

INDEPENDENT BANK CORP
Form 10-K
March 12, 2013
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United States Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2012

or

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

For the transition period from _____ to _____

Commission File Number: 1-9047

Independent Bank Corp.

(Exact name of registrant as specified in its charter)

Massachusetts

04-2870273

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

Office Address: 2036 Washington Street,

02339

Hanover Massachusetts

Mailing Address: 288 Union Street,

02370

Rockland, Massachusetts

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code:

(781) 878-6100

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

Title of each class

Name of each exchange on which registered

Common Stock, \$.01 par value per share

NASDAQ Global Select Market

Preferred Stock Purchase Rights

NASDAQ Global Select Market

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

None

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

Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities

Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to

file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any,

every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of

this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this

chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

x

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

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on June 30, 2012, was approximately \$585,587,884.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date. February 28, 2013 22,776,461

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 2013 Annual Meeting of Stockholders are incorporated into Part III, Items 10-13 of this Form 10-K.

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Cautionary Statement Regarding Forward-Looking Statements

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

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

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

- a weakening in the United States economy in general and the regional and local economies within the New England region and the Company’s market area, which could result in a deterioration of credit quality, a change in the allowance for loan losses, or a reduced demand for the Company’s credit or fee-based products and services;
- adverse changes in the local real estate market could result in a deterioration of credit quality and an increase in the allowance for loan losses, as most of the Company’s loans are concentrated within the Bank’s primary market area, and a substantial portion of these loans have real estate as collateral;
- a further deterioration of the credit rating for U.S. long-term sovereign debt could adversely impact the Company. Although the 2011 downgrade by Standard and Poor’s of U.S. long-term sovereign debt did not directly impact the financial position of the Company, an inability by the federal government to raise the U.S. debt limit or otherwise could result in further downgrades which in turn could cause a re-evaluation of the ‘risk-free’ rate used in many accounting models, other-than-temporary-impairment of securities and/or impairment of goodwill and other intangibles;
- acquisitions may not produce results at levels or within time frames originally anticipated and may result in unforeseen integration issues or impairment of goodwill and/or other intangibles;
- changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System could affect the Company’s business environment or affect the Company’s operations;
- any changes in, and any failure by the Company to comply with tax laws generally and requirements of the federal New Markets Tax Credit program in particular could adversely affect the Company’s tax provision and its financial results;
- inflation, interest rate, market and monetary fluctuations could reduce net interest income and could increase credit losses;
- adverse changes in asset quality could result in increasing credit risk-related losses and expenses;
- competitive pressures could intensify and affect the Company’s profitability, including continued industry consolidation, the increased financial services provided by nonbanks and banking reform;
- a deterioration in the conditions of the securities markets could adversely affect the value or credit quality of the Company’s assets, the availability and terms of funding necessary to meet the Company’s liquidity needs, and the Company’s ability to originate loans and could lead to impairment in the value of securities in the Company’s investment portfolios, having an adverse effect on the Company’s earnings;
- the potential need to adapt to changes in information technology could adversely impact the Company’s operations and require increased capital spending;

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

changes in consumer spending and savings habits could negatively impact the Company's financial results;

new laws and regulations regarding the financial services industry including, but not limited to, the Dodd-Frank Wall Street Reform and Consumer Protection Act, may have a significant effect on the financial services industry in general, and/or the Company in particular, the exact nature and extent of which is uncertain;

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- changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) generally applicable to the Company's business could adversely affect the Company's operations; and
- changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters, could negatively impact the Company's financial results.

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

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

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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. 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, 2012, the Company had total assets of \$5.8 billion, total deposits of \$4.5 billion, stockholders' equity of \$529.3 million, and 998 full-time equivalent employees.

On November 9, 2012 the Company completed the acquisition of Central Bancorp, Inc. ("Central"), the parent of Central Co-operative Bank a/k/a Central Bank ("Central Bank"). Of the shares of Central common stock outstanding immediately prior to the merger, sixty percent (60%) were converted into shares of the Company's common stock and the remaining forty percent (40%) were converted into the right to receive \$32.00 in cash, without interest. The transaction qualified as a tax-free reorganization for federal income tax purposes. See Note 2 "Acquisition" to the Consolidated Financial Statements included in Item 8 hereof for a further discussion of the acquisition.

As of December 31, 2012, 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:

Five Massachusetts security corporations, namely Rockland Borrowing Collateral Securities Corp., Rockland Deposit Collateral Securities Corp., Taunton Avenue Securities Corp., and former Central subsidiaries Central Securities Corporation and Central Securities Corporation II. The security corporation subsidiaries were formed to hold securities, industrial development bonds, and other qualifying assets. As of December 31, 2012 the Bank had also formed Goddard Ave Securities Corp. but had not yet received approval of its security corporation qualification. The Bank subsequently received this approval to qualify as a Massachusetts security corporation in 2013;

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, all of which were all formed to qualify 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;

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,

Rockland Trust Phoenix LLC and Metro Real Estate Holdings, LLC, (a former Central Bank subsidiary) which were formed for the purpose of holding, maintaining, and disposing of foreclosed properties.

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

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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 capitalized with \$500, whose directors are all Rockland Trust officers and which has Rockland Trust 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 Rockland Trust's balance sheet in accordance with Generally Accepted Accounting Principles.

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, insurance 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 \$4.5 billion on December 31, 2012, or 78.5% 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 secured by owner occupied commercial real estate and machinery and equipment. All loans are fully secured with an all asset lien, and collateral for revolving lines of credit consists of accounts receivable and inventory. Revolving lines of credit are structured as committed lines with terms of three to five years. All of these revolving lines of credit have variable rates of interest. 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 to be creditworthy, 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 restructure the contractual terms of

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certain loans. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. When residential loans are modified, the borrower must perform during a 90 day trial period before the modification is finalized. It is the Bank's practice to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status for six months, including the trial period, 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.

Other Real Estate Owned ("OREO") includes real estate properties, which have served as collateral to secure loans, that are controlled or owned by the Bank. In order to facilitate the disposition of OREO, the Bank may finance the purchase of such properties at market rates if the borrower qualifies under the Bank's standard underwriting guidelines. The Bank had twenty-nine properties held as OREO at December 31, 2012 with a balance of \$12.0 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. Mortgage loan officers provide convenient origination services during banking and nonbanking hours. 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 \$105.9 million, at December 31, 2012, 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 \$79.4 million, at December 31, 2012, 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, 2012 consisted of forty-four loans which aggregate to \$57.3 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"), the Government National Mortgage Association ("GNMA"), and other investors in the secondary market. Loan sales in the secondary market provide funds for additional lending and other banking activities. The Bank sells the servicing on a majority 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 2012, the Bank originated \$420.3 million in residential real estate loans of which \$47.2 million were retained in its portfolio, and comprised primarily of thirty year fixed loans.

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

	As of December 31, 2012 (Dollars in thousands)	% of Total Loans	% of Total Interest Income Generated For the Years Ended December 31,			
			2012	2011	2010	
Commercial	\$ 3,077,026	68.1	% 65.8	% 64.3	% 61.8	%
Consumer Real Estate	1,415,030	31.3	% 23.7	% 22.7	% 22.2	%

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Other Consumer	26,955	0.6	% 1.4	% 2.1	% 3.4	%
TOTAL	\$ 4,519,011	100.0	% 90.9	% 89.1	% 87.4	%

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, 2012:
Select Statistics Regarding the Commercial and Industrial Portfolio

	(Dollars in thousands)	
Average Loan Size	\$200	
Largest Individual C&I Loan	\$15,329	
C&I Nonperforming Loans/C&I Loans	0.39	%

Commercial 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, 2012, there were \$263.4 million of term loans in the commercial loan portfolio.

Collateral for commercial 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, 2012, there were \$424.1 million of revolving lines of credit in the commercial 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, 2012, there were \$59.3 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.

The Company makes use of the Bank's authority as a preferred lender with the U.S. Small Business Administration ("SBA"). At December 31, 2012, there were \$24.8 million of SBA guaranteed loans in the commercial portfolio and \$4.0 million of SBA guaranteed loans in the small business loan portfolio.

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

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nonowner-occupied commercial, retail, office, industrial, warehouse, industrial development bonds, and other special purpose properties, such as hotels, motels, nursing homes, restaurants, churches, recreational facilities, marinas, and golf courses. Commercial real estate also includes loans secured by certain residential-related property types including multi-family apartment buildings, residential development tracts and condominiums.

The following pie chart shows the diversification of the commercial real estate portfolio as of December 31, 2012:

Select Statistics Regarding the Commercial Real Estate Portfolio

	(Dollars in thousands)	
Average Loan Size	\$699	
Largest Individual CRE mortgage	\$18,000	
CRE Nonperforming Loans/CRE Loans	0.29	%
Owner Occupied CRE Loans/CRE Loans	18.1	%

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

Additionally, 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, 2012 the balance of industrial development bonds was \$38.5 million.

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Construction loans are intended to finance the construction of residential and commercial properties, including loans for the acquisition and development of land or rehabilitation of existing properties. Nonpermanent construction loans generally have terms of at least six months, but not more than two years. They usually do not provide for amortization of the loan balance during the construction term. The majority of the Bank's commercial construction loans have floating rates of interest based upon the Rockland Base Rate or the Prime or London Interbank Offered Rate ("LIBOR") which are published daily.

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, 2012 the amount of interest reserves relating to construction loans was approximately \$4.9 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 appraise properties securing all of the Bank's first mortgage real estate loans, as required by regulatory standards.

The Bank's residential construction lending is related to single-home residential development within the Bank's market area and the portfolio amounted to \$8.2 million at December 31, 2012. The Bank typically has focused its construction lending on relatively small projects and has developed and maintains relationships with developers and operative homebuilders within the Bank's geographic footprint.

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, 2012, 60.7% of the home equity portfolio was in first lien position and 39.3% of the portfolio was in second lien position. At December 31, 2012, \$365.1 million, or 45.5%, of the home equity portfolio were term loans and \$437.0 million, or 54.5%, 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 credit worthiness. 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, private mortgage-backed securities, state, county, and municipal securities, single issuer trust preferred securities issued by banks, pooled trust preferred securities issued by banks and insurers, marketable securities, comprised primarily of investments in mutual funds, held for the purpose of funding supplemental executive retirement plan obligations, and marketable securities comprised of an investment in a community development affordable housing mutual fund. 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 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, 2012, the Company's securities totaled \$507.6 million. Total securities generated interest and dividends of 8.5%, 10.6%, and 12.2% of total interest income for the fiscal years ended December 31, 2012, 2011, and 2010, respectively. The Company reviews its security portfolio for impairment and to ensure collection of principle 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, 2012.

Sources of Funds

Deposits At December 31, 2012 total deposits were \$4.5 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, 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, 2012, municipal deposits totaled \$509.9 million. Occasionally and 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, 2012 the brokered deposits totaled \$96.0 million. Included in this amount are balances associated with the Bank's participation in the Certificate of Deposit 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, 2012, CDARS deposits totaled \$72.2 million.

Rockland Trust's seventy-seven 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 six 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 also has mobile banking services giving 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, 2012, total borrowings were \$591.1 million. Borrowings consist of short-term and long-term obligations and may consist of Federal Home Loan Bank ("FHLB") advances, federal funds purchased, assets 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 \$41.8 million in FHLB stock as of December 31, 2012. At December 31, 2012, the Bank had \$262.1 million outstanding, exclusive of fair value

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marks, in FHLB borrowings with initial maturities ranging from 3 months to 20 years. In addition, the Bank had \$661.9 million of borrowing capacity remaining with the FHLB at December 31, 2012, inclusive of a \$5.0 million line of credit.

Additionally, the Bank had an available borrowing capacity at the Federal Reserve Bank of Boston of \$766.2 million, at December 31, 2012, none of which was outstanding.

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 in 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. Repurchase agreements represent a nondeposit funding source for the Bank and 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, 2012, the Bank had \$50.0 million and \$153.4 million of repurchase agreements with investment brokerage firms and customers, respectively. Also included in borrowings at December 31, 2012 were \$74.1 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 credit facility with PNC Bank, National Association during 2012. At December 31, 2012 the Company had \$12.0 million outstanding associated with this line of credit. 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, 2012, the Investment Management Group generated gross fee revenues of \$13.3 million. Total assets under administration as of December 31, 2012, were \$2.2 billion, of which \$1.8 billion was related to managed accounts. Included in these amounts as of December 31, 2012 are assets under administration of \$139.8 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, 2012, the retail investments and insurance group generated gross fee revenues of \$1.5 million.

Regulation

The following discussion sets forth certain of the 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.

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

The Bank Holding Company Act 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

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

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

In addition to the risk-based capital requirements, the Federal Reserve requires bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital to total assets of 3.0%. Total assets for this purpose do not include goodwill and any other intangible assets or investments that the Federal Reserve determines should be deducted from Tier 1 capital. The Federal Reserve also limits the inclusion of restricted core capital elements, which include trust preferred securities, in Tier 1 capital of bank holding companies. The inclusion of these elements is limited to an amount equal to one-third of the sum of unrestricted core capital less goodwill, net of deferred tax liabilities. Based on these limits, the Company has not had to exclude its trust preferred securities when calculating Tier 1 capital. Additionally, the Collin's 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 Collin's 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, 2012, the Company had Tier 1 capital and total capital equal to 10.36% and 12.23% of total risk-weighted adjusted assets, respectively, and Tier 1 leverage capital equal to 8.65% of total average assets. As of such date, the Bank complied with the applicable bank federal regulatory risk based capital requirements, with Tier 1 capital and total capital equal to 10.21% and 12.07% of total risk-weighted assets, respectively, and Tier 1 leverage capital equal to 8.52% 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.

In June 2012, the U.S. federal banking agencies released for comment three Notices of Proposed Rulemaking ("NPR's") that would implement the Basel III capital standards, along with changes required by the Dodd-Frank Act, two of which will apply to the Company and are expected to increase capital requirements along with increasing risk-weighted assets. The proposed implementation of the Basel III standards was scheduled to be phased-in beginning January 1, 2013 through 2019; however due to the overwhelming number of comments received, implementation has been delayed.

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The NPR entitled “Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions” redefines regulatory capital, increases minimum amounts, and introduces a capital conservation buffer to be held in excess of minimum amounts. The proposal puts an emphasis on common equity and creates a new regulatory minimum capital level for common equity tier 1 (“CET1”). CET1 would include amounts previously excluded from regulatory capital, including accumulated other comprehensive income for items such as unrealized gains and losses on available for sale debt and equity securities and the unfunded/overfunded amount associated with defined benefit plans. The proposed minimum is 7% of risk-weighted assets, comprised of a minimum ratio of 4.5% plus a 2.5% capital conservation buffer. Trust preferred securities would no longer be eligible for tier 1 capital treatment and would be phased out of tier 1 and into tier 2 capital at 10% a year.

The second NPR that will affect the Company is entitled, “Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirement.” This proposal attempts to harmonize the agencies' rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years, by incorporating certain international capital standards of the Basel Committee of Banking Supervision. Among the items impacting the Company are the additional risk-weighting of short term unused portion of loan commitments, the increase in risk-weighting of deferred tax items and mortgage servicing rights not excluded from capital, and the increased risk-weight for commercial real estate designated as high volatility commercial real estate.

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

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 minimum levels are defined as follows:

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

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

A bank is considered critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. At December 31, 2012, the Company's tangible equity ratio was 6.56%. As of December 31, 2012, the Bank was deemed a “well-capitalized institution” as defined by federal banking agencies.

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.

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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 ("DIF") 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, 2012 there were \$1.7 billion in deposits with balances over \$250,000. Additionally, during 2010, amendments to the Federal Deposit Insurance Act were enacted, providing unlimited insurance coverage for noninterest-bearing transaction accounts through December 31, 2012. The amount of these deposits that are greater than \$250,000 amounted to \$508.2 million at December 31, 2012. This coverage applied to all insured depository institutions and there are no separate assessments applicable on these covered accounts.

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 2012, the Company expensed \$3.2 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 Gramm-Leach-Bliley Act of 1999 ("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 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

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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.

The Dodd-Frank Act 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.

The Dodd-Frank Act also 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. 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, retroactive to January 1, 2009, and noninterest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. The Company has seen a reduction in the amount of the FDIC assessment as a result of these changes in 2011.

The Dodd-Frank Act 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

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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.

The Dodd-Frank Act 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 our business results.

The Dodd-Frank Act 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.

In accordance with the Dodd-Frank Act, debit card and interchange fees must be reasonable and proportional to the issuer's cost for processing the transaction. The Federal Reserve Board ("FRB") 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.

The Company actively reviews the provisions of the Dodd-Frank Act and assesses its probable impact on its business, financial condition, and results of operations. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and on the Company in particular, is uncertain at this time.

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, 2012, the Bank had 998 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.

Miscellaneous The Bank is subject to certain restrictions on loans to the Company, investments in the stock or securities thereof, the taking of such stock or securities as collateral for loans to any borrower, and the issuance of a guarantee or letter of credit on behalf of the Company. The Bank also is subject to certain restrictions on most types of transactions with the Company, requiring that the terms of such transactions be substantially equivalent to terms of similar transactions with nonaffiliated firms. In addition, under state law, there are certain conditions for and restrictions on the distribution of dividends to the Company by the Bank.

Statistical Disclosure by Bank Holding Companies

For information regarding borrowings, see Note 8, "Borrowings" within Notes to the Consolidated Financial Statements included in Item 8 hereof, which includes information regarding short-term borrowings.

For information regarding the Company's business and operations, see Selected Financial Data in Item 6 hereof, Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 hereof and the Consolidated Financial Statements in Item 8 hereof and incorporated by reference herein.

Securities and Exchange Commission Availability of Filings on Company Website

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

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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), and Form DEF 14A (Proxy Statement). The Company may file additional forms. The SEC maintains an internet site that contains

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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.

If the Company has higher than anticipated loan losses than it has modeled, its earnings could materially decrease. The Company's loan customers may not repay loans according to their terms, and the collateral securing the payment of loans may be insufficient to assure repayment. The Company may therefore experience significant credit losses which could have a material adverse effect on its operating results and capital ratios. The Company makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the amount of the allowance for loan losses, the Company relies on its experience and its evaluation of economic conditions. If its assumptions prove to be incorrect, its current allowance for loan losses may not be

sufficient to cover losses inherent in its loan portfolio and an adjustment may be necessary to allow for different economic conditions or adverse developments in its loan portfolio. Consequently, a problem with one or more loans could require the Company to significantly increase the level of its provision for loan losses. In addition, federal and state regulators periodically review the Company's allowance for loan losses and may require it to increase its provision for loan losses or recognize further loan charge-offs. Material additions to the allowance would materially decrease the Company's net income.

A significant amount of the Company's loans are concentrated in the Bank's geographic footprint and adverse conditions in this area could negatively impact its operations. Substantially all of the loans the Company originates are secured by properties located in, or are made to businesses which operate in Massachusetts, and to a lesser extent Rhode Island. Because of the current concentration of the Company's loan origination activities in its geographic footprint, in the event of adverse economic conditions, including, but not limited to, increased unemployment, downward pressure on the value of residential and commercial real estate, political or business developments, that may affect the ability of property owners and businesses to make

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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 will have a significant impact on the regulatory structure of the financial markets and will impose additional costs on the Company. It also 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 may require changes to existing capital rules or affect their interpretations by institutions or regulators, 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 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. Commercial banks, credit unions, savings banks, savings and loan associations operating in the Company's primary market area have historically provided most of its competition for deposits. Competition for the origination of real estate and other loans come from other commercial banks, thrift institutions, credit unions, insurance companies, finance companies, other institutional lenders and mortgage companies.

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

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

comparable to those achieved by the Company's existing operations, or otherwise perform as expected. Further, transaction-related expenses may adversely affect the Company's earnings. These adverse effects on the Company's earnings and results of operations may have a negative impact on the value of the Company's stock.

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

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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 of the Company's securities. Subsequent valuations, in light of factors prevailing at that time, may result in significant changes in the values of these securities in future periods. Any of these factors could require the Company to recognize further impairments in the value of the Company's securities portfolio, which may have an adverse effect on the Company's results of operations in future periods.

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

The Company may fail to successfully integrate acquired companies and realize all of the anticipated benefits of an acquisition. The ultimate success of an acquisition will depend, in part, on the ability of the Company to realize the

anticipated benefits from combining the businesses of the Company with those of an acquired company. If the Company is not able to successfully combine the businesses, the anticipated benefits of a merger may not be realized fully or at all or may take longer to realize than expected. Acquisitions may also result in unforeseen integration issues or impairment of goodwill and/or other intangibles.

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

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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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

At December 31, 2012, the Bank conducted its business from its main office located at 288 Union Street, Rockland, Massachusetts and seventy-three 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-four of its branches (including the limited service branches) and owned the remaining twenty-two branches. Also, the Bank had six remote ATM locations all of which were leased.

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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 16, "Commitments and Contingencies," respectively, within Notes to Consolidated Financial Statements included in Item 8 hereof.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2012, 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 \$0.84 and \$0.76 per share in 2012 and in 2011. The ratio of dividends paid to earnings in 2012 and 2011 was 52.8% and 35.9%, respectively.

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

Management believes that the Bank will continue to generate adequate earnings to continue to pay common dividends on a quarterly basis.

The following schedule summarizes the closing price range of common stock and the cash dividends paid for the fiscal years 2012 and 2011:

	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
	2011		
	High	Low	Dividend
4th Quarter	\$27.95	\$20.42	\$0.19
3rd Quarter	27.91	20.86	0.19
2nd Quarter	29.98	25.95	0.19
1st Quarter	28.83	25.48	0.19

As of December 31, 2012 there were 22,774,009 shares of common stock outstanding which were held by approximately 2,644 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, 2012 was \$28.95.

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, 2007 to December 31, 2012 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, 2007 (which assumes that \$100.00 was invested in each of the series on December 31, 2007).

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 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.

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Total Return Performance

(b.) Not applicable

(c.) The following table sets forth information regarding the Company's repurchases of its common stock during the three months ended December 31, 2012:

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Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program(2)	Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program
October 1 to October 31, 2012	1,891	\$30.61	—	—
November 1 to November 30, 2012	—	—	—	—
December 1 to December 31, 2012	—	—	—	—
Total	1,891		—	—

(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					
	2012	2011	2010	2009	2008	
	(Dollars in thousands, except per share data)					
Financial condition data						
Securities available for sale	\$ 329,286	\$ 305,332	\$ 377,457	\$ 508,650	\$ 575,688	
Securities held to maturity	178,318	204,956	202,732	93,410	32,789	
Loans	4,519,011	3,794,390	3,555,679	3,395,515	2,652,536	
Allowance for loan losses	(51,834)	(48,260)	(46,255)	(42,361)	(37,049)	
Goodwill and core deposit intangibles	162,144	140,722	141,956	143,730	125,710	
Total assets	5,756,985	4,970,240	4,695,738	4,482,021	3,628,469	
Total deposits	4,546,677	3,876,829	3,627,783	3,375,294	2,579,080	
Total borrowings	591,055	537,686	565,434	647,397	695,317	
Stockholders' equity	529,320	469,057	436,472	412,649	305,274	
Nonperforming loans	28,766	28,953	23,108	36,183	26,933	
Nonperforming assets	42,427	37,149	31,493	41,245	29,883	
Operating data						
Interest income	\$ 196,192	\$ 195,751	\$ 202,724	\$ 202,689	\$ 175,440	
Interest expense	23,393	28,672	38,763	51,995	58,926	
Net interest income	172,799	167,079	163,961	150,694	116,514	
Provision for loan losses	18,056	11,482	18,655	17,335	10,888	
Noninterest income	62,016	52,700	46,906	38,192	29,032	
Noninterest expenses	159,459	145,713	139,745	141,815	104,143	
Net income	42,627	45,436	40,240	22,989	23,964	
Preferred stock dividend	—	—	—	5,698	—	
Net income available to the common shareholder	42,627	45,436	40,240	17,291	23,964	
Per share data						
Net income — basic	\$ 1.96	\$ 2.12	\$ 1.90	\$ 0.88	\$ 1.53	
Net income — diluted	1.95	2.12	1.90	0.88	1.52	
Cash dividends declared	0.84	0.76	0.72	0.72	0.72	
Book value	23.24	21.82	20.57	19.58	18.75	
Performance ratios						
Return on average assets	0.83	% 0.96	% 0.88	% 0.40	% 0.73	%
Return on average common equity	8.66	% 9.93	% 9.46	% 4.29	% 8.20	%
Net interest margin (on a fully tax equivalent basis)	3.75	% 3.90	% 3.95	% 3.89	% 3.95	%
Equity to assets	9.19	% 9.44	% 9.30	% 9.21	% 8.41	%
Dividend payout ratio	52.77	% 35.88	% 37.93	% 82.79	% 48.95	%
Asset quality ratios						
Nonperforming loans as a percent of gross loans	0.64	% 0.76	% 0.65	% 1.07	% 1.02	%
	0.74	% 0.75	% 0.67	% 0.92	% 0.82	%

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Nonperforming assets as a percent of total assets						
Allowance for loan losses as a percent of total loans	1.15	% 1.27	% 1.30	% 1.25	% 1.40	%
Allowance for loan losses as a percent of nonperforming loans	180.19	% 166.68	% 200.17	% 117.07	% 137.56	%
Capital ratios						
Tier 1 leverage capital ratio	8.65	% 8.61	% 8.19	% 7.87	% 7.55	%
Tier 1 risk-based capital ratio	10.36	% 10.74	% 10.28	% 9.83	% 9.50	%
Total risk-based capital ratio	12.23	% 12.78	% 12.37	% 11.92	% 11.85	%

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

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

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 thereto.

Executive Level Overview

2012 Results

The Company reported net income of \$42.6 million in 2012 as compared to \$45.4 million in 2011. 2012 was negatively impacted by merger and acquisition expenses, goodwill impairment and a higher provision for loan losses associated with strong growth in the loan portfolio as well as increased loan losses, primarily due to a commercial loan fraud.

Management considers certain of these items to be non-core in nature and presents the following discussion of operating earnings as a non-GAAP measure, intended to provide the reader with a sense of the performance of its core banking business.

Net income on an operating basis improved to \$47.1 million in 2012, as compared to \$45.5 million in 2011, an increase of 3.6%. These results were due to a combination of:

- Strong organic loan growth (+8.3%) and organic deposit growth (+8.1%)
- Declining net interest margin, reflecting the challenging interest rate environment
- Solid growth in noninterest income (+16.4%)
- Good expense control
- Increased provision for loan losses

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

	Years Ended December 31			
	2012	2011		
Net income	\$42,627	\$45,436		
Net income on an operating basis	\$47,097	\$45,456		
Diluted earnings per share	\$1.95	\$2.12		
Diluted earnings per share on an operating basis	\$2.16	\$2.12		
Return on average assets	0.83	% 0.96		%
Return on average common equity	8.66	% 9.93		%
Net interest margin	3.75	% 3.90		%

Recognizing the importance of noninterest income, management continued to focus on growing this category. 2012 represented strong growth in noninterest income in the absolute (+16.4%) and as a percentage of total revenue (increased to 26.0%).

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The increases in noninterest income for the year ended 2012 were driven by the following items:

Interchange and ATM fees increased to by 26.5% to \$9.8 million in 2012, from \$7.7 million in 2011. The increase was partially due to increased debit card usage by the Bank's customers following increased promotion and sales activities.

Mortgage banking income is up \$2.3 million, reflective of strong mortgage originations and refinancing activity due to the low rate environment.

Investment management income also increased by \$1.2 million as assets under management has steadily climbed to \$2.2 billion at December 31, 2012

Noninterest expense increased over the prior year by 9.4% to \$159.5 million. The increase in noninterest expense is largely related to the Bank's merger and acquisition expenses of \$6.7 million and a \$2.2 million goodwill impairment charge. Exclusive of these and other non-core charges, noninterest expense was well contained, increasing by 3.8% from the prior year. The Company's efficiency ratio, on an operating basis, has seen improvement during 2012, decreasing to 64.5%. The following chart shows the improving trends in the Company's efficiency ratio, on an operating basis, over the past three years:

(1) The operating efficiency ratio is calculated by dividing noninterest expense by the sum of net interest income and noninterest income.

The net interest margin for the year decreased to 3.75%, down 15 basis points from the prior year, due to the prolonged low rate environment. However, the Company has been able to counter this pressure with the robust loan growth, especially within its commercial and home equity portfolios, both of which experienced double digit organic growth for the year, with commercial increasing by 11.7% and home equity increasing by 14.1%. The Company continues to focus on its ability to

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generate commercial loan originations as part of its strategic growth plan and was successful in doing so, originating \$896.9 million in commercial loans during 2012. The following table shows the stability in the net interest margin as compared to the federal funds rate and the 5 year swap rate over the past five years:

Management's approach to balance sheet strategy and the net interest margin continues to emphasize:

- Growth in commercial and home equity lending
- Funding by core deposits
- Structure asset generation with a keen view toward interest-rate sensitivity.
- Disciplined asset quality
- Avoid security purchases in this low rate environment

The following tables reflect this continued strategy:

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In terms of asset quality, the Company's trends were stable in 2012 and remain strong with nonperforming assets representing only 0.74% of total assets at December 31, 2012, a decrease from 0.75% at December 31, 2011. Delinquency levels also remained low at 0.82% of total loans at December 31, 2012. Management continues to apply a disciplined approach to underwriting and maintains high credit standards.

The provision for loan losses was \$18.1 million and \$11.5 million for the years ended December 31, 2012 and 2011, respectively. The increase in provisioning levels is the result of shifts in the composition of loan portfolio mix, as certain portfolios require different levels of allowance allocations based upon the risks associated with each portfolio, as well as portfolio growth of outstanding balances, offset by improvements in certain asset quality measures. Net-charge-offs increased during 2012 to \$14.5 million, from \$9.5 million in the prior year, the increase in charge-offs in 2012 was largely impacted by a customer fraud situation, resulting in a charge-off of \$4.8 million. The allowance for loan losses as a percent of loans was 1.15% at December 31, 2012, as compared to 1.27% at December 31, 2011. This decrease is largely attributable to the acquired loans which are accounted for at fair value, with no carryover of the related allowance.

Central Bancorp., Inc. Acquisition

The Company announced and closed the acquisition of Central Bancorp., Inc. in 2012, adding 9 full service branches in the contiguous and demographically attractive Middlesex County market area, enhancing the Company's already strong presence in Eastern Massachusetts. The total transaction was valued at \$52.0 million and was comprised of 60% stock and 40% cash consideration. The following map shows the acquired Central branches to the existing Rockland Trust branches:

Source: Microsoft MapPoint

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The acquisition added loans of \$450.7 million and acquired deposits of \$357.4 million, at fair value. The following table shows the breakout of the acquired loans and deposits by type:

Loans Acquired (1)	(Dollars in thousands)	Deposits Acquired	(Dollars in thousands)
Commercial and industrial	\$536	Demand deposits	\$75,438
Commercial real estate	139,148	Savings and interest checking	65,110
Residential real estate	259,637	Money market	72,849
Home equity and other consumer	9,107	Time certificates of deposits	144,037
Total	\$408,428	Total	\$357,434

(1) Subsequent to the acquisition, on November 9, 2012 the Company sold approximately \$42.2 million of performing jumbo residential mortgages acquired in the transaction.

2013 Outlook

Despite the industry challenges of a modestly improving economy, increased competition, continued pressure on the net interest margin and increased regulatory and compliance requirements, management anticipates that the continuation of its strategy to grow solid core banking relationships with existing customers, while continually adding new relationships in the attractive markets of Eastern Massachusetts and Rhode Island, will allow for an increase in diluted earnings per share for 2013 to a range of \$2.28 to \$2.38, on an operating basis, as compared to the diluted earnings per share of \$2.16 for 2012, on an operating basis.

Non-GAAP Measures

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

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

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

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

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	Years Ended December 31					
	Net Income			Diluted Earnings Per Share		
	2012	2011	2010	2012	2011	2010
	(Dollars in thousands)					
As reported (GAAP)						
Net income	\$42,627	\$45,436	\$40,240	\$1.95	\$2.12	\$1.90
Non-GAAP measures						
Noninterest income components						
Net gain on sale of securities, net of tax	(3)	(428)	(271)	—	(0.02)	(0.01)
Proceeds from life insurance policies, tax exempt	(1,307)	—	—	(0.06)	—	—
Noninterest expense components						
Prepayment fees on borrowings, net of tax	4	448	—	—	0.02	—
Merger and acquisition expenses, net of tax	4,459	—	—	0.21	—	—
Fair value mark on a terminated hedging relationship	—	—	328	—	—	0.01
Goodwill impairment, net of tax	1,317	—	—	0.06	—	—
Total impact of noncore items	4,470	20	57	0.21	—	—
As adjusted (non-GAAP)	\$47,097	\$45,456	\$40,297	\$2.16	\$2.12	\$1.90

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			
	2012	2011	2010	
	(Dollars in thousands)			
Noninterest expense (GAAP)	\$159,459	\$145,713	\$139,745	(a)
Merger & acquisition	(6,741)	—	—	
Goodwill impairment	(2,227)	—	—	
Prepayment fees on borrowings	(7)	(757)	—	
Fair value mark on a terminated hedging relationship	—	—	(554)	
Noninterest expense on an operating basis	\$150,484	\$144,956	\$139,191	(b)
Noninterest income (GAAP)	\$62,016	\$52,700	\$46,906	(c)
Net gain on sale of securities	(5)	(723)	(458)	
Proceeds from life insurance policies	(1,307)	—	—	
Noninterest income on an operating basis	\$60,704	\$51,977	\$46,448	(d)
Net interest income	\$172,799	\$167,079	\$163,961	(e)
Total revenue (GAAP)	\$234,815	\$219,779	\$210,867	(c+e)
Total operating revenue	\$233,503	\$219,056	\$210,409	(d+e)
Ratio				
Efficiency ratio (GAAP)	67.91	% 66.30	% 66.27	%(a/(c+e))
Operating efficiency ratio	64.45	% 66.17	% 66.15	%(b/(d+e))

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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 decreased by \$10.9 million, or 2.1%, at December 31, 2012 as compared to December 31, 2011. The ratio of securities to total assets as of December 31, 2012 was 8.8%, compared to 10.4% at December 31, 2011.

The Company continually reviews investment securities for the presence of other-than-temporary impairment ("OTTI"). Further analysis of the Company's OTTI can be found in Note 3 "Securities" within Notes to Consolidated Financial Statements included in Item 8 hereof.

During 2012, the Company transferred equity securities classified previously as trading to available for sale. As of December 31, 2011, the Company had \$8.2 million of securities classified as trading.

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 — Fair Value of Securities Available for Sale and Amortized Cost of Securities Held to Maturity

	December 31			2011			2010		
	Amount	Percent		Amount	Percent		Amount	Percent	
	(Dollars in thousands)								
Fair value of securities available for sale									
U.S. treasury securities	\$—	—	%	\$—	—	%	\$717	0.2	%
U.S. government agency securities	20,822	6.3	%			%			
Agency mortgage-backed securities	221,425	67.2	%	238,391	78.1	%	313,302	83.1	%
Agency collateralized mortgage obligations	68,376	20.8	%	53,801	17.6	%	46,135	12.2	%
Private mortgage-backed securities	3,532	1.1	%	6,110	2.0	%	10,254	2.7	%
Single issuer trust preferred securities issued by banks	2,240	0.7	%	4,210	1.4	%	4,221	1.1	%
Pooled trust preferred securities issued by banks and insurers	2,981	0.9	%	2,820	0.9	%	2,828	0.7	%
Marketable securities	9,910	3.0	%	—	—	%	—	—	%
Total fair value of securities available for sale	\$329,286	100.0	%	\$305,332	100.0	%	\$377,457	100.0	%
Amortized Cost of Securities Held to Maturity									
U.S. treasury securities	\$1,013	0.6	%	\$1,014	0.5	%	\$—	—	
Agency mortgage-backed securities	72,360	40.6	%	109,553	53.5	%	95,697	47.2	%
Agency collateralized mortgage obligations	97,507	54.6	%	77,804	38.0	%	89,823	44.3	%
State, county and municipal securities	915	0.5	%	3,576	1.7	%	10,562	5.2	%
Single issuer trust preferred securities issued by banks	1,516	0.9	%	8,000	3.9	%	6,650	3.3	%
Corporate debt securities	5,007	2.8	%	5,009	2.4	%	—	—	%
Total amortized cost of securities held to maturity	\$178,318	100.0	%	\$204,956	100.0	%	\$202,732	100.0	%
Total	\$507,604			\$510,288			\$580,189		

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

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and unobservable are classified as Level 3. As of December 31, 2012 and 2011, the Company had \$6.5 million and \$13.1 million of securities categorized as Level 3.

The following tables set forth contractual maturities of the Bank's securities portfolio at December 31, 2012. 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 — Fair Value of Securities Available for Sale and Amortized Cost of Securities Held to Maturity, 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	\$—	—	\$—	—	\$20,822	2.1 %	\$—	—	\$20,822	2.1 %
Agency mortgage-backed securities	235	4.0 %	1,179	5.6 %	52,699	3.9 %	167,312	3.9 %	221,425	3.9 %
Agency collateralized mortgage obligations	—	—	1,722	4.1 %	3,554	4.0 %	63,100	1.8 %	68,376	2.0 %
Private mortgage-backed securities	—	—	—	—	2,436	6.0 %	1,096	6.0 %	3,532	6.0 %
Single issuer trust preferred securities issued by banks	—	—	—	—	—	—	2,240	5.1 %	2,240	5.1 %
Pooled trust preferred securities issued by banks and insurers	—	—	—	—	—	—	2,981	1.0 %	2,981	1.0 %
Marketable securities(1)	—	—	—	—	—	—	9,910	—	9,910	—
Total fair value of securities available for sale	\$235	4.0 %	\$2,901	4.7 %	\$79,511	3.5 %	\$246,639	3.3 %	\$329,286	3.4 %
Amortized cost of securities held to maturity										
U.S. Treasury securities	\$—	—	\$—	—	\$1,013	3.0 %	\$—	—	\$1,013	3.0 %
Agency mortgage-backed securities	—	—	786	5.5 %	—	—	71,574	3.5 %	72,360	3.5 %
Agency collateralized mortgage obligations	—	—	—	—	—	—	97,507	2.5 %	97,507	2.5 %
State, county and municipal securities	239	4.7 %	676	4.8 %	—	—	—	—	915	4.8 %
Single issuer trust preferred securities issued by banks	—	—	—	—	—	—	1,516	7.4 %	1,516	7.4 %
Corporate debt securities	—	—	5,007	3.4 %	—	—	—	—	5,007	3.4 %

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Total amortized cost of securities held to maturity	\$239	4.7 %	\$6,469	3.8 %	\$1,013	3.0 %	\$170,597	2.9 %	\$178,318	3.0 %
Total	\$474	4.4 %	\$9,370	4.1 %	\$80,524	3.5 %	\$417,236	3.2 %	\$507,604	3.2 %

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

As of December 31, 2012, the weighted average life of the securities portfolio was 4.6 years and the modified duration was 4.0 years.

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Residential Mortgage Loan Sales The Company's primary loan sale activity arises from the sale of government sponsored enterprise eligible residential mortgage loans to other financial institutions. During 2012 and 2011, the Bank originated residential loans with the intention of selling them in the secondary market. Loans are sold with servicing rights released and with servicing rights retained. The table below reflects the origination of these loans during the periods indicated:

Table 3 — Residential Mortgage Loan Sales

	December 31	
	2012	2011
	(Dollars in thousands)	
Loans originated and sold with servicing rights released	\$313,329	\$270,357
Loans originated and sold with servicing rights retained	\$33,393	\$8,627

The Company originates and sells loans to third parties and recognizes a mortgage servicing rights asset when it sells a loan with servicing rights retained. 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, 2012 and 2011 the Company incurred losses of \$304,000 and \$222,000 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 and material losses are not probable.

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

Loan Portfolio Management continues to focus on growth in the commercial and home equity lending categories, while placing less emphasis on the other lending categories. Although deemphasizing certain lending categories has led to a slower growth rate than what otherwise might have been realized, management believes the change 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:

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Table 4 — Loan Portfolio Composition

	December 31		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial and industrial	\$687,511	15.2 %	\$575,716	15.2 %	\$502,952	14.1 %	\$373,531	11.0 %	\$270,832	10.2 %
Commercial real estate	2,122,153	46.9 %	1,847,654	48.6 %	1,717,118	48.4 %	1,614,474	47.5 %	1,126,295	42.4 %
Commercial construction	188,768	4.2 %	128,904	3.4 %	129,421	3.6 %	175,312	5.2 %	171,955	6.5 %
Small business	78,594	1.7 %	78,509	2.1 %	80,026	2.3 %	82,569	2.4 %	86,670	3.3 %
Residential real estate	604,668	13.4 %	416,570	11.0 %	473,936	13.3 %	555,306	16.4 %	413,024	15.6 %
Residential construction	8,213	0.2 %	9,631	0.3 %	4,175	0.1 %	10,736	0.3 %	10,950	0.4 %
Home equity	802,149	17.8 %	696,063	18.3 %	579,278	16.3 %	471,862	13.9 %	406,240	15.3 %
Consumer — other	26,955	0.6 %	41,343	1.1 %	68,773	1.9 %	111,725	3.3 %	166,570	6.3 %
Gross loans	4,519,011	100.0 %	3,794,390	100.0 %	3,555,679	100.0 %	3,395,515	100.0 %	2,652,536	100.0 %
Allowance for loan losses	51,834		48,260		46,255		42,361		37,049	
Net loans	\$4,467,177		\$3,746,130		\$3,509,424		\$3,353,154		\$2,615,487	

The following table summarizes loan growth during the year ending December 31, 2012:

Table 5 - Components of Loan Growth/(Decline)

	December 31		Central Acquisition	Organic Growth/(Decline)	Organic Growth/(Decline)	
	2012	2011			%	%
Commercial and industrial	\$687,511	\$575,716	\$536	\$ 111,259	19.3	%
Commercial real estate	2,122,153	1,847,654	139,148	135,351	7.3	%
Commercial construction	188,768	128,904	—	59,864	46.4	%
Small business	78,594	78,509	—	85	0.1	%
Residential real estate	604,668	416,570	259,637	(1) (71,539)	(17.2))%
Residential construction	8,213	9,631	—	(1,418)	(14.7))%
Home equity	802,149	696,063	8,281	97,805	14.1	%
Consumer - other	26,955	41,343	826	(15,214)	(36.8))%
Total loans	\$4,519,011	\$3,794,390	\$408,428	\$ 316,193	8.3	%

(1) Excludes \$42.2 million of acquired loans which were sold subsequent to the closing of the acquisition.

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The following table sets forth the scheduled contractual amortization of the Bank's loan portfolio at December 31, 2012. Loans having no schedule of repayments or no stated maturity are reported as due in one year or less. The following table also sets forth the rate structure of loans scheduled to mature after one year:

Table 6 — Scheduled Contractual Loan Amortization

	December 31, 2012								
	Commercial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Residential Construction	Home Equity	Consumer Other	Total
	(Dollars in thousands)								
Amounts due in:									
One year or less	\$247,905	\$240,210	\$49,068	\$15,240	\$27,694	\$8,213	\$21,919	\$15,429	\$625,678
After one year through five years	267,512	1,119,046	63,511	33,179	91,202	—	90,673	8,860	1,673,983
Beyond five years	172,094	762,897	76,189	30,175	485,772	—	689,557	2,666	2,219,350
Total	\$687,511	\$2,122,153	\$188,768	(1) \$78,594	\$604,668	\$8,213	\$802,149	\$26,955	\$4,519,011
Interest rate terms on amounts due after one year:									
Fixed rate	\$177,186	\$711,376	\$38,359	\$32,596	\$420,142	\$—	\$343,880	\$11,526	1,735,065
Adjustable rate	262,420	1,170,567	101,341	30,758	156,832	—	436,350	—	2,158,268

(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, 2012, \$5.1 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 considers a loan to have defaulted when it reaches 90 days past due. The Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. Generally, the Bank requires that a delinquency notice be mailed to a borrower upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices may be sent and telephone calls may be made prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of a delinquency notice, the Bank's personnel charged with managing its loan portfolios contact the borrower to ascertain the reasons for delinquency and the prospects for payment. Any subsequent actions taken to resolve the delinquency will depend upon the nature of the loan and the length of time that the loan has been delinquent. The borrower's needs are considered as much as reasonably possible without jeopardizing the Bank's position. A late charge is usually assessed on loans upon expiration of the grace period.

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

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

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

It is the Bank's policy to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status for six months, subsequent to being modified, before management considers its return to accrual status. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. Loans that are considered TDRs are classified as performing, unless they are on nonaccrual status or greater than 90 days delinquent. Loans classified as TDRs remain classified as such, for the life of the loan, except in limited circumstances, when it 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 since origination and for which it is probable that all contractually required payments will not be collected. The PCI loans are recorded at fair value without any carryover of the allowance for loan losses. The excess cash flows expected to be collected over the carrying amount of the loans, referred to as the "accretable yield", is accreted into interest income over the life of the loans using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual in the same manner as originated loans, rather they are 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 \$32.1 million as of December 31, 2012. See Note 4, "Loans, Allowance for Loan Losses and Credit Quality" within Notes to Consolidated Financial Statements included in Item 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 six collateralized debt obligation securities ("CDOs") comprised of pools of trust preferred securities issued by banks and insurance companies, which are currently deferring interest payments on certain tranches within the bonds' structures including the tranches held by the Company. The bonds are anticipated to continue to defer interest until cash flows are sufficient to satisfy certain collateralization levels designed to protect more senior tranches. As a result the Company has placed the six securities on nonaccrual status and has reversed any previously accrued income related to these securities.

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

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

Other assets in possession primarily consist of foreclosed 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 7 — Nonperforming Assets

	December 31					
	2012	2011	2010	2009	2008	
	(Dollars in thousands)					
Loans accounted for on a nonaccrual basis(1)						
Commercial and industrial	\$2,666	\$1,883	\$3,123	\$4,205	\$1,942	
Commercial real estate	6,574	13,109	9,836	18,525	12,370	
Small business	570	542	887	793	1,111	
Residential real estate	11,472	9,867	6,728	10,829	9,394	
Home equity	7,311	3,130	1,752	1,166	1,090	
Consumer — other	121	381	505	373	751	
Total	\$28,714	\$28,912	\$22,831	\$35,891	\$26,658	
Loans past due 90 days or more but still accruing						
Home equity	\$—	\$—	\$4	\$—	\$—	
Consumer — other	52	41	273	292	275	
Total	\$52	\$41	\$277	\$292	\$275	
Total nonperforming loans	\$28,766	\$28,953	\$23,108	\$36,183	\$26,933	
Nonaccrual securities(2)	1,511	1,272	1,051	920	910	
Other assets in possession	176	266	61	148	231	
Other real estate owned	11,974	6,658	7,273	3,994	1,809	
Total nonperforming assets	\$42,427	\$37,149	\$31,493	\$41,245	\$29,883	
Nonperforming loans as a percent of gross loans	0.64	% 0.76	% 0.65	% 1.07	% 1.02	%
Nonperforming assets as a percent of total assets	0.74	% 0.75	% 0.67	% 0.92	% 0.82	%

(1) Included in these amounts were \$6.6 million, \$9.2 million, \$4.0 million, \$3.4 million, and \$74,000 of TDRs on nonaccrual at December 31, 2012, 2011, 2010, 2009 and 2008, respectively.

(2) Amounts represent the fair value of nonaccrual securities. The Company had six nonaccrual securities in 2012, 2011, 2010 and 2009, and five nonaccrual securities in 2008.

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

Table 8 - Activity in Nonperforming Assets

	Years Ended December 31	
	2012	2011
	(Dollars in thousands)	
Nonperforming assets beginning balance	\$37,149	\$31,493
New to nonperforming	42,606	40,290
Loans charged-off	(16,591)	(11,341)
Loans paid-off	(10,381)	(10,593)
Loans restored to accrual status	(9,091)	(5,465)
Loans transferred to other real estate owned/other assets	(7,061)	(6,285)
Change to other real estate owned:		
New to other real estate owned	7,061	6,285
Acquired other real estate owned	2,633	
Valuation write down	(776)	(1,569)
Sale of other real estate owned	(5,871)	(6,479)
Development of other real estate owned	2,269	938
Other	—	210
Total change to other real estate owned	5,316	(615)
Change in fair value on nonaccrual securities	239	221
Other	241	(556)
Nonperforming assets ending balance	\$42,427	\$37,149

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

Table 9 — Troubled Debt Restructurings

	December 31					
	2012	2011	2010	2009	2008	
	(Dollars in thousands)					
Performing troubled debt restructurings	\$46,764	\$37,151	\$26,091	\$10,484	\$1,063	
Nonaccrual troubled debt restructurings	6,554	9,230	3,982	3,498	74	
Total	\$53,318	\$46,381	\$30,073	\$13,982	\$1,137	
Performing troubled debt restructurings as a % of total loans	1.03	% 0.98	% 0.73	% 0.31	% 0.04	%
Nonaccrual troubled debt restructurings as a % of total loans	0.15	% 0.24	% 0.11	% 0.10	% —	%
Total troubled debt restructurings as a % of total loans	1.18	% 1.22	% 0.84	% 0.41	% 0.04	%

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

Table 10 - Activity in Troubled Debt Restructurings

	December 31	
	2012	2011
	(Dollars in thousands)	
TDRs beginning balance	\$46,381	\$30,073
New to TDR status	8,350	22,485
Court ordered concessions (1)	5,143	—
Paydowns	(6,080)	(5,646)
Charge-offs	(476)	(531)
Loans removed from TDR status	—	—
TDRs ending balance	\$53,318	\$46,381

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

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

Table 11 — Interest Income Recognized/Collected on Nonaccrual Loans and Troubled Debt Restructured Loans

	Years Ended December 31		
	2012	2011	2010
	(Dollars in thousands)		
Interest income that would have been recognized if nonaccruing loans had been performing	\$2,623	\$1,739	\$2,749
Interest income recognized on TDRs still accruing	2,609	2,140	1,425
Interest collected on nonaccrual loans and TDRs and included in interest income	\$3,642	\$2,708	\$1,874

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, 2012, 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, 2012 and 2011 were \$66.7 million and \$61.7 million, respectively. For additional information regarding the Bank's asset quality, including delinquent loans, nonaccruals,

TDRs, and impaired loans, see Note 4, “Loans, Allowance for Loan Losses, and Credit Quality” within Notes to Consolidated Financial Statements included in Item 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. The table below shows the potential problem commercial loans at the time periods indicated:

Table 12 — Potential Problem Commercial Loans

	December 31	
	2012	2011
	(Dollars in thousands)	
Number of loan relationships	70	64
Aggregate outstanding balance	\$110,624	\$113,641

At December 31, 2012, these potential problem loans continued to perform with respect to payments. Management actively monitors these loans and strives to minimize any possible adverse impact to the Bank.

Allowance for Loan Losses The allowance for loan losses is maintained at a level that management considers adequate to provide for probable loan losses based upon evaluation of known and inherent risks in the loan portfolio. The allowance is increased by providing for loan losses through a charge to 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, 2012, the allowance for loan losses totaled \$51.8 million, or 1.15% of total loans as compared to \$48.3 million, or 1.27% of total loans, at December 31, 2011. The increase in the 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 13 — Summary of Changes in the Allowance for Loan Losses

	December 31					
	2012	2011	2010	2009	2008	
	(Dollars in thousands)					
Average total loans	\$4,022,349	\$3,681,418	\$3,434,769	\$3,177,949	\$2,489,028	
Allowance for loan losses, beginning of year	\$48,260	\$46,255	\$42,361	\$37,049	\$26,831	
Charged-off loans:						
Commercial and industrial	6,191	2,888	5,170	1,663	595	
Commercial real estate	4,348	2,631	3,448	834	—	
Commercial construction	—	769	1,716	2,679	—	
Small business	616	1,190	2,279	2,047	1,350	
Residential real estate	1,094	559	557	829	362	
Home equity	3,178	1,626	939	1,799	1,200	
Consumer — other	1,165	1,678	2,078	3,404	3,631	
Total charged-off loans	16,592	11,341	16,187	13,255	7,138	
Recoveries on loans previously charged-off						
Commercial and industrial	963	420	361	27	168	
Commercial real estate	188	97	1	—	—	
Commercial construction	—	500	—	—	—	
Small business	134	160	217	204	159	
Residential real estate	151	—	59	105	—	
Home equity	93	52	131	41	5	
Consumer — other	581	635	657	855	612	
Total recoveries	2,110	1,864	1,426	1,232	944	
Net loans charged-off						
Commercial and industrial	5,228	2,468	4,809	1,636	427	
Commercial real estate	4,160	2,534	3,447	834	—	
Commercial construction	—	269	1,716	2,679	—	
Small business	482	1,030	2,062	1,843	1,191	
Residential real estate	943	559	498	724	362	
Home equity	3,085	1,574	808	1,758	1,195	
Consumer — other	584	1,043	1,421	2,549	3,019	
Total net loans charged-off	14,482	9,477	14,761	12,023	6,194	
Allowance related to business combinations	—	—	—	—	5,524	
Provision for loan losses	18,056	11,482	18,655	17,335	10,888	
Total allowances for loan losses, end of year	\$51,834	\$48,260	\$46,255	\$42,361	\$37,049	
Net loans charged-off as a percent of average total loans	0.36	% 0.26	% 0.43	% 0.38	% 0.25	%
Allowance for loan losses as a percent of total loans	1.15	% 1.27	% 1.30	% 1.25	% 1.40	%
Allowance for loan losses as a percent of nonperforming loans	180.19	% 166.68	% 200.17	% 117.07	% 137.56	%

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Net loans charged-off as a percent of allowance for loan losses	27.94	% 19.64	% 31.91	% 28.38	% 16.72	%
Recoveries as a percent of charge-offs	12.72	% 16.44	% 8.81	% 9.29	% 13.22	%

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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 14 — Summary of Allocation of Allowance for Loan Losses

	December 31 2012		2011		2010		2009		2008			
	Allowance Amount	Percent of Loans Category To Total Loans	Allowance Amount	Percent of Loans Category To Total Loans	Allowance Amount	Percent of Loans Category To Total Loans	Allowance Amount	Percent of Loans Category To Total Loans	Allowance Amount	Percent of Loans Category To Total Loans	Allowance Amount	Percent of Loans Category To Total Loans
	(Dollars in thousands)											
Allocated Allowance												
Commercial and industrial	\$13,461	15.2 %	\$11,682	15.2 %	\$10,423	14.1 %	\$7,545	11.0 %	\$5,532	10.2 %		
Commercial real estate	22,598	46.9 %	23,514	48.6 %	21,939	48.4 %	19,451	47.5 %	15,942	42.4 %		
Commercial construction	2,811	4.2 %	2,076	3.4 %	2,145	3.6 %	2,457	5.5 %	4,203	6.9 %		
Small business	1,524	1.7 %	1,896	2.1 %	3,740	2.3 %	3,372	2.4 %	2,170	3.3 %		
Residential real estate	2,930	13.6 %	3,113	11.3 %	2,915	13.4 %	2,840	16.4 %	2,447	15.6 %		
Home equity	7,703	17.8 %	4,597	18.3 %	3,369	16.3 %	3,945	13.9 %	3,091	15.3 %		
Consumer other	807	0.6 %	1,382	1.1 %	1,724	1.9 %	2,751	3.3 %	3,664	6.3 %		
Total	\$51,834	100.0 %	\$48,260	100.0 %	\$46,255	100.0 %	\$42,361	100.0 %	\$37,049	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. During 2012 allowance amounts increased by approximately \$3.6 million to \$51.8 million at December 31, 2012.

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

Federal Home Loan Bank Stock The Bank held an investment in Federal Home Loan Bank ("FHLB") of Boston's stock, which amounted to \$41.8 million at December 31, 2012 and \$35.9 million at December 31, 2011, respectively. The increase during 2012 in the Company's investment in FHLB stock is primarily due to the Central acquisition. 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 \$162.1 million and \$140.7 million at December 31, 2012 and December 31, 2011, respectively. For additional information regarding the goodwill and

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identifiable intangible assets, see Note 6, "Goodwill and Identifiable Intangible Assets" within Notes to Consolidated Financial Statements included in Item 8 hereof.

The Company performed its annual goodwill impairment testing during the third quarter of 2012, and concluded that \$2.2 million of goodwill was impaired. This amount represents the total amount of goodwill relating to Compass Exchange Advisors, LLC ("Compass") which was acquired in January of 2007. Compass' business model success is closely correlated to the volume of U.S. commercial real estate transactions and the interest rate spread that can be obtained on short-term funds among other factors. A sharp reduction in real estate transactions and the projected continuation of low interest rates resulted in the impairment being recognized. 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 1 of the impairment testing was passed for all reporting units during 2012, with the exception of Compass.

Cash Surrender Value of Life Insurance Policies The Bank holds life insurance policies for the purpose of offsetting the Bank's future obligations to its employees under its retirement and benefits plans. The cash surrender value of life insurance policies was \$97.3 million and \$86.1 million at December 31, 2012 and December 31, 2011, respectively. The Bank recorded tax exempt income from the life insurance policies of \$3.1 million in 2012, \$3.2 million in 2011, and in 2010. Also during 2012, the Company recognized a gain on life insurance policies in the amount of \$1.3 million, relating to proceeds from death benefits. The death benefit proceeds are also tax-exempt income to the Company.

Deposits As of December 31, 2012, deposits of \$4.5 billion were \$669.8 million, or 17.3%, higher than the prior year-end. Core deposits, which the Company defines as nontime and nonbrokered deposits, increased by \$546.9 million, or 16.9%, during 2012 and now comprise 83.2% of total deposits. The Company experienced growth in all categories of deposits, fueled by increases in business deposits from commercial loan customers, inflows of municipal deposits and higher consumer deposits resulting from an increased advertising presence. The growth was also significantly impacted by the Central acquisition.

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

Table 15 - Components of Deposit Growth

	December 31		Central	Organic	Organic	
	2012	2011	Acquisition	Growth/(Decline)	Growth/(Decline)	
	(Dollars in thousands)				%	
Demand deposits	\$1,248,394	\$992,418	\$75,438	\$ 180,538	18.2	%
Savings and interest checking accounts	1,691,187	1,473,812	65,110	152,265	10.3	%
Money market	853,971	780,437	72,849	685	0.1	%
Time certificates of deposit	753,125	630,162	144,037	(21,074)	(3.3))%
Total deposits	\$4,546,677	\$3,876,829	\$357,434	\$ 312,414	8.1	%

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

Table 16 — Average Balances of Deposits

	December 31			2011			2010		
	2012	Percent		Amount	Percent		Amount	Percent	
	(Dollars in thousands)								
Demand deposits	\$1,070,577	26.7	%	\$910,701	24.9	%	\$773,718	22.0	%
Savings and interest checking	1,484,758	37.1	%	1,355,478	37.2	%	1,183,247	33.7	%
Money market	803,656	20.1	%						