INDEPENDENT BANK CORP
Form 10-K
February 28, 2014
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United States Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2013
or

o 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 (State or other jurisdiction of incorporation or organization)	04-2870273 (I.R.S. Employer Identification No.)
Office Address: 2036 Washington Street, Hanover Massachusetts	02339
Mailing Address: 288 Union Street, Rockland, Massachusetts (Address of principal executive offices)	02370 (Zip Code)

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, $.0l 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 x No o

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 o No x

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 x No o

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 x No o

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. o

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

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

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

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, 2013, was approximately $747,786,569.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date. February 1, 2014 - 23,816,835

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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 2014 Annual Meeting of Stockholders are incorporated into Part III, Items 10-13 of this Form 10-K. The 2014 definitive proxy statement will be filed within 120 days of December 31, 2013.

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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 further 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 rates and any changes in and any failure by the Company to comply with tax laws generally and requirements of the federal New Markets Tax Credit program;
- 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 effect of new 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; 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.

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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, 2013, the Company had total assets of $6.1 billion, total deposits of $5.0 billion, stockholders’ equity of $591.5 million, and 984 full-time equivalent employees.

On November 15, 2013, the Company completed the acquisition of Mayflower Bancorp, Inc. ("Mayflower"). The Mayflower acquisition added four full service branches and, at fair value, $126.6 million in loans and $218.9 million in deposits. Total consideration of $40.3 million was paid with stock and cash, with the Company issuing 818,650 shares of common stock and paying $10.9 million in cash, in the aggregate, to Mayflower shareholders. See Note 2 "Acquisition" to the Consolidated Financial Statements in Item 8 hereof for a further discussion of the acquisition.

As of December 31, 2013, 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 former Mayflower subsidiary 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 two Limited Liability Company subsidiaries wholly-owned by the Bank, Rockland Trust Community Development III LLC and Rockland Trust Community Development IV LLC, which are all qualified as community development entities under federal New Markets Tax Credit Program criteria;
- Rockland MHEF Fund LLC, a Delaware limited liability company, 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 in connection with a low-income housing tax credit investment;
- Rockland Trust Phoenix LLC, formed for the purpose of holding, maintaining, and disposing of 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 former Mayflower subsidiary which owns a small retail plaza in Lakeville, Massachusetts where Mayflower Co-operative Bank d/b/a Mayflower Bank operated a branch prior to the acquisition.

The Company is currently the sponsor of Independent Capital Trust V (“Trust V”), a Delaware statutory trust, Slade's Ferry Statutory Trust I (“Slade's Ferry Trust I”), a Connecticut statutory trust, Central Bancorp Capital Trust I (“Central Trust I”), a Delaware statutory trust, and Central Bancorp Statutory Trust II (“Central Trust II”), a Connecticut statutory trust, each of which was formed to issue trust preferred securities. Trust V, Slade's Ferry Trust I, Central Trust I, and Central Trust II 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”).

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 clients 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 client'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 client. All financial benefits and burdens of property ownership are borne by the client. EAT entities are therefore not consolidated onto Compass Exchange Advisors LLC's balance sheet in accordance with

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Generally Accepted Accounting Principles ("GAAP").

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 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 $4.7 billion on December 31, 2013, or 77.4% 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 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

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properties at market rates if the borrower qualifies under the Bank's standard underwriting guidelines. The Bank had nineteen properties held as OREO at December 31, 2013 with a balance of $7.5 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 $131.8 million, at December 31, 2013, 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 $98.9 million, at December 31, 2013, 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, 2013 consisted of eight loans which aggregate to $78.8 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 2013, the Bank originated $292.8 million in residential real estate loans of which $31.8 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	% of Total Loans	% of Total Interest Income Generated For the Years Ended December 31,		
	December 31, 2013		2013	2012	2011
	(Dollars in thousands)				
Commercial	$ 3,334,561	70.7 %	66.9 %	65.8 %	64.3 %
Consumer Real Estate	1,363,584	28.9 %	24.2 %	23.7 %	22.7 %
Other Consumer	20,162	0.4 %	1.0 %	1.4 %	2.1 %
TOTAL	$ 4,718,307	100.0 %	92.1 %	90.9 %	89.1 %

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

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The following pie chart shows the diversification of the commercial and industrial portfolio as of December 31, 2013:
Select Statistics Regarding the Commercial and Industrial Portfolio

	(Dollars in thousands)	
Average Loan Size	$210	
Largest Individual C&I exposure	$16,000	
C&I Nonperforming Loans/C&I Loans	0.53	%

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, 2013, there were $427.0 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, 2013, there were $357.2 million of revolving lines of credit in the commercial and industrial loan portfolio.

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, 2013, there were $72.7 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, 2013, there were $28.5 million of SBA guaranteed loans in the commercial and industrial and commercial real estate loan categories, and $4.3 million of SBA guaranteed loans in the small business loan category.

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

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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, 2013:

Select Statistics Regarding the Commercial Real Estate Portfolio

	(Dollars in thousands)	
Average loan size	$713	
Largest individual CRE exposure	$18,000	
CRE nonperforming loans/CRE loans	0.51	%
Owner occupied CRE loans/CRE 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, 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 that such bonds are more appropriately characterized as loans, rather than securities. At December 31, 2013, the balance of industrial development bonds was $47.1 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

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the construction term. The majority of the Bank’s commercial construction loans have floating rates of interest. At December 31, 2013 the commercial construction portfolio amounted to $223.9 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, 2013 the amount of interest reserves relating to construction loans was approximately $2.7 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, 2013, 60.5% of the home equity portfolio was in first lien position and 39.5% of the portfolio was in second lien position. At December 31, 2013, $360.1 million, or 43.8%, of the home equity portfolio were term loans and $462.1 million, or 56.2%, 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. The lending policy allows lending up to 80% of the purchase price of vehicles other than automobiles, with terms of up to three years for motorcycles and up to fifteen years for recreational vehicles.

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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 marketable 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 proposed purchase from the standpoint of overall diversification of the portfolio. At December 31, 2013, the Company's securities totaled $707.5 million, inclusive of the acquired Mayflower security portfolio of $78.0 million, and generated interest and dividends of 7.4%, 8.5%, and 10.6% of total interest income for the fiscal years ended December 31, 2013, 2012, and 2011, 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 had $1.5 million of nonaccrual securities, at fair value, at December 31, 2013.

Sources of Funds

Deposits At December 31, 2013, total deposits were $5.0 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, 2013, municipal deposits totaled $534.2 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, 2013, brokered deposits totaled $77.5 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, 2013, CDARS deposits totaled $53.7 million, or 69.4% 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 nine 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. An additional feature to the mobile banking suite is a capability called mDeposit, which allows the Bank's customers to deposit a check into their account directly from their mobile device.

Borrowings As of December 31, 2013, total borrowings were $448.5 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.

In 1994, Rockland became 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 $39.9 million in FHLB stock and had $139.9 million outstanding, exclusive of fair value marks, in FHLB borrowings with initial maturities ranging from 3 months to 20 years at December 31, 2013. In addition, the Bank had $668.1 million of borrowing capacity remaining with the FHLB at December 31, 2013, inclusive of a $5.0 million line of credit.

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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, 2013, the Bank had $50.0 million and $149.3 million of repurchase agreements with investment brokerage firms and customers, respectively.

Also included in borrowings at December 31, 2013 were $73.9 million of junior subordinated debentures and $30.0 million of subordinated debt. These instruments provide long-term funding as well as regulatory capital benefits. The Company also entered into a revolving line of credit during 2012 and had $5.0 million outstanding on this line at December 31, 2013. See Note 8, “Borrowings” within Notes to the Consolidated Financial Statements included in Item 8 hereof for more information regarding borrowings.

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, 2013, the Investment Management Group generated gross fee revenues of $15.4 million. Total assets under administration as of December 31, 2013 were $2.3 billion, of which $2.0 billion was related to managed accounts. Included in these amounts as of December 31, 2013 are assets under administration of $195.9 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, 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, 2013, the retail investments and insurance group generated gross fee revenues of $1.4 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.

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.

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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 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

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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, 2013, the Company had Tier 1 capital and total capital equal to 10.78% and 12.58% of total risk-weighted adjusted assets, respectively, and Tier 1 leverage capital equal to 8.64% of total average assets. As of such date, the Bank complied with the applicable bank federal regulatory risked based capital requirements, with Tier 1 capital and total capital equal to 10.63% and 12.42% of total risk-weighted assets, respectively, and Tier 1 leverage capital equal to 8.51% 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.

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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:

	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
Category						
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, 2013, the Company’s tangible equity ratio was 6.91% 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.

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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 revise 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 do 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 will be applicable to the Bank and the Company are set forth below:

	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
Category											
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, 2013, 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 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, 2013 there were $1.9 billion in deposits with balances over $250,000.

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 2013, the Company expensed $3.6 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

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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. (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 regulation 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.

- 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 includes a proxy 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 recordkeeping 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 requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a

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“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. The Company cannot assure 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.

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, 2013 that meet the definition of Covered Funds and that are required to be divested by July 21, 2015 under the foregoing rules.

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, 2013, the Bank had 984 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 2013 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.

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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, in which all forms filed electronically may be accessed. Additionally, the Company's annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnishes to, the SEC and additional shareholder information are available free of charge on the Company's website: 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.

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.

A further deterioration of the credit rating for U.S. long-term sovereign debt could adversely impact the Company. On August 5, 2011, Standard and Poor's downgraded the U.S. long-term sovereign debt from AAA, the highest rating, to AA+, the second highest rating. This downgrade did not directly impact the financial position or outlook for the Company, but a further downgrade as a result of an inability by the federal government to raise the U.S. debt limit or otherwise could result in a re-evaluation of the 'risk-free' rate used in many accounting models, other-than-temporary-impairment of securities and/or impairment of goodwill and other intangibles. Given that future deterioration in the United States credit and financial markets is a possibility, no assurance can be made that losses or significant deterioration in the fair value of the Company's U.S. government issued or guaranteed investments will not occur.

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

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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 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.

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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.
- 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 Generally Accepted Accounting Principles, 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 fair value, 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. Recent market volatility has made 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.

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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.

The Company will need to keep pace with evolving information technology and 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.

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.

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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, banking regulators and the Company’s independent registered public accounting firm, may change or even reverse their previous interpretations or positions on how these standards should be 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

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None

ITEM 2. PROPERTIES

At December 31, 2013, 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 the limited service branches) and owned the remaining twenty-five branches. Also, the Bank had nine 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 17, "Commitments and Contingencies," respectively, within Notes to Consolidated Financial Statements included in Item 8 hereof.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2013, 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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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 $0.88 and $0.84 per share in 2013 and in 2012, respectively. The ratio of dividends paid to earnings in 2013 and 2012 was 30.09% and 52.77%, respectively. The variance in the payout ratios is due to the acceleration of the payment of the Company's 2012 fourth quarter dividend, which was paid on December 31, 2012, and would have been typically paid during the second week of the following month.

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 2013 and 2012:

	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

	2012		
	High	Low	Dividend
4th Quarter	$31.10	$27.96	$0.21
3rd Quarter	31.39	28.49	0.21
2nd Quarter	29.35	26.07	0.21
1st Quarter	29.27	26.46	0.21

As of December 31, 2013, there were 23,805,984 shares of common stock outstanding which were held by approximately 2,698 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, 2013 was $39.12.

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, 2008 to December 31, 2013 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, 2008 (which assumes that $100.00 was invested in each of the series on December 31, 2008).

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

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indicative of future price performance. Information used on 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

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(c.) The following table sets forth information regarding the Company's repurchases of its common stock during the three months ended December 31, 2013:

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program(2)	Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program
October 1 to October 31, 2013	—	$—	—	—
November 1 to November 30, 2013	21,318	36.80	—	—
December 1 to December 31, 2013	3,328	37.20	—	—
Total	24,646		—	—

(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.

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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				
	2013	2012	2011	2010	2009
	(Dollars in thousands, except per share data)				
Financial condition data					
Securities available for sale	$356,862	$329,286	$305,332	$377,457	$508,650
Securities held to maturity	350,652	178,318	204,956	202,732	93,410
Loans	4,718,307	4,519,011	3,794,390	3,555,679	3,395,515
Allowance for loan losses	(53,239)	(51,834)	(48,260)	(46,255)	(42,361)
Goodwill and core deposit intangibles	182,642	162,144	140,722	141,956	143,730
Total assets	6,099,234	5,756,985	4,970,240	4,695,738	4,482,021
Deposits	4,986,418	4,546,677	3,876,829	3,627,783	3,375,294
Borrowings	448,488	591,055	537,686	565,434	647,397
Stockholders' equity	591,540	529,320	469,057	436,472	412,649
Nonperforming loans	34,659	28,766	28,953	23,108	36,183
Nonperforming assets	43,833	42,427	37,149	31,493	41,245
Operating data					
Interest income	$205,914	$196,192	$195,751	$202,724	$202,689
Interest expense	23,336	23,393	28,672	38,763	51,995
Net interest income	182,578	172,799	167,079	163,961	150,694
Provision for loan losses	10,200	18,056	11,482	18,655	17,335
Noninterest income	68,009	62,016	52,700	46,906	38,192
Noninterest expenses	173,649	159,459	145,713	139,745	141,815
Net income	50,254	42,627	45,436	40,240	22,989
Preferred stock dividend	—	—	—	—	5,698
Net income available to the common shareholder	50,254	42,627	45,436	40,240	17,291
Per share data					
Net income — basic	$2.18	$1.96	$2.12	$1.90	$0.88
Net income — diluted	2.18	1.95	2.12	1.90	0.88
Cash dividends declared	0.88	0.84	0.76	0.72	0.72
Book value	24.85	23.24	21.82	20.57	19.58
Performance ratios					
Return on average assets	0.87%	0.83%	0.96%	0.88%	0.40%
Return on average common equity	9.09%	8.66%	9.93%	9.46%	4.29%
Net interest margin (on a fully tax equivalent basis)	3.51%	3.75%	3.90%	3.95%	3.89%
Equity to assets	9.70%	9.19%	9.44%	9.30%	9.21%
Dividend payout ratio	30.09%	52.77%	35.88%	37.93%	82.79%
Asset quality ratios					
Nonperforming loans as a percent of gross loans	0.73%	0.64%	0.76%	0.65%	1.07%
Nonperforming assets as a percent of total assets	0.72%	0.74%	0.75%	0.67%	0.92%

Allowance for loan losses as a percent of total loans	1.13	%	1.15	%	1.27	%	1.30	%	1.25	%
Allowance for loan losses as a percent of nonperforming loans	153.61	%	180.19	%	166.68	%	200.17	%	117.07	%
Capital ratios										
Tier 1 leverage capital ratio	8.64	%	8.65	%	8.61	%	8.19	%	7.87	%
Tier 1 risk-based capital ratio	10.78	%	10.36	%	10.74	%	10.28	%	9.83	%
Total risk-based capital ratio	12.58	%	12.23	%	12.78	%	12.37	%	11.92	%

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANAYLISIS 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 provide a satisfactory financial return. During the fourth quarter of 2013 the Company acquired Mayflower Bancorp, Inc. and its bank subsidiary.

The following information should be considered in connection with the Company's results for the year ended December 31, 2013:

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:

Commercial lending drove 2013 organic loan growth, with year-end commercial lending balances up 6.9% from the prior year (exclusive of the Mayflower acquisition).

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. For 2013, net charge-offs were 0.19% of average loans. Nonperforming loans totaled $34.7 million, or 0.73% of total loans, at December 31, 2013 due to management’s proactive approach to loan workouts.

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Funding and the Net Interest Margin

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

Core deposits grew by 11.9% during 2013 and, at year end, represented 84.9% of total deposits.

The net interest margin decreased to 3.51% for the year ended December 31, 2013 as the prolonged low rate environment continued to pressure asset yields. The Company has countered net interest margin pressure with robust loan growth which, when combined with asset and liability pricing discipline, has led to net interest income growth. Management expects the net interest margin to stabilize in coming quarters.

Noninterest Income

Management continues to focus on growing noninterest income which grew by 9.7% in 2013 and now represents 27.1% of total revenue, or 26.8% of total revenue on an operating basis. This growth was primarily due to increases in deposit account fees, interchange and ATM revenues, and fees paid for investment management services. The following chart depicts the steady increase in noninterest income as a percentage of revenue, on an operating basis, (net interest income plus noninterest income) over the last few years:

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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 2013, noninterest expense was well contained. Noninterest expense increased by 8.9% from the prior year, largely due to the full year impact of the Central acquisition. The Company's 2013 efficiency ratio (on an operating basis) was relatively consistent with prior years.

The following chart shows the trend in the Company's efficiency ratio, on an operating basis (calculated by dividing noninterest expense by the sum of net interest income and noninterest 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 2013, the Company participated in the federal New Markets Tax Credit program and the federal low-income housing tax credit program. 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 2013, the Company achieved an effective tax rate of 24.7%.

Capital

The Company's disciplined approach with respect to revenue, expense, and tax effectiveness is designed to promote long-term shareholder value. The Company's consistent profitability has steadily increased tangible book value per share and helped create the Company's strong capital position. 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 2009 to $0.88 per share in 2013, a 22.2% increase.

2013 Results

Implementation of the disciplined approach and strategies described above led the Company to 2013 net operating earnings of $55.2 million, or $2.39 on a diluted earnings per share basis, a record high, and an increase of 17.2% and 10.7%, respectively, when compared to net operating earnings of $47.1 million, or $2.16 per diluted share for 2012. Net income for 2013 computed in accordance with generally accepted accounting principles was $50.3 million, or $2.18 on a diluted earnings per share basis, as compared to $42.6 million, or $1.95 for the prior year.

2014 Earnings Outlook

The Company anticipates 2014 diluted earnings per share performance to be in a range between $2.42 and $2.52.

Key assumptions in the 2014 outlook include:

- Total loan growth of 4-5%;
- Total deposit growth of 2-3%;
- A net interest margin in the mid to low 3.40% range;
- Stable asset quality outlook, with a provision for loan loss in the range of $11-$14 million and net charge-offs in the range of $9-$12 million;
- Noninterest income growing by 3-4%;
- Noninterest expense increasing by 3-4%;
- An effective tax rate of 30%; and,
- Unadjusted Tangible Common Equity ratio increasing to a range of 7.25% to 7.50% by the end of 2014.

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Non-GAAP Measures

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

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

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

	Years Ended December 31					
	Net Income			Diluted Earnings Per Share		
	2013	2012	2011	2013	2012	2011
	(Dollars in thousands, except per share data)					
As reported (GAAP)						
Net income	$50,254	$42,627	$45,436	$2.18	$1.95	$2.12
Non-GAAP measures						
Noninterest income components						
Net gain on sale of securities, net of tax	(153)	(3)	(428)	(0.01)	—	(0.02)
Gain on life insurance benefits, tax exempt	(227)	(1,307)	—	(0.01)	(0.06)	—
Gain on extinguishment of debt, net of tax	(451)			(0.02)		
Noninterest expense components						
Prepayment fees on borrowings, net of tax	—	4	448	—	—	0.02
Severance, net of tax	192	—	—	0.01	—	—
Merger and acquisition expenses, net of tax	5,564	4,459	—	0.24	0.21	—
Goodwill impairment, net of tax	—	1,317	—	—	0.06	—
Total impact of noncore items	4,925	4,470	20	0.21	0.21	—
As adjusted (non-GAAP)	$55,179	$47,097	$45,456	$2.39	$2.16	$2.12

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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					
	2013	2012	2011	2010	2009	
	(Dollars in thousands)					
Net interest income	$182,578	$172,799	$167,079	$163,961	$150,694	(a)
Noninterest income (GAAP)	$68,009	$62,016	$52,700	$46,906	$38,192	(b)
Net gain on sale of securities	(258)	(5)	(723)	(458)	(1,354)	
Gain on life insurance benefits	(227)	(1,307)	—	—	—	
Gain on extinguishment of debt	(763)	—	—	—	—	
Gain on terminated hedge	—	—	—	—	(3,778)	
Noninterest income on an operating basis	$66,761	$60,704	$51,977	$46,448	$33,060	(c)
Noninterest expense (GAAP)	$173,649	$159,459	$145,713	$139,745	$141,815	(d)
Merger & acquisition	(8,685)	(6,741)	—	—	(12,423)	
Severance	(325)	—	—	—	—	
Goodwill impairment	—	(2,227)	—	—	—	
Prepayment fees on borrowings	—	(7)	(757)	—	—	
Loss on terminated hedge	—	—	—	(554)	—	
Noninterest expense on an operating basis	$164,639	$150,484	$144,956	$139,191	$129,392	(e)
Total revenue (GAAP)	$250,587	$234,815	$219,779	$210,867	$188,886	(a+b)
Total operating revenue	$249,339	$233,503	$219,056	$210,409	$183,754	(a+c)
Ratios						
Efficiency ratio (GAAP)	69.30%	67.91%	66.30%	66.27%	75.08%	(d/(a+b))
Operating efficiency ratio	66.03%	64.45%	66.17%	66.15%	70.42%	(e/(a+c))
Noninterest income as a % of revenue	27.14%	26.41%	23.98%	22.24%	20.22%	(b/(a+b))
Noninterest income as a % of revenue on an operating basis	26.78%	26.00%	23.73%	22.08%	17.99%	(c/(a+c))

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 $199.9 million, or 39.4%, at December 31, 2013 as compared to December 31, 2012. The ratio of securities to total assets as of December 31, 2013 was 11.6%, compared to 8.8% at December 31, 2012.

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. The Bank also evaluated its investment securities held as of December 31, 2013 to identify those that meet the definition of a Covered Fund as set forth in the final rules issued on December 10, 2013 to implement section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (commonly referred to as the “Volcker Rule”). In that regard, the Bank considered the impact of the related interim final rule issued by its primary banking regulators on January 14, 2014 to address the treatment of certain collateralized debt obligations backed primarily by trust preferred securities ("TruPS CDOs"), including the non-exclusive list of TruPS

CDOs that are exempt from the Covered Fund provisions under the interim

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final rule. The Bank identified no investments held as of December 31, 2013 that meet the definition of a Covered Fund which are required to be divested by July 21, 2015 (or before recovery of their individual amortized cost basis) under the foregoing rules. 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			2011		
	Amount	Percent		Amount	Percent		Amount	Percent	
	(Dollars in thousands)								
Fair value of securities available for sale									
U.S. government agency securities	$40,449	11.3	%	$20,822	6.3	%	$—	—	%
Agency mortgage-backed securities	234,591	65.8	%	221,425	67.2	%	238,391	78.1	%
Agency collateralized mortgage obligations	58,153	16.3	%	68,376	20.8	%	53,801	17.6	%
Private mortgage-backed securities	—	—	%	3,532	1.1	%	6,110	2.0	%
State, county and municipal securities	5,412	1.5	%	—	—	%	—	—	%
Single issuer trust preferred securities issued by banks	2,952	0.8	%	2,240	0.7	%	4,210	1.4	%
Pooled trust preferred securities issued by banks and insurers	3,841	1.1	%	2,981	0.9	%	2,820	0.9	%
Marketable securities	11,464	3.2	%	9,910	3.0	%	—	—	%
Total fair value of securities available for sale	$356,862	100.0	%	$329,286	100.0	%	$305,332	100.0	%
Amortized Cost of Securities Held to Maturity									
U.S. treasury securities	$1,011	0.3	%	$1,013	0.6	%	$1,014	0.5	%
Agency mortgage-backed securities	155,067	44.2	%	72,360	40.6	%	109,553	53.5	%
Agency collateralized mortgage obligations	187,388	53.5	%	97,507	54.6	%	77,804	38.0	%
State, county and municipal securities	678	0.2	%	915	0.5	%	3,576	1.7	%
Single issuer trust preferred securities issued by banks	1,503	0.4	%	1,516	0.9	%	8,000	3.9	%
Corporate debt securities	5,005	1.4	%	5,007	2.8	%	5,009	2.4	%
Total amortized cost of securities held to maturity	$350,652	100.0	%	$178,318	100.0	%	$204,956	100.0	%
Total	$707,514			$507,604			$510,288		

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, 2013 and 2012, the Company had $3.8 million and $6.5 million of securities categorized as Level 3.

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The following tables set forth contractual maturities of the Bank’s securities portfolio at December 31, 2013. 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	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
	(Dollars in thousands)									
Fair value of securities available for sale										
U.S. government agency securities	$—	—	$20,163	1.3 %	$20,286	2.1 %	$—	—	$40,449	1.7 %
Agency mortgage-backed securities	—	—	8,707	4.5 %	56,524	3.0 %	169,360	3.2 %	234,591	3.2 %
Agency collateralized mortgage obligations	—	—	2,026	4.1 %	199	1.4 %	55,928	1.8 %	58,153	1.9 %
State, county and municipal securities	—	—	259	1.2 %	3,655	2.1 %	1,498	2.4 %	5,412	2.1 %
Single issuer trust preferred securities issued by banks	—	—	—	—	—	—	2,952	5.6 %	2,952	5.6 %
Pooled trust preferred securities issued by banks and insurers	—	—	—	—	—	—	3,841	0.9 %	3,841	0.9 %
Marketable securities(1)	—	—	—	—	—	—	11,464	—	11,464	—
Total fair value of securities available for sale	$—	— %	$31,155	2.4 %	$80,664	2.7 %	$245,043	2.9 %	$356,862	2.8 %
Amortized cost of securities held to maturity										
U.S. Treasury securities	$—	—	$—	—	$1,011	3.0 %	$—	—	$1,011	3.0 %
Agency mortgage-backed securities	—	—	455	5.5 %	16,679	2.3 %	137,933	3.1 %	155,067	3.0 %
Agency collateralized mortgage obligations	—	—	—	—	—	—	187,388	2.3 %	187,388	2.3 %
State, county and municipal securities	255	4.7 %	423	4.8 %	—	—	—	—	678	4.8 %
Single issuer trust preferred securities issued by banks	—	—	—	—	—	—	1,503	7.4 %	1,503	7.4 %
Corporate debt securities	—	—	5,005	3.4 %	—	—	—	—	5,005	3.4 %
Total amortized cost of securities held to	$255	4.7 %	$5,883	3.7 %	$17,690	2.3 %	$326,824	2.6 %	$350,652	2.6 %

maturity										
Total	$255	3.7 %	$37,038	2.6 %	$98,354	2.7 %	$571,867	2.7 %	$707,514	2.7 %

(1) Marketable securities have no contractual maturity and are excluded from the weighted average yield and amounts maturing.

As of December 31, 2013, the weighted average life of the securities portfolio was 5.1 years and the modified duration was 4.4 years.

Residential Mortgage Loan Sales The Company's primary loan sale activity arises from the sale of government sponsored enterprise eligible residential mortgage loans to other financial institutions. During 2013 and 2012, the Bank originated residential loans with the intention of primarily selling them in the secondary market. The following table shows the total residential loans that were closed and the amounts which were held in the portfolio, sold or held for sale in the secondary market during the periods indicated:

Table 3 — Closed Residential Real Estate Loans

	Years Ended December 31		
	2013	2012	2011
	(Dollars in thousands)		
Held in portfolio	$31,839	$47,205	$63,824
Sold or held for sale in the secondary market	260,950	373,063	270,427
Total closed loans	$292,789	$420,268	$334,251

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

Table 4 — Residential Mortgage Loan Sales

	December 31	
	2013	2012
	(Dollars in thousands)	
Sold with servicing rights released	$210,073	$313,329
Sold with servicing rights retained	87,229	33,393
Total loans sold	$297,302	$346,722

Loans may be sold with servicing rights released or with servicing rights retained. The principal balance of loans serviced by the Bank on behalf of investors amounted to $331.4 million at December 31, 2013, inclusive of an $80.4 million acquired portfolio related to the Mayflower acquisition, and $198.8 million at December 31, 2012. Upon sale, the mortgage servicing asset is established, which represents the then current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. 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 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

	2013	2012
	(Dollars in thousands)	
Beginning balance	$899	$1,098
Additions	800	272
Acquired portfolio	760	—
Amortization	(462)	(522)
Change in valuation allowance	371	51
Ending balance	$2,368	$899

The Bank’s mortgage banking income consists primarily of revenue from premiums received on loans sold with servicing released, origination fees, gains and losses on sold mortgages less related commission expense, and changes in the value of the mortgage servicing asset.

When a loan is sold, the Company enters into agreements that contain representations and warranties about the characteristics of the loans sold and their origination. The Company may be required to either repurchase mortgage loans or to indemnify the purchaser from losses if representations and warranties are breached. During the year ended December 31, 2013, the Company incurred no material losses and during the year ended December 31, 2012 the Company incurred losses of $304,000 on loans that were agreed to be repurchased. The Company has not at this time established a reserve for loan repurchases because it believes the amount of probable losses is not reasonably estimable.

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 hedges this market risk. See

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Note 11, “Derivative 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, while placing less emphasis on the other lending categories. Although deemphasizing certain lending categories has led to a slower growth rate than what otherwise might have been realized, management believes this strategy to be 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		2009	
	(Dollars in thousands)									
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial and industrial	$784,202	16.6 %	$687,511	15.2 %	$575,716	15.2 %	$502,952	14.1 %	$373,531	11.0 %
Commercial real estate	2,249,260	47.7 %	2,122,153	46.9 %	1,847,654	48.6 %	1,717,118	48.4 %	1,614,474	47.5 %
Commercial construction	223,859	4.7 %	188,768	4.2 %	128,904	3.4 %	129,421	3.6 %	175,312	5.2 %
Small business	77,240	1.6 %	78,594	1.7 %	78,509	2.1 %	80,026	2.3 %	82,569	2.4 %
Residential real estate	541,443	11.5 %	612,881	13.6 %	426,201	11.3 %	478,111	13.4 %	566,042	16.7 %
Home equity	822,141	17.5 %	802,149	17.8 %	696,063	18.3 %	579,278	16.3 %	471,862	13.9 %
Other consumer	20,162	0.4 %	26,955	0.6 %	41,343	1.1 %	68,773	1.9 %	111,725	3.3 %
Gross loans	4,718,307	100.0%	4,519,011	100.0%	3,794,390	100.0%	3,555,679	100.0%	3,395,515	100.0%
Allowance for loan losses	53,239		51,834		48,260		46,255		42,361	
Net loans	$4,665,068		$4,467,177		$3,746,130		$3,509,424		$3,353,154	

The following table summarizes loan growth during the periods indicated:

Table 7 - Components of Loan Growth/(Decline)

	December 31		Mayflower	Organic	Organic
	2013	2012	Acquisition	Growth/(Decline) $	Growth/(Decline) %
	(Dollars in thousands)				
Commercial and industrial	$784,202	$687,511	$3,682	$ 93,009	13.5 %
Commercial real estate	2,249,260	2,122,153	38,800	88,307	4.2 %
Commercial construction	223,859	188,768	2,782	32,309	17.1 %
Small business	77,240	78,594	21	(1,375)	(1.7)%
Residential real estate	541,443	612,881	63,274	(134,712)	(22.0)%
Home equity	822,141	802,149	17,316	2,676	0.3 %
Other consumer	20,162	26,955	695	(7,488)	(27.8)%

Total loans	$4,718,307	$4,519,011	$126,570	$ 72,726	1.6	%

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The following table sets forth the scheduled contractual amortization of the Bank's loan portfolio at December 31, 2013. 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 8 — Scheduled Contractual Loan Amortization

	December 31, 2013							
	Commercial	Commercial Real Estate	Commercial Construction (1)	Small Business	Residential Real Estate	Home Equity	Consumer Other	Total
	(Dollars in thousands)							
Amounts due in:								
One year or less	$246,167	$487,308	$53,434	$26,068	$21,555	$ 22,299	$ 11,681	$868,512
After one year through five years	358,168	1,177,685	115,397	33,120	84,322	92,972	6,318	1,867,982
Beyond five years	179,867	584,267	55,028	18,052	435,566	706,870	2,163	1,981,813
Total	$784,202	$2,249,260	$223,859	$77,240	$541,443	$ 822,141	$ 20,162	$4,718,307
Interest rate terms on amounts due after one year:								
Fixed rate	$226,666	$608,801	$60,706	$25,583	$360,884	$ 338,150	$ 8,481	1,629,271
Adjustable rate	311,369	1,153,151	109,719	25,589	159,004	461,692	—	2,220,524

(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, 2013, $10.7 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 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).

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 or home equity categories, loans more than 90 days past due with respect to principal or interest are classified as nonaccrual loans. As permitted by banking regulations, certain consumer loans past due 90 days or more continue to accrue interest. In addition, certain commercial and real estate loans that are more than 90 days past due may be kept on an accruing status if the loans are well secured and in the process of collection. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current

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income. A loan remains on nonaccrual status until it becomes current with respect to principal and interest (and in certain instances remains current for up to six months), when the loan is liquidated, or when the loan is determined to be uncollectible and is charged-off against the allowance for loan losses.

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

It is the Bank's policy to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status for six months, subsequent to being modified, before management considers its return to accrual status. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. Loans that are considered TDRs are classified as performing, unless they are on nonaccrual status or greater than 90 days delinquent. Loans classified as TDRs remain classified as such, for the life of the loan, except in limited circumstances, when it is determined that the borrower is performing under modified terms and the restructuring agreement specified an interest rate greater than or equal to an acceptable 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. The PCI loans are recorded at fair value without any carryover of the allowance for loan losses. The excess cash flows expected to be collected over the carrying amount of the loans, referred to as the "accretable yield", is accreted into interest income over the life of the loans using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual in the same manner as originated loans, rather they are generally considered to be accruing loans because their interest income recognized relates to the accretable yield and not to contractual interest payments. The carrying amount of these purchased credit impaired loans was $29.5 million and $32.1 million as of December 31, 2013 and 2012, respectively. 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 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, rental income and expenses are recorded as incurred.
Other assets in possession typically consist of foreclosed non-real estate assets deemed to be in control of the Company.

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The following table sets forth information regarding nonperforming assets held by the Bank at the dates indicated:
Table 9 — Nonperforming Assets

	December 31				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Loans accounted for on a nonaccrual basis(1)					
Commercial and industrial	$4,178	$2,666	$1,883	$3,123	$4,205
Commercial real estate	11,834	6,574	13,109	9,836	18,525
Small business	633	570	542	887	793
Residential real estate	10,329	11,472	9,867	6,728	10,829
Home equity	7,068	7,311	3,130	1,752	1,166
Other consumer	92	121	381	505	373
Total	$34,134	$28,714	$28,912	$22,831	$35,891
Loans past due 90 days or more but still accruing					
Residential real estate	$462	$—	$—	$—	$—
Home equity	—	—	—	4	—
Other consumer	63	52	41	273	292
Total	$525	$52	$41	$277	$292
Total nonperforming loans	$34,659	$28,766	$28,953	$23,108	$36,183
Nonaccrual securities(2)	1,541	1,511	1,272	1,051	920
Other assets in possession	167	176	266	61	148
Other real estate owned	7,466	11,974	6,658	7,273	3,994
Total nonperforming assets	$43,833	$42,427	$37,149	$31,493	$41,245
Nonperforming loans as a percent of gross loans	0.73 %	0.64 %	0.76 %	0.65 %	1.07 %
Nonperforming assets as a percent of total assets	0.72 %	0.74 %	0.75 %	0.67 %	0.92 %

(1) Included in these amounts were $7.5 million, $6.6 million, $9.2 million, $4.0 million, and $3.4 million of TDRs on nonaccrual at December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

(2) Amounts represent the fair value of nonaccrual securities. The Company had five nonaccrual securities in 2013, and six nonaccrual securities in 2012, 2011, 2010 and 2009.

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

Table 10 — Activity in Nonperforming Assets

	Years Ended December 31			
	2013		2012	
	(Dollars in thousands)			
Nonperforming assets beginning balance		$42,427		$37,149
New to nonperforming		56,288		42,606
Loans charged-off		(10,518)		(16,591)
Loans paid-off		(26,617)		(10,381)
Loans restored to accrual status		(9,808)		(9,091)
Loans transferred to other real estate owned/other assets		(2,869)		(7,061)
Change to other real estate owned:				
New to other real estate owned	$2,869		$7,061	
Acquired other real estate owned	419		2,633	
Valuation write down	(1,483)		(776)	
Sale of other real estate owned	(8,854)		(5,871)	
Capital improvements to other real estate owned	2,541		2,269	
Total change to other real estate owned		(4,508)		5,316
Net change in nonaccrual securities		31		239
Other		(593)		241
Nonperforming assets ending balance		$43,833		$42,427

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

Table 11 — Troubled Debt Restructurings

	December 31				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Performing troubled debt restructurings	$38,410	$46,764	$37,151	$26,091	$10,484
Nonaccrual troubled debt restructurings	7,454	6,554	9,230	3,982	3,498
Total	$45,864	$53,318	$46,381	$30,073	$13,982
Performing troubled debt restructurings as a % of total loans	0.81 %	1.03 %	0.98 %	0.73 %	0.31 %
Nonaccrual troubled debt restructurings as a % of total loans	0.16 %	0.15 %	0.24 %	0.11 %	0.10 %
Total troubled debt restructurings as a % of total loans	0.97 %	1.18 %	1.22 %	0.84 %	0.41 %

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

Table 12 — Activity in Troubled Debt Restructurings

	December 31	
	2013	2012
	(Dollars in thousands)	
TDRs beginning balance	$53,318	$46,381
New to TDR status	6,789	8,350
Court ordered concessions (1)	—	5,143
Paydowns	(13,307)	(6,080)
Charge-offs	(936)	(476)
Loans removed from TDR status	—	—
TDRs ending balance	$45,864	$53,318

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

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

Table 13 — Interest Income Recognized/Collected on Nonaccrual Loans and Troubled Debt Restructurings

	Years Ended December 31		
	2013	2012	2011
	(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	$2,154	$2,022	$1,265
The amount of interest income on nonaccrual loans and performing TDRs that was included in net income	2,510	2,879	2,484

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

At December 31, 2013, impaired loans included all commercial and industrial loans, commercial real estate loans, commercial construction, and small business loans that are on nonaccrual status, TDRs, and other loans that have been categorized as impaired. Total impaired loans at December 31, 2013 and 2012 were $72.1 million and $66.7 million, respectively. For additional information regarding the Bank’s asset quality, including delinquent loans, nonaccruals, TDRs, and impaired loans, see Note 4, “Loans, Allowance for Loan Losses, and Credit Quality” within Notes to

Consolidated Financial Statements included in Item 8 hereof.

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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, 2013, there were 64 relationships, with an aggregate balance of $78.6 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 adequate to provide for probable loan losses based upon evaluation of known and inherent risks in the loan portfolio. The allowance is increased by providing for loan losses through a charge to provision for loan losses and by recoveries of loans previously charged-off and is reduced by loans charged-off.

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

As of December 31, 2013, the allowance for loan losses totaled $53.2 million, or 1.13% of total loans, as compared to $51.8 million, or 1.15% of total loans, at December 31, 2012. The increase in the aggregate amount of allowance is driven by shifts in the composition of the loan portfolio mix and loan growth, offset by improvements in certain asset quality measures. The decrease in the amount of the allowance as a percentage of loans is largely attributable to the acquired loans which are accounted for at fair value, with no carryover of the related allowance.

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

Table 14 — Summary of Changes in the Allowance for Loan Losses

	December 31									
	2013		2012		2011		2010		2009	
	(Dollars in thousands)									
Average total loans	$4,556,351		$4,022,349		$3,681,418		$3,434,769		$3,177,949	
Allowance for loan losses, beginning of year	$51,834		$48,260		$46,255		$42,361		$37,049	
Charged-off loans:										
Commercial and industrial	2,683		6,191		2,888		5,170		1,663	
Commercial real estate	3,587		4,348		2,631		3,448		834	
Commercial construction	308		—		769		1,716		2,679	
Small business	773		616		1,190		2,279		2,047	
Residential real estate	622		1,094		559		557		829	
Home equity	1,370		3,178		1,626		939		1,799	
Other consumer	1,175		1,165		1,678		2,078		3,404	
Total charged-off loans	10,518		16,592		11,341		16,187		13,255	
Recoveries on loans previously charged-off										
Commercial and industrial	272		963		420		361		27	
Commercial real estate	206		188		97		1		—	
Commercial construction	100		—		500		—		—	
Small business	279		134		160		217		204	
Residential real estate	143		151		—		59		105	
Home equity	135		93		52		131		41	
Other consumer	588		581		635		657		855	
Total recoveries	1,723		2,110		1,864		1,426		1,232	
Net loans charged-off										
Commercial and industrial	2,411		5,228		2,468		4,809		1,636	
Commercial real estate	3,381		4,160		2,534		3,447		834	
Commercial construction	208		—		269		1,716		2,679	
Small business	494		482		1,030		2,062		1,843	
Residential real estate	479		943		559		498		724	
Home equity	1,235		3,085		1,574		808		1,758	
Other consumer	587		584		1,043		1,421		2,549	
Total net loans charged-off	8,795		14,482		9,477		14,761		12,023	
Provision for loan losses	10,200		18,056		11,482		18,655		17,335	
Total allowances for loan losses, end of year	$53,239		$51,834		$48,260		$46,255		$42,361	
Net loans charged-off as a percent of average total loans	0.19	%	0.36	%	0.26	%	0.43	%	0.38	%
Allowance for loan losses as a percent of total loans	1.13	%	1.15	%	1.27	%	1.30	%	1.25	%
Allowance for loan losses as a percent of nonperforming loans	153.61	%	180.19	%	166.68	%	200.17	%	117.07	%
Net loans charged-off as a percent of allowance for loan losses	16.52	%	27.94	%	19.64	%	31.91	%	28.38	%
	16.38	%	12.72	%	16.44	%	8.81	%	9.29	%

Recoveries as a percent of charge-offs

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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 15 — Summary of Allocation of Allowance for Loan Losses

	December 31														
	2013			2012			2011			2010			2009		
	Allowance Amount	Percent of Loans In Category To Total Loans		Allowance Amount	Percent of Loans In Category To Total Loans		Allowance Amount	Percent of Loans In Category To Total Loans		Allowance Amount	Percent of Loans In Category To Total Loans		Allowance Amount	Percent of Loans In Category To Total Loans	
	(Dollars in thousands)														
Allocated Allowance															
Commercial and industrial	$15,622	16.6	%	$13,461	15.2	%	$11,682	15.2	%	$10,423	14.1	%	$7,545	11.0	%
Commercial real estate	24,541	47.7	%	22,598	46.9	%	23,514	48.6	%	21,939	48.4	%	19,451	47.5	%
Commercial construction	3,371	4.7	%	2,811	4.2	%	2,076	3.4	%	2,145	3.6	%	2,457	5.5	%
Small business	1,215	1.6	%	1,524	1.7	%	1,896	2.1	%	3,740	2.3	%	3,372	2.4	%
Residential real estate	2,760	11.5	%	2,930	13.6	%	3,113	11.3	%	2,915	13.4	%	2,840	16.4	%
Home equity	5,036	17.5	%	7,703	17.8	%	4,597	18.3	%	3,369	16.3	%	3,945	13.9	%
Other consumer	694	0.4	%	807	0.6	%	1,382	1.1	%	1,724	1.9	%	2,751	3.3	%
Total	$53,239	100.0	%	$51,834	100.0	%	$48,260	100.0	%	$46,255	100.0	%	$42,361	100.0	%

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

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

For additional information regarding the Bank's allowance for loan losses, see Note 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 holds an investment in Federal Home Loan Bank ("FHLB") of Boston's stock, which amounted to $39.9 million at December 31, 2013 and $41.8 million at December 31, 2012, as the FHLB repurchased excess capital stock in 2013. The FHLB is a cooperative that provides services to its member banking institutions. The primary reason for the FHLB of Boston membership is to gain access to a reliable source of wholesale funding, particularly term funding, as a tool to manage interest rate risk. The purchase of stock in the FHLB is a requirement for a member to gain access to funding. The Company purchases FHLB stock proportional to the volume of funding received and views the purchases as a necessary long-term investment for the purposes of balance sheet liquidity and not for investment return.

Goodwill and Identifiable Intangible Assets Goodwill and Identifiable Intangible Assets were $182.6 million and $162.1 million at December 31, 2013 and December 31, 2012, respectively. The increase in 2013 was due to the Mayflower acquisition. 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 2013 and determined that the Company's goodwill was not impaired. Identifiable intangible assets are reviewed for impairment

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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 funding the Bank’s future obligations to its employees under its retirement and benefits plans. The cash surrender value of life insurance policies was $100.4 million and $97.3 million at December 31, 2013 and December 31, 2012, respectively. The Bank recorded tax exempt income from the life insurance policies of $3.2 million, $3.1 million, and $3.2 million in 2013, 2012, and 2011, respectively. Also during 2013 and 2012, the Company recognized gains on life insurance benefits in the amount of $227,000 and $1.3 million, respectively. These gains are also tax-exempt income to the Company.

Deposits As of December 31, 2013, deposits of $5.0 billion were $439.7 million, or 9.7%, higher than the prior year-end, driven mainly by the Mayflower acquisition. However, the Company also experienced organic growth in deposits, fueled by increases in business deposits from commercial loan customers, as well as small business customers, inflows of municipal deposits and higher consumer deposits resulting from strong household growth during the year. On an organic basis, time deposits decreased by 10.6%, as the Company continues to focus on core deposits. Core deposits, which the Company defines as nontime and nonbrokered deposits, increased by $449.2 million, or 11.9%, during 2013 and now comprise 84.9% of total deposits.

The following table summarizes the organic deposit growth during the periods indicated:

Table 16 - Components of Deposit Growth

	December 31		Mayflower	Organic	Organic
	2013	2012	Acquisition	Growth/(Decline)	Growth/(Decline) %
	(Dollars in thousands)				
Demand deposits	$1,369,432	$1,248,394	$40,056	$ 80,982	6.5 %
Savings and interest checking accounts	1,940,153	1,691,187	84,295	164,671	9.7 %
Money market	933,205	853,971	24,195	55,039	6.4 %
Time certificates of deposit	743,628	753,125	70,331	(79,828)	(10.6)%
Total deposits	$4,986,418	$4,546,677	$218,877	$ 220,864	4.9 %

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

Table 17 — Average Balances of Deposits

	December 31					
	2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Demand deposits	$1,271,616	27.5 %	$1,070,577	26.7 %	$910,701	24.9 %
Savings and interest checking	1,735,211	37.6 %	1,484,758	37.1 %	1,355,478	37.2 %
Money market	887,936	19.2 %	803,656	20.1 %	728,380	19.9 %
Time certificates of deposits	724,644	15.7 %	646,873	16.1 %	656,486	18.0 %
Total	$4,619,407	100.0 %	$4,005,864	100.0 %	$3,651,045	100.0 %

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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, 2013:

Table 18 — Maturities of Time Certificates of Deposits $100,000 and Over

	Balance	Percentage	
	(Dollars in thousands)		
1 to 3 months	$86,601	29.1	%
4 to 6 months	56,939	19.1	%
7 to 12 months	83,552	28.0	%
Over 12 months	70,892	23.8	%
Total	$297,984	100.0	%

The Bank also participates in the Certificate of Deposit Account Registry Service (“CDARS”) program, allowing the Bank to provide easy access to multi-million dollar FDIC deposit insurance protection on certificate of deposits investments for consumers, businesses and public entities. The economic downturn has made CDARS an attractive product for customers. In addition, the Bank may occasionally raise funds through brokered certificates of deposit. This channel allows the Bank to seek additional funding in potentially large quantities by attracting deposits from outside the Bank’s core market. The following table sets forth the Bank’s brokered deposits as of the dates indicated:

Table 19 — Brokered Deposits

	December 31	
	2013	2012
	(Dollars in thousands)	
CDARS	$53,748	$72,218
Brokered certificates of deposit	13,753	13,718
Brokered money market	10,000	10,000
Total brokered deposits	$77,501	$95,936

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

Table 20 — Borrowings by Category

	December 31			
	2013	2012	% Change	
	(Dollars in thousands)			
Federal Home Loan Bank borrowings	$140,294	$271,569	(48.3	)%
Wholesale repurchase agreements	50,000	50,000	—	%
Customer repurchase agreements and other short-term borrowings	154,288	165,359	(6.7	)%
Junior subordinated debentures	73,906	74,127	(0.3	)%
Subordinated debentures	30,000	30,000	—	%
Total	$448,488	$591,055	(24.1	)%

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, 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, 2013, the Company and the Bank exceeded the minimum requirements for all regulatory capital ratios. See Note 18, “Regulatory Matters” within Notes to Consolidated Financial Statements included in Item 8 hereof for more information regarding capital requirements.

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Results of Operations

Table 21 — Summary of Results of Operations

	Years Ended December 31	
	2013	2012
	(Dollars in thousands)	
Net income	$50,254	$42,627
Diluted earnings per share	$2.18	$1.95
Return on average assets	0.87 %	0.83 %
Return on average equity	9.09 %	8.66 %
Stockholders' equity as % of assets	9.70 %	9.19 %
Net Interest Margin	3.51 %	3.75 %

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 $183.5 million in 2013, a 5.6% increase from 2012 net interest income of $173.9 million.

The following table presents the Company’s average balances, net interest income, interest rate spread, and net interest margin for 2013, 2012, and 2011. 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 22 — Average Balance, Interest Earned/Paid & Average Yields

	Years Ended December 31								
	2013			2012			2011		
	AVERAGE BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD	AVERAGE BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD	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	$80,349	$200	0.25 %	$54,483	$132	0.24 %	$65,053	$162	0.25 %
Securities									
Trading assets	—	—	— %	1,365	37	2.71 %	8,329	285	3.42 %
Taxable investment securities	566,764	15,137	2.67 %	524,466	16,643	3.17 %	540,564	20,041	3.71 %
Nontaxable investment securities(1)	1,523	88	5.78 %	1,746	140	8.02 %	7,471	560	7.50 %
Total securities	568,287	15,225	2.68 %	527,577	16,820	3.19 %	556,364	20,886	3.75 %
Loans held for sale	27,693	774	2.79 %	29,928	988	3.30 %	14,646	482	3.29 %
Loans(2)									

Commercial and industrial	736,814		29,241	3.97	%	625,789		25,309	4.04	%	538,805		22,867	4.24	%
Commercial real estate (1)	2,166,073		96,165	4.44	%	1,923,602		93,582	4.86	%	1,792,247		93,604	5.22	%
Commercial construction	218,894		9,066	4.14	%	159,271		6,698	4.21	%	126,083		5,805	4.60	%
Small business	76,700		4,272	5.57	%	79,092		4,509	5.70	%	78,851		4,606	5.84	%
Total commercial	3,198,481		138,744	4.34	%	2,787,754		130,098	4.67	%	2,535,986		126,882	5.00	%
Residential real estate	534,696		21,179	3.96	%	436,737		18,330	4.20	%	456,186		20,463	4.49	%
Home equity	800,646		28,712	3.59	%	765,228		28,124	3.68	%	635,695		24,015	3.78	%
Total consumer real estate	1,335,342		49,891	3.74	%	1,201,965		46,454	3.86	%	1,091,881		44,478	4.07	%
Other consumer	22,528		2,047	9.09	%	32,630		2,785	8.54	%	53,551		4,171	7.79	%
Total loans	4,556,351		190,682	4.18	%	4,022,349		179,337	4.46	%	3,681,418		175,531	4.77	%
Total Interest-Earning Assets	$5,232,680		$206,881	3.95	%	$4,634,337		$197,277	4.26	%	$4,317,481		$197,061	4.56	%
Cash and Due from Banks	127,171					67,085					55,897				
Federal Home Loan Bank Stock	39,416					35,155					35,854				
Other Assets	400,805					377,450					336,617				
Total Assets	$5,800,072					$5,114,027					$4,745,849				

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Interest-bearing liabilities												
Deposits												
Savings and interest checking accounts	$1,735,211	$3,107	0.18	%	$1,484,758	$2,820	0.19	%	$1,355,478	$3,216	0.24	%
Money market	887,936	2,271	0.26	%	803,656	2,461	0.31	%	728,380	3,050	0.42	%
Time certificates of deposits	724,644	5,246	0.72	%	646,873	5,422	0.84	%	656,486	7,089	1.08	%
Total interest bearing deposits	3,347,791	10,624	0.32	%	2,935,287	10,703	0.36	%	2,740,344	13,355	0.49	%
Borrowings												
Federal Home Loan Bank borrowings	245,392	5,446	2.22	%	224,553	5,277	2.35	%	284,400	7,199	2.53	%
Customer repurchase agreements and other short-term borrowings	150,286	276	0.18	%	160,589	325	0.20	%	143,904	536	0.37	%
Wholesale repurchase agreements	50,000	1,158	2.32	%	50,000	1,162	2.32	%	50,000	1,748	3.50	%
Junior subordinated debentures	74,017	4,049	5.47	%	63,549	3,749	5.90	%	61,857	3,663	5.92	%
Subordinated debt	30,000	1,783	5.94	%	30,000	2,177	7.26	%	30,000	2,171	7.24	%
Total borrowings	549,695	12,712	2.31	%	528,691	12,690	2.40	%	570,161	15,317	2.69	%
Total interest-bearing liabilities	$3,897,486	$23,336	0.60	%	$3,463,978	$23,393	0.68	%	$3,310,505	$28,672	0.87	%
Demand deposits	1,271,616				1,070,577				910,701			
Other liabilities	78,392				87,104				67,221			
Total liabilities	$5,247,494				$4,621,659				$4,288,427			
Stockholders' equity	552,578				492,368				457,422			
Total liabilities and stockholders' equity	$5,800,072				$5,114,027				$4,745,849			
Net interest income(1)		$183,545				$173,884				$168,389		
Interest rate spread(3)			3.35	%			3.58	%			3.69	%
Net interest margin(4)			3.51	%			3.75	%			3.90	%
Supplemental Information												
Total deposits, including demand	$4,619,407	$10,624			$4,005,864	$10,703			$3,651,045	$13,355		

deposits											
Cost of total deposits			0.23	%			0.27	%			0.37	%
Total funding liabilities, including demand deposits	$5,169,102	$23,336			$4,534,555	$23,393			$4,221,206	$28,672		
Cost of total funding liabilities			0.45	%			0.52	%			0.68	%

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $967,000, $1.1 million and $1.3 million in 2013, 2012, and 2011, respectively. The FTE adjustment relates to nontaxable investment securities with average balances of $1.5 million, $1.7 million, and $7.5 million, in 2013, 2012, and 2011, respectively, and nontaxable industrial development bonds with average balances of $39.4 million, $36.3 million, and $37.6 million in 2013, 2012, and 2011, 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.

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:

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Table 23 — Volume Rate Analysis

	Years Ended December 31								
	2013 Compared To 2012			2012 Compared To 2011			2011 Compared To 2010		
	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	$5	$63	$68	$(4)	$(26)	$(30)	$(4)	$(171)	$(175)
Securities									
Trading assets	—	(37)	(37)	(10)	(238)	(248)	(17)	40	23
Taxable securities	(2,848)	1,342	(1,506)	(2,801)	(597)	(3,398)	(2,493)	(1,188)	(3,681)
Nontaxable securities(1)	(34)	(18)	(52)	9	(429)	(420)	25	(603)	(578)
Total securities			(1,595)			(4,066)			(4,236)
Loans held for sale	(140)	(74)	(214)	3	503	506	(118)	(66)	(184)
Loans									
Commercial and industrial	(558)	4,490	3,932	(1,250)	3,692	2,442	(1,684)	5,094	3,410
Commercial real estate	(9,213)	11,796	2,583	(6,882)	6,860	(22)	(8,958)	8,345	(613)
Commercial construction	(139)	2,507	2,368	(635)	1,528	893	(281)	(1,421)	(1,702)
Small business	(101)	(136)	(237)	(111)	14	(97)	(90)	(133)	(223)
Total commercial			8,646			3,216			872
Residential real estate	(1,262)	4,111	2,849	(1,266)	(867)	(2,133)	(1,472)	(3,634)	(5,106)
Home equity	(714)	1,302	588	(784)	4,893	4,109	(372)	5,018	4,646
Total consumer real estate			3,437			1,976			(460)
Total other consumer	124	(862)	(738)	244	(1,630)	(1,386)	37	(2,665)	(2,628)
Loans(1)(2)			11,345			3,806			(2,216)
Total			$9,604			$216			$(6,811)
Expense of interest-bearing liabilities									
Deposits									
Savings and interest checking accounts	$(189)	$476	$287	$(703)	$307	$(396)	$(1,821)	$640	$(1,181)
Money market	(448)	258	(190)	(904)	315	(589)	(1,448)	(67)	(1,515)
Time certificates of deposits	(828)	652	(176)	(1,563)	(104)	(1,667)	(2,013)	(2,190)	(4,203)
Total interest-bearing deposits			(79)			(2,652)			(6,899)
Borrowings									
Federal Home Loan Bank borrowings	(333)	534	201	(407)	(1,515)	(1,922)	(1,298)	(1,092)	(2,390)
Customer repurchase agreements and other short-term borrowings	(54)	(27)	(81)	(273)	62	(211)	(516)	84	(432)
Wholesale repurchase agreements	(4)	—	(4)	(586)	—	(586)	(368)	—	(368)
Junior subordinated debentures	(317)	617	300	(14)	100	86	(3)	—	(3)

Subordinated debt	(394)	—	(394)	6	—	6	1	—	1
Total borrowings			22			(2,627)			(3,192)
Total			$(57)			$(5,279)			$(10,091)
Change in net interest income			$9,661			$5,495			$3,280

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $967,000, $1.1 million, and $1.3 million in 2013, 2012, and 2011, respectively.

(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, fueled mainly by acquisitions, exceeding the impact of a continued decreasing interest rate environment.

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Provision For Loan Losses The provision for loan losses represents the charge to expense that is required to maintain an adequate level of allowance for loan losses. The provision for loan losses totaled $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, 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.

Regional and local general economic conditions showed improvement during 2013, as measured by employment levels, economic activity, and other regional economic indicators. Local residential real estate market fundamentals were improved during 2013, characterized by a higher level of home sales, lower inventory levels, and stabilized to improved prices compared to the same period in 2012. Regional commercial real estate market conditions were mixed, with some areas experiencing continued recovery, while others still exhibit higher vacancy rates and flat to negative absorption. Leading economic indicators suggest continued economic improvement heading into 2014.

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

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

Table 24 — Noninterest Income

	Years Ended December 31			
			Change	
	2013	2012	Amount	%
	(Dollars in thousands)			
Deposit account fees	$17,940	$15,930	$2,010	12.6%
Interchange and ATM fees	10,883	9,783	1,100	11.2%
Investment management	16,832	14,779	2,053	13.9%
Mortgage banking income	6,734	6,500	234	3.6%
Increase in cash surrender value of life insurance policies	3,229	3,114	115	3.7%
Gain on life insurance benefits	227	1,307	(1,080)	(82.6)%
Gain on extinguishment of debt	763	—	763	100.0%
Loan level derivative income	3,439	3,457	(18)	(0.5)%
Net gain on sales of securities	230	116	114	98.3%
Other noninterest income	7,732	7,030	702	10.0%
Total	$68,009	$62,016	$5,993	9.7%

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 variances in the noninterest income category shown in the preceding table 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 customer base has also increased due to strong household growth during 2013.

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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 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.

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

Table 25 — Noninterest Expense

	Years Ended December 31			
			Change	
	2013	2012	Amount	%
	(Dollars in thousands)			
Salaries and employee benefits	$89,894	$84,014	$5,880	7.0 %
Occupancy and equipment	19,650	17,307	2,343	13.5 %
Data processing and facilities management	4,748	4,644	104	2.2 %
Advertising	4,280	3,949	331	8.4 %
FDIC assessment	3,579	3,232	347	10.7 %
Consulting	3,322	2,801	521	18.6 %
Debit card fees	2,994	2,510	484	19.3 %
Merger & acquisitions	8,685	6,741	1,944	28.8 %
Goodwill impairment	—	2,227	(2,227)	(100.0)%
Prepayment fees on borrowings	—	7	(7)	(100.0)%
Other noninterest expense	36,497	32,027	4,470	14.0 %
Total	$173,649	$159,459	$14,190	8.9 %

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 shown in the preceding tables 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, driven mainly by increases in base salaries and commissions earned and 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.

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 acquisition were $6.9 million for the year ended 2013 and merger and acquisition expenses associated with the Central acquisition were $1.8 and $6.7 million for the years ended 2013 and 2012, respectively.

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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 for the year ended December 31, 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 is 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, other losses and charge-offs by $364,000 and other legal expenses which decreased by $250,000.

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

Table 26 — Tax Provision and Applicable Tax Rates

	December 31		
	2013	2012	2011
	(Dollars in thousands)		
Combined federal and state income tax provisions	$16,484	$14,673	$17,148
Effective income tax rates	24.7 %	25.6 %	27.4 %
Blended federal and state statutory tax rate	40.9 %	40.9 %	41.2 %

Effective July 1, 2008 Massachusetts state legislation was passed which enacted corporate tax reform. As a result of that legislation, the state tax rate was reduced by 1.5% over a three year period which began on January 1, 2010 and has resulted in a blended statutory rate of 40.9%. The Company's effective rate, which is lower than the statutory rate, is attributable to certain tax preference assets such as the non-taxable increase in cash surrender value of life insurance and tax exempt bonds as well as federal tax credits recognized, primarily in connection with the New Markets Tax Credit ("NMTC") program. The decrease in the Company's effective tax rate in 2013 was primarily attributable to additional New Markets Tax Credit recognized during the year.

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 27 — New Markets Tax Credit Recognition Schedule

Investment		2013	2014	2015	2016	2017	Thereafter	Total Remaining Credits
		(Dollars in thousands)						
2007	$38.2 M	$2,292	$—	$—	$—	$—	$—	$2,292
2008	6.8 M	408	408	—	—	—	—	816
2009	10.0 M	600	600	600	—	—	—	1,800
2010	40.0 M	2,400	2,400	2,400	2,400	—	—	9,600
2012	21.4 M	1,071	1,071	1,285	1,285	1,285	1,285	7,282
2013	44.6 M	2,229	2,229	2,229	2,675	2,675	5,350	17,387
Total	$161.0 M	$9,000	$6,708	$6,514	$6,360	$3,960	$6,635	$39,177

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

Dividends The Company declared cash dividends of $0.88 per common share in 2013 and $0.84 in 2012. The 2013 and 2012 ratio of dividends paid to earnings was 30.09% and 52.77%, respectively. The variance in the payout ratios is due to the

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acceleration of the payment of the Company's 2012 fourth quarter dividend, which was paid on December 31, 2012, and would have been typically paid during the second week of the following month.

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 2012 vs. 2011 The Company's total assets were $5.8 billion, which represented an increase of $786.7 million, or 15.8%, at December 31, 2012 compared to December 31, 2011. A large driver of this increase is the Central Bancorp, Inc. acquisition that was completed on November 9, 2012. Total average assets were $5.1 billion and $4.7 billion in 2012 and 2011, respectively. Total securities of $507.6 million, at December 31, 2012, decreased $10.9 million compared to the $518.5 million reported on December 31, 2011. Total loans of $4.5 billion, at December 31, 2012, increased $724.6 million compared to the prior year end. Total deposits of $4.5 billion at December 31, 2012 reflected an increase of $669.8 million, or 17.3%, compared to December 31, 2011. Borrowings increased by $53.4 million, or 9.9%, during the year ended December 31, 2012. Stockholders' equity increased by $60.3 million in 2012.

Net income for 2012 was $42.6 million, or $1.95 per diluted share, compared to $45.4 million, or $2.12 per diluted share, in 2011. Return on average assets and return on average common equity were 0.83% and 8.66%, respectively, for 2012 and 0.96% and 9.93%, respectively, for 2011.

On a fully tax-equivalent basis, net interest income was $173.9 million in 2012, a 3.3% increase from 2011 net interest income of $168.4 million. The increase in net interest income was driven mainly 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 size of and yield on the securities portfolio, reduced overall growth in interest income.

Interest expense for the year ended December 31, 2012 decreased to $23.4 million from the $28.7 million recorded in 2011, a decrease of $5.3 million, or 18.4%. The total cost of funds decreased 16 basis points to 0.52% for 2012 as compared to 0.68% for 2011. Average interest-bearing deposits increased $194.9 million, or 7.1%, over the prior year while the cost of these deposits decreased from 0.37% in 2011 to 0.27% in 2012 primarily attributable to the active management of the Company's deposit costs.

Average borrowings decreased in 2012 by $41.5 million, or 7.3%, from the 2011 average balance, with the average cost of borrowings decreasing to 2.40% from 2.69%.

The provision for loan losses totaled $18.1 million in 2012, compared with $11.5 million in 2011, an increase of $6.6 million. The increase in the aggregate amount of provision for loan losses was the result of shifts in the composition of loan portfolio mix, as certain portfolios require different levels of allowance allocation based upon the risks associated with each portfolio, as well as portfolio growth of outstanding balances, offset by improvements in certain asset quality measures. The Company's allowance for loan losses, as a percentage of total loans, was 1.15%, as compared to 1.27% at December 31, 2012 and 2011, respectively. The decrease is largely attributable to the acquired Central loans which are accounted for at fair value, with no carryover of the related allowance. Additionally, for the year ended December 31, 2012, net loan charge-offs totaled $14.5 million, an increase of $5.0 million from the prior year. This increase was impacted by a customer fraud situation, which resulted in a net charge-off of $4.8 million.

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 $62.0 million in 2012, a $9.3 million, or 17.7%, increase from the prior year. The primary reasons for the variances in the noninterest income category are noted below:

Service charges on deposit accounts, which represented 25.7% of total noninterest income, decreased from $16.6 million in 2011 to $15.9 million in 2012, mainly due to a decrease in customer utilization of overdraft privileges on checking accounts.

Interchange and ATM fees increased $2.1 million, or 26.5%, due to increased debit card usage by the Bank's customers, driven by increased promotion, marketing campaigns, and sales activity.

Investment management revenue increased by $1.2 million, or 9.2%, for the year ended December 31, 2012, as compared to the same period in 2011. 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 $2.2 billion at December 31,

2012 representing a 31.0% increase from the prior year.
Mortgage banking revenue of $6.5 million in 2012 increased by 54.9% from the $4.2 million recorded in 2011, reflective of strong mortgage originations and refinancing activity due to the low rate environment.

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The Company received proceeds on life insurance policies in the amount of $2.7 million during the third quarter of 2012, resulting in a gain of $1.3 million, which represented tax-exempt income to the Company. There were no such proceeds received in the prior year.

Loan level derivative income increased $1.4 million, or 65.2%, driven by increased activity by the Company's commercial customers. This service is used to offer customers a longer term fixed rate cash flow on loans while allowing the Bank to manage interest rate risk.

Other noninterest income increased by $2.4 million, or 48.3%, for the year ended December 31, 2012, as compared to the same period in 2011, driven by $798,000 associated with the purchase of tax credits, $431,000 attributable to the change in the fair value of the Company’s trading securities from the prior year, as well as increases in various other categories, including merchant processing income and asset-based lending fee income.

Inclusive of merger and acquisition costs, noninterest expense increased by $13.7 million, or 9.4%, during the year ended December 31, 2012 as compared to the same period in 2011. Excluding merger and acquisition costs, goodwill impairment and other noncore items, noninterest expenses were well contained increasing only 3.8% over the prior year. The primary reasons for the variances in the noninterest expense category shown in the preceding table are noted below:

Salaries and employee benefits increased by $2.7 million, or 3.4%, for the year ended December 31, 2012, as compared to the same period in 2011, mainly attributable to an increase in commissions earned, benefit plan expenses, as well as the inclusion of Central's employee base in the fourth quarter of 2012.

Occupancy and equipment expenses increased by $391,000, or 2.3% due partly to acquired Central facilities offset by decreases in costs related to snow removal.

Merger and acquisition expenses associated with the Central acquisition were $6.7 million for the year ended 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 other goodwill impairment charges recognized during the year ended 2012 or in the prior year.

Total other noninterest expense increased by $2.5 million, or 9.1%, for the year ended December 31, 2012, as compared to the same period in 2011. The increase was primarily attributable to the following: contract labor increased $640,000 driven by the outsourcing of various mortgage banking functions, internet banking expense increased by $453,000 due to implementation of to a new on-line banking vendor, debit card expense increased $387,000 due to increased customer usage, and appraisal costs increased by $327,000 due to loan growth experienced during the year.

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, Executive Vice President of Commercial Lending and other members of management provide regular reports to the Board of Directors, identifying key risk issues and plans to address these issues. The Board of Directors will ensure the level of risk is within limits established by both the Risk Management Policy and other previously approved policies.

Credit Risk   Credit risk represents the possibility that customers may not repay loans or other contractual obligations according to their terms due to a decline in their credit quality. In some cases, the collateral securing the payment of the loans may be sufficient to assure repayment, but in other cases the Company may experience significant credit losses which could have an adverse effect on its operating results. The Company makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. For further discussion regarding the credit risk and the credit quality of the Company’s loan portfolio, see Note 4, “Loans, Allowance for Loan Losses, and Credit Quality” within Notes to Consolidated Financial Statements included in Item 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 events occur that warrant reporting to the Board more frequently. The committee is chaired by the Director of Residential Lending and Compliance and members of the Committee include representatives from Audit, Finance, Technology, Compliance, Information

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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, and the NASDAQ Stock Market, and standards of good banking practice. Activities which may expose the Company to compliance risk include, but are not limited to, those dealing with the prevention of money laundering, privacy and data protection, adherence to all applicable laws and regulations, community reinvestment initiatives and employment and tax matters. Compliance risk is mitigated through the use of written policies and procedures, training of staff, and monitoring of activities for adherence to those procedures.

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

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

Interest rate risk is the sensitivity of income to changes in interest rates. Changes in interest rates, as well as fluctuations in the level and duration of assets and liabilities, affect net interest income, the Company’s primary source of revenue. Interest rate risk arises directly from the Company’s core banking activities. In addition to directly impacting net interest income, changes in the level of interest rates can also affect the amount of loans originated, the timing of cash flows on loans and securities, and the fair value of securities and derivatives, as well as other effects.

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

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

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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, 2013, included five instantaneous parallel shifts (“shock”) to market interest rates, and four gradual (12 to 24 months) shifts in interest rates. In 2013, the company also analyzed a separate alternative scenario labeled “Yield Curve Twist”, in which the yield curve steepened over the first 18 months of the simulation, raising long term rates, and then flattened over months 19-36 as the short term rates increased, targeting fed funds at 4.00%. The results of the scenarios are shown below:

Table 28 — Interest Rate Sensitivity

	Years Ended December 31			
	2013		2012	
	Year 1	Year 2	Year 1	Year 2
Parallel rate shocks (basis points)				
-100	0.1%	(3.2)%	(0.5)%	(5.5)%
+100	3.4%	5.4%	4.2%	3.9%
+200	7.0%	11.0%	8.1%	9.9%
+300	10.6%	16.7%	12.0%	15.5%
+400	14.1%	22.4%	15.7%	21.1%
Gradual rate shifts (basis points)				
-100 over 12 months	0.4%	(2.0)%	0.3%	(4.1)%
+200 over 12 months	3.0%	9.4%	3.5%	7.7%
+400 over 24 months	3.0%	12.8%	3.6%	11.3%
Flat +500 over 12 months	3.6%	14.3%	4.4%	14.1%
Alternative scenarios				
Yield curve twist	0.5%	3.3%	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 decline by less than 15.0%. The Company was well within policy limits at December 31, 2013 and 2012. It should be emphasized, however, that the results are dependent on material assumptions such as those discussed above. For instance, asymmetrical rate behavior can have a material impact on the simulation results. If competition for deposits forced the Company to raise rates on those liabilities quicker than is assumed in the simulation analysis without a corresponding increase in asset yields, net interest income may be negatively impacted. Alternatively, if the Company is able to lag increases in deposit rates as loans re-price upward, net interest income would be positively impacted.

The most significant factors affecting market risk exposure of the Company’s net interest income during 2013 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. 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.

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

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sales commitments and forward TBA mortgage contracts in amount sufficient to cover all closed loans and interest rate-locked loan commitments.

The Company's earnings are not directly or materially impacted by movements in foreign currency rates or commodity prices. Movements in equity prices may have a modest impact on earnings by affecting the volume of activity or the amount of fees from investment-related business lines, as well as changes in the fair value of trading securities, if any. (See Note 3, "Securities" within the Notes to the Consolidated Financial Statements included in Item 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 (ALCO). The Company's primary measure of short-term liquidity is the Basic Surplus/Deficit as a percentage of assets. This ratio, which is an analysis of the relationship between liquid assets and short-term liabilities relative to total assets, was well within policy limits at December 31, 2013. The Basic Surplus measure is affected primarily by changes in deposits, securities and short-term investments, loans and borrowings. An increase in deposits, without a corresponding increase in nonliquid assets, will improve the Basic Surplus measure, whereas, an increase in loans, with no increase in deposits, will decrease the measure. Other factors affecting the Basic Surplus measure include collateral requirements at the FHLB, changes in the securities portfolio, and the mix of deposits.

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

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

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

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The table below shows outstanding borrowing balances and the remaining unused liquidity capacity from various sources as of the periods indicated:

Table 29 — Sources of Liquidity

	December 31					
	2013			2012		
	Outstanding	Additional Borrowing Capacity		Outstanding	Additional Borrowing Capacity	
	(Dollars in thousands)					
Federal Home Loan Bank borrowings	$140,294	$ 668,143		$271,569	$ 661,922	
Federal Reserve Bank of Boston	—	856,013		—	766,195	
Unpledged securities	—	272,121		—	114,953	
Wholesale repurchase agreements	50,000	—	(1)	50,000	—	(1)
Customer repurchase agreements	149,288	—	(1)	165,359	—	(1)
Junior subordinated debentures	73,906	—	(1)	74,127	—	(1)
Subordinated debt	30,000	—	(1)	30,000	—	(1)
Parent Company line of credit	5,000	5,000		12,000	8,000	
Brokered deposits(2)	77,501	—	(1)	95,936	—	(1)
	$525,989	$ 1,801,277		$698,991	$ 1,551,070	

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

(2) Inclusive of $53.7 million and $72.2 million of brokered deposits acquired through participation in the CDARS program as of December 31, 2013 and 2012, respectively.

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

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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, 2013:

Table 30 — Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Financial Instruments by Maturity

	Payments Due — By Period				
Contractual Obligations, Commitments and Contingencies	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
	(Dollars in thousands)				
FHLB advances(1)	$140,294	$105,027	$34,364	$—	$903
Junior subordinated debentures(1)	73,906	—	—	—	73,906
Subordinated debt	30,000	—	—	—	30,000
Time certificates of deposits	743,628	559,402	139,423	44,750	53
All other deposits with no maturity	4,242,790	—	—	—	4,242,790
Lease obligations	51,036	7,997	15,247	12,457	15,335
Vendor contracts	21,323	7,629	10,729	2,965	—
Retirement benefit obligations(2)	29,866	347	831	908	27,780
Wholesale repurchase agreements	50,000	—	50,000	—	—
Customer repurchase agreements	149,288	149,288	—	—	—
Other borrowings	5,000	5,000	—	—	—
Total Contractual Obligations	$5,537,131	$834,690	$250,594	$61,080	$4,390,767

	Amount of Commitment Expiring — By Period				
Off-Balance Sheet Financial Instruments	Total	Less than One Year	One to Three Years	Four to Five Years	After Five Years
	(Dollars in thousands)				
Commitments to extend credit	$1,621,873	$666,307	$37,365	$62,004	$856,197
Standby letters of credit	18,923	18,603	320	—	—
Forward commitments to sell loans	8,053	8,053	—	—	—
Forward TBA mortgage contracts	12,000	12,000	—	—	—
Interest rate swaps - notional value(3)	150,000	50,000	75,000	25,000	—
Customer-related positions					
Foreign exchange contracts - notional value(4)	11,367	11,367	—	—	—
Loan level interest rate swaps - notional value(5)	561,484	48,882	140,932	75,612	296,058
Total Commitments	$2,383,700	$815,212	$253,617	$162,616	$1,152,255

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

(2) 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 been included only through plan year July 1, 2013 — June 30, 2014. 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.

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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, 2013. 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

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revised based upon current information. The Company may also record an unrecognized tax benefit related to 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. 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 2013. 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 receivable. 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

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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 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.

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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 as of December 31, 2013 and 2012, 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, 2013. 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, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, 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, 2013, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), and our report dated February 28, 2014 expressed an unqualified opinion thereon.

Boston, Massachusetts
February 28, 2014

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Consolidated Balance Sheets

	December 31	
	2013	2012
	(Dollars in thousands)	
Assets		
Cash and due from banks	$168,106	$98,144
Interest-earning deposits with banks	48,219	117,330
Securities		
Securities available for sale	356,862	329,286
Securities held to maturity (fair value $346,455 and $185,824)	350,652	178,318
Total securities	707,514	507,604
Loans held for sale (at fair value)	8,882	48,187
Loans		
Commercial and industrial	784,202	687,511
Commercial real estate	2,249,260	2,122,153
Commercial construction	223,859	188,768
Small business	77,240	78,594
Residential real estate	541,443	612,881
Home equity - 1st position	497,075	487,246
Home equity - 2nd position	325,066	314,903
Other consumer	20,162	26,955
Total loans	4,718,307	4,519,011
Less: allowance for loan losses	(53,239)	(51,834)
Net loans	4,665,068	4,467,177
Federal Home Loan Bank stock	39,926	41,767
Bank premises and equipment, net	64,950	55,227
Goodwill	170,421	150,391
Identifiable intangible assets	12,221	11,753
Cash surrender value of life insurance policies	100,406	97,261
Other real estate owned and other foreclosed assets	7,633	12,150
Other assets	105,888	149,994
Total assets	$6,099,234	$5,756,985
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	$1,369,432	$1,248,394
Savings and interest checking accounts	1,940,153	1,691,187
Money market	933,205	853,971
Time certificates of deposit over $100,000	297,984	317,438
Other time certificates of deposits	445,644	435,687
Total deposits	4,986,418	4,546,677
Borrowings		
Federal home loan bank borrowings	140,294	271,569
Customer repurchase agreements and other short-term borrowings	154,288	165,359
Wholesale repurchase agreements	50,000	50,000
Junior subordinated debentures	73,906	74,127
Subordinated debentures	30,000	30,000
Total borrowings	448,488	591,055
Other liabilities	72,788	89,933
Total liabilities	5,507,694	5,227,665

Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $.01 par value. authorized: 1,000,000 shares outstanding: none	—	—
Common stock, $.01 par value. authorized: 75,000,000 issued and outstanding: 23,805,984 shares in 2013 and 22,774,009 shares in 2012 (includes 268,290 and 264,124 shares of unvested participating restricted stock awards, respectively)	235	225
Shares held in rabbi trust at cost: 178,765 shares in 2013 and 179,814 shares in 2012	(3,404)	(3,179)
Deferred compensation obligation	3,404	3,179
Additional paid in capital	305,179	269,950
Retained earnings	293,560	263,671
Accumulated other comprehensive loss, net of tax	(7,434)	(4,526)
Total stockholders' equity	591,540	529,320
Total liabilities and stockholders' equity	$6,099,234	$5,756,985

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

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Consolidated Statements of Income

	Years Ended December 31		
	2013	2012	2011
	(Dollars in thousands, except per share data)		
Interest income			
Interest on loans, including fees	$189,748	$178,309	$174,450
Taxable interest and dividends on securities	15,137	16,681	20,326
Nontaxable interest and dividends on securities	55	82	331
Interest on loans held for sale	774	988	482
Interest on federal funds sold	200	132	162
Total interest and dividend income	205,914	196,192	195,751
Interest expense			
Interest on deposits	10,624	10,703	13,355
Interest on borrowings	12,712	12,690	15,317
Total interest expense	23,336	23,393	28,672
Net interest income	182,578	172,799	167,079
Provision for loan losses	10,200	18,056	11,482
Net interest income after provision for loan losses	172,378	154,743	155,597
Noninterest income			
Deposit account fees	17,940	15,930	16,628
Interchange and ATM fees	10,883	9,783	7,733
Investment management	16,832	14,779	13,532
Mortgage banking income	6,734	6,500	4,197
Increase in cash surrender value of life insurance policies	3,229	3,114	3,170
Gain on life insurance benefits	227	1,307	—
Gain on extinguishment of debt	763	—	—
Loan level derivative income	3,439	3,457	2,093
Net gain on sales of securities	230	116	723
Other noninterest income	7,732	7,030	4,624
Total noninterest income	68,009	62,016	52,700
Noninterest expenses			
Salaries and employee benefits	89,894	84,014	81,275
Occupancy and equipment expenses	19,650	17,307	16,916
Data processing & facilities management	4,748	4,644	4,891
FDIC assessment	3,579	3,232	3,496
Advertising	4,280	3,949	3,876
Consulting	3,322	2,801	2,660
Debit card	2,994	2,510	2,123
Goodwill impairment	—	2,227	—
Merger and acquisition	8,685	6,741	—
Prepayment fees on borrowings	—	7	757
Other noninterest expenses	36,497	32,027	29,719
Total noninterest expenses	173,649	159,459	145,713
Income before income taxes	66,738	57,300	62,584
Provision for income taxes	16,484	14,673	17,148
Net income	$50,254	$42,627	$45,436
Basic earnings per share	$2.18	$1.96	$2.12
Diluted earnings per share	$2.18	$1.95	$2.12

Weighted average common shares (basic)	23,011,814	21,782,499	21,422,757
Common share equivalents	76,764	29,817	28,830
Weighted average common shares (diluted)	23,088,578	21,812,316	21,451,587
Cash dividends declared per common share	$0.88	$0.84	$0.76

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012	2011
	(Dollars in thousands)		
Net income	$50,254	$42,627	$45,436
Other comprehensive loss, net of tax			
Unrealized gains (losses) on securities			
Change in fair value of securities available for sale	(7,365)	(1,141)	181
Less: net security (gains) losses reclassified into earnings	136	(45)	(88)
Net change in fair value of securities available for sale	(7,501)	(1,096)	269
Unrealized gains (losses) on cash flow hedges			
Change in fair value of cash flow hedges	350	(2,122)	(7,021)
Less: net cash flow hedge losses reclassified into earnings	(3,385)	(3,204)	(3,198)
Net change in fair value of cash flow hedges	3,735	1,082	(3,823)
Net gain (loss) during the period and amortization of certain costs included in net periodic retirement costs	858	(26)	(166)
Total other comprehensive loss	(2,908)	(40)	(3,720)
Total comprehensive income	$47,346	$42,587	$41,716

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

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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, 2010	21,220,801	$ 210	$ (2,738)	$ 2,738	$ 226,708	$ 210,320	$ (766)	$ 436,472
Net income	—	—	—	—	—	45,436	—	45,436
Other comprehensive loss	—	—	—	—	—	—	(3,720)	(3,720)
Common dividend declared ($0.76 per share)	—	—	—	—	—	(16,304)	—	(16,304)
Proceeds from exercise of stock options	186,518	2	—	—	4,125	—	—	4,127
Tax benefit related to equity award activity	—	—	—	—	20	—	—	20
Stock based compensation	—	—	—	—	2,483	—	—	2,483
Restricted stock awards issued, net of awards surrendered	60,495	—	—	—	(361)	—	—	(361)
Shares issued under direct stock purchase plan	31,954	1	—	—	823	—	—	824
Deferred compensation obligation	—	—	(242)	242	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	80	—	—	80
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, net of cash	61,326	1	—	—	1,107	—	—	1,108

paid								
Tax benefit related to equity award activity	—	—	—	—	426	—	—	426
Stock based compensation	—	—	—	—	2,845	—	—	2,845
Restricted stock awards issued, net of awards surrendered	86,254	—	—	—	(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
Proceeds from exercise of stock options, net of cash paid	98,807	1	—	—	2,474	—	—	2,475
Tax benefit related to equity award activity	—	—	—	—	503	—	—	503
Stock based compensation	—	—	—	—	2,462	—	—	2,462
Restricted stock awards issued, net of awards surrendered	86,331	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

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012	2011
	(Dollars in thousands)		
Cash flow from operating activities			
Net income	$50,254	$42,627	$45,436
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation and amortization	8,490	10,212	9,634
Provision for loan losses	10,200	18,056	11,482
Deferred income tax expense (benefit)	2,557	(1,919)	91
Net gain on investments	(230)	(116)	(723)
Loss on write-down of investments in securities available for sale	—	76	243
Loss (gain) on fixed assets	560	(30)	353
Gain on extinguishment of debt	(763)	—	—
Impairment of goodwill	—	2,227	—
Gain resulting from early termination of a hedging relationship	—	(22)	—
Loss on other real estate owned and foreclosed assets	606	996	1,562
Realized gain on sale leaseback transaction	(1,034)	(1,034)	(1,034)
Stock based compensation	2,462	2,845	2,483
Excess tax benefit from stock based compensation	(503)	(426)	(20)
Increase in cash surrender value of life insurance policies	(3,229)	(3,114)	(3,159)
Gain on life insurance benefits	(227)	(1,307)	—
Change in fair value on loans held for sale	—	141	(856)
Net change in			
Trading assets	—	(265)	(643)
Loans held for sale	39,305	(27,828)	8,273
Other assets	48,903	(1,575)	(31,524)
Other liabilities	(16,016)	4,408	14,871
Total adjustments	91,081	1,325	11,033
Net cash provided by operating activities	141,335	43,952	56,469
Cash flows used in investing activities			
Proceeds from sales of securities available for sale	3,506	2,101	14,639
Proceeds from maturities and principal repayments of securities available for sale	81,727	101,808	108,312
Purchases of securities available for sale	(47,975)	(93,647)	(50,975)
Proceeds from maturities and principal repayments of securities held to maturity	49,165	59,887	44,090
Purchases of securities held to maturity	(222,027)	(34,239)	(47,343)
Redemption of Federal Home Loan Bank stock	3,093	2,290	—
Proceeds from life insurance policies	—	3,280	—
Purchases of life insurance policies	(267)	(267)	(267)
Net increase in loans	(84,264)	(297,394)	(256,282)
Cash provided by (used in) business combinations, net of cash acquired	10,520	(8,965)	(457)
Purchase of bank premises and equipment	(9,293)	(6,263)	(8,317)
Proceeds from the sale of bank premises and equipment	29	67	496
Proceeds resulting from early termination of a hedging relationship	—	22	—
Proceeds from the sale of other real estate owned and foreclosed assets	9,731	5,649	6,276
Capital improvements to other real estate owned	(2,541)	(2,268)	(938)

Net cash used in investing activities	(208,596)	(267,939)	(190,766)
Cash flows provided by financing activities			
Net decrease in time deposits	(79,136)	(21,074)	(63,014)
Net increase in other deposits	300,000	333,488	312,060
Net (decrease) increase in short-term Federal Home Loan Bank borrowings	(50,000)	—	50,000
Proceeds from long-term Federal Home Loan Bank borrowings	—	—	856
Repayments of long-term Federal Home Loan Bank borrowings	(79,946)	(79,991)	(123,000)
Net (decrease) increase in customer repurchase agreements	(4,071)	(12,769)	48,009
Net (decrease) increase in other short term borrowings	(7,000)	1,947	—
Net decrease in treasury tax and loan notes	—	—	(3,044)
Proceeds from exercise of stock options, net of cash paid	2,475	1,108	4,127

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Restricted shares surrendered	(669)	(467)	(361)
Excess tax benefit from stock based compensation	503	426	20
Tax benefit from deferred compensation obligations	109	92	80
Proceeds from shares issued under direct stock purchase plan	969	1,691	824
Common dividends paid	(15,122)	(22,494)	(16,038)
Net cash provided by financing activities	68,112	201,957	210,519
Net increase (decrease) in cash and cash equivalents	851	(22,030)	76,222
Cash and cash equivalents at beginning of year	215,474	237,504	161,282
Cash and cash equivalents at end of year	$216,325	$215,474	$237,504
Cash paid during the year for			
Interest on deposits and borrowings	$23,475	$23,205	$29,659
Income taxes	$12,171	$11,059	$18,962
Supplemental schedule of noncash investing and financing activities			
Transfer of loans to foreclosed assets	$2,869	$7,061	$6,285
In conjunction with the purchase acquisition 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.

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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, twelve commercial banking centers, five investment management offices and five 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.

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 16.0% and 14.3% of the total loan portfolio as of December 31, 2013 and 2012, 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 and 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. 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 managements' 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.

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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.

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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 allocations in 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 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.

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 or 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, 2013 and 2012, the reserve for unfunded loan commitments was $716,000 and $633,000, respectively.

Loan Servicing

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, 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.

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	2-5 years
Customer Lists	10 years
Brand Name	5 years
Leases	2-29 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 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. 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 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. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. 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.

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.

Transfers 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.

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.

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 Subtopic 310-40 "Receivables - Troubled Debt Restructurings by Creditors" Updated 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.

FASB ASC Topic No. 323 "Investments - Equity Method and Joint Ventures" Update No. 2014-01. Update No. 2014-01 was issued in January 2014 to provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for low-income housing tax credit. The amendments in this update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognized the net investment performance in the income statement as a component to income tax expense

(benefit). 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.
FASB ASC Topic No. 740 "Income Taxes" Update No. 2013-11. Update No. 2013-11 was issued in July 2013 to eliminate diversity in the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exists at the reporting date and should be made presuming disallowance of the tax position at the reporting date. 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, 2013. 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 No. 815 "Derivatives and Hedging" Update No. 2013-10. Update No. 2013-10 was issued in July 2013 to provide guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. Among those risks for financial assets and financial liabilities is the risk of changes in a hedged item's fair value or a hedged transaction's cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk). In the United States, currently only the interest rates on direct Treasury obligations of the U.S. government (UST) and, for practical reasons, the London Interbank Offered Rate (LIBOR) swap rate are considered benchmark interest rates. The amendments in this update permit the Fed Funds Effective Swap Rate (OIS) to now be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this standard did not have a material impact on the Company's consolidated financial position.

FASB ASC Topic No. 220 "Comprehensive Income" Update No. 2013-02. Update No. 2013-02 was issued in February 2013, stating that the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this standard did not have a material impact on the Company's consolidated financial position.
FASB ASC Topic No. 210 "Balance Sheet" Update No. 2013-01. Update No. 2013-01 was issued in January of 2013, the amendments in this update affect entities that have derivatives accounted for in accordance with Topic 815 "Derivatives and Hedges," including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an

enforceable master netting arrangement or similar agreement. As a result of these amendments, entities with other types of financial assets and financial liabilities subject to a master netting arrangement or similar agreement are no longer subject to the disclosure requirements in Update No. 2011-11. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The amendments are effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those periods. The adoption of this standard did not have a material impact on the Company's consolidated financial position.

(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.

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:

	(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.

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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.

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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:

	(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.

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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.

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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 14 “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 underlining economic activities such as community development and affordable housing. The Company realized a gain on trading activities of $285,000 and $122,000 in 2012 and 2011, respectively, which were 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, 2013					December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Other	Other-Than-Temporary Impairment	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Other	Other-Than-Temporary Impairment	Fair Value
	(Dollars in thousands)									
Available for sale securities										
U.S. government agency securities	$41,331	$3	$(885)	$—	$40,449	$20,053	$769	$—	$—	$20,822
Agency mortgage-backed securities	232,742	6,405	(4,556)	—	234,591	209,381	12,158	(114)	—	221,425
Agency collateralized mortgage obligations	58,765	490	(1,102)	—	58,153	67,412	1,001	(37)	—	68,376
Private mortgage-backed securities	—	—	—	—	—	3,227	—	—	305	3,532
State, county, and municipal securities	5,439	1	(28)	—	5,412	—	—	—	—	—
Single issuer trust preferred securities issued by banks	2,960	14	(22)	—	2,952	2,255	—	(15)	—	2,240
Pooled trust preferred securities issued by banks and insurers	8,083	—	(1,913)	(2,329)	3,841	8,353	—	(2,415)	(2,957)	2,981
Marketable securities	10,997	762	(295)	—	11,464	9,875	92	(57)	—	9,910

Total available for sale securities	$360,317	$7,675	$(8,801)	$(2,329)	$356,862	$320,556	$14,020	$(2,638)	$(2,652)	$329,286
Held to maturity securities										
U.S. treasury securities	$1,011	$31	$—	$—	$1,042	$1,013	$121	$—	$—	$1,134
Agency mortgage-backed securities	155,067	1,917	(1,033)	—	155,951	72,360	4,233	—	—	76,593
Agency collateralized mortgage obligations	187,388	824	(6,176)	—	182,036	97,507	2,875	(2)	—	100,380
State, county, and municipal securities	678	7	—	—	685	915	11	—	—	926
Single issuer trust preferred securities issued by banks	1,503	23	—	—	1,526	1,516	10	—	—	1,526
Corporate debt securities	5,005	210	—	—	5,215	5,007	258	—	—	5,265
Total held to maturity securities	$350,652	$3,012	$(7,209)	$—	$346,455	$178,318	$7,508	$(2)	$—	$185,824
Total	$710,969	$10,687	$(16,010)	$(2,329)	$703,317	$498,874	$21,528	$(2,640)	$(2,652)	$515,110

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

	Years Ended December 31		
	2013	2012	2011
	(Dollars in thousands)		
Gross gains on available for sale securities	$258	$116	(1) $723
Gross losses on available for sale securities	(28) (2)	—	—
Net gains on available for sale securities	$230	$116	$723

(1) Amount includes $111,000 of realized gains associated with the marketable securities classified as available for sale.
(2) Amount represents realized losses associated with marketable securities classified as available for sale.

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, 2013 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	$—	$—	$255	$256
Due from one year to five years	30,723	31,155	5,883	6,130
Due from five to ten years	82,705	80,664	17,690	17,710
Due after ten years	235,892	233,579	326,824	322,359
Total debt securities	$349,320	$345,398	$350,652	$346,455
Marketable securities	$10,997	$11,464	$—	$—
Total	$360,317	$356,862	$350,652	$346,455

Inclusive in the table above is $33.8 million of callable securities at December 31, 2013.

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 $360.1 million and $365.8 million at December 31, 2013 and 2012, respectively.

At December 31, 2013 and 2012, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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:

		December 31, 2013					
		Less than 12 months		12 months or longer		Total	
Description of securities	# of holdings	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	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)
Marketable 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)

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

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

As a result of the Company's review of these qualitative and quantitative factors, the causes of the impairments listed in the table above by category are as follows at December 31, 2013:

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

Management monitors the following issuances closely for impairment due to the history of OTTI losses recorded within these classes of securities. Management has determined that the securities possess characteristics which in the current economic environment could lead to further credit related OTTI charges. The following tables summarize pertinent information as of December 31, 2013, that was considered by management in determining if OTTI existed:

	Class	Amortized Cost (1)	Gross Unrealized Gain/(Loss)	Non-Credit Related Other-Than-Temporary Impairment	Fair Value	Total Cumulative Credit Related Other-Than-Temporary Impairment	Total Cumulative Other-Than-Temporary impairment to date
	(Dollars in thousands)						
Pooled trust preferred securities							
Security A	C1	$1,283	$—	$ (860)	$423	$(3,676)	$(4,536)
Security B	D	—	—	—	—	(3,481)	(3,481)
Security C	C1	506	—	(291)	215	(482)	(773)

Security D	D	—	—	—	—	(990)	(990)
Security E	C1	2,081	—	(1,178)	903	(1,368)	(2,546)
Security F	B	1,818	(1,037)	—	781	—	—
Security G	A1	2,395	(876)	—	1,519	—	—
Total		$8,083	$(1,913)	$ (2,329)	$3,841	$(9,997)	$(12,326)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Class	Number of Performing Banks and Insurance Cos. in Issuances (Unique)	Current Deferrals/ Defaults/ Losses (As a % of Original Collateral)	Total Projected Defaults/ Losses (as a % of Performing Collateral)	Excess Subordination (After Taking into Account Best Estimate of Future Deferrals/ Defaults/ Losses)(1)	Lowest credit Ratings to date(2)
Pooled trust preferred securities						
Security A	C1	55	33.08 %	18.08 %	— %	C (Fitch & Moody's)
Security B	D	55	33.08 %	18.08 %	— %	C (Fitch)
Security C	C1	48	28.84 %	14.50 %	— %	C (Fitch & Moody's)
Security D	D	48	28.84 %	14.50 %	— %	C (Fitch)
Security E	C1	46	26.86 %	16.09 %	0.98 %	C (Fitch & Moody's)
Security F	B	32	25.08 %	18.29 %	31.48 %	CC (Fitch)
Security G	A1	32	25.08 %	18.29 %	55.07 %	CCC+ (S&P)

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

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

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

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

	Years Ended December 31 2013	2012	2011
	(Dollars in thousands)		
Gross change in OTTI recorded on certain investments (gain/(losses))	$588	$678	$53
Portion of OTTI gains (losses) recognized in OCI	(588)	(754)	(296)
Total credit related OTTI losses recognized in earnings	$—	$(76)	$(243)

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

	2013	2012	2011
	(Dollars in thousands)		
Balance at January 1	$(10,847)	$(10,771)	$(10,528)
Add			
Incurred on securities not previously impaired	—	—	—
Incurred on securities previously impaired	—	(76)	(243)
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 December 31	$(9,997)	$(10,847)	$(10,771)

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(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, 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)	
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: total loans by group	$784,202	$2,249,260	$223,859	$77,240	$541,443	$822,141	$20,162	$4,718,307	(1)
Ending balance: individually evaluated for impairment	$9,148	$39,516	$100	$1,903	$15,200	$4,890	$1,298	$72,055	
Ending balance: purchase credit impaired loans	$1	$18,612	$197	$—	$10,389	$326	$19	$29,544	
Ending balance: collectively evaluated for impairment	$775,053	$2,191,132	$223,562	$75,337	$515,854	$816,925	$18,845	$4,616,708	

	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: total loans by group	$687,511	$2,122,153	$ 188,768	$78,594	$612,881	$802,149	$26,955	$4,519,011	(1)
Ending balance: individually evaluated for impairment	$8,575	$33,868	$ —	$2,279	$15,373	$4,435	$2,129	$66,659	
Ending balance: purchase credit impaired loans	$—	$21,853	$ —	$—	$9,821	$380	$—	$32,054	
Ending balance: collectively evaluated for impairment	$678,936	$2,066,432	$ 188,768	$76,315	$587,687	$797,334	$24,826	$4,420,298	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2011							
	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	$10,423	$21,939	$2,145	$3,740	$2,915	$3,369	$1,724	$46,255
Charge-offs	(2,888)	(2,631)	(769)	(1,190)	(559)	(1,626)	(1,678)	(11,341)
Recoveries	420	97	500	160	—	52	635	1,864
Provision	3,727	4,109	200	(814)	757	2,802	701	11,482
Ending balance	$11,682	$23,514	$2,076	$1,896	$3,113	$4,597	$1,382	$48,260
Ending balance: individually evaluated for impairment	$562	$457	$—	$148	$1,245	$31	$239	$2,682
Ending balance: collectively evaluated for impairment	$11,120	$23,057	$2,076	$1,748	$1,868	$4,566	$1,143	$45,578
Financing receivables								
Ending balance: total loans by group	$575,716	$1,847,654	$128,904	$78,509	$426,201	$696,063	$41,343	$3,794,390 (1)
Ending balance: individually evaluated for impairment	$5,608	$37,476	$843	$2,326	$12,984	$326	$2,138	$61,701
Ending balance: collectively evaluated for impairment	$570,108	$1,810,178	$128,061	$76,183	$413,217	$695,737	$39,205	$3,732,689

(1) The amount of deferred fees included in the ending balance was $2.3 million, $3.1 million, and $2.9 million at December 31, 2013, 2012, and 2011, 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 & Industrial: Loans in this category consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to: accounts receivable, inventory, plant & equipment, or real estate, if applicable. Repayment sources consist of: primarily, operating cash flow, and secondarily, liquidation of assets.
- Commercial Real Estate: Loans in this category consist of mortgage loans to finance investment in real property such as multi-family residential, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other

specific use properties. Loans are typically written with amortizing payment structures. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources consist of: primarily, cash flow from operating leases and rents, and secondarily, liquidation of assets.

- Commercial Construction: Loans in this category consist of short-term construction loans, revolving and nonrevolving credit lines and construction/permanent loans to finance the acquisition, development and construction or rehabilitation of real property. Project types include: residential 1-4 family condominium and multi-family homes, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans may be written with nonamortizing or hybrid payment structures depending upon the type of project. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment sources vary depending upon the type of project and may consist of: sale or lease of units, operating cash flows or liquidation of other assets.
- Small Business : Loans in this category consist of revolving, term loan and mortgage obligations extended to sole proprietors and small businesses for purposes of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to: accounts receivable, inventory, plant & equipment, or real estate (if applicable). Repayment sources consist of: primarily, operating cash flows, and secondarily, liquidation of assets.

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

Consumer Portfolio

- Residential Real Estate: Residential mortgage loans held in the Bank's portfolio are made to borrowers who demonstrate the ability to make scheduled payments with full consideration to underwriting factors such as current and expected income, employment status, current assets, other financial resources, credit history and the value of the collateral. Collateral consists of mortgage liens on 1-4 family residential properties. The Company does not originate sub-prime loans.
- Home Equity: Home equity loans and lines are made to qualified individuals for legitimate purposes secured by senior or junior mortgage liens on owner-occupied 1-4 family homes, and condominiums or vacation homes. The home equity loan has a fixed rate and is billed equal payments comprised of principal and interest. The home equity line of credit has a variable rate and is billed interest only payments during the draw period. At the end of the draw period, the home equity line of credit is billed a percentage of the principal balance plus all accrued interest. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan to value ratios within established policy guidelines.
- Other Consumer: Other consumer loan products including personal lines of credit and amortizing loans made to qualified individuals for various purposes such as 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. Other consumer loans may be secured or unsecured.

Credit Quality

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

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

- 1- 6 Rating — Pass: Risk-rating grades "1" through "6" comprise those loans ranging from 'Substantially Risk Free' which indicates borrowers are of unquestioned credit standing and the pinnacle of credit quality, well established companies with a very strong financial condition, and loans fully secured by cash collateral, through 'Acceptable Risk', which indicates borrowers may exhibit declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average or below average asset quality, margins and market share. Collateral coverage is protective.
- 7 Rating — Potential Weakness: Borrowers exhibit potential credit weaknesses or downward trends deserving management's close attention. If not checked or corrected, these trends will weaken the Bank's asset and position. While potentially weak, currently these borrowers are marginally acceptable; no loss of principal or interest is envisioned.
- 8 Rating — Definite Weakness: Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt. Loan may be inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy, although no loss of principal is envisioned. However, there is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Collateral coverage may be inadequate to cover the principal obligation.

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

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

- 10 Rating — Definite Loss: Borrowers deemed incapable of repayment. Loans to such borrowers are considered uncollectible and of such little value that continuation as active assets of the Bank is not warranted.

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

The Company utilizes a comprehensive strategy for monitoring commercial credit quality. Borrowers are required to provide updated financial information at least annually which is carefully evaluated for any changes in 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, 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

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

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For the Company’s consumer portfolio, the quality of the loan is best indicated by the repayment performance of an individual borrower. However, the Company does supplement performance data with current Fair Isaac Corporation (“FICO”) 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 ratio, exclusive of loans acquired in the year of acquisition, for the periods indicated below:

	December 31			
	2013		2012	
Residential portfolio				
FICO score (re-scored)(1)	738		727	
LTV (re-valued)(2)	67.0	%	67.0	%
Home equity portfolio				
FICO score (re-scored)(1)	763		763	
LTV (re-valued)(2)	53.0	%	54.0	%

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

(2) The combined LTV ratios for December 31, 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, 2013. The combined LTV ratios for December 31, 2012 are based upon updated automated valuations as of November 30, 2011 and actual score data for loans booked from December 1, 2011 through December 31, 2012. 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	
	2013	2012
	(Dollars in thousands)	
Commercial and industrial	$4,178	$2,666
Commercial real estate	11,734	6,574
Commercial construction	100	—
Small business	633	570
Residential real estate	10,329	11,472
Home equity	7,068	7,311
Other consumer	92	121
Total nonaccrual loans(1)	$34,134	$28,714

(1) Included in these amounts were $7.5 million and $6.6 million nonaccruing TDRs at December 31, 2013 and 2012, respectively.

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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, 2013										
	30-59 days		60-89 days		90 days or more		Total Past Due				
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Current	Total Financing Receivables	Recorded Investment >90 Days and Accruing
	(Dollars in thousands)										
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

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

In the course of resolving nonperforming loans, the Bank may choose to restructure the contractual terms of certain loans. The Bank attempts to work-out an alternative payment schedule with the borrower in order to avoid foreclosure

actions. Any loans that are modified are reviewed by the Bank to identify if a TDR has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two.
The following table shows the Company's total TDRs and other pertinent information as of the dates indicated:

	December 31	
	2013	2012
	(Dollars in thousands)	
TDRs on accrual status	$38,410	$46,764
TDRs on nonaccrual status	7,454	6,554
Total TDRs	$45,864	$53,318
Amount of specific reserves included in the allowance for loan loss associated with TDRs:	$2,474	$3,049
Additional commitments to lend to a borrower who has been a party to a TDR:	$1,877	$1,847

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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 loans 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		
	2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment(1)
	(Dollars in thousands)		
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
	2011		
Commercial & industrial	11	$1,165	$1,165
Commercial real estate	17	8,707	8,707
Small business	37	1,270	1,270
Residential real estate	16	3,460	3,536
Home equity	2	101	101
Other consumer	89	985	985
Total	172	$15,688	$15,764

(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.

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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		
	2013	2012	2011
	(Dollars in thousands)		
Extended maturity	$3,582	$5,867	$5,216
Adjusted interest rate	—	2,182	1,746
Combination rate & maturity	8,917	5,007	8,802
Court ordered concession	690	3,084	—
Total	$13,189	$16,140	$15,764

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					
	2013		2012		2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)					
Troubled debt restructurings that subsequently defaulted						
Commercial & industrial	—	$—	1	$231	—	$—
Commercial real estate	1	176	3	696	—	—
Small business	—	—	—	—	5	75
Residential real estate	—	—	1	238	—	—
Other consumer	1	1	—	—	1	22
Subtotal	2	$177	5	$1,165	6	$97

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, which means that repayment is expected to be provided solely by the underlying collateral from either proceeds from the sale of the collateral, cash flow from the continued operation of the collateral, or both. In such an instance, any shortfall between the value of the collateral and the book value of the loan is determined by measuring the recorded investment in the loan against the fair value of the collateral less estimated costs to sell. The Bank charges off the amount of any confirmed loan loss in the period when the loans, or portion of loans, are deemed uncollectible. Smaller balance consumer TDR loans are reviewed for performance to determine when a charge-off is appropriate.

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

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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				
	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
Subtotal	42,370	43,631	3,774	43,627	2,053
Total	$72,055	$75,817	$3,774	$76,523	$3,968
	2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
With no related allowance recorded					
Commercial & industrial	$3,380	$4,365	$—	$4,672	$300
Commercial real estate	19,433	20,010	—	19,760	1,365
Commercial construction	843	843	—	839	59
Small business	1,131	1,193	—	1,199	84
Residential real estate	—	—	—	—	—
Home equity	22	22	—	22	1
Other consumer	31	32	—	35	3
Subtotal	24,840	26,465	—	26,527	1,812
With an allowance recorded					
Commercial & industrial	$2,228	$2,280	$562	$2,244	$99
Commercial real estate	18,043	19,344	457	19,951	1,173
Commercial construction	—	—	—	—	—
Small business	1,195	1,218	148	1,292	73
Residential real estate	12,984	13,651	1,245	13,059	512
Home equity	304	349	31	316	19
Other consumer	2,107	2,125	239	1,928	73
Subtotal	36,861	38,967	2,682	38,790	1,949
Total	$61,701	$65,432	$2,682	$65,317	$3,761

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table displays certain information pertaining to purchased credit impaired loans at the dates indicated:

		Mayflower Acquisition November 15, 2013	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.

The following table summarizes the outstanding balances and carrying amounts for each acquisition as of the dates indicated:

	December 31, 2013	December 31, 2012	At Acquisition Date
	(Dollars in thousands)		
Central PCI loans			
Outstanding balance	$29,765	$36,278	$40,799
Carrying amount	$26,797	$32,054	$35,720
Mayflower PCI loans			
Outstanding balance	$3,790	N/A	$3,808
Carrying amount	$2,747	N/A	$2,758

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

	2013	2012
	(Dollars in thousands)	
Beginning balance	$2,464	$—
Acquisition	386	3,095
Accretion	(1,812)	(903)
Other change in expected cash flows (2)	1,142	—
Reclassification from nonaccretable difference for loans with improved cash flows (1)	334	272
Ending balance	$2,514	$2,464

(1) Results in increased interest income during the period in which the loan paid off.

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

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:

	2013	2012
	(Dollars in thousands)	
Principal balance of loans outstanding at beginning of year	$47,859	$41,184
Loan advances	107,461	89,666
Loan payments/payoffs (1)	(102,810)	(82,991)
Principal balance of loans outstanding at end of year	$52,510	$47,859

(1) Includes the removal of $900,000 related to a director who retired during 2012, and no longer considered an insider. Amount does not reflect an actual payoff of a loan.

(5) BANK PREMISES AND EQUIPMENT

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

	2013	2012	Estimated Useful Life
	(Dollars in thousands)		(In years)
Cost:			
Land	$16,026	$14,514	n/a
Bank premises	32,858	24,160	5-39
Leasehold improvements	20,189	19,681	1-15
Furniture and equipment	46,613	43,763	1-10
Total cost	115,686	102,118	
Accumulated depreciation	(50,736)	(46,891)	
Net bank premises and equipment	$64,950	$55,227	

Depreciation expense related to bank premises and equipment was $6.1 million in 2013, $5.5 million in 2012, and $4.9 million in 2011, which is included in occupancy and equipment expense and other noninterest expense.

(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:

	2013	2012
	(Dollars in thousands)	
Balances not subject to amortization:		
Goodwill	$170,421	$150,391
Balances subject to amortization:		
Core deposit intangibles	11,218	10,328
Other identifiable intangible assets	1,003	1,425
Total other intangible assets	12,221	11,753
Total goodwill and other intangible assets	$182,642	$162,144

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

	2013	2012	2011
	(Dollars in thousands)		
Balance at beginning of year	$150,391	$130,074	$129,617
Acquisitions	20,030	22,544	—
Impairment (1)	—	(2,227)	—
Earn out payments from prior acquisitions	—	—	457
Balance at end of year	$170,421	$150,391	$130,074

(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:

	2013			2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(Dollars in thousands)					
Core deposit intangibles	$20,147	$(8,929)	$11,218	$17,537	$(7,209)	$10,328
Other intangible assets	1,940	(937)	1,003	1,960	(535)	1,425
Total	$22,087	$(9,866)	$12,221	$19,497	$(7,744)	$11,753

Amortization of intangible assets was $2.1 million, $1.7 million, and $1.7 million, for 2013, 2012, and 2011, 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)
2014	$ 2,337
2015	2,175
2016	2,082
2017	2,061
2018	1,315

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:

	2013		2012	
	(Dollars in thousands)			
1 year or less	$559,402	75.1%	$518,957	68.9%
Over 1 year to 2 years	87,645	11.8%	125,915	16.7%
Over 2 years to 3 years	51,778	7.0%	39,722	5.3%
Over 3 years to 4 years	20,462	2.8%	52,012	6.9%
Over 4 years to 5 years	24,288	3.3%	16,466	2.2%
Over 5 years	53	—%	53	—%
Total	$743,628	100.0%	$753,125	100.0%

The amount of overdraft deposits that were reclassified to the loan category at December 31, 2013 and 2012 was $2.4 million and $1.6 million, respectively.

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(8) BORROWINGS

Federal Home Loan Bank Borrowings

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

	2013			2012		
	Total Outstanding	Weighted Average Contractual Rate		Total Outstanding	Weighted Average Contractual Rate	
	(Dollars in thousands)					
Stated Maturity						
2013	$—	—	%	$163,245	0.60	%
2014	105,027	0.55	%			