 2014. 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:

	December 31	
	2014	2013
	(Dollars in thousands)	
Commercial and industrial	\$2,822	\$4,178
Commercial real estate	7,279	11,734
Commercial construction	311	100
Small business	246	633
Residential real estate	8,697	10,329
Home equity	8,038	7,068
Other consumer	—	92
Total nonaccrual loans(1)	\$27,393	\$34,134

(1) Included in these amounts were \$5.2 million and \$7.5 million nonaccruing TDRs at December 31, 2014 and 2013, respectively.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

December 31, 2014											
	30-59 days	60-89 days	90 days or more	Total Past Due						Total Financing Receivables	Recorded Investment >90 Days and Accruing
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current		
(Dollars in thousands)											
Commercial and industrial	18	\$3,192	10	\$1,007	19	\$2,320	47	\$6,519	\$854,320	\$860,839	\$ —
Commercial real estate	19	13,428	6	1,480	16	4,225	41	19,133	2,328,190	2,347,323	—
Commercial construction	1	506	—	—	1	311	2	817	265,177	265,994	—
Small business	7	21	8	113	7	173	22	307	84,940	85,247	—
Residential real estate	13	1,670	10	1,798	36	4,826	59	8,294	521,965	530,259	106
Home equity	20	1,559	7	307	23	2,402	50	4,268	859,595	863,863	—
Other consumer	34	233	6	20	8	13	48	266	16,942	17,208	13
Total	112	\$20,609	47	\$4,725	110	\$14,270	269	\$39,604	\$4,931,129	\$4,970,733	\$ 119
December 31, 2013											
	30-59 days	60-89 days	90 days or more	Total Past Due						Total Financing Receivables	Recorded Investment >90 Days and Accruing
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current		
(Dollars in thousands)											
Commercial and industrial	9	\$743	6	\$327	20	\$3,763	35	\$4,833	\$779,369	\$784,202	\$ —
Commercial real estate	21	8,643	2	356	30	8,155	53	17,154	2,232,106	2,249,260	—
Commercial construction	1	847	—	—	1	100	2	947	222,912	223,859	—
Small business	18	353	6	227	14	247	38	827	76,413	77,240	—
Residential real estate	23	2,903	8	1,630	39	6,648	70	11,181	530,262	541,443	462
Home equity	27	1,922	8	852	23	2,055	58	4,829	817,312	822,141	—
Other consumer	110	514	30	106	34	148	174	768	19,394	20,162	63
Total	209	\$15,925	60	\$3,498	161	\$21,116	430	\$40,539	\$4,677,768	\$4,718,307	\$ 525

In the course of resolving nonperforming loans, the Bank may choose to restructure the contractual terms of certain loans. The Bank attempts to work out an alternative payment schedule with the borrower in order to avoid foreclosure actions. Any loans that are modified are reviewed by the Bank to identify if a TDR has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower

that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two.

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

	December 31	
	2014	2013
	(Dollars in thousands)	
TDRs on accrual status	\$38,382	\$38,410
TDRs on nonaccrual status	5,248	7,454
Total TDRs	\$43,630	\$45,864
Amount of specific reserves included in the allowance for loan loss associated with TDRs:	\$2,004	\$2,474
Additional commitments to lend to a borrower who has been a party to a TDR:	\$1,400	\$1,877

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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:

	Years Ended December 31		
	2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment(1)
	(Dollars in thousands)		
Commercial & industrial	12	\$681	\$681
Commercial real estate	13	4,329	4,329
Small business	5	133	133
Residential real estate	9	1,535	1,568
Home equity	11	923	926
Other consumer	1	8	8
Total	51	\$7,609	\$7,645
	2013		
Commercial & industrial	11	\$732	\$732
Commercial real estate	9	8,100	8,100
Small business	12	556	556
Residential real estate	9	2,401	2,427
Home equity	17	1,347	1,347
Other consumer	9	27	27
Total	67	\$13,163	\$13,189
	2012		
Commercial & industrial	18	\$3,372	\$3,372
Commercial real estate	15	7,121	7,121
Small business	14	621	621
Residential real estate	20	3,495	3,499
Home equity	20	1,195	1,198
Other consumer	33	328	329
Total	120	\$16,132	\$16,140

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



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Extended maturity	\$3,441	\$3,582	\$5,867
Adjusted interest rate	727	—	2,182
Combination rate & maturity	2,640	8,917	5,007
Court ordered concession	837	690	3,084
Total	\$7,645	\$13,189	\$16,140

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

	Years Ended December 31					
	2014		2013		2012	
	Number	Recorded	Number	Recorded	Number	Recorded
	of Contracts	Investment	of Contracts	Investment	of Contracts	Investment
	(Dollars in thousands)					
Troubled debt restructurings that subsequently defaulted						
Commercial & industrial	2	\$196	—	\$—	1	\$231
Commercial real estate	—	—	1	176	3	696
Residential real estate	3	214	—	—	1	238
Other consumer	—	—	1	1	—	—
Total	5	\$410	2	\$177	5	\$1,165

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

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



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The table below sets forth information regarding the Company's impaired loans as of the dates indicated:

	Years Ended December 31				
	2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded					
Commercial & industrial	\$3,005	\$3,278	\$—	\$4,557	\$258
Commercial real estate	15,982	17,164	—	16,703	1,025
Commercial construction	311	311	—	311	13
Small business	692	718	—	772	45
Residential real estate	2,439	2,502	—	2,493	102
Home equity	4,169	4,221	—	4,264	198
Other consumer	338	341	—	364	24
Subtotal	26,936	28,535	—	29,464	1,665
With an allowance recorded					
Commercial & industrial	\$1,649	\$1,859	\$412	\$2,032	\$98
Commercial real estate	14,747	15,514	197	15,650	842
Commercial construction	—	—	—	—	—
Small business	396	458	7	456	32
Residential real estate	12,616	13,727	1,500	12,817	537
Home equity	1,161	1,264	262	1,203	46
Other consumer	530	530	38	580	22
Subtotal	31,099	33,352	2,416	32,738	1,577
Total	\$58,035	\$61,887	\$2,416	\$62,202	\$3,242
	2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded					
Commercial & industrial	\$7,147	\$7,288	\$—	\$7,338	\$338
Commercial real estate	14,283	15,891	—	15,728	1,075
Commercial construction	100	408	—	1,105	43
Small business	1,474	1,805	—	1,854	121
Residential real estate	1,972	2,026	—	2,021	95
Home equity	4,263	4,322	—	4,335	202
Other consumer	446	446	—	515	41
Subtotal	29,685	32,186	—	32,896	1,915
With an allowance recorded					
Commercial & industrial	\$2,001	\$2,045	\$1,150	\$2,572	\$125
Commercial real estate	25,233	25,377	765	25,595	1,326
Commercial construction	—	—	—	—	—
Small business	429	462	109	459	28
Residential real estate	13,228	14,197	1,564	13,405	515
Home equity	627	694	116	642	26
Other consumer	852	856	70	954	33



Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Subtotal	42,370	43,631	3,774	43,627	2,053
Total	\$72,055	\$75,817	\$3,774	\$76,523	\$3,968

100

---

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2012				
	Recorded	Unpaid	Related	Average	Interest
	Investment	Principal	Allowance	Recorded	Income
		Balance		Investment	Recognized
	(Dollars in thousands)				
With no related allowance recorded					
Commercial & industrial	\$5,849	\$7,343	\$—	\$6,993	\$391
Commercial real estate	12,999	13,698	—	13,984	952
Commercial construction	—	—	—	—	—
Small business	1,085	1,147	—	1,217	80
Residential real estate	2,545	2,630	—	2,589	118
Home equity	4,119	4,166	—	4,190	195
Other consumer	700	705	—	858	72
Subtotal	27,297	29,689	—	29,831	1,808
With an allowance recorded					
Commercial & industrial	\$2,726	\$2,851	\$1,084	\$2,883	\$143
Commercial real estate	20,869	21,438	516	21,678	1,340
Commercial construction	—	—	—	—	—
Small business	1,194	1,228	353	1,255	77
Residential real estate	12,828	13,601	1,302	13,014	560
Home equity	316	389	35	324	23
Other consumer	1,429	1,453	130	1,610	60
Subtotal	39,362	40,960	3,420	40,764	2,203
Total	\$66,659	\$70,649	\$3,420	\$70,595	\$4,011

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 tables display certain information pertaining to purchased credit impaired loans at the dates indicated:

		Mayflower Acquisition November 15, 2013 (Dollars in thousands)	Central Acquisition November 9, 2012 (Dollars in thousands)
Contractually required principal and interest payments receivable	(1)	\$4,440	\$47,548
Less: expected cash flows	(1)	3,144	38,815
Initial nonaccretable difference		\$1,296	\$8,733
Expected cash flows	(1)	\$3,144	\$38,815
Less: fair value (initial carrying amount)		2,758	35,720
Accretable Yield		\$386	\$3,095

(1) Reflective of anticipated prepayments.

		December 31 2014 (Dollars in thousands)	2013 (Dollars in thousands)
Outstanding balance		\$25,279	\$33,555
Carrying amount		\$22,315	\$29,544

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

	2014 (Dollars in thousands)	2013 (Dollars in thousands)
Beginning balance	\$2,514	\$2,464
Acquisition	—	386
Accretion	(2,299)	(1,812)
Other change in expected cash flows (1)	2,565	1,142
Reclassification from nonaccretable difference for loans which have paid off (2)	194	334
Ending balance	\$2,974	\$2,514

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

(2) Results in increased income during the period when a loan pays off at amount greater than originally expected.

#### Loans to Insiders

The Bank has granted loans to principal officers, directors (and their affiliates) and principal security holders. All such loans were made in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and do not involve more than the normal risk of collectability or present other unfavorable features. Annual activity consists of the following at the periods indicated:

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2014	2013
	(Dollars in thousands)	
Principal balance of loans outstanding at beginning of year	\$52,510	\$47,859
Loan advances	21,310	107,461
Loan payments/payoffs	(21,913 )	(102,810 )
Reduction for former directors (1)	(25,913 )	—
Principal balance of loans outstanding at end of year	\$25,994	\$52,510

(1) Amounts relate to loans to individuals who are no longer current directors of the Company and therefore are not deemed to be an insider.

**(5) BANK PREMISES AND EQUIPMENT**

Bank premises and equipment at December 31, were as follows:

	2014	2013	Estimated Useful Life
	(Dollars in thousands)		(In years)
Cost:			
Land	\$ 15,786	\$ 16,026	n/a
Bank premises	33,425	32,858	5-39
Leasehold improvements	20,797	20,189	1-15
Furniture and equipment	49,894	46,613	1-10
Total cost	119,902	115,686	
Accumulated depreciation	(55,828 )	(50,736 )	
Net bank premises and equipment	\$64,074	\$64,950	

Depreciation expense related to bank premises and equipment was \$6.6 million in 2014, \$6.1 million in 2013, and \$5.5 million in 2012, which is included in occupancy and equipment expense and other noninterest expense. In addition, the Company has recognized impairment of \$670,000 and \$93,000 during 2014 and 2013, respectively, relating to certain bank premises.

**(6) GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS**

The following table sets forth the carrying value of goodwill and other intangible assets, net of accumulated amortization, at December 31:

	2014	2013
	(Dollars in thousands)	
Balances not subject to amortization:		
Goodwill	\$170,421	\$170,421
Balances subject to amortization:		
Core deposit intangibles	9,269	11,218
Other identifiable intangible assets	616	1,003
Total other intangible assets	9,885	12,221
Total goodwill and other intangible assets	\$180,306	\$182,642

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The changes in the carrying value of goodwill for the periods indicated were as follows:

	2014	2013	2012
	(Dollars in thousands)		
Balance at beginning of year	\$ 170,421	\$ 150,391	\$ 130,074
Acquisitions	—	20,030	22,544
Impairment (1)	—	—	(2,227 )
Balance at end of year	\$ 170,421	\$ 170,421	\$ 150,391

(1) Amount represents the total amount of goodwill relating to Compass Exchange Advisors, LLC, which was acquired in January 2007.

The gross carrying amount and accumulated amortization of other intangible assets were as follows at the periods indicated:

	2014			2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Dollars in thousands)					
Core deposit intangibles	\$ 20,147	\$ (10,878 )	\$ 9,269	\$ 20,147	\$ (8,929 )	\$ 11,218
Other intangible assets	1,940	(1,324 )	616	1,940	(937 )	1,003
Total	\$ 22,087	\$ (12,202 )	\$ 9,885	\$ 22,087	\$ (9,866 )	\$ 12,221

Amortization of intangible assets was \$2.3 million, \$2.1 million, and \$1.7 million, for 2014, 2013, and 2012, respectively.

The following table sets forth the estimated annual amortization expense of intangible assets for each of the next five years:

Year	Amount
	(Dollars in thousands)
2015	\$ 2,175
2016	2,082
2017	2,061
2018	1,315
2019	704

The original weighted average amortization period for intangible assets is 9.9 years.

**(7) DEPOSITS**

The following is a summary of the scheduled maturities of time deposits as of December 31:

	2014		2013		
	(Dollars in thousands)				
1 year or less	\$ 462,506	71.2	% \$ 559,402	75.1	%
Over 1 year to 2 years	102,385	15.8	% 87,645	11.8	%
Over 2 years to 3 years	29,044	4.5	% 51,778	7.0	%
Over 3 years to 4 years	26,156	4.0	% 20,462	2.8	%
Over 4 years to 5 years	29,529	4.5	% 24,288	3.3	%
Over 5 years	—	—	% 53	—	%
Total	\$ 649,620	100.0	% \$ 743,628	100.0	%

The amounts of overdraft deposits that were reclassified to the loan category at December 31, 2014 and 2013 were \$3.5 million and \$2.4 million, respectively.

The Bank's deposit accounts are insured to the maximum extent permitted by law by the Deposit Insurance Fund which is administered by the FDIC. The FDIC offers insurance coverage on deposits up to the federally insured limit

of \$250,000.

104

---

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## (8) BORROWINGS

## Federal Home Loan Bank Borrowings

Advances payable to the Federal Home Loan Bank are summarized as follows:

	2014		2013		
	Total Outstanding (Dollars in thousands)	Weighted Average Contractual Rate	Total Outstanding	Weighted Average Contractual Rate	
Stated Maturity					
2014	\$—	—	% \$105,027	0.55	%
2015	38,001	0.69	% 3,074	5.81	%
2016	—	—	% —	—	%
2017	31,203	4.03	% 31,290	4.02	%
2018	—	—	% —	—	%
2019	—	—	% —	—	%
Subtotal	\$69,204	2.20	% \$139,391	1.44	%
Amortizing advances	876		903		
Total Federal Home Loan Bank Advances	\$70,080		\$140,294		

To manage the interest rate risk of these advances, the Company has entered into interest rate swaps, effectively converting \$25.0 million and \$100.0 million of the FHLB advances to fixed interest rates at December 31, 2014 and 2013, respectively. These swaps carried a weighted average interest rate of 2.94% and 2.68% at December 31, 2014 and 2013, respectively, and have various maturity dates ranging through December 2018. In June 2014, the Company terminated \$75.0 million in swaps that matured in 2014 and 2015 resulting in a loss on termination of approximately \$1.1 million, which is included in other noninterest expense for 2014. The final \$25.0 million in swapped FHLB advances will mature in 2018.

During 2013 the Company prepaid \$60.0 million of these advances assumed as part of the Central acquisition. The difference between the exit price and the net carrying amount of the debt resulted in a gain on extinguishment of debt of \$763,000.

The Company's FHLB advances are collateralized by a blanket pledge agreement on the Bank's FHLB stock, certain qualified investment securities, deposits at the Federal Home Loan Bank, and by residential mortgages, and certain commercial real estate loans held in the Bank's portfolio. The Bank's unused remaining available borrowing capacity at the Federal Home Loan Bank was approximately \$755.7 million and \$668.1 million at December 31, 2014 and 2013, respectively, inclusive of a \$5.0 million line of credit. At December 31, 2014 and 2013, the Company was in compliance with the FHLB collateral requirements.

## Short-Term Debt

The following table summarizes short-term borrowings:

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

	December 31	
	2014	2013
	(Dollars in thousands)	
Customer repurchase agreements	\$147,890	\$149,288
Line of credit advances	—	5,000
Total short-term borrowings	\$147,890	\$154,288

The interest expense on short-term borrowings was \$200,000, \$276,000, and \$363,000 as of December 31, 2014, 2013, and 2012, respectively.





Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Customer Repurchase Agreements.** In a security repurchase agreement with the Bank's customers, the Bank will generally sell a security, agreeing to repurchase either the same or substantially the same security on a specified later date, at a price greater than the original sales price. The securities underlying these agreements with customers are held in segregated safekeeping accounts by the Bank's safekeeping agents, to minimize the potential risk that the borrower may not return the security underlying the agreements. The Customer repurchase agreements are primarily collateralized by U.S. Government agency mortgage-backed securities. The amount of investments pledged against customer repurchase agreements was \$156.9 million and \$169.0 million at December 31, 2014 and 2013, respectively.

**Line of Credit Borrowings.** The revolving line of credit, which is an obligation of the parent company, accrues interest at an adjusted LIBOR rate. The line of credit provides for borrowings of up to \$20.0 million (increased from \$10.0 million with a 2014 amendment) and matures on November 18, 2015.

The table below sets forth additional information on certain short-term borrowing categories as of and for the periods indicated:

	2014		2013		2012	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Customer Repurchase Agreements	(Dollars in thousands)					
Balance outstanding at end of year	\$ 147,890	0.13	% \$ 149,288	0.13	% \$ 153,359	0.13
Average daily balance outstanding	143,700	0.13	% 147,195	0.13	% 160,589	0.20
Maximum balance outstanding at any month end	160,317	N/A	164,180	N/A	178,171	N/A

**Long-Term Debt**

The following table summarizes long-term debt as of the periods indicated:

	December 31	
	2014	2013
	(Dollars in thousands)	
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	6,570	6,791
Subordinated debentures	65,000	30,000
Total long-term debt	\$ 188,685	\$ 153,906

The interest expense on long-term debt was \$6.4 million, \$7.0 million, and \$7.1 million as of December 31, 2014, 2013, and 2012, respectively.

**Wholesale Repurchase Agreements:** In a wholesale security repurchase agreement with established firms, the Bank will generally sell a security, agreeing to repurchase either the same or substantially the same security on a specified later date, at a price greater than the original sales price. The securities underlying these agreements with these counterparties are primarily collateralized by U.S. Government agency mortgage-backed securities, which are delivered to broker/dealers. The amount of investments pledged against wholesale repurchase agreements was \$52.9 million and \$50.1 million at December 31, 2014 and 2013, respectively. At both December 31, 2014 and 2013, there was one outstanding wholesale repurchase agreement with a maturity date of August 23, 2015.

**Junior Subordinated Debentures:** The junior subordinated debentures are issued to various trust subsidiaries of the Company. These trusts are considered to be variable interest entities for which the Company is not the primary beneficiary, and therefore the accounts of the trusts are not included in the Company's consolidated financial statements. These trusts were formed for the purpose of issuing trust preferred securities, which were then sold in a private placement offering. The proceeds from the sale of the securities and the issuance of common stock by these trusts were invested in these Junior Subordinated Debentures issued by the Company.

For regulatory purposes, bank holding companies are allowed to include trust preferred securities in Tier 1 capital up to a certain limit. Provisions in the Dodd-Frank Act generally exclude trust preferred securities from Tier 1 capital, however, holding companies with consolidated assets of less than \$15 billion, such as the Company, will be able to continue to include these instruments in Tier 1 capital, but no such securities issued in the future will count as Tier 1 capital.

Information relating to these trust preferred securities are as follows:

Trust	Description of Capital Securities
Capital Trust V	\$50.0 million due in 2037, interest at a variable rate (LIBOR plus 1.48%), which has been effectively converted to a fixed rate of 6.52% until December 28, 2016, through the use of an interest rate swap. These securities are callable quarterly, until maturity.
Slades Ferry Trust I	\$10.0 million due in 2034, bearing interest at a variable rate (LIBOR plus 2.79%). These securities are callable quarterly, until maturity.
Central Trust I	\$5.1 million due in 2034, bearing interest at a variable rate (LIBOR plus 2.44%). These securities are callable quarterly, until maturity.
Central Trust II	\$5.9 million due in 2037, bearing a fixed interest rate 7.015% until March 15, 2017. Subsequent to this date, the interest will be variable (LIBOR plus 1.65%) and the securities will become callable quarterly, until maturity.

All obligations under these trust preferred securities are unconditionally guaranteed by the Company.

**Subordinated Debentures:** At December 31, 2014, there is an outstanding subordinated debenture at the Bank. The subordinated debentures were issued to USB Capital Resources, Inc., a wholly-owned subsidiary of U.S. Bank National Association. The subordinated debt matures on October 1, 2019, however with regulatory approval, the Bank may redeem the subordinated debt without penalty at any time on or after October 1, 2014. The interest rate was fixed at 7.02% through August of 2013, and is now a floating rate of LIBOR plus 3.00%.

At December 31, 2014, there was also an outstanding subordinated debenture at the bank holding company. The subordinated debentures were issued to several investors via private placement on November 17, 2014. The subordinated debt matures on November 15, 2024, however with regulatory approval, the Bank may redeem the subordinated debt without penalty at any scheduled payment date on or after November 15, 2019 with 30 days notice. The interest rate is fixed at 4.75% through November 15, 2019, after which it converts to LIBOR plus 2.98%.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the contractual maturities of long-term debt over the next five years:

	2015	2016	2017	2018	2019	Thereafter	Total
	(Dollars in thousands)						
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	—	—	—	—	—	6,570	6,570
Subordinated debentures	—	—	—	—	30,000	35,000	65,000

**(9) EARNINGS PER SHARE**

Earnings per share consisted of the following components for the years ended December 31:

	2014	2013	2012
	(Dollars in thousands)		
Net income	\$59,845	\$50,254	\$42,627
	Weighted Average Shares		
Basic shares	23,899,562	23,011,814	21,782,499
Effect of dilutive securities	93,815	76,764	29,817
Diluted shares	23,993,377	23,088,578	21,812,316
Net income per share			
Basic EPS	\$2.50	\$2.18	\$1.96
Effect of dilutive securities	(0.01 )	—	(0.01 )
Diluted EPS	\$2.49	\$2.18	\$1.95

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

	December 31		
	2014	2013	2012
Stock options	—	124,608	584,938
Performance-based restricted stock	—	—	—

**(10) STOCK BASED COMPENSATION**

The Company has the following stock based plans, all of which have been approved by the Company's Board of Directors and shareholders:

- 1996 Nonemployee Directors' Stock Option Plan ("1996 Plan")
- 1997 Employee Stock Option Plan ("1997 Plan")
- Second Amended and Restated 2005 Employee Stock Plan ("2005 Plan")
- 2006 Nonemployee Director Stock Plan ("2006 Plan")
- 2010 Nonemployee Director Stock Plan ("2010 Plan")

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents the amount of cumulatively granted stock options and restricted stock awards, net of forfeitures, through December 31, 2014:

	Authorized Stock Option Awards	Authorized Restricted Stock Awards	Total	Cumulative Granted, Net of Forfeitures			Authorized but Unissued
				Stock Option Awards	Restricted Stock Awards	Total	
1996 Plan	300,000	N/A	300,000	190,000	N/A	190,000	(4)
1997 Plan	1,100,000	N/A	1,100,000	972,271	N/A	972,271	(4)
2005 Plan (1)	(1)	(1)	1,650,000	537,941	551,043	1,088,984	561,016
2006 Plan (2)	(2)	(2)	35,400	15,000	20,400	35,400	(4)
2010 Plan (3)	(3)	(3)	314,600	27,000	67,220	94,220	220,380

(1) The Company may award up to a total of 1,650,000 shares as stock options or restricted stock awards.

(2) The Company may award up to a total of 50,000 shares as stock options or restricted stock awards. During 2010, the remaining 14,600 shares were transferred and available for issue under the 2010 Plan.

(3) The Company may award up to a total of 314,600 shares as stock options or restricted stock awards, inclusive of 14,600 shares which were transferred from the 2006 Plan.

There are no shares available for grant under the 1996 Plan or 1997 Plan due to their expirations. These Plans have (4) outstanding stock options exercisable despite the Plan expiration. Additionally, the 2006 Plan has outstanding stock options exercisable despite the transfer of remaining authorized shares to the 2010 Plan.

The Company issues shares for stock option exercises and restricted stock awards from its pool of authorized but unissued shares.

The following table presents the pre-tax expense associated with stock option and restricted stock awards and the related tax benefits recognized for the years presented:

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Stock based compensation expense			
Stock options	\$36	\$241	\$526
Restricted stock awards(1)	2,135	1,906	1,968
Directors' fee expense			
Stock options	14	27	19
Restricted stock awards	527	288	332
Total stock based award expense	\$2,712	\$2,462	\$2,845
Related tax benefits recognized in earnings	\$945	\$832	\$932

(1) Inclusive of compensation expense associated with time-vested and performance-based restricted stock awards.

Expense related to awards issued to directors are recognized as directors' fees within other noninterest expense.

The Company has standard form agreements used for stock option and restricted stock awards. The standard form agreements used for the Chief Executive Officer and all other Executive Officers have previously been disclosed in Securities and Exchange Commission filings and generally provide that: (1) any unvested options or unvested restricted stock vest upon a Change of Control; and, that (2) any stock options which vest pursuant to a Change of Control, which is an event described in Section 280G of the Internal Revenue Code of 1986, will be cashed out at the difference between the acquisition price and the exercise price of the stock option.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Stock Options

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions used for grants under the identified plans:

• Expected volatility is based on the standard deviation of the historical volatility of the weekly adjusted closing price of the Company's shares for a period equivalent to the expected life of the option.

• Expected life represents the period of time that the option is expected to be outstanding, taking into account the contractual term, historical exercise/forfeiture behavior, and the vesting period, if any.

• Expected dividend yield is an annualized rate calculated using the most recent dividend payment at time of grant and the Company's average trailing twelve-month daily closing stock price.

• The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period equivalent to the expected life of the option.

The stock based compensation expense recognized in earnings should be based on the amount of awards ultimately expected to vest, therefore a forfeiture assumption is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock based compensation expense recognized in 2014, 2013, and 2012 has been reduced for annualized estimated forfeitures of 3.5% based on historical experience. The Company made the following awards of nonqualified options to purchase shares of common stock in 2013. There were no such awards made in 2014 or 2012.

	Year Ended December 31 2013	
Date of grant	11/9/2013	
Plan	2010	
Options granted	5,000	
Vesting period (1)	13 months	
Expiration date	11/9/2023	
Expected volatility	31.23	%
Expected life (years)	5.5	
Expected dividend yield	2.64	%
Risk free interest rate	1.56	%
Fair value per option	\$8.13	

(1) Vesting periods begin on the grant date unless otherwise noted.

Under all of the Company's stock based plans, the option exercise price is based upon the average of the high and low trading value of the stock on the date of grant. Stock option awards granted to date under all plans expire through 2023.

The following table presents relevant information relating to the Company's stock options for the periods indicated:

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Fair value of stock options vested based on grant date fair value	\$211	\$430	\$706
Intrinsic value of stock options exercised	1,210	1,051	609
Cash received from stock option exercises	6,285	2,475	1,242
Tax benefit realized on stock option exercises/repurchase	442	322	242
Weighted average grant date fair value of options granted (per share)	—	8.13	—
Cash paid to settle equity instruments granted under stock based compensation arrangements	—	—	134



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the status of the Company's Stock Option Grants for the year ended December 31, 2014 is presented in the table below:

	Outstanding		Weighted		Aggregate	Nonvested		Weighted
	Stock Option	Weighted	Weighted	Remaining	Intrinsic	Stock	Weighted	Average
	Awards	Average	Average	Contractual	Value (1)	Option	Average	Grant Date
		Exercise	Contractual	Term (years)		Awards	Grant Date	Fair Value
		Price	Term (years)				Fair Value	
	(Dollars in thousands, except per share data)							
Balance at January 1, 2014	524,948	\$30.50				33,487		\$6.71
Granted	—	—				—		—
Exercised	(193,697 )	32.45				n/a		n/a
Vested	n/a	n/a				(31,821 )		6.64
Forfeited	—	—				—		—
Expired	(500 )	31.44				—		—
Balance at December 31, 2014	330,751	(2) \$29.36	3.65		\$4,548	1,666	(4)	\$8.13
Options outstanding and expected to vest at December 31, 2014	330,750	(2)	\$29.36	3.65	\$4,548			
Options exercisable at December 31, 2014	329,085	(3)	\$29.33	3.63	\$4,535			
Unrecognized compensation cost, including forfeiture estimate								\$—
Weighted average remaining recognition period (years)								0.01

The aggregate intrinsic value in the preceding tables represents the total pre-tax intrinsic value, based on the (1) average of the high price and low price at which the Company's common stock traded on December 31, 2014 of \$43.11 which would have been received by the option holders had they all exercised their options as of that date. (2) Inclusive of 28,999 stock options outstanding and expected to vest to Directors. (3) Inclusive of 27,334 vested stock options outstanding to Directors. (4) Inclusive of 1,666 nonvested stock options outstanding to Directors.

**Restricted Stock**

The Company grants both time-vested restricted stock awards as well as performance-based restricted stock awards. During the years ended December 31, 2014, 2013, and 2012 the Company has made the following restricted stock award grants:

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Shares Granted	Plan	Fair Value (1)	Vesting Period
Time-vested				
2014				
3/20/2014	65,950	2005	\$39.82	Ratably over 5 years from grant date
3/31/2014	3,000	2005	39.00	Ratably over 3 years from grant date
5/20/2014	10,920	2010	35.08	At the end of 5 years from grant date(2)
11/20/2014	2,000	2005	39.11	Ratably over 5 years from grant date
12/11/2014	2,000	2005	\$40.89	Ratably over 5 years from grant date
2013				
1/16/2013	2,000	2005	30.48	Ratably over 3 years from grant date
2/14/2013	93,800	2005	31.51	Ratably over 5 years from grant date
5/21/2013	14,700	2010	33.17	At the end of 5 years from grant date(2)
2012				
2/16/2012	89,800	2005	\$27.81	Ratably over 5 years from grant date
4/5/2012	1,000	2005	28.16	Ratably over 5 years from grant date
5/22/2012	1,000	2010	27.63	Immediate upon grant
5/22/2012	13,000	2010	27.63	At the end of 5 years from grant date(2)
11/10/2012	1,000	2010	28.03	At the end of 5 years from grant date(2)
Performance-based				
2014				
3/20/2014	20,700	2005	\$39.82	On March 20, 2017, if performance conditions are met

The fair value of the restricted stock awards are based upon the average of the high and low prices at which the Company's common stock traded on the date of grant. The holders of time-vested restricted stock awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. The holders of performance-based restricted stock awards do not participate in the rewards of stock ownership of the Company until vested. The holders of all restricted stock awards are not required to pay any consideration to the Company for the awards.

These restricted stock grants will vest at the end of a five year period, or earlier if the director ceases to be a director for any reason other than cause, such as, for example, by retirement. If a non-employee director is removed from the Board for cause, the Company has ninety (90) days within which to exercise a right to repurchase any unvested portion of any restricted stock award from the non-employee director for the aggregate price of one dollar (\$1.00).

The following table presents the fair value of restricted stock awards vesting during the periods presented:

	Years Ended December 31		
	2014	2013	2012
Fair value of restricted stock awards upon vesting	\$3,293	\$3,289	\$2,085



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the status of the Company's Restricted Stock Award Grants for the year ended December 31, 2014 is presented in the table below:

	Outstanding Restricted Stock Awards		Weighted Average Grant Price (\$)
	(Dollars in thousands, except per share data)		
Balance at January 1, 2014	271,927		\$ 28.39
Granted	104,570		39.31
Vested/released	(91,507	)	26.30
Forfeited	(8,463	)	30.21
Balance at December 31, 2014	276,527	(1)	\$ 33.15
Unrecognized compensation cost (inclusive of directors' fees), including forfeiture estimate			\$6,644
Weighted average remaining recognition period (years)			3.15

(1) Inclusive of 34,600 restricted stock awards outstanding to Directors.

**(11) 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 four years.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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:

December 31, 2014

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value
(Dollars in thousands)							
\$25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.24 %	5.04 %	\$(2,093 )
25,000	16-Feb-06	28-Dec-06	28-Dec-16	3 Month LIBOR	0.24 %	5.04 %	(2,094 )
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.24 %	2.94 %	(1,383 )
\$75,000							\$(5,570 )

December 31, 2013

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

For derivative instruments that are designated and qualify as hedging instruments in a cash flow hedge, the effective portion of the gains or losses is reported as a component of OCI, and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately \$2.7 million (pre-tax) to be reclassified to interest expense from OCI, related to the Company's cash flow hedges, in the next twelve months. This reclassification is due to anticipated payments that will be made and/or received on the swaps based upon the forward curve as of December 31, 2014.

The Company recognized \$244,000 of net amortization income that was an offset to interest expense related to previously terminated swaps for the years ended December 31, 2014, 2013 and 2012.

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

The Company had no fair value hedges as of December 31, 2014, 2013, and 2012.

#### Customer Related Positions

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

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



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Number of Positions (1)	Notional Amount Maturing				Total	Fair Value	
		Less than 1 year	Less than 2 years	Less than 3 years	Less than 4 years			
December 31, 2014 (Dollars in thousands)								
Loan level derivatives								
Receive fixed, pay variable	174	\$88,147	46,854	40,958	38,108	403,208	\$617,275	\$17,840
Pay fixed, receive variable	168	\$88,147	46,854	40,958	38,108	403,208	\$617,275	\$(17,837)
Foreign exchange contracts								
Buys foreign currency, sells U.S. currency	23	\$57,112	—	—	—	—	\$57,112	\$4,007
Buys U.S. currency, sells foreign currency	23	\$57,112	—	—	—	—	\$57,112	\$(3,984)
December 31, 2013 (Dollars in thousands)								
Loan level derivatives								
Receive fixed, pay variable	168	\$48,882	97,975	42,957	42,116	329,554	\$561,484	\$9,484
Pay fixed, receive variable	162	\$48,882	97,975	42,957	42,116	329,554	\$561,484	\$(9,523)
Foreign exchange contracts								
Buys foreign currency, sells U.S. currency	6	\$11,367	—	—	—	—	\$11,367	\$396
Buys U.S. currency, sells foreign currency	6	\$11,367	—	—	—	—	\$11,367	\$(390)

(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.

**Mortgage Derivatives**

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

The change in fair value on the interest rate lock commitments, forward delivery sale commitments, and forward TBA mortgage contracts are recorded in current period earnings as a component of mortgage banking income. In addition, the Company has elected the fair value option to carry loans held for sale at fair value. The change in fair value of

loans held for sale is recorded in current period earnings as a component of mortgage banking income in accordance with the Company's fair value election. The change in fair value associated with loans held for sale was an increase of \$18,000 and \$1,000 and a decrease of \$141,000 for the years ended December 31, 2014, 2013 and 2012, respectively. These amounts were offset in earnings by the change in the fair value of mortgage derivatives.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 December 31, 2014	Fair Value at December 31, 2013	Balance Sheet Location	Fair Value at December 31, 2014	Fair Value at December 31, 2013
(Dollars in thousands)						
Derivatives designated as hedges						
Interest rate derivatives	Other assets	\$—	\$—	Other liabilities	\$5,570	\$9,630
Derivatives not designated as hedges						
Customer Related Positions:						
Loan level derivatives	Other assets	18,383	16,301	Other liabilities	18,380	16,340
Foreign exchange contracts	Other assets	4,007	396	Other liabilities	3,984	390
Mortgage Derivatives						
Interest rate lock commitments	Other assets	295	204	Other liabilities	—	—
Forward TBA mortgage contracts	Other assets	\$—	\$64	Other liabilities	\$16	\$—
Forward sales agreements	Other assets	3	—	Other liabilities	—	35
		\$22,688	\$16,965		\$22,380	\$16,765
Total		\$22,688	\$16,965		\$27,950	\$26,395

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

	Years Ended December 31		
	2014	2013	2012
(Dollars in thousands)			
Derivatives designated as hedges			
Gain in OCI on derivatives (effective portion), net of tax	\$2,256	\$3,735	\$1,082
Loss reclassified from OCI into interest expense (effective portion)	3,662	5,723	5,417
Loss reclassified from OCI into noninterest expense (loss on termination)	\$1,122	\$—	\$—
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	\$63	\$38	\$134
Other expense	(4	) (116	) (49
Changes in fair value of mortgage derivatives			
Mortgage banking income	\$49	\$354	\$141
Total	\$108	\$276	\$226

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

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 \$272,000 and \$3.4 million in exposure relating to institutional counterparties at December 31, 2014 and 2013, respectively. The Company's exposure relating to customer counterparties was approximately \$18.9 million and \$13.6 million at December 31, 2014 and 2013, respectively. Credit exposure may be reduced by the amount of collateral pledged by the counterparty.

## 12) BALANCE SHEET OFFSETTING

The Company does not offset fair value amounts recognized for derivative instruments or repurchase agreements. The Company does net the amount recognized for the right to reclaim cash collateral against the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement. Collateral legally required to be maintained at dealer banks by the Company is monitored and adjusted as necessary. At December 31, 2014, it was determined that no additional collateral would have to be posted to immediately settle these instruments.

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

	Gross Amounts Recognized	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments (1)	Gross Amounts Not Offset in the Statement of Financial Position Collateral Pledged	Net Amount
December 31, 2014 (Dollars in thousands)						
<b>Derivative Assets</b>						
Interest rate swaps	\$—	\$—	\$—	\$—	\$—	\$—
Loan level derivatives	18,383	—	18,383	272	—	18,111
Customer foreign exchange contracts	4,007	—	4,007	—	—	4,007
	\$ 22,390	\$—	\$ 22,390	\$ 272	\$—	\$ 22,118
<b>Derivative Liabilities</b>						
Interest rate swaps	\$ 5,571	\$—	\$ 5,571	\$—	\$ 5,571	\$—
Loan level derivatives	18,380	—	18,380	272	17,836	272
Customer foreign exchange contracts	3,984	—	3,984	—	—	3,984
<b>Repurchase agreements</b>						
Customer repurchase agreements	147,890	—	147,890	—	147,890	—
Wholesale repurchase agreements	50,000	—	50,000	—	50,000	—
	\$ 225,824	\$—	\$ 225,824	\$ 272	\$ 221,297	\$ 4,255

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



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Gross Amounts Recognized	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments (1)	Collateral Pledged	Net Amount
	December 31, 2013 (Dollars in thousands)					
<b>Derivative Assets</b>						
Interest rate swaps	\$—	\$—	\$—	\$—	\$—	\$—
Loan level swaps	16,301	—	16,301	2,823	—	13,478
Customer foreign exchange contracts	396	—	396	—	—	396
	\$ 16,697	\$—	\$ 16,697	\$ 2,823	\$—	\$ 13,874
<b>Derivative Liabilities</b>						
Interest rate swaps	\$ 9,630	\$—	\$ 9,630	\$—	\$ 9,630	\$—
Loan level swaps	16,340	—	16,340	2,823	10,108	3,409
Customer foreign exchange contracts	390	—	390	—	—	390
Repurchase agreements						
Customer repurchase agreements	149,288	—	149,288	—	149,288	—
Wholesale repurchase agreements	50,000	—	50,000	—	50,000	—
	\$ 225,648	\$—	\$ 225,648	\$ 2,823	\$ 219,026	\$ 3,799

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

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

**(13) INCOME TAXES**

The provision for income taxes is comprised of the following components:

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
<b>Current expense</b>			
Federal	\$ 14,709	\$ 9,570	\$ 11,928
State	6,350	4,357	4,664
Total current expense	21,059	13,927	16,592
<b>Deferred expense (benefit)</b>			
Federal	2,877	1,598	(1,183 )
State	(37 )	959 )	(736 )
Total deferred expense (benefit)	2,840	2,557	(1,919 )
Total expense	\$ 23,899	\$ 16,484	\$ 14,673



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The difference between the statutory federal income tax rate of 35% and the effective income tax rate reported for the last three years is detailed below:

	Years Ended December 31								
	2014			2013			2012		
	(Dollars in thousands)								
Computed statutory federal income tax provision	\$29,310	35.00	%	\$23,359	35.00	%	\$20,055	35.00	%
State taxes, net of federal tax benefit	4,104	4.90	%	3,455	5.17	%	2,553	4.46	%
Nontaxable interest, net	(795)	(0.95)	%	(557)	(0.83)	%	(542)	(0.95)	%
New Market Tax Credits	(6,708)	(8.01)	%	(9,000)	(13.48)	%	(6,371)	(11.12)	%
Low Income Housing Project Investments	(594)	(0.71)	%	(194)	(0.29)	%	(196)	(0.34)	%
Increase in cash surrender value of life insurance and tax exempt gain on benefit payments	(1,782)	(2.13)	%	(1,209)	(1.81)	%	(1,612)	(2.81)	%
Merger and other related costs (non-deductible)	274	0.33	%	366	0.55	%	404	0.71	%
Other, net	90	0.11	%	264	0.39	%	382	0.66	%
Total expense	\$23,899	28.54	%	\$16,484	24.70	%	\$14,673	25.61	%

The tax-effected components of the net deferred tax asset at December 31 were as follows:

	2014		2013	
	(Dollars in thousands)			
Deferred tax assets				
Accrued expenses not deducted for tax purposes	\$10,666		\$8,530	
Allowance for loan losses	22,462		21,743	
Deferred gain on sale leaseback transaction	2,579		3,104	
Derivatives fair value adjustment	1,882		3,440	
Employee and director equity compensation	2,380		2,351	
Federal Home Loan Bank borrowings fair value adjustment	83		220	
Loan basis difference fair value adjustment	2,094		1,819	
Net operating loss carry-forward	230		1,671	
Net unrealized loss on securities available for sale	—		1,418	
New Markets Tax Credit carry-forward	521		2,257	
Other-than-temporary impairment on securities	4,072		4,074	
Other	1,426		1,481	
Total	\$48,395		\$52,108	
Deferred tax liabilities				
Core deposit and other intangibles	\$3,194		\$4,052	
Deferred loan fees, net	4,164		3,530	
Fixed assets	4,875		5,571	
Goodwill	14,194		13,030	
Net unrealized gain on securities available for sale	2,075		—	
Other	1,180		956	
Total	\$29,682		\$27,139	
Total net deferred tax asset	\$18,713		\$24,969	

The Company has determined that a valuation allowance is not required for any of its deferred tax assets since it is more likely than not that these assets will be realized principally through the utilization of carry-back provisions to taxable income on prior years and future reversals of existing taxable temporary differences and by offsetting other future taxable income.



**Uncertainty in Income Taxes**

From time to time, the Internal Revenue Service (the "IRS") may review and/or challenge specific tax positions taken by the Company in its ordinary course of business. The Company believes that its income tax returns have been filed based upon applicable statutes, regulations and case law in effect at the time of filing, however, the IRS could disagree with the Company's interpretation. The Company accounts for uncertainties in income taxes by providing a tax reserve for certain positions. The following is a reconciliation of the beginning and ending amount of unrecognized tax benefits:

	(Dollars in thousands)
Balance at December 31, 2012	\$ 126
Reduction of tax positions for prior years	(113 )
Increase for prior year tax position	42
Increase for current year tax positions	—
Balance at December 31, 2013	\$ 55
Reduction of tax positions for prior years	(55 )
Increase for prior year tax positions	—
Increase for current year tax positions	—
Balance at December 31, 2014	\$—

Increases to the Company's unrealized tax positions occur as a result of accruing for the unrecognized tax benefit as well the accrual of interest and penalties related to prior year positions. Decreases in the Company's unrealized tax positions occur as a result of the statute of limitation lapsing on prior year positions and/or settlements relating to outstanding positions. All of the Company's unrecognized tax benefits, if recognized, would be recorded as a component of income tax expense therefore affecting the effective tax rate. The Company records interest and penalties related to uncertain tax positions in the provision for income taxes.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction as well as in various states. The Company is subject to U.S. federal, state and local income tax examinations by tax authorities for the 2011 through 2013 tax years including any related income tax filings from its recent Bank acquisitions. The Company is utilizing net operating loss carry forwards acquired from the Central and Mayflower acquisitions that are subject to annual change in ownership limitations. In addition, the Company has a general business credit carry forward that resulted from 2014 operations that can be used to reduce future federal income tax. The net operating loss carry forwards of \$607,000 will expire at various dates through 2031 and the general business credit carryforward of \$521,000 will expire in 2034. The Company anticipates utilizing these carry forwards prior to their expirations.

**(14) LOW INCOME HOUSING PROJECT INVESTMENTS**

The Company has invested in Low Income Housing Projects that generate Low Income Housing Tax Credits ("LIHTC") and which provide the Company with tax credits and operating loss tax benefits over a period of approximately 15 years. None of the original investment is expected to be repaid. The investment in LIHTC projects is being accounted for using the proportional amortization method, under which the Company amortizes the initial cost of the investment in proportion to the amount of the tax credits and other tax benefits received and recognizes the net investment benefit in the income statement as a component of income tax expense (benefit). The retroactive application of the adoption of this accounting treatment was assessed and deemed to have an immaterial impact on the prior year, therefore prior year numbers have not been restated.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents certain information related to the Company's investments in low income housing projects as of December 31:

	2014	2013
	(Dollars in thousands)	
Original investment value	\$40,541	\$1,701
Current recorded investment	38,943	1,193
Unfunded liability obligation	28,004	51
Tax credits and benefits earned during the year	1,683	236
Amortization of investments during the year	1,089	187
Net income tax benefit recognized during the year	594	49

## (15) EMPLOYEE BENEFIT PLANS

## Pension

The Company maintains a multiemployer defined benefit pension plan (the "Pension Plan") administered by Pentegra Retirement Services (the "Fund" or "Pentegra Defined Benefit Plan for Financial Institutions"). The Fund does not segregate the assets or liabilities of all participating employers and accordingly, disclosure of plan assets, accumulated vested and nonvested benefits is not possible. Effective July 1, 2006, the Company froze the defined benefit plan by eliminating all future benefit accruals. Contributions to the Pension Plan are based on each individual employer's experience. The Company bears the market risk relating to the Pension Plan and will continue to fund the Pension Plan as required. The Pension Plan year is July 1<sup>st</sup> through June 30<sup>th</sup>.

The Company's participation in the Pension Plan for the annual period ended December 31, 2014, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan number. The funding status of the Pension Plan is determined on the basis of the financial statements provided by the Fund using total plan assets and accumulated benefit obligation. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The "Expiration Date of Collective-Bargaining Agreement" column lists the expiration date(s) of any collective-bargaining agreement(s) to which the Pension Plan is subject.

	EIN/Pension Plan Number	Funding Status of Pension Plan		FIP/RP Status Pending/Implemented	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement	Minimum Contributions Required for Future Periods
		2014	2013				
Pentegra defined benefit plan for financial institutions	13-5645888/333	At least 80 percent	At least 80 percent	No	No	N/A	\$—

Contributions to the Fund are based on each individual employer's experience. The Company's total contributions to the Pension Plan did not represent more than 5% of the total contributions to the Pension Plan as indicated in the Pension Plan's most recently available annual report dated June 30, 2014. The comparability of employer contributions is impacted by asset performance, discount rates and the reduction in the number of covered employees year over year.

The Company's contributions to the Pension Plan were as follows for the periods indicated:

	Plan Year Allocation			
	Cash Payment	2014-2015	2013-2014	2012-2013
	(Dollars in thousands)			
2014	\$1,320	\$1,320	\$—	\$—
2013	2,603	—	1,762	841
2012	234	—	—	234

The Company's total defined benefit plan expense was \$1.5 million, \$1.4 million, and \$1.6 million, for the years ending December 31, 2014, 2013, and 2012, respectively.

Financial information for the Fund is made available through the public Form 5500 which is available by April 15<sup>th</sup> of the year following the plan year end.

#### Postretirement Benefit Plans

Employees retiring from the Bank after attaining age 65, who have rendered at least 10 years of continuous service are entitled to a fixed contribution toward the premium for postretirement health care benefits and a \$5,000 benefit paid upon death. The health care benefits are subject to deductibles, co-payment provisions and other limitations. The Bank may amend or change these benefits periodically. Additionally, the Company has acquired small postretirement plans in conjunction with various acquisitions, which do not have a material impact on the amount of expense realized by the Company.

#### Supplemental Executive Retirement Plans

The Bank maintains defined benefit supplemental executive retirement plans (“SERP”) for certain highly compensated employees designed to offset the impact of regulatory limits on benefits under qualified pension plans. The Bank also maintains defined benefit SERPs acquired from previous acquisitions. The Bank has established and funded Rabbi Trusts to accumulate funds in order to satisfy the contractual liability of these supplemental retirement plan benefits. These agreements provide for the Bank to pay all benefits from its general assets, and the establishment of these trust funds does not reduce nor otherwise affect the Bank’s continuing liability to pay benefits from such assets except that the Bank’s liability shall be offset by actual benefit payments made from the trusts. The related trust assets, included in the Company’s available for sale securities portfolio, totaled \$8.8 million and \$8.5 million at December 31, 2014 and 2013, respectively.

During 2014, the Company amended the retirement benefit amounts for certain participants. The Company then froze its SERP by closing it to new participants and restricting future adjustments to the retirement benefit amounts.

The following table shows the defined benefit supplemental retirement expense, and the contributions paid to the plan which were used only to pay the current year benefits as of the dates indicated:

	2014	2013	2012
	(Dollars in thousands)		
Retirement expense	\$954	\$1,049	\$1,144
Contributions paid	271	253	253

The following table shows the Company's best estimate of the benefits expected to be paid in each of the next five years, in the aggregate for the next five fiscal years thereafter and in the aggregate after those 10 years:

	Defined Benefit Supplemental Executive Retirement Plans Expected Benefit Payment (Dollars in thousands)
2015	\$ 315
2016	437
2017	431
2018	466
2019	515
2020-2024	3,600



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The measurement date used to determine the defined benefit supplemental executive retirement plans benefits is December 31st for each of the years reported. The following table illustrates the status of the defined benefit supplemental executive retirement plans at December 31 for the years presented:

	Defined Benefit Supplemental Executive Retirement Benefits		
	2014	2013	2012
	(Dollars in thousands)		
Change in accumulated benefit obligation			
Benefit obligation at beginning of year	\$8,243	\$8,714	\$7,550
Accumulated service cost	397	429	627
Interest cost	390	409	296
Plan amendment	1,357	—	—
Actuarial loss/(gain)	2,421	(1,056)	) 494
Benefits paid	(271	) (253	) (253
Accumulated benefit obligation at end of year	\$12,537	\$8,243	\$8,714
Change in plan assets			
Fair value of plan assets at beginning of year	\$—	\$—	\$—
Employer contribution	271	253	253
Benefits paid	(271	) (253	) (253
Fair value of plan assets at end of year	\$—	\$—	\$—
Funded status at end of year	\$(12,537	) \$(8,243	) \$(8,714
Assets	—	—	—
Liabilities	(12,537	) (8,243	) (8,714
Accrued benefit cost	\$(12,537	) \$(8,243	) \$(8,714
Amounts recognized in accumulated other comprehensive income (“AOCI”)			
Net loss	\$3,305	\$938	\$2,157
Prior service cost	1,904	659	745
Amounts recognized in AOCI	\$5,209	\$1,597	\$2,902
Information for plans with an accumulated benefit obligation in excess of plan assets			
Projected benefit obligation	\$12,537	\$8,243	\$8,714
Accumulated benefit obligation	\$12,537	\$8,243	\$8,714
Net periodic benefit cost			
Service cost	\$397	\$429	\$627
Interest cost	390	409	296
Amortization of prior service cost	113	113	113
Recognized net actuarial gain	54	155	108
Net periodic benefit cost	\$954	\$1,106	\$1,144
Amounts in accumulated other comprehensive income expected to be recognized in net periodic benefit cost over next fiscal year			
Net actuarial loss	\$309	\$18	\$151
Net prior service cost	\$947	\$113	\$99
Discount rate used for benefit obligation	2.24-3.84%	4.95	% 4.05
Discount rate used for net periodic benefit cost	2.43-4.76%	4.05	% 4.40
Rate of compensation increase	n/a	n/a	n/a

During 2014, the Company adopted a non-qualified 401(k) Restoration Plan ("Restoration Plan") for certain executive officers. The Restoration Plan is intended to contribute to each participant the amount of matching and discretionary contributions which would have been made to the existing Rockland Trust 401(k) plan on the participant's behalf, but were prohibited due to Internal Revenue Code limitations. The Company recognized expense of \$56,000 related to this plan for services already performed for the year ended December 31, 2014.

123

---

### Other Employee Benefits

The Bank from time to time creates an incentive compensation plan for senior management and other officers to participate in at varying levels. In addition, the Bank may also pay a discretionary bonus to senior management, officers, and/or nonofficers of the Bank. The expense for the incentive plans and the discretionary bonus amounted to \$8.5 million in both 2014 and 2013 and \$7.8 million in 2012.

The Bank has an Employee Savings Plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Employee Savings Plan, participating employees may defer a portion of their earnings, not to exceed the Internal Revenue Service annual contribution limits. The Bank matches 25% of each employee's contributions up to 6% of the employee's earnings. The 401(k) Plan incorporates an Employee Stock Ownership Plan for contributions invested in the Company's common stock. This Plan also provides nondiscretionary contributions in which employees, with one year and 1,000 hours of service, receive a 5% cash contribution of eligible pay up to the social security limit and a 10% cash contribution of eligible pay over the social security limit up to the maximum amount permitted by law. Benefits contributed to employees under this defined contribution plan vest immediately. The defined contribution plan expense was \$4.2 million in 2014, \$3.9 million in 2013, and \$3.6 million in 2012.

During 2014, the Company adopted a non-qualified deferred compensation plan which allows for deferrals of incentive payments until an elected distribution date in the future. This deferred compensation plan is available to certain highly compensated employees. Deferrals are invested at the election of the participant into one of the actively managed funds made available to the participant through the Company's Investment Management Group. The funds are held in a Rabbi Trust until elected date of distribution.

As a result of the Central acquisition during 2012, the Company acquired an Employee Stock Ownership Plan. The Company has received approval to terminate the plan from the Internal Revenue Service, and is in the process of making final distributions.

### Director Benefits

The Company maintains a deferred compensation plan for the Company's Board of Directors. The Board of Directors is entitled to elect to defer their director's fees until retirement. If the Director elects to do so, their compensation is invested in the Company's stock and maintained within the Company's Investment Management Group. The amount of compensation deferred during 2014, 2013, and 2012 was \$135,000, \$107,000, and \$88,000, respectively. At December 31, 2014 and 2013 the Company had 176,849 and 178,765 of shares provided for the plan with a related liability of \$3.7 million and \$3.4 million established within shareholders' equity, respectively.

## (16) FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

#### Valuation Techniques

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

#### Securities:

##### U.S. Government Agency Securities

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

##### Agency Mortgage-Backed Securities

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

##### Agency Collateralized Mortgage Obligations

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

##### State, County, and Municipal Securities

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

##### Single and Pooled Issuer Trust Preferred Securities

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

#### Equity Securities

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

#### Loans Held for Sale

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

#### Derivative Instruments

##### Derivatives

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



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

to evaluate the likelihood of default by the Company and its counterparties. However, as of December 31, 2014 and 2013, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2.

**Mortgage Derivatives**

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

**Impaired Loans**

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

**Other Real Estate Owned and Other Foreclosed Assets**

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

**Goodwill and Other Intangible Assets**

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

Assets and liabilities measured at fair value on a recurring and nonrecurring basis were as follows as of the dates indicated:

		Fair Value Measurements at Reporting Date Using Quoted Prices		
	Balance	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
		December 31, 2014		
Recurring fair value measurements				
Assets				
Securities available for sale				
U.S. Government agency securities	\$41,486	\$—	\$ 41,486	\$—
Agency mortgage-backed securities	217,678	—	217,678	—
Agency collateralized mortgage obligations	63,035	—	63,035	—
State, county, and municipal securities	5,223	—	5,223	—

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Single issuer trust preferred securities issued by banks and insurers	2,909	—	2,909	—
Pooled trust preferred securities issued by banks and insurers	6,321	—	—	6,321
Equity securities	11,902	11,902	—	—
Loans held for sale	6,888	—	6,888	—
Derivative instruments	22,688	—	22,688	—
Liabilities				

126

---



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Derivative Instruments	27,950	—	27,950	—
Total recurring fair value measurements	\$350,180	\$11,902	\$331,957	\$6,321
Nonrecurring fair value measurements				
Assets				
Collateral dependent impaired loans	\$8,196	\$—	\$—	\$8,196
Other real estate owned and other foreclosed assets	7,743	—	—	7,743
Total nonrecurring fair value measurements	\$15,939	\$—	\$—	\$15,939

(Dollars in thousands)

December 31, 2013

Recurring fair value measurements				
Assets				
Securities available for sale				
U.S. Government agency securities	\$40,449	\$—	\$40,449	\$—
Agency mortgage-backed securities	234,591	—	234,591	—
Agency collateralized mortgage obligations	58,153	—	58,153	—
State, county, and municipal securities	5,412	—	5,412	—
Single issuer trust preferred securities issued by banks and insurers	2,952	—	2,952	—
Pooled trust preferred securities issued by banks and insurers	3,841	—	—	3,841
Equity securities	11,464	11,464	—	—
Loans held for sale	8,882	—	8,882	—
Derivative instruments	16,965	—	16,965	—
Liabilities				
Derivative instruments	26,395	—	26,395	—
Total recurring fair value measurements	\$356,314	\$11,464	\$341,009	\$3,841
Nonrecurring fair value measurements:				
Assets				
Collateral dependent impaired loans	\$10,328	\$—	\$—	\$10,328
Other real estate owned and other foreclosed assets	7,633	—	—	7,633
Total nonrecurring fair value measurements	\$17,961	\$—	\$—	\$17,961

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. The following table provides a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated:

Securities Available for Sale (Dollars in thousands)									
	December 31, 2014		December 31, 2013			December 31, 2012			
	Pooled Trust Preferred Securities	Total	Pooled Trust Preferred Securities	Private Mortgage- Backed Securities	Total	Pooled Trust Preferred Securities	Single Trust Preferred Securities	Private Mortgage- Backed Securities	Total
Beginning balance	\$3,841	\$3,841	\$2,981	\$3,532	\$6,513	\$2,820	\$4,210	\$6,110	\$13,140
Gains and (losses) (realized/unrealized)									
Included in earnings	—	—	—	—	—	—	—	(76 )	(76 )
Included in other comprehensive income	2,655	2,655	1,132	(64 )	1,068	313	703	411	1,427
Sales	—	—	—	(2,695 )	(2,695 )	—	—	—	—
Settlements	(175 )	(175 )	(272 )	(773 )	(1,045 )	(152 )	—	(2,913 )	(3,065 )
Transfers into (out of) level 3	\$—	\$—	\$—	\$—	\$—	\$—	\$(4,913 )	\$—	\$(4,913 )
Ending balance	\$6,321	\$6,321	\$3,841	\$—	\$3,841	\$2,981	\$—	\$3,532	\$6,513

During the years ended December 31, 2014 and 2013, 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 and during 2012 the Company transferred the Single Issuer Trust Preferred Security from Level 3 to Level 2. The reason for the transfer was increased trading of the security, enabling the use of more observable inputs. It is the Company's policy to recognize such transfers as of the end of the reporting period.

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

Valuation Technique	December 31, 2014 2013		Unobservable Inputs	December 31, 2014 2013		December 31, 2014 2013	
	Fair Value			Range		Weighted Average	
(Dollars in Thousands)							
Discounted cash flow methodology							
Pooled trust preferred securities	\$6,321	\$3,841	Cumulative prepayment	0% - 75%	0% - 76%	7.0%	7.2%
			Cumulative default	3% - 100%	3% - 100%	13.9%	18.1%
			Loss given default	85% - 100%	85% - 100%	96.1%	95.7%
			Cure given default	0% - 75%	0% - 75%	46.7%	39.9%
Appraisals of collateral (1)							
Impaired loans	\$8,196	\$10,328					
Other real estate owned and foreclosed assets	\$7,743	\$7,633					

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable. Appraisals may be adjusted by management for

qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments may vary.

For the fair value measurements in the table above, which are classified as Level 3 within the fair value hierarchy, the Company's Treasury and Finance groups determine the valuation policies and procedures. For the pricing of the securities, the Company uses third-party pricing information, without adjustment. Depending on the type of the security, management employs

various techniques to analyze the pricing it receives from third parties, such as analyzing changes in market yields and in certain instances reviewing the underlying collateral of the security. Management reviews changes in fair value from period to period and performs testing to ensure that prices received from the third parties are consistent with their expectation of the market. For the securities whose market is deemed to be inactive and which are categorized as Level 3, the fair value models are calibrated and significant inputs are back tested on a quarterly basis, to the extent possible. This testing is done by the third party service provider, who performs this testing by comparing anticipated inputs to actual results. Significant changes in fair value from period to period are closely scrutinized to ensure fair value models are not flawed. The driver(s) of the respective change in fair value and the method for forecasting the driver(s) is closely considered by management.

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

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

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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:

	Book Value	Fair Value	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014 (Dollars in thousands)					
Financial assets					
Securities held to maturity(a)					
U.S. Treasury securities	\$1,010	\$1,073	\$—	\$1,073	\$—
Agency mortgage-backed securities	159,522	164,944	—	164,944	—
Agency collateralized mortgage obligations	207,995	206,658	—	206,658	—
State, county, and municipal securities	424	428	—	428	—
Single issuer trust preferred securities issued by banks	1,500	1,477	—	1,477	—
Corporate debt securities	5,002	5,119	—	5,119	—
Loans, net of allowance for loan losses(b)	4,915,633	4,883,479	—	—	4,883,479
Financial liabilities					
Time certificates of deposits(c)	\$649,620	\$651,180	\$—	\$651,180	\$—
Federal Home Loan Bank borrowings(c)	70,080	70,208	—	70,208	—
Customer repurchase agreements and other short-term borrowings(c)	147,890	147,890	—	—	147,890
Wholesale repurchase agreements(c)	50,000	50,510	—	—	50,510
Junior subordinated debentures(d)	73,685	70,045	—	70,045	—
Subordinated debentures(c)	65,000	64,198	—	—	64,198
December 31, 2013 (Dollars in thousands)					
Financial assets					
Securities held to maturity(a)					
U.S. Treasury securities	\$1,011	\$1,042	\$—	\$1,042	\$—
Agency mortgage-backed securities	155,067	155,951	—	155,951	—
Agency collateralized mortgage obligations	187,388	182,036	—	182,036	—
State, county, and municipal securities	678	685	—	685	—
Single issuer trust preferred securities issued by banks	1,503	1,526	—	1,526	—
Corporate debt securities	5,005	5,215	—	5,215	—
Loans, net of allowance for loan losses(b)	4,665,068	4,655,920	—	—	4,655,920
Financial liabilities					
Time certificates of deposits(c)	\$743,628	\$746,908	\$—	\$746,908	\$—
Federal Home Loan Bank borrowings(c)	140,294	140,321	—	140,321	—
	154,288	154,349	—	—	154,349

Customer repurchase agreements and other  
short-term borrowings(c)

Wholesale repurchase agreements(c)	50,000	51,298	—	—	51,298
Junior subordinated debentures(d)	73,906	67,481	—	67,481	—
Subordinated debentures(c)	30,000	28,396	—	—	28,396

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

130

---

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(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 considers its financial instruments' current use to be the highest and best use of the instruments.

**(17) OTHER COMPREHENSIVE LOSS**

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

	Year Ended December 31, 2014		
	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount
	(Dollars in thousands)		
Change in fair value of securities available for sale	\$9,095	\$ (3,570)	) \$5,525
Less: net security gains reclassified into other noninterest income	191	(78)	) 113
Net change in fair value of securities available for sale	8,904	(3,492)	) 5,412
Change in fair value of cash flow hedges (2)	(969)	) 396	(573)
Less: net cash flow hedge losses reclassified into interest on borrowings expense	(3,662)	) 1,496	(2,166)
Less: loss on termination of hedge reclassified into noninterest expense	(1,122)	) 459	(663)
Net change in fair value of cash flow hedges	3,815	(1,559)	) 2,256
Net unamortized loss related to defined benefit pension and other postretirement adjustments arising during the period	(2,699)	) 1,103	(1,596)
Net prior service costs related to plan amendment arising during the period	(1,357)	) 554	(803)
Less: amortization of actuarial gains	44	(18)	) 26
Less: amortization of prior service costs	(102)	) 42	(60)
Less: amortization of transfer obligations	2	(1)	) 1
Net change in other comprehensive income for defined benefit postretirement plans	(4,000)	) 1,634	(2,366)
Total other comprehensive income	\$8,719	\$ (3,417)	) \$5,302
	Year Ended December 31, 2013		
	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount
	(Dollars in thousands)		
Change in fair value of securities available for sale	\$(11,943)	) \$ 4,578	\$(7,365)
Less: net security gains reclassified into other noninterest income	230	(94)	) 136

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Net change in fair value of securities available for sale	(12,173	) 4,672	(7,501	)
Change in fair value of cash flow hedges (2)	592	(242	) 350	

131

---



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Less: net cash flow hedge losses reclassified into interest on borrowings expense	(5,723	) 2,338	(3,385	)
Net change in fair value of cash flow hedges	6,315	(2,580	) 3,735	
Net unamortized gain related to defined benefit pension and other postretirement adjustments arising during the period	1,302	(532	) 770	
Net prior service costs related to plan amendments arising during the period				
Less: amortization of actuarial losses	(42	) 17	(25	)
Less: amortization of prior service costs	(102	) 42	(60	)
Less: amortization of transfer obligations	(4	) 1	(3	)
Net change in other comprehensive income for defined benefit postretirement plans	1,450	(592	) 858	
Total other comprehensive loss	\$(4,408	) \$1,500	\$(2,908	)

## Year Ended December 31, 2012

	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount	
	(Dollars in thousands)			
Change in fair value of securities available for sale	\$(1,682	) \$541	\$(1,141	)
Less: net security losses reclassified into other noninterest income (1)	(76	) 31	(45	)
Net change in fair value of securities available for sale	(1,606	) 510	(1,096	)
Change in fair value of cash flow hedges (2)	(3,588	) 1,466	(2,122	)
Less: net cash flow hedge losses reclassified into interest on borrowings expense	(5,417	) 2,213	(3,204	)
Net change in fair value of cash flow hedges	1,829	(747	) 1,082	
Net unamortized loss related to defined benefit pension and other postretirement adjustments arising during the period	(196	) 80	(116	)
Net prior service costs related to plan amendments arising during the period				
Less: amortization of actuarial losses	(5	) 2	(3	)
Less: amortization of prior service costs	(113	) 46	(67	)
Less: amortization of transfer obligations	(34	) 14	(20	)
Net change in other comprehensive income for defined benefit postretirement plans	(44	) 18	(26	)
Total other comprehensive loss	\$ 179	\$ (219	) \$(40	)

(1) Net security losses represent pre-tax OTTI credit related losses of \$76,000 for the year ended December 31, 2012.

(2) The change in fair value of cash flow hedges includes the remaining balance of a realized but unrecognized gain 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 had amortized to \$571,000, \$715,000, and \$859,000 at December 31, 2014, 2013, and 2012, respectively.

(3) The amortization of prior service costs is included in the computation of net periodic pension costs as disclosed in Note 15 - Employee Benefit Plans.

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



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Unrealized Gain on Securities	Unrealized Loss on Cash Flow Hedge	Deferred Gain on Hedge Transactions	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Loss
	(Dollars in Thousands)				
Beginning balance: January 1, 2012	\$6,574	\$(10,804 )	\$ 1,004	\$ (1,260 )	\$ (4,486 )
Net change in other comprehensive income (loss)	(1,096 )	1,227	(145 )	(26 )	(40 )
Ending balance: December 31, 2012	\$5,478	\$(9,577 )	\$ 859	\$ (1,286 )	\$ (4,526 )
Net change in other comprehensive income (loss)	(7,501 )	3,879	(144 )	858	(2,908 )
Ending balance: December 31, 2013	\$(2,023 )	\$(5,698 )	\$ 715	\$ (428 )	\$ (7,434 )
Net change in other comprehensive income (loss)	5,412	2,400	(144 )	(2,366 )	5,302
Ending balance: December 31, 2014	\$3,389	\$(3,298 )	\$ 571	\$ (2,794 )	\$ (2,132 )

## (18) COMMITMENTS AND CONTINGENCIES

## Financial Instruments with Off-Balance Sheet Risk

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

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

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

The following table summarizes the above financial instruments at the dated indicated:

	2014	2013
	(Dollars In thousands)	
Commitments to extend credit	\$1,822,369	\$1,621,873
Standby letters of credit	18,516	18,923
Deferred standby letter of credit fees	105	87



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Lease Commitments

The Company leases office space, space for ATM locations, and certain branch locations under noncancelable operating leases. The following is a schedule of minimum future lease payments under such leases as of December 31, 2014:

	(Dollars In thousands)
2015	\$ 7,945
2016	7,540
2017	7,040
2018	5,659
2019	4,932
Thereafter	9,743
Total future minimum lease commitments	\$ 42,859

Rent expense incurred under operating leases was approximately \$7.9 million in 2014, \$7.6 million in 2013, and \$7.0 million in 2012. Renewal options ranging from 1-10 years exist for several of these leases.

The Company has entered into lease agreements with related third parties on substantially the same terms as those prevailing at the time for comparable transactions with unrelated parties. Rent expense incurred under related third party leases was approximately \$1.0 million in 2014, 2013, and 2012, respectively.

## Other Contingencies

At December 31, 2014, Rockland Trust was involved in pending lawsuits that arose in the ordinary course of business. Management has reviewed these pending lawsuits with legal counsel and has taken into consideration the view of counsel as to their outcome. In the opinion of management, the final disposition of pending lawsuits is not expected to have a material adverse effect on the Company's financial position or results of operations.

The Bank is required to maintain certain reserve requirements of vault cash and/or deposits with the Federal Reserve Bank of Boston. The amount of this reserve requirement was \$33.0 million and \$21.0 million at December 31, 2014 and 2013, respectively.

## (19) REGULATORY MATTERS

## Regulatory Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 Capital (as defined for regulatory purposes) to average assets (as defined for regulatory purposes) and Tier 1 Capital to risk weighted assets (as defined for regulatory purposes). Management believes, as of December 31, 2014 and 2013 that the Company and the Bank met all capital adequacy requirements to which they are subject.

At December 31, 2014 the most recent notification from the Federal Deposit Insurance Corporation indicated that the Bank's capital levels met or exceeded the minimum levels to be considered "well capitalized" for bank regulatory purposes. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2014 and 2013 are also presented in the table that follows:



Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014 (Dollars in thousands)						
Independent Bank Corp.						
Total capital (to risk weighted assets)	\$666,898	13.15	% \$405,650	≥ 8.0	% N/A	N/A
Tier 1 capital (to risk weighted assets)	551,836	10.88	202,825	≥ 4.0	N/A	N/A
Tier 1 capital (to average assets)	551,836	8.84	249,825	≥ 4.0	N/A	N/A
Rockland Trust Company						
Total capital (to risk weighted assets)	\$607,100	11.98	% \$405,465	≥ 8.0	% \$506,831	≥ 10.0 %
Tier 1 capital (to risk weighted assets)	527,038	10.40	202,732	≥ 4.0	304,099	≥ 6.0
Tier 1 capital (to average assets)	527,038	8.44	249,788	≥ 4.0	312,235	≥ 5.0
December 31, 2013 (Dollars in thousands)						
Independent Bank Corp.						
Total capital (to risk weighted assets)	\$589,811	12.58	% \$375,117	≥ 8.0	% N/A	N/A
Tier 1 capital (to risk weighted assets)	505,646	10.78	187,558	≥ 4.0	N/A	N/A
Tier 1 capital (to average assets)	505,646	8.64	234,153	≥ 4.0	N/A	N/A
Rockland Trust Company						
Total capital (to risk weighted assets)	\$582,599	12.42	% \$375,205	≥ 8.0	% \$469,006	≥ 10.0 %
Tier 1 capital (to risk weighted assets)	498,434	10.63	187,603	≥ 4.0	281,404	≥ 6.0
Tier 1 capital (to average assets)	498,434	8.51	234,154	≥ 4.0	292,692	≥ 5.0

**Dividend Restrictions**

In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years. Under the foregoing dividend restrictions and while maintaining its "well capitalized" status, dividends paid by the Bank to the Company for the year ended December 31, 2014 and 2013 totaled \$40.1 million and \$30.6 million, respectively.

**Trust Preferred Securities**

In accordance with the applicable accounting standard related to variable interest entities, the common stock of trusts which have issued trust preferred securities have not been included in the consolidated financial statements. At December 31, 2014 and 2013, \$71.0 million in trust preferred securities have been included in the Tier 1 capital of the Company for regulatory reporting purposes pursuant to the Federal Reserve's capital adequacy guidelines.

**(20) PARENT COMPANY FINANCIAL STATEMENTS**

Condensed financial information relative to the Parent Company's balance sheets at December 31, 2014 and 2013 and the related statements of income and cash flows for the years ended December 31, 2014, 2013, and 2012 are presented below. The statement of stockholders' equity is not presented below as the parent company's stockholders' equity is that of the consolidated Company.

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## BALANCE SHEETS

	December 31	
	2014	2013
	(Dollars in thousands)	
Assets		
Cash (1)	\$64,791	\$16,855
Investments in subsidiaries(2)	691,406	661,257
Prepaid income taxes	285	—
Deferred tax asset	2,620	3,777
Deferred stock issuance costs	467	201
Total assets	\$759,569	\$682,090
Liabilities and stockholders' equity		
Dividends payable	\$5,761	\$5,243
Short-term borrowings	—	5,000
Junior subordinated debentures	73,685	73,906
Subordinated debentures	35,000	—
Accrued income taxes	—	8
Derivative instruments(1)	4,187	6,303
Other liabilities	409	90
Total liabilities	119,042	90,550
Stockholders' equity	640,527	591,540
Total liabilities and stockholders' equity	\$759,569	\$682,090

(1) Entire balance eliminates in consolidation.

(2) 689.2 million and \$659.1 million eliminate in consolidation at December 31, 2014 and 2013, respectively.

## STATEMENTS OF INCOME

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Income			
Dividends received from subsidiaries(1)	\$40,170	\$30,694	\$28,709
Interest income(2)	57	50	83
Total income	40,227	30,744	28,792
Expenses			
Interest expense	4,225	4,122	3,795
Other expenses	—	15	6
Total expenses	4,225	4,137	3,801
Income before income taxes and equity in undistributed income of subsidiaries	36,002	26,607	24,991
Income tax benefit	(1,298)	(1,342)	(1,636)
Income of parent company	37,300	27,949	26,627
Equity in undistributed income of subsidiaries	22,545	22,305	16,000
Net income	\$59,845	\$50,254	\$42,627

(1) Income of \$53,000, \$54,000 and \$45,000 was not eliminated in consolidation for the years ended December 31, 2014, 2013, and 2012, respectively.

(2) Entire balance eliminated in consolidation.





## STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2014	2013	2012
	(Dollars in thousands)		
Cash flows from operating activities			
Net income	\$59,845	\$50,254	\$42,627
Adjustments to reconcile net income to cash provided by operating activities			
Accretion	(486	) (155	) (13
Deferred income tax expense (benefit)	293	203	(398
Change in other assets	—	(373	) 5,430
Change in other liabilities	25	206	(240
Equity in undistributed income of subsidiaries	(22,545	) (22,305	) (16,000
Net cash provided by operating activities	37,132	27,830	31,406
Cash flows used in investing activities			
Cash paid for acquisitions, net of cash acquired	—	(10,832	) (21,648
Net cash used in investing activities	—	(10,832	) (21,648
Cash flows used in financing activities			
Proceeds from short-term borrowings	—	10,000	12,000
Repayment of short-term borrowings	(5,000	) (17,000	) (10,053
Proceeds from subordinated debentures	35,000	—	—
Proceeds from stock issued and stock options exercised	1,692	2,475	1,242
Issuance of shares under direct stock purchase plan	1,555	969	1,691
Common dividend paid	(22,443	) (15,122	) (22,494
Net cash provided by (used in) financing activities	10,804	(18,678	) (17,614
Net increase (decrease) in cash and cash equivalents	47,936	(1,680	) (7,856
Cash and cash equivalents at the beginning of the year	16,855	18,535	26,391
Cash and cash equivalents at the end of the year	\$64,791	\$16,855	\$18,535

Table of Contents

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## (21) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2014	2013	2014	2013	2014	2013	2014	2013
	(Dollars in thousands, except per share data)							
Interest income	\$52,980	\$ 50,820	\$54,285	\$ 51,495	\$54,368	\$ 51,027	\$54,827	\$ 52,571
Interest expense	5,374	5,958	5,232	5,880	4,805	5,831	5,007	5,666
Net interest income	\$47,606	\$ 44,862	\$49,053	\$ 45,615	\$49,563	\$ 45,196	\$49,820	\$ 46,905
Provision for loan losses	4,502	1,300	2,250	3,100	1,901	2,650	1,750	3,150
Total noninterest income	17,516	15,724	16,857	16,692	17,098	18,130	18,473	17,464
Total noninterest expenses	41,887	42,920	42,980	42,164	42,607	40,722	44,364	47,845
Provision for income taxes	5,350	4,114	5,934	4,285	6,415	5,299	6,201	2,786
Net income	\$13,383	\$ 12,252	\$14,746	\$ 12,758	\$15,738	\$ 14,655	\$15,978	\$ 10,588
Basic earnings per share	0.56	0.54	0.62	0.56	0.66	0.64	0.67	0.45
Diluted earnings per share	0.56	0.54	0.61	0.56	0.66	0.64	0.66	0.45
Weighted average common shares (basic)	23,819,062	22,823,753	23,897,413	22,888,155	23,911,678	22,946,308	23,968,320	23,383,608
Common stock equivalents	100,173	46,040	94,560	52,144	90,685	100,806	86,812	97,445
Weighted average common shares (diluted)	23,919,235	22,869,793	23,991,973	22,940,299	24,002,363	23,047,114	24,055,132	23,481,053
Unusual or infrequently occurring items								
Items within noninterest income								
Gain on extinguishment of debt	\$—	\$—	\$—	\$—	\$—	\$ 763	\$—	\$—
Gain on life insurance benefits	1,627	—	337	—	—	—	—	227
Gain on sale of fixed income securities	—	—	—	—	—	—	121	258
Total	\$1,627	\$—	\$337	\$—	\$—	\$ 763	\$121	\$ 485
Items within noninterest expense								
Impairment on acquired facilities	\$503	\$—	\$—	\$—	\$21	\$—	\$—	\$—
Loss on sale of fixed income securities	—	—	—	—	—	—	21	—
Loss on termination of derivatives	—	—	1,122	—	—	—	—	—
Merger and acquisition expense	77	1,345	—	754	677	366	586	6,219
Severance	—	325	—	—	—	—	—	—
Total	\$580	\$ 1,670	\$1,122	\$ 754	\$698	\$ 366	\$607	\$ 6,219



## (22) SUBSEQUENT EVENTS

## Peoples Federal Bancshares, Inc. Acquisition

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

During 2014, the Company recorded merger and acquisition expenses of \$1.3 million related to the Peoples acquisition. Additionally, the Company is required to recognize the assets acquired and the liabilities assumed at their fair values as of the date of acquisition. The Company is currently in the process of evaluating the fair values and completing the initial accounting for the business combination.

## Subordinated Debt Redemption

Subsequent to year end upon receiving regulatory approval, the Company redeemed \$30.0 million of Subordinated Debt held at the Bank. This debt carried an adjustable rate of interest at LIBOR plus 300 basis points, which reset quarterly. The debt had a maturity date of October 1, 2019 and as of October 1, 2014, the debt entered the window with 5 years left until maturity. As a result, it began losing Tier 2 capital treatment. The Company did not incur a prepayment penalty as part of the redemption.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

## ITEM 9A. 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 Securities Exchange Act of 1934, as amended (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 annual report.

## Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Management's Report on Internal Control Over Financial Reporting

Management of Independent Bank Corp. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial

officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Independent Bank Corp.'s internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflects the transactions and disposition of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Table of Contents

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2014.

Independent Bank Corp.'s independent registered public accounting firm has issued a report on the Company's internal control over financial reporting, which appears below:

Table of Contents

Report of Independent Registered Public Accounting Firm  
The Board of Directors and Shareholders of  
Independent Bank Corp.:

We have audited Independent Bank Corp. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) ("the COSO Criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Independent Bank Corp. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2013 consolidated financial statements of Independent Bank Corp. and subsidiaries and our report dated February 27, 2015 expressed an unqualified opinion thereon.

Boston, Massachusetts  
February 27, 2015



Table of Contents

## ITEM 9B. OTHER INFORMATION

None

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required herein is incorporated by reference from the Company's proxy statement relating to its May 21, 2015 Annual Meeting of Stockholders (the "Definitive Proxy Statement") that will be filed with the Commission within 120 days following the fiscal year end December 31, 2014 under the headings of "Board of Director Information," "Executive Officer Information," and "Section 16(a) Beneficial Ownership Reporting Compliance."

## ITEM 11. EXECUTIVE COMPENSATION

The information required herein is incorporated by reference from the Definitive Proxy Statement under the heading "Executive Officer Information" and "Board of Directors Information."

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2014 about the securities authorized for issuance under the Company's equity compensation plans, consisting of the 1996 Director Stock Plan, 1997 Employee Stock Option Plan, 2005 Employee Stock Plan, 2006 Nonemployee Director Stock Plan, and 2010 Nonemployee Director Stock Plan. The Company's shareholders previously approved each of these plans and all amendments that were subject to shareholder approval. The Company has no other equity compensation plans that have not been approved by shareholders.

## Equity Compensation Plans

Equity Compensation Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))	
	(a)	(b)	(c)	
Plans approved by security holders	330,751	\$ 29.36	781,396	(1)
Plans not approved by security holders	—	—	—	
<b>TOTAL</b>	<b>330,751</b>	<b>\$ 29.36</b>	<b>781,396</b>	

There are no shares available for future issuance under the 1996 Non-Employee Directors' Stock Option Plan, the 1997 Employee Stock Option Plan, nor the 2006 Non-Employee Director Stock Plan. There are 561,016 shares (1) available for future issuance under the 2005 Employee Stock Plan. There are 220,380 shares available for future issuance under the 2010 Non-Employee Director Stock Plan. Shares under the 2005 and 2010 Plans may be issued as non-qualified stock options or restricted stock awards.

The information required herein by Item 403 of Regulation S-K regarding the security ownership of management and certain beneficial owners is incorporated by reference from the Definitive Proxy Statement under the heading "Stock Ownership and Other Matters."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required herein is incorporated by reference from the Definitive Proxy Statement under the heading "Board of Directors - Related Party Transactions" and "Board of Directors - Director Independence."

142

---

Table of Contents

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required herein is incorporated by reference from the Definitive Proxy Statement under the heading "Proposals to be Voted upon at the Annual Meeting - Ratification of Appointment of Independent Registered Public Accounting Firm (Proposal 2).

143

---

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed as Part of this Report

(1) The following financial statements are incorporated herein by reference from Item 8 hereto:

Management's Report on Internal Control over Financial Reporting

Reports of Independent Registered Public Accounting Firm.

Consolidated balance sheets as of December 31, 2014 and 2013.

Consolidated statements of income and comprehensive income for each of the years in the three-year period ended December 31, 2014.

Consolidated statements of stockholders' equity for each of the years in the three-year period ended December 31, 2014.

Consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2014.

Notes to Consolidated Financial Statements.

(2) All schedules for which provision is made in the applicable accounting regulations of the SEC are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements and related notes thereto.

(3) The following exhibits are filed as part of this Form 10-K, and this list includes the Exhibit Index.

(b) See (a)(3) above for all exhibits filed herewith and the Exhibit Index.

(c) All schedules are omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements or related notes.

Table of Contents

Exhibits Index

No.	Exhibit
2.1	Agreement and Plan of Merger dated April 30, 2012 with Central Bancorp, Inc. is incorporated by reference to Exhibit 2.1 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 Exhibit 2.1 to Form 8-K filed on May 20, 2013.
2.3	Agreement and Plan of Merger dated August 5, 2014 by and among Independent Bank Corp., Rockland Trust Company, Peoples Federal Bancshares, Inc. and Peoples Federal Savings Bank is incorporated by reference to Exhibit 2.1 to Form 8-K filed on August 7, 2014.
3.(i)	Restated Articles of Organization, as adopted May 20, 2010, incorporated by reference to Exhibit 99.4 to Form 8-K filed on May 24, 2010.
3.(ii)	Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 99.5 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 filed on March 29, 1993 (SEC File No. 001-09047).
4.2	Indenture of Registrant relating the Junior Subordinated Debt Securities issued to Independent Capital Trust V is incorporated by reference to Exhibit 4.13 to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007 (SEC File No. 001-09047).
4.3	Form of Certificate of Junior Subordinated Debt Security for Independent Capital Trust V (included as Exhibit A to Exhibit 4.9).
4.4	Amended and Restated Declaration of Trust for Independent Capital Trust V is incorporated by reference to Exhibit 4.15 to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007 (SEC File No. 001-09047).
4.5	Issuing and Paying Agency Agreement is incorporated by reference to Exhibit 4.1 to Form 8-K filed on November 17, 2014 (SEC File No. 001-09047).
4.6	Form of Fixed to Floating Rate Subordinate Notes Due 2024 is incorporated by reference to Exhibit 4.2 to Form 8-K filed on November 7, 2014 (SEC File No. 001-09047).
4.7	Form of Capital Security Certificate for Independent Capital Trust V (included as Exhibit A-1 to Exhibit 4.9).
4.8	Guarantee Agreement relating to Independent Capital Trust V is incorporated by reference to Exhibit 4.17 to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007 (SEC File No. 001-09047).
4.9	Forms of Capital Securities Purchase Agreements for Independent Capital Trust V is incorporated by reference to Exhibit 4.18 to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007 (SEC File No. 001-09047).
4.1	Subordinated Debt Purchase Agreement between USB Capital Resources and Rockland Trust Company dated as of August 27, 2008 is incorporated by reference to Exhibit 99.2 to Form 8-K filed on September 2, 2008 (SEC File No. 001-09047).
4.11	Rockland Trust Company Employee Savings, Profit Sharing and Stock Ownership Plan incorporated by reference to Exhibit 4.2 to Form S-8 filed on April 16, 2010.
4.12	Independent Bank Corp. 2014 Dividend Reinvestment and Stock Purchase Plan incorporated by reference to Form S-3 filed on October 31, 2014 (SEC File No. 333-169024).
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 (SEC File No. 001-09047).
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 (SEC File No. 001-09047).
10.3	

Edgar Filing: INDEPENDENT BANK CORP - Form 10-K

Independent Bank Corp. Amended and Restated 2005 Employee Stock Plan incorporated by reference to Exhibit 99.1 to Form S-8 filed on June 17, 2011.

10.4 Independent Bank Corp. Deferred Compensation Program for Directors (restated as amended as of December 1, 2000) is incorporated by reference to Exhibit 10.3 to Form 10-K for the year ended December 31, 2000 filed on March 29, 2001 (SEC File No. 001-09047).

10.5 Revised employment agreements between Christopher Oddleifson, Raymond G. Fuerschbach, Jane L. Lundquist, Gerard F. Nadeau, and Edward H. Seksay 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 Exhibit 99.1, 99.2, 99.4, 99.5, 99.6, and 99.8 to Form 8-K filed on November 21, 2008 (SEC File No. 001-09047).

145

---

Table of Contents

- 10.6 Revised employment agreements between Denis K. Sheahan and Edward F. Jankowski and new employment agreements between Barry H. Jensen and Robert D. Cozzone and the Company and/or Rockland Trust dated September 5, 2013 are incorporated by reference to Exhibit 10.8 to Form 10-K filed on November 6, 2013.
- 10.7 Specimen forms of stock option agreements for the Company's Chief Executive and other executive officers are incorporated by reference to Exhibits 99.1 and 99.2 to Form 8-K filed on December 20, 2005 (SEC File No. 001-09047).
- 10.8 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 Exhibit 10.12 to Form 10-K for the year ended December 31, 2004 filed on March 4, 2005 (SEC File No. 001-09047). Amendment to On-Site Outsourcing Agreement incorporated by reference to Exhibit 99.1 to Form 8-K filed on May 7, 2008 (SEC File No. 001-09047).
- 10.9 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 Exhibit 10.1 to Form 8-K filed on October 25, 2012.
- 10.10 Independent Bank Corp. 2006 Nonemployee Director Stock Plan incorporated by reference to Exhibit 99.1 to Form S-8 filed on April 17, 2006 (SEC File No. 333-133334).
- 10.11 Independent Bank Corp. 2006 Stock Option Agreement for Nonemployee Director is incorporated by reference to Exhibit 10.16 to Form 10-Q filed on May 9, 2006 (SEC File No. 001-09047).
- 10.12 Independent Bank Corp. 2006 Restricted Stock Agreement for Nonemployee Director is incorporated by reference to Exhibit 10.17 to Form 10-Q filed on May 9, 2006 (SEC File No. 001-09047).
- 10.13 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 Exhibit 99.2 to Form 8-K filed on October 14, 2004 (SEC File No. 001-09047).
- 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 January 9, 2007 is incorporated by reference to Exhibit 10.18 to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007 (SEC File No. 001-09047).
- 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 June 18, 2009 is incorporated by reference to Exhibit 99.1 to Form 10-Q for the three and nine months ended September 30, 2009.
- 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 April 17, 2012 is incorporated by reference to Exhibit 99.1 to form 8-K filed on April 26, 2012.
- 10.17 Core System Processing 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 Exhibit 99.1 to Form 8-K/A filed on July 24, 2012.
- 10.18 Independent Bank Corp. 2010 Nonemployee Director Stock Plan, incorporated by reference to Exhibit 99.1 to Form 8-K filed May 24, 2010.
- 10.19 Independent Bank Corp. 2010 Stock Option Agreement for Nonemployee Director, incorporated by reference to Exhibit 99.2 to Form 8-K filed May 24, 2010.
- 10.20 Independent Bank Corp. 2010 Restricted Stock Agreement for Nonemployee Director, incorporated by reference to Exhibit 99.3 to Form 8-K filed May 24, 2010.
- 10.21 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 Exhibit 10.1 to Form 8-K/A filed July 18, 2012.

- 10.22 Independent Bank Corp. and Rockland Trust Company Executive Officer Performance Incentive Plan is incorporated by reference to Exhibit 99.1 to Form 8-K filed on March 26, 2014.
- 10.23 Independent Bank Corp. Forms of Performance Based Restricted Stock Award Agreement for Chief Executive Officer and Executive Officers and related performance goals, incorporated by reference to Exhibits 99.1, 99.2 and 99.3 to Form 8-K filed on March 26, 2014
- 10.24 Nonqualified Deferred Compensation Plan, incorporated by reference to Exhibit 99.1 to Form 8-K filed on June 25, 2014.
- 10.25 Rockland Trust Company 401(k) Restoration Plan, incorporated by reference to Exhibit 10.1 to Form 8-K filed on December 17, 2014
- 10.26 Independent Bank Corp. Chief Executive Officer Time Vesting Restricted Stock Agreement form incorporated by reference hereto.



Table of Contents

10.27	Independent Bank Corp. Executive Officer Time Vesting Restricted Stock Agreement form incorporated by reference hereto.
10.28	Independent Bank Corp. Time-Vesting Restricted Stock Agreement for Rockland Trust Company Officers form incorporated hereto.
10.29	Peoples Federal Savings Bank Director Retirement Agreement between Peoples Federal Savings Bank and Maurice H. Sullivan, Jr. dated November 29, 2004.
23.1	Consent of Independent Registered Public Accounting Firm*
31.1	Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*
31.2	Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*
32.1	Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+
32.2	Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+
101	Interactive Data File +
*	Filed herewith
+	Furnished herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ CHRISTOPHER ODDLEIFSON

Christopher Oddleifson,  
Chief Executive Officer and President

Date: February 27, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. Each person whose signature appears below hereby makes, constitutes and appoints Christopher Oddleifson and Robert Cozzone and each of them acting individually, his true and lawful attorneys, with full power to sign for such person and in such person's name and capacity indicated below any and all amendments to this Form 10-K, hereby ratifying and confirming such person's signature as it may be signed by said attorneys to any and all amendments.

/s/ CHRISTOPHER ODDLEIFSON Christopher Oddleifson	Director CEO/President (Principal Executive Officer)	Date: February 27, 2015
--	---	-------------------------

/s/ DONNA L. ABELLI Donna L. Abelli	Director and Chairman of the Board	Date: February 27, 2015
--	------------------------------------	-------------------------

/s/ ROBERT COZZONE Robert Cozzone	CFO (Principal Financial Officer)	Date: February 27, 2015
--------------------------------------	-----------------------------------	-------------------------

/s/ MARK RUGGIERO Mark Ruggiero	Controller (Principal Accounting Officer)	Date: February 27, 2015
------------------------------------	--	-------------------------

/s/ WILLIAM P. BISSONNETTE William P. Bissonnette	Director	Date: February 27, 2015
--	----------	-------------------------

/s/ KEVIN J. JONES Kevin J. Jones	Director	Date: February 27, 2015
--------------------------------------	----------	-------------------------

Table of Contents

/s/ EILEEN C. MISKELL Eileen C. Miskell	Director	Date: February 27, 2015
/s/ JOHN J. MORRISSEY John J. Morrissey	Director	Date: February 27, 2015
/s/ DANIEL F. O'BRIEN Daniel F. O' Brien	Director	Date: February 27, 2015
/s/ CARL RIBEIRO Carl Ribeiro	Director	Date: February 27, 2015
/s/ JOHN H. SPURR, JR. John H. Spurr, Jr.	Director	Date: February 27, 2015
/s/ MAURICE H. SULLIVAN, JR. Maurice H. Sullivan, Jr.	Director	Date: February 27, 2015
/s/ BRIAN S. TEDESCHI Brian S. Tedeschi	Director	Date: February 27, 2015
/s/ THOMAS R. VENABLES Thomas R. Venables	Director	Date: February 27, 2015