INDEPENDENT BANK CORP
Form 10-K/A
March 18, 2013
United States Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K/A
(Amendment No. 1)

x 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

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

For the transition period from to
Commission File Number: 1-9047
Independent Bank Corp.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code:
(781) 878-6100
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.0l par value per share	NASDAQ Global Select Market
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 o No x

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

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

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

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

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

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

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.

EXPLANATORY NOTE

We are filing this Amendment No. 1 (this “Amendment”) to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the “Form 10-K”) to correct omissions from Items 7 and 9A in the initial Form 10-K filing and to correct a typographical error on the certification included as Exhibit 31.1 to the initial Form 10-K filing, as described below.

In Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) of the Form 10-K, the text indicating that the numbers of certain tables and charts appearing in the Executive Level Overview portion of the MD&A are reflected in thousands of dollars was inadvertently omitted from the table/chart header. This text is included where applicable in the version of Item 7 filed with this Amendment.

This Amendment also includes the conformed signature of Ernst & Young LLP on the Report of Independent Registered Public Accounting Firm (the “Report”) in Item 9A. Controls and Procedures. The Report had been physically signed by Ernst & Young LLP prior to the initial Form 10-K filing, but the conformed signature was unintentionally omitted from the initial Form 10-K when filed.

This Amendment also includes an amended form of the certification filed as Exhibit 31.1 to the initial 10-K filing that corrects a typographical error with respect to the date of the certificate. The amended Exhibit 31.1 included with this Amendment properly reflects the date the certificate was executed, which was the date of the filing March 12, 2013, while the version of this certification included with the initial 10-K filing stated the date of the certification as March 13, 2013.

Other than the above mentioned changes, we have made no other changes to Items 7 or 9A or to Exhibit 31.1 as they appeared in the initial Form 10-K filing. This Amendment does not amend any other information set forth in the initial Form 10-K, and we have not updated disclosures contained therein to reflect any events that may have occurred at a date subsequent to the date the initial Form 10-K was filed.

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

The Company is a state chartered, federally registered bank holding company, incorporated in 1985. The Company is the sole stockholder of Rockland Trust, a Massachusetts trust company chartered in 1907. For a full list of corporate entities see Item 1 “Business — General” 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	
	(Dollars in thousands, except per share data)			
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%).

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 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:

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, 2012. 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

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)		Deposits Acquired	
	(Dollars in thousands)		(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 earning information set forth is not necessarily comparable to non-GAAP information which may be presented by other companies.

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

	Years Ended December 31					
	Net Income			Diluted Earnings Per Share		
	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))

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 2012			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 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 %
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.

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:

Table 4 — Loan Portfolio Composition

	December 31														
	2012			2011			2010			2009			2008		
	(Dollars in thousands)														
	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 2012	2011	Central Acquisition		Organic Growth/(Decline)	Organic Growth/(Decline) %
	(Dollars in thousands)					
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.

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 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.

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.

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 %

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