

INDEPENDENT BANK CORP

Form 10-Q

May 05, 2011

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2011  
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, Hanover Massachusetts 02339  
Mailing Address: 288 Union Street, Rockland, Massachusetts 02370  
(Address of principal executive offices, including zip code)  
(781) 878-6100  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

As of May 1, 2011, there were 21,433,666 shares of the issuer's common stock outstanding, par value \$0.01 per share

## INDEX

	<b>PAGE</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements (unaudited)</u></b>	
<b><u>Consolidated Balance Sheets</u></b>	3
March 31, 2011 and December 31, 2010	
<b><u>Consolidated Statements of Income</u></b>	4
Three months ended March 31, 2011 and 2010	
<b><u>Consolidated Statements of Stockholders' Equity -</u></b>	5
Three months ended March 31, 2011 and 2010	
<b><u>Consolidated Statements of Cash Flows</u></b>	6
Three months ended March 31, 2011 and 2010	
<b><u>Notes to Consolidated Financial Statements - March 31, 2011</u></b>	
Note 1 - Basis of Presentation	7
Note 2 - Recent Accounting Standards	7
Note 3 - Securities	8
Note 4 - Loans, Allowance for Loan Losses and Credit Quality	13
Note 5 - Earnings Per Share	22
Note 6 - Stock Based Compensation	23
Note 7 - Derivatives and Hedging Activities	23
Note 8 - Fair Value Measurements	29
Note 9 - Comprehensive Income/(Loss)	35
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	36
Table 1 - Residential Mortgage Loan Sales	44
Table 2 - Nonperforming Assets/Loans	48
Table 3 - Potential Problem Commercial Loans	48
Table 4 - Interest Income Recognized/Collected on Nonaccrual Loans and Troubled Debt Restructurings	49
Table 5 - Summary of Changes in the Allowance for Loan Losses	51
Table 6 - Summary of Allocation of Allowance for Loan Losses	52
Table 7 - Borrowings by Category	54
Table 8 - Company and Bank's Capital Amounts and Ratios	55
Table 9 - Mortgage Servicing Asset	57
Table 10 - Summary of Results of Operations	57
Table 11 - Average Balance, Interest Earned/Paid & Average Yields	59
Table 12 - Volume Rate Analysis	60
Table 13 - Non-Interest Income	61
Table 14 - Non-Interest Expense	62
Table 15 - New Markets Tax Credit Recognition Schedule	63
Table 16 - Interest Rate Sensitivity	65
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	68
<b><u>Item 4. Controls and Procedures</u></b>	68
<b><u>PART II. OTHER INFORMATION</u></b>	68
<b><u>Item 1. Legal Proceedings</u></b>	68
<b><u>Item 1A. Risk Factors</u></b>	69

<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	69
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	69
<b><u>Item 5. Other Information</u></b>	69
<b><u>Item 6. Exhibits</u></b>	69
<b><u>Signatures</u></b>	72
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

**Table of Contents****PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****INDEPENDENT BANK CORP.  
CONSOLIDATED BALANCE SHEETS**

(Unaudited Dollars in Thousands, Except Share and Per Share Amounts)

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
CASH AND DUE FROM BANKS	\$ 49,242	\$ 42,112
INTEREST EARNING DEPOSITS WITH BANKS	17,042	119,170
FED FUNDS SOLD AND SHORT TERM INVESTMENTS	417	
SECURITIES		
Trading Assets	8,521	7,597
Securities Available for Sale	341,362	377,457
Securities Held to Maturity (fair value \$237,828 and \$201,234 at March 31, 2011 and December 31, 2010, respectively)	239,305	202,732
<b>TOTAL SECURITIES</b>	<b>589,188</b>	<b>587,786</b>
LOANS HELD FOR SALE	8,643	27,917
LOANS		
Commercial and Industrial	508,839	502,952
Commercial Real Estate	1,770,324	1,717,118
Commercial Construction	123,428	129,421
Small Business	80,817	80,026
Residential Real Estate	462,110	473,936
Residential Construction	3,256	4,175
Home Equity	619,727	579,278
Consumer Other	59,873	68,773
<b>TOTAL LOANS</b>	<b>3,628,374</b>	<b>3,555,679</b>
Less: Allowance for Loan Losses	(46,444)	(46,255)
<b>NET LOANS</b>	<b>3,581,930</b>	<b>3,509,424</b>
FEDERAL HOME LOAN BANK STOCK	35,854	35,854
BANK PREMISES AND EQUIPMENT, NET	46,481	45,712
GOODWILL	130,074	129,617
IDENTIFIABLE INTANGIBLE ASSETS	11,877	12,339
BANK OWNED LIFE INSURANCE	83,511	82,711
OTHER REAL ESTATE OWNED & FORECLOSED ASSETS	9,406	7,333
OTHER ASSETS	82,118	95,763
<b>TOTAL ASSETS</b>	<b>\$ 4,645,783</b>	<b>\$ 4,695,738</b>

LIABILITIES AND STOCKHOLDERS EQUITY		
DEPOSITS		
Demand Deposits	\$ 837,705	\$ 842,067
Savings and Interest Checking Accounts	1,348,242	1,375,254
Money Market	724,203	717,286
Time Certificates of Deposit Over \$100,000	224,178	219,480
Other Time Certificates of Deposits	450,598	473,696
<b>TOTAL DEPOSITS</b>	<b>3,584,926</b>	<b>3,627,783</b>
BORROWINGS		
Federal Home Loan Bank Borrowings	277,285	302,414
Federal Funds Purchased and Assets Sold Under Repurchase Agreements	184,738	168,119
Junior Subordinated Debentures	61,857	61,857
Subordinated Debentures	30,000	30,000
Other Borrowings	2,838	3,044
<b>TOTAL BORROWINGS</b>	<b>556,718</b>	<b>565,434</b>
OTHER LIABILITIES	56,154	66,049
<b>TOTAL LIABILITIES</b>	<b>4,197,798</b>	<b>4,259,266</b>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred Stock, \$.01 par value. Authorized: 1,000,000 Shares Outstanding: None		
Common Stock, \$.01 par value. Authorized: 75,000,000 Issued and Outstanding : 21,407,211 shares at March 31, 2011 and 21,220,801 shares at December 31, 2010 (Includes 245,340 and 219,900 shares of unvested fully participating restricted stock awards, respectively)		
	212	210
Shares Held in Rabbi Trust at Cost 174,537 shares in March 31, 2011 and 178,382 shares at December 31, 2010	(2,752)	(2,738)
Deferred Compensation Obligation	2,752	2,738
Additional Paid in Capital	230,581	226,708
Retained Earnings	217,443	210,320
Accumulated Other Comprehensive Loss, Net of Tax	(251)	(766)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>447,985</b>	<b>436,472</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 4,645,783</b>	<b>\$ 4,695,738</b>

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

**Table of Contents**

**INDEPENDENT BANK CORP.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited Dollars in Thousands, Except Share and Per Share Data)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>INTEREST INCOME</b>		
Interest on Loans	\$ 43,216	\$ 44,047
Interest on Loans Held for Sale	119	106
Taxable Interest and Dividends on Securities	5,493	6,469
Non-taxable Interest and Dividends on Securities	113	202
Interest on Federal Funds Sold and Short-Term Investments	17	24
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	<b>48,958</b>	<b>50,848</b>
<b>INTEREST EXPENSE</b>		
Interest on Deposits	3,485	5,939
Interest on Borrowings	4,000	4,699
<b>TOTAL INTEREST EXPENSE</b>	<b>7,485</b>	<b>10,638</b>
<b>NET INTEREST INCOME</b>	<b>41,473</b>	<b>40,210</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>2,200</b>	<b>4,650</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>39,273</b>	<b>35,560</b>
<b>NON-INTEREST INCOME</b>		
Service Charges on Deposit Accounts	3,959	3,131
Interchange and ATM Fees	1,702	1,090
Investment Management	3,216	2,728
Mortgage Banking Income, Net	1,047	1,000
Bank Owned Life Insurance Income	706	721
Gross Change on Write-Down of Certain Investments to Fair Value	249	180
Less: Non-Credit Related Other-Than-Temporary Impairment	(289)	(358)
Net Loss on Write-Down of Certain Investments to Fair Value	(40)	(178)
Other Non-Interest Income	2,008	1,558
<b>TOTAL NON-INTEREST INCOME</b>	<b>12,598</b>	<b>10,050</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and Employee Benefits	20,252	18,464
Occupancy and Equipment Expenses	4,575	4,135
Data Processing and Facilities Management	1,638	1,294
FDIC Assessment	1,291	1,321
Advertising Expense	938	441

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

Telephone	527	546
Software Maintenance	463	495
Legal	419	803
Other Non-Interest Expense	6,379	6,089
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>36,482</b>	<b>33,588</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>15,389</b>	<b>12,022</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>4,201</b>	<b>2,795</b>
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	<b>\$ 11,188</b>	<b>\$ 9,227</b>
<b>BASIC EARNINGS PER SHARE</b>	<b>\$ 0.53</b>	<b>\$ 0.44</b>
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$ 0.52</b>	<b>\$ 0.44</b>
<b>WEIGHTED AVERAGE COMMON SHARES (BASIC)</b>	<b>21,298,257</b>	<b>20,937,589</b>
Common Share Equivalents	46,082	70,833
<b>WEIGHTED AVERAGE COMMON SHARES (DILUTED)</b>	<b>21,344,339</b>	<b>21,008,422</b>

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



**Table of Contents****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY***(Unaudited Dollars in Thousands, Except Per Share Data)*

	Common Stock Outstanding	Common Stock	Shares Held in Trust at Cost	Deferred Compensation Obligation	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	TOTAL
BALANCE DECEMBER 31, 2010	\$ 21,220,801	\$ 210	\$ (2,738)	\$ 2,738	\$ 226,708	\$ 210,320	\$ (766)	\$ 436,472
COMPREHENSIVE INCOME:								
Net Income						11,188		11,188
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)							(640)	
Change in Fair Value of Cash Flow Hedges, Net of Tax and Realized Gains/(Losses)							994	
Amortization of Prior Service Cost, net of tax							161	
Other Comprehensive Income							515	515
TOTAL COMPREHENSIVE INCOME								11,703
COMMON DIVIDEND DECLARED (\$0.19 PER SHARE)						(4,065)		(4,065)
PROCEEDS FROM EXERCISE OF STOCK OPTIONS	133,627	2			3,065			3,067
TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY					231			231
EQUITY BASED COMPENSATION					716			716

RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS SURRENDERED	52,670				(216)			(216)
SHARES ISSUED UNDER DIRECT STOCK PURCHASE PLAN	113				3			3
DEFERRED COMPENSATION OBLIGATION TAX BENEFIT RELATED TO DEFERRED COMPENSATION DISTRIBUTIONS			(14)	14				
					74			74
BALANCE MARCH 31, 2011	\$ 21,407,211	\$ 212	\$ (2,752)	\$ 2,752	\$ 230,581	\$ 217,443	\$ (251)	\$ 447,985
BALANCE DECEMBER 31, 2009	\$ 21,072,196	\$ 209	\$ (2,482)	\$ 2,482	\$ 225,088	\$ 184,599	\$ 2,753	\$ 412,649
COMPREHENSIVE INCOME:								
Net Income						9,227		9,227
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)							1,523	
Change in Fair Value of Cash Flow Hedges, Net of Tax and Realized Gains							(1,721)	
Amortization of Prior Service Cost, net of tax							23	
Other Comprehensive Income							(175)	(175)
TOTAL COMPREHENSIVE INCOME								9,052
DIVIDENDS DECLARED:						(3,809)		(3,809)

COMMON DECLARED (\$0.18 PER SHARE) PROCEEDS FROM EXERCISE OF STOCK OPTIONS	4,050				47			47
TAX BENEFIT RELATED TO EQUITY AWARD ACTIVITY				27				27
EQUITY BASED COMPENSATION RESTRICTED STOCK AWARDS GRANTED, NET OF AWARDS				276				276
SURRENDERED DEFERRED COMPENSATION OBLIGATION	90,749		(18)	14				(18)
BALANCE MARCH 31, 2010	\$ 21,166,995	\$ 209	\$ (2,496)	\$ 2,496	\$ 225,373	\$ 190,064	\$ 2,578	\$ 418,224

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

**Table of Contents**

**INDEPENDENT BANK CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Unaudited Dollars In Thousands)*

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 11,188	\$ 9,227
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Depreciation and Amortization	2,378	1,120
Provision for Loan Losses	2,200	4,650
Deferred Income Tax Provision	(11)	(7)
Net Gain on Sale of Investments		
Loss on Write-Down of Investments in Securities Available for Sale	40	178
Loss on Sale of Fixed Assets		279
Gain on Sale of Other Real Estate Owned	(56)	(13)
Loss on Write-Down of Other Real Estate Owned	530	
Gain Resulting from Early Termination of Hedging Relationship		
Realized Gain on Sale Leaseback Transaction	(258)	(258)
Stock Based Compensation	716	276
Increase in Cash Surrender Value of Bank Owned Life Insurance	(706)	(722)
Change in Fair Value on Loans Held for Sale	(639)	
Proceeds from Bank Owned Life Insurance		
Net Change In:		
Trading Assets	(924)	(1,228)
Loans Held for Sale	19,913	5,896
Other Assets	13,378	5,218
Other Liabilities	(8,097)	332
<b>TOTAL ADJUSTMENTS</b>	<b>28,464</b>	<b>15,721</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>39,652</b>	<b>24,948</b>
<b>CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES:</b>		
Proceeds from Sales of Securities Available For Sale		
Proceeds from Maturities and Principal Repayments of Securities Available For Sale	34,932	37,258
Purchase of Securities Available For Sale		
Proceeds from Maturities and Principal Repayments of Securities Held to Maturity	8,130	2,355
Purchase of Securities Held to Maturity	(44,931)	
Purchase of Federal Home Loan Bank Stock, net		
Purchase of Bank Owned Life Insurance	(94)	(93)
Net Increase in Loans	(78,228)	(20,340)
Cash Used In Business Combinations	(457)	(269)
Purchase of Bank Premises and Equipment	(1,995)	(2,108)
Proceeds from the Sale of Bank Premises and Equipment		36

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

Proceeds Resulting from Early Termination of Hedging Relationship		
Proceeds from the Sale of Other Real Estate Owned and Foreclosed Assets	514	836
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(82,129)</b>	<b>17,675</b>
<b>CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES:</b>		
Net Decrease in Time Deposits	(18,400)	(54,129)
Net (Decrease)/Increase in Other Deposits	(24,457)	152,688
Net Increase/(Decrease) in Federal Funds Purchased and Assets Sold Under Repurchase Agreements	16,619	(6,016)
Net Increase/(Decrease) in Short Term Federal Home Loan Bank Advances	20,000	(35,000)
Net Decrease in Long Term Federal Home Loan Bank Advances	(45,000)	
Net (Decrease)/Increase in Treasury Tax & Loan Notes	(206)	721
Proceeds from Exercise of Stock Options	3,067	47
Tax Benefit from Stock Option Exercises	231	27
Restricted Shares Surrendered	(216)	(18)
Deferred Compensation Obligation	74	
Shares Issued Under Direct Stock Purchase Plan	3	
Common Dividends Paid	(3,819)	(3,793)
<b>NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES</b>	<b>(52,104)</b>	<b>54,527</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(94,581)</b>	<b>97,150</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>161,282</b>	<b>121,905</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 66,701</b>	<b>\$ 219,055</b>

**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:**

Transfer of Loans to Foreclosed Assets	\$ 3,061	\$ 2,819
--	----------	----------

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

**Table of Contents**

**CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 BASIS OF PRESENTATION**

Independent Bank Corp. (the Company) is a state chartered, federally registered bank holding company, incorporated in 1985. The Company is the sole stockholder of Rockland Trust Company (Rockland Trust or the Bank), a Massachusetts trust company chartered in 1907.

In the first quarter of 2011, the Company formed Goddard Avenue Securities Corp., a Massachusetts corporation and wholly owned subsidiary of Rockland Trust Company. This entity was formed in order to hold investment securities for Rockland Trust Company. Subsequent to March 31, 2011, Rockland Trust established Rockland MHEF Fund LLC, a Delaware limited liability company, as a wholly-owned subsidiary of Rockland Trust Company. Massachusetts Housing Equity Fund, Inc. is a third party non-member manager of Rockland MHEF Fund LLC. This entity was established to accommodate the Company's investments in low income housing tax projects. There have been no other changes to the entity structure of the Company subsequent to December 31, 2010.

All material intercompany balances and transactions have been eliminated in consolidation. Certain previously reported amounts may have been reclassified to conform to the current year's presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or any other interim period.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission.

**NOTE 2 RECENT ACCOUNTING STANDARDS**

**FASB ASC Topic No. 310, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring Update No. 2011-02.** Issued in April 2011, this update provides guidance and clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring, in addition the previously deferred disclosure requirements originally included in Update No. 2010-20 are

**Table of Contents**

effective upon adoption of this standard. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. The Company does not anticipate the adoption of this standard to have a material impact on the Company's consolidated financial position.

**NOTE 3 SECURITIES**

The following table presents a summary of the cost and fair value of the Company's investment securities.

**The amortized cost, gross unrealized holding gains and losses, other-than-temporary impairment recorded in other comprehensive income, and fair value of securities available for sale for the periods below were as follows:**

	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Other-Than-Losses	Temporary Impairment	Fair Value	Amortized Cost	Gross Unrealized Gains	Other-Than-Losses	Temporary Impairment	Fair Value
			(Dollars In Thousands)					(Dollars In Thousands)		
U.S. Treasury Securities	\$ 707	\$ 2	\$	\$	\$ 709	\$ 715	\$ 2	\$	\$	\$ 717
Agency Mortgage-Backed Securities	267,853	14,883			282,736	296,821	16,481			313,302
Agency Collateralized Mortgage Obligations	40,737	617	(47)		41,307	45,426	779	(70)		46,135
Private Mortgage-Backed Securities (1) (2)	9,005			7	9,012	10,408			(154)	10,254
Single Issuer Trust Preferred Securities Issued by Banks	5,000		(538)		4,462	5,000		(779)		4,221
Pooled Trust Preferred Securities Issued by Banks and Insurers(1)	8,533		(2,112)	(3,285)	3,136	8,550		(2,309)	(3,413)	2,828
<b>TOTAL</b>	<b>\$331,835</b>	<b>\$15,502</b>	<b>\$(2,697)</b>	<b>\$(3,278)</b>	<b>\$341,362</b>	<b>\$366,920</b>	<b>\$17,262</b>	<b>\$(3,158)</b>	<b>\$(3,567)</b>	<b>\$377,457</b>

**The amortized cost, gross unrealized holding gains and losses, other-than-temporary impairment recorded in other comprehensive income, and fair value of securities held to maturity for the periods below were as follows:**

	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Other-Than-Losses	Temporary Impairment	Fair Value	Amortized Cost	Gross Unrealized Gains	Other-Than-Losses	Temporary Impairment	Fair Value

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

	<i>(Dollars In Thousands)</i>				<i>(Dollars In Thousands)</i>					
Agency Mortgage-Backed Securities	\$131,262	\$1,204	\$ (2,034)	\$	\$130,432	\$ 95,697	\$1,348	\$ (1,778)	\$	\$ 95,267
Agency Collateralized Mortgage Obligations	86,934	561	(1,337)		86,158	89,823	600	(1,691)		88,732
State, County, and Municipal Securities	9,454	137			9,591	10,562	167			10,729
Single Issuer Trust Preferred Securities Issued by Banks	11,655	15	(23)		11,647	6,650	19	(163)		6,506
<b>TOTAL</b>	<b>\$239,305</b>	<b>\$1,917</b>	<b>\$ (3,394)</b>	<b>\$</b>	<b>\$237,828</b>	<b>\$202,732</b>	<b>\$2,134</b>	<b>\$ (3,632)</b>	<b>\$</b>	<b>\$201,234</b>

- (1) During the quarter ended March 31, 2011 and the year ended December 31, 2010, the Company recorded gross changes on other-than-temporarily impaired ( OTTI ) securities of \$249,000 and \$497,000. Included in these amounts were losses of \$289,000 and \$831,000 which were reclassified to OCI as they were deemed to be non-credit related.
- (2) Included in the non-credit component of OTTI for this class of securities is an unrealized gain of \$89,000, which resulted from the Company having previously recognized credit losses in excess of the unrealized losses in OCI. In such instances, credit losses recognized in earnings have been offset by an unrealized gain. When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale. There were no recorded gross gains and losses on the sales of investment securities for the periods ending March 31, 2011 and 2010.
- A schedule of the contractual maturities of securities available for sale and securities held to maturity is presented below:



**Table of Contents**

	<b>Available for Sale</b>		<b>Held to Maturity</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
	(Dollars in Thousands)		(Dollars in Thousands)	
Due in One Year or Less	\$ 707	\$ 709	\$ 1,850	\$ 1,870
Due from One Year to Five Years	20,167	20,799	10,094	10,169
Due from Five to Ten Years	76,609	80,747	4,178	4,347
Due after Ten Years	234,352	239,107	223,183	221,442
<b>TOTAL</b>	<b>\$331,835</b>	<b>\$341,362</b>	<b>\$239,305</b>	<b>\$237,828</b>

The actual maturities of agency mortgage-backed securities, collateralized mortgage obligations, private mortgage-backed securities, and corporate debt securities will differ from the contractual maturities, due to the ability of the issuers to prepay underlying obligations. At March 31, 2011 and December 31, 2010, the Bank had \$17.8 million and \$24.3 million of callable securities in its investment portfolio.

At March 31, 2011 and December 31, 2010 investment securities carried at \$369.4 million and \$350.3 million, respectively, were pledged to secure public deposits, assets sold under repurchase agreements, treasury tax and loan notes, letters of credit, and for other purposes.

At March 31, 2011 and December 31, 2010, the Company had no investments in obligations of individual states, counties, or municipalities, which exceeded 10% of stockholders' equity.

**Other-Than-Temporary Impairment**

The Company continually reviews investment securities for the existence of other-than-temporary impairment ( OTTI ), taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, the credit worthiness of the obligor of the security, volatility of earnings, current analysts evaluations, the Company's intent to sell the security or whether it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery, as well as other qualitative factors. The term

other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment.

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

**Table of Contents**

Description of Securities	# of holdings	Less than 12 months		March 31, 2011 12 months or longer		Total	
		Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
		Value	Losses	Value	Losses	Value	Losses
Agency Mortgage-Backed Securities	5	\$ 62,411	\$ (2,034)	\$	\$	\$ 62,411	\$ (2,034)
Agency Collateralized Mortgage Obligations Single Issuer Trust Preferred Securities Issued by Banks and Insurers	6	71,312	(1,384)			71,312	(1,384)
Pooled Trust Preferred Securities Issued by Banks and Insurers	3	10,096	(23)	4,462	(538)	14,558	(561)
	2			2,552	(2,112)	2,552	(2,112)
<b>TOTAL TEMPORARILY IMPAIRED SECURITIES</b>	<b>16</b>	<b>\$ 143,819</b>	<b>\$ (3,441)</b>	<b>\$ 7,014</b>	<b>\$ (2,650)</b>	<b>\$ 150,833</b>	<b>\$ (6,091)</b>

Description of Securities	# of holdings	Less than 12 months		December 31, 2010 12 months or longer		Total	
		Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
		Value	Losses	Value	Losses	Value	Losses
Agency Mortgage-Backed Securities	4	\$ 48,956	\$ (1,778)	\$	\$	\$ 48,956	\$ (1,778)
Agency Collateralized Mortgage Obligations Single Issuer Trust Preferred Securities Issued by Banks and Insurers	6	72,631	(1,761)			72,631	(1,761)
Pooled Trust Preferred Securities Issued by Banks and Insurers	2	4,950	(163)	4,221	(779)	9,171	(942)
	2			2,364	(2,309)	2,364	(2,309)
<b>TOTAL TEMPORARILY IMPAIRED SECURITIES</b>	<b>14</b>	<b>\$ 126,537</b>	<b>\$ (3,702)</b>	<b>\$ 6,585</b>	<b>\$ (3,088)</b>	<b>\$ 133,122</b>	<b>\$ (6,790)</b>

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

earnings, and current analysts' evaluations.

As a result of the Company's review of these qualitative and quantitative factors, the causes of the impairments listed in the table above by category are as follows at March 31, 2011:

*Agency Mortgage-Backed Securities and Collateralized Mortgage Obligations:* The unrealized loss on the Company's investment in these securities is attributable to changes in interest rates and not due to credit deterioration, as these securities are implicitly guaranteed by the U.S. Government or one of its agencies.

*Single Issuer Trust Preferred Securities:* This portfolio consists of three securities, all of which are below investment grade. The unrealized loss on these securities is attributable to the illiquid nature of the trust preferred market in the current economic environment. Management evaluates various financial metrics for each of the issuers, including capitalization rates.

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



TOTAL	\$ 17,538	\$ (2,112)	\$ (3,278)	\$ 12,148	\$ (10,568)	\$ (13,846)
-------	-----------	------------	------------	-----------	-------------	-------------

(1) For the securities deemed impaired, the amortized cost reflects previously recorded OTTI charges recognized in earnings.

	Class	Number of Performing Banks and Insurance Cos. in Issuance (Unique)	Current Deferrals/Defaults/Losses (As a % of Original Collateral)	Total Projected Defaults/Losses (as a % of Performing Collateral)	Excess Subordination (After Taking into Account Best Estimate of Future Deferrals/Defaults/Losses) (1)	Lowest credit Ratings as of date (2)
<b>Pooled Trust Preferred Securities</b>						
Trust Preferred Security A	C1	58	38.24%	27.24%	0.00%	C
Trust Preferred Security B	D	58	38.24%	27.24%	0.00%	C
Trust Preferred Security C	C1	48	37.22%	25.63%	0.00%	C
Trust Preferred Security D	D	48	37.22%	25.63%	0.00%	C
Trust Preferred Security E	C1	50	29.56%	20.65%	0.00%	C
Trust Preferred Security F	B	34	27.07%	23.50%	23.24%	CC
Trust Preferred Security G	A1	34	27.07%	23.50%	46.61%	CCC+
<b>Private Mortgage-Backed Securities</b>						
Private Mortgage-Backed Securities One	2A1	N/A	0.00%	9.76%	0.00%	C
Private Mortgage-Backed Securities Two	A19	N/A	1.83%	5.18%	0.00%	B3

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

(2) The Company reviewed credit ratings provided by S&P, Moody's and Fitch in its evaluation of issuers. Per review of the factors outlined above, seven of the securities shown in the table above were deemed to be OTTI. The remaining securities were not deemed to be OTTI as the Company does not intend to sell these investments and

has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell the security before the recovery of its amortized cost basis.

The Company recorded credit related OTTI of \$40,000 and \$178,000 through earnings for the quarters ended March 31, 2011 and 2010, respectively. The following table shows the cumulative credit related component of OTTI.

**Table of Contents**

**For the Three Months Ended March 31, 2011**

	<b>Credit Related Component of Other-Than- Temporary Impairment</b> (Dollars in Thousands)
Balance at Beginning of Period	\$ (10,528)
Add:	
Incurred on Securities not Previously Impaired	
Incurred on Securities Previously Impaired	(40)
Less:	
Realized Gain/Loss on Sale of Securities	
Reclassification Due to Changes in Company's Intent	
Increases in Cash Flow Expected to be Collected	
 BALANCE AT END OF PERIOD	 \$ (10,568)

**Table of Contents****NOTE 4 LOANS, ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY**

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

	As of March 31, 2011 (Dollars in Thousands)							Total
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	
<b>Allowance for Loan Losses:</b>								
Beginning								
Balance	\$ 10,423	\$ 21,939	\$ 2,145	\$ 3,740	\$ 2,915	\$ 3,369	\$ 1,724	\$ 46,255
Charge-offs	888	652		266	122	78	478	2,484
Recoveries	202		50	28		4	189	473
Provision	1,106	1,066	(202)	(115)	63	100	182	2,200
Ending Balance	\$ 10,843	\$ 22,353	\$ 1,993	\$ 3,387	\$ 2,856	\$ 3,395	\$ 1,617	\$ 46,444
Ending Balance: individually evaluated for impairment	\$ 757	\$ 105	\$	\$ 105	\$ 916	\$ 18	\$ 252	\$ 2,153
Ending Balance: collectively evaluated for impairment	\$ 10,086	\$ 22,248	\$ 1,993	\$ 3,282	\$ 1,940	\$ 3,377	\$ 1,365	\$ 44,291
<b>Financing Receivables:</b>								
Ending Balance: total loans by group	\$508,839	\$1,770,324	\$123,428	\$80,817	\$465,366	\$619,727	\$59,873	\$3,628,374(1)
Ending Balance: individually evaluated for impairment	\$ 3,439	\$ 26,412	\$ 1,336	\$ 2,446	\$ 10,091	\$ 425	\$ 2,113	\$ 46,262
	\$505,400	\$1,743,912	\$122,092	\$78,371	\$455,275	\$619,302	\$57,760	\$3,582,112



Ending  
Balance:  
collectively  
evaluated for  
impairment

	As of December 31, 2010							Total
	Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business	Residential Real Estate	Consumer Home Equity	Consumer Other	
<b>Allowance for Loan Losses:</b>								
Beginning								
Balance	\$ 7,545	\$ 19,451	\$ 2,457	\$ 3,372	\$ 2,840	\$ 3,945	\$ 2,751	\$ 42,361
Charge-offs	5,170	3,448	1,716	2,279	557	939	2,078	16,187
Recoveries	361	1		217	59	131	657	1,426
Provision	7,687	5,935	1,404	2,430	573	232	394	18,655
Ending Balance	\$ 10,423	\$ 21,939	\$ 2,145	\$ 3,740	\$ 2,915	\$ 3,369	\$ 1,724	\$ 46,255

Ending Balance: individually evaluated for impairment	\$ 511	\$ 411	\$ 151	\$ 221	\$ 991	\$ 17	\$ 245	\$ 2,547
---	--------	--------	--------	--------	--------	-------	--------	----------

Ending Balance: collectively evaluated for impairment	\$ 9,912	\$ 21,528	\$ 1,994	\$ 3,519	\$ 1,924	\$ 3,352	\$ 1,479	\$ 43,708
---	----------	-----------	----------	----------	----------	----------	----------	-----------

**Financing  
Receivables:**

Ending Balance: total loans by group	\$502,952	\$1,717,118	\$129,421	\$80,026	\$478,111	\$579,278	\$68,773	\$3,555,679(1)
--	-----------	-------------	-----------	----------	-----------	-----------	----------	----------------

Ending Balance: individually evaluated for impairment	\$ 3,823	\$ 26,665	\$ 1,999	\$ 2,494	\$ 9,963	\$ 428	\$ 2,014	\$ 47,386
---	----------	-----------	----------	----------	----------	--------	----------	-----------

Ending Balance:	\$499,129	\$1,690,453	\$127,422	\$77,532	\$468,148	\$578,850	\$66,759	\$3,508,293
--------------------	-----------	-------------	-----------	----------	-----------	-----------	----------	-------------

collectively  
evaluated for  
impairment

- (1) The amount of deferred fees included in the ending balance was \$2.8 million at both March 31, 2011 and December 31, 2010, respectively.

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

Commercial Portfolio:

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

Real Estate Commercial Loans in this category consist of mortgage loans to finance investment in real property such as multi-family residential, commercial/retail, office, industrial, hotels, educational and healthcare facilities and other specific use properties. Loans are typically written with amortizing payment structures. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy and regulatory guidelines. Repayment

**Table of Contents**

sources consist of: primarily, cash flow from operating leases and rents, and secondarily, liquidation of assets.

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

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

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

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

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

**Consumer Real Estate Portfolio:**

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

**Consumer Home Equity** Home equity loans and lines are made to qualified individuals for legitimate purposes secured by senior or junior mortgage liens on owner-occupied 1-4 family homes, condominiums or vacation homes or on non-owner occupied 1-4 family homes with more restrictive loan to value requirements. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan to value ratios within established policy guidelines.

**Consumer Portfolio:**

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

**Table of Contents****Credit Quality**

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

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

**1- 6 Rating Pass**

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

**7 Rating Potential Weakness**

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

**8 Rating Definite Weakness Loss Unlikely**

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

**9 Rating Partial Loss Probable**

Borrowers exhibit well defined weaknesses that jeopardize the orderly liquidation of debt with the added provision that the weaknesses make collection of the debt in full, on the basis of

**Table of Contents**

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

**10 Rating Definite Loss**

Borrowers deemed incapable of repayment. Loans to such borrowers are considered uncollectible and of such little value that continuation as active assets of the Bank is not warranted.

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

The Company utilizes a comprehensive strategy for monitoring commercial credit quality. Borrowers are required to provide updated financial information at least annually which is carefully evaluated for any changes in credit quality. Larger loan relationships are subject to a full annual credit review by an experienced credit analysis group. Additionally, the Company retains an independent loan review firm to evaluate the credit quality of the commercial loan portfolio. The independent loan review process achieves significant penetration into the commercial loan portfolio and reports the results of these reviews to the Audit Committee of the Board of Directors on a quarterly basis.

In addition to the extensive quantitative approach for monitoring credit quality, the commercial loan officers endeavor to maintain strong, interactive relationships with each customer. These close relationships facilitate the early identification of potential weakness within the loan portfolio. The loan officers proactively work with troubled borrowers to alleviate potential problems and avoid further credit quality deterioration. Adversely-rated credits that demonstrate significant deterioration in credit quality are transferred to a specialized group of seasoned workout officers for individual attention.

The following table details the internal risk grading categories for the Company's commercial and industrial, commercial real estate, commercial construction and small business portfolios:

**Table of Contents**

Category	Risk Rating	March 31, 2011					Total
		Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business		
Pass	1 - 6	\$ 448,098	\$ 1,557,074	\$ 105,373	\$ 72,086	\$ 2,182,631	
Potential Weakness	7	33,693	98,572	6,642	5,125	144,032	
Definite Weakness							
Loss Unlikely	8	25,680	112,447	11,413	3,459	152,999	
Partial Loss Probable	9	1,368	2,231		147	3,746	
Definitive Loss	10						
Total		\$ 508,839	\$ 1,770,324	\$ 123,428	\$ 80,817	\$ 2,483,408	

Category	Risk Rating	December 31, 2010					Total
		Commercial and Industrial	Commercial Real Estate	Commercial Construction	Small Business		
Pass	1 - 6	\$ 445,116	\$ 1,496,822	\$ 110,549	\$ 70,987	\$ 2,123,474	
Potential Weakness	7	30,250	99,400	6,311	5,252	141,213	
Definite Weakness							
Loss Unlikely	8	25,864	117,850	12,561	3,533	159,808	
Partial Loss Probable	9	1,722	3,046		254	5,022	
Definitive Loss	10						
Total		\$ 502,952	\$ 1,717,118	\$ 129,421	\$ 80,026	\$ 2,429,517	

For the Company's residential real estate, residential construction, home equity and other consumer portfolios, the quality of the loan is best indicated by the repayment performance of an individual borrower. However, the Company does supplement performance data with current Fair Isaac Corporation ( FICO ) and Loan to Value ( LTV ) estimates. Current FICO data is purchased and appended to all consumer loans on a quarterly basis. In addition, automated valuation services and broker opinions of value are used to supplement original value data for the residential and home equity portfolios, periodically, typically twice per annum. Delinquency status is determined using payment performance, while accrual status may be determined using a combination of payment performance, expected borrower viability and collateral value. Nonaccrual consumer loans that have been restructured must perform for a period of 6 months before being removed from nonaccrual status. Delinquent consumer loans are managed by a team of seasoned collection specialists. The following table shows the weighted average FICO scores and the weighted average combined LTV ratio for the periods indicated below:

	As of	
	March 31, 2011	December 31, 2010
Residential Portfolio FICO Score (re-scored)	736	738

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

Combined LTV (re-valued)	65.0%	64.0%
Home Equity Portfolio		
FICO Score (re-scored)	761	760
Combined LTV (re-valued)	55.0%	55.0%

The average FICO scores above for 2011 are based upon rescues available at March 31, 2011. The average FICO scores above for 2010 are based upon re-scores available from November 2010 and actual score data for loans booked between December 1 and December

**Table of Contents**

31, 2010. The LTV ratios for both periods are based on updated automated valuations as of November 30, 2010.

The Bank's philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. The Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. As a general rule, loans more than 90 days past due with respect to principal or interest are classified as a nonaccrual loan. As permitted by banking regulations, certain consumer loans past due 90 days or more may continue to accrue interest. The Company also may use discretion regarding other loans over 90 days delinquent if the loan is well secured and in process of collection.

The Company considers all nonaccrual loans and any loans over 90 days delinquent to be nonperforming. Set forth is information regarding the Company's nonperforming loans at the period shown.

The following table shows nonaccrual loans at the dates indicated:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
	(Dollars In Thousands)	
Loans accounted for on a nonaccrual basis (1)		
Commercial and Industrial	\$ 3,011	\$ 3,123
Commercial Real Estate	7,893	7,837
Commercial Construction	1,336	1,999
Small Business	617	887
Residential Real Estate	7,299	6,728
Home Equity	2,589	1,752
Consumer Other	426	505
Total nonaccrual loans	\$ 23,171	\$ 22,831

(1) Included in these amounts were \$4.5 million and \$4.0 million nonaccruing TDRs at March 31, 2011 and December 31, 2010, respectively.

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



**Table of Contents****March 31, 2011**

	30-59 days		60-89 days		90 days or more		Total Past Due		Current	Recorded	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance		Total Financing Receivables	Investment >90 Days and Accruing
Commercial and Industrial	29	\$ 1,759	11	\$ 1,036	16	\$ 2,119	56	\$ 4,914	\$ 503,925	\$ 508,839	\$
Commercial Real Estate	18	3,974	8	4,901	27	6,378	53	15,253	1,755,071	1,770,324	
Commercial Construction	1	400			5	1,336	6	1,736	121,692	123,428	
Small Business	53	732	12	612	16	99	81	1,443	79,374	80,817	
Residential Real Estate	15	3,664	11	3,549	25	5,181	51	12,394	449,716	462,110	
Residential Construction									3,256	3,256	
Home Equity	26	1,326	10	1,063	21	1,699	57	4,088	615,639	619,727	
Consumer Other	289	2,353	69	387	85	576	443	3,316	56,557	59,873	226
<b>Total</b>	<b>431</b>	<b>\$ 14,208</b>	<b>121</b>	<b>\$ 11,548</b>	<b>195</b>	<b>\$ 17,388</b>	<b>747</b>	<b>\$ 43,144</b>	<b>\$ 3,585,230</b>	<b>\$ 3,628,374</b>	<b>\$ 226</b>

**December 31, 2010**

	30-59 days		60-89 days		90 days or more		Total Past Due		Current	Recorded	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance		Total Financing Receivables	Investment >90 Days and Accruing
Commercial and Industrial	16	\$ 1,383	8	\$ 910	18	\$ 2,207	42	\$ 4,500	\$ 498,452	\$ 502,952	\$
Commercial Real Estate	13	2,809	7	4,820	29	6,260	49	13,889	1,703,229	1,717,118	
Commercial Construction					9	1,999	9	1,999	127,422	129,421	
Small Business	23	1,071	11	302	19	420	53	1,793	78,233	80,026	
	14	4,793	6	865	21	4,050	41	9,708	464,228	473,936	

Residential Real Estate Residential Construction									4,175	4,175	
Home Equity	31	1,737	8	878	12	1,095	51	3,710	575,568	579,278	4
Consumer Other	402	2,986	89	478	85	564	576	4,028	64,745	68,773	273
Total	499	\$ 14,779	129	\$ 8,253	193	\$ 16,595	821	\$ 39,627	\$ 3,516,052	\$ 3,555,679	\$ 277

In the course of resolving nonperforming loans, the Bank may choose to restructure the contractual terms of certain loans. The Bank attempts to work-out an alternative payment schedule with the borrower in order to avoid foreclosure actions. Any loans that are modified are reviewed by the Bank to identify if a TDR has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two.

The Bank's policy is to have any restructured loans which are on nonaccrual status prior to being modified remain on nonaccrual status for approximately 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.

The following table shows the TDR loans on accrual and nonaccrual status as of the dates indicated:



**Table of Contents****Three Months Ended March 31,  
2011**

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
--	--------------------------------	---	------------------------------	--	---

(Dollars in Thousands)

## With no Related Allowance Recorded:

Commercial & Industrial	\$ 1,876	\$ 2,357	\$	\$ 2,485	\$ 38
Commercial Real Estate	23,484	23,887		23,534	395
Commercial Construction	1,336	1,336		1,344	19
Small Business	1,309	1,421		1,766	28
Residential Real Estate (1)	204	205		205	
Consumer Home Equity					
Consumer Other	9	9		9	

Subtotal	28,218	29,215		29,343	480
----------	--------	--------	--	--------	-----

## With an Allowance Recorded:

Commercial & Industrial	\$ 1,563	\$ 1,564	\$ 757	\$ 2,233	\$ 24
Commercial Real Estate	2,929	3,452	105	2,935	42
Commercial Construction					
Small Business	1,137	1,151	105	1,251	16
Residential Real Estate (1)	9,886	10,285	916	9,899	92
Consumer Home Equity	425	433	18	426	6
Consumer Other	2,104	2,157	252	2,036	20

Subtotal	18,044	19,042	2,153	18,780	200
----------	--------	--------	-------	--------	-----

Total	\$ 46,262	\$ 48,257	\$ 2,153	\$ 48,123	\$ 680
-------	-----------	-----------	----------	-----------	--------

**Year Ended December 31,  
2010**

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
--	--------------------------------	---	------------------------------	--	---

(Dollars in Thousands)

## With no Related Allowance Recorded:

Commercial & Industrial	\$ 2,451	\$ 2,917	\$	\$ 2,539	\$ 171
Commercial Real Estate	19,538	20,280		20,223	1,394
Commercial Construction	230	230		248	13
Small Business	1,541	1,656		1,689	122
Residential Real Estate (1)	205	205		205	10
Consumer Home Equity					
Consumer Other	10	10		7	

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

Subtotal	23,975	25,298		24,911	1,710
With an Allowance Recorded:					
Commercial & Industrial	\$ 1,372	\$ 1,373	\$ 511	\$ 1,384	\$ 94
Commercial Real Estate	7,127	7,379	411	7,346	438
Commercial Construction	1,769	1,769	151	1,762	76
Small Business	953	954	221	956	63
Residential Real Estate (1)	9,758	10,146	991	9,836	396
Consumer Home Equity	428	435	17	432	21
Consumer Other	2,004	2,035	245	1,364	58
Subtotal	23,411	24,091	2,547	23,080	1,146
Total	\$ 47,386	\$ 49,389	\$ 2,547	\$ 47,991	\$ 2,856

(1) Includes residential construction loans.

**Table of Contents****NOTE 5 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Unvested restricted shares are considered outstanding in the computation of basic earnings per share as holders of unvested restricted stock awards participate fully in the awards of stock ownership of the Company, including voting and dividend rights. Diluted earnings per share have been calculated in a manner similar to that of basic earnings per share except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares (such as those resulting from the exercise of stock options) were issued during the period, computed using the treasury stock method.

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

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	(Dollars in Thousands)	
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$11,188	\$9,227
	<b>Weighted Average Shares</b>	
BASIC SHARES	21,298,257	20,937,589(1)
Effect of Dilutive Securities	46,082	70,833
DILUTIVE SHARES	21,344,339	21,008,422
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS PER SHARE		
BASIC EPS	\$ 0.53	\$ 0.44
Effect of Dilutive Securities	0.01	
DILUTIVE EPS	\$ 0.52	\$ 0.44

(1) Unvested restricted stock awards were not considered outstanding in the computation of basic earning per share due to the immaterial balance for the three months ended March 31, 2010.

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

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Stock Options	787,163	792,847
Restricted Stock Awards		21,194

**Table of Contents****NOTE 6 STOCK BASED COMPENSATION**

On February 10, 2011, the Company granted 27,750 restricted stock awards to certain non-executive officers of the Company and/or Bank. On February 17, 2011, the Company granted 33,000 restricted stock awards to certain executive officers of the Company and/or Bank. These restricted stock awards were issued from the 2005 Employee Stock Plan and were determined to have a fair value per share of \$27.58 and \$27.43, respectively, based upon the average of the high and low price at which the Company's common stock traded on the date of grant. The holders of these awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. The restricted stock awards vest over a five year period.

On February 10, 2011, the Company awarded non-qualified options to purchase 40,000 shares of common stock to certain non-executive officers of the Company and/or Bank. On February 17, 2011 the Company awarded non-qualified options to purchase 54,000 shares of common stock to certain executive officers of the Company and/or Bank. The options have been determined to have a fair value of \$6.80 and \$6.39 and will vest over a three year period and have a contractual life of ten years from date of grant. The following table shows the assumptions used to determine the fair value of the options:

	<b>February 10, 2011</b>	<b>February 17, 2011</b>
Volatility	32.38%	32.11%
Expected Life	5.5 Years	5 Years
Dividend Yield	2.90%	2.89%
Risk Free Interest Rate	2.57%	2.27%

**NOTE 7 DERIVATIVES AND HEDGING ACTIVITIES**

The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally to manage the Company's interest rate risk. Additionally, the Company enters into interest rate derivatives and foreign exchange contracts to accommodate the business requirements of its customers (customer related positions). The Company minimizes the market and liquidity risks of customer-related positions by entering into similar offsetting positions with broker-dealers.

Derivative instruments are carried at fair value in the Company's financial statements. The accounting for changes in the fair value of a derivative instrument is dependent upon whether or not it qualifies as a hedge for accounting purposes, and further, by the type of hedging relationship. The Company has entered into interest rate swap contracts, as part of the Company's interest rate risk management program, which are designated and qualify as cash flow hedges. In addition, the Company has entered into interest rate swap contracts and foreign exchange contracts with commercial banking customers, which are not afforded hedge accounting treatment.

**Table of Contents***Asset Liability Management*

The Bank currently utilizes interest rate swap agreements as hedging instruments against interest rate risk associated with the Company's borrowings. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount, for a predetermined period of time, from a second party. The amounts relating to the notional principal amount are not actually exchanged. The maximum length of time over which the Company is currently hedging its exposure to the variability in future cash flows for forecasted transactions related to the payment of variable interest on existing financial instruments is seven years. At March 31, 2011 and December 31, 2010, the Company had a total notional amount of \$175.0 million of interest rate swaps.

The following table reflects the Company's derivative positions for the periods indicated below for those derivatives which qualify as hedges for accounting purposes:

**Derivative Positions****Derivatives Designated as Hedging:****Cash Flow Hedges****As of March 31, 2011**

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value at
							March 31, 2011
(Dollars in Thousands)							
<b>Interest Rate Swaps</b>							
\$ 25,000	16-Feb-08	28-Dec-08	28-Dec-16	3 Month LIBOR	0.31%	5.04%	\$ (3,309)
25,000	16-Feb-08	28-Dec-08	28-Dec-16	3 Month LIBOR	0.31%	5.04%	(3,311)
25,000	8-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.31%	2.65%	(875)
25,000	9-Dec-08	10-Dec-08	10-Dec-13	3 Month LIBOR	0.31%	2.59%	(837)
25,000	9-Dec-08	10-Dec-08	10-Dec-18	3 Month LIBOR	0.31%	2.94%	210
50,000	17-Nov-09	20-Dec-10	20-Dec-14	3 Month LIBOR	0.31%	3.04%	(2,182)
Total	\$ 175,000					Total	\$ (10,304)

**As of December 31, 2010**

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Rate Received	Pay Fixed Swap Rate	Fair Value at
							December 31, 2010
(Dollars in Thousands)							



**Interest Rate Swaps**

			3 Month					
\$	25,000	16-Feb-08	28-Dec-08	28-Dec-16	LIBOR	0.30%	5.04%	\$ (3,713)
			3 Month					
	25,000	16-Feb-08	28-Dec-08	28-Dec-16	LIBOR	0.30%	5.04%	(3,682)
			3 Month					
	25,000	8-Dec-08	10-Dec-08	10-Dec-13	LIBOR	0.30%	2.65%	(1,044)
			3 Month					
	25,000	9-Dec-08	10-Dec-08	10-Dec-13	LIBOR	0.30%	2.59%	(1,002)
			3 Month					
	25,000	9-Dec-08	10-Dec-08	10-Dec-18	LIBOR	0.30%	2.94%	(109)
			3 Month					
	50,000	17-Nov-09	20-Dec-10	20-Dec-14	LIBOR	0.30%	3.04%	(2,656)
Total	\$ 175,000						Total	\$ (12,206)

For derivative instruments that are designated and qualify as hedging instruments, the effective portion of the gains or losses is reported as a component of OCI, and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately \$5.1 million (pre-tax), to be reclassified to earnings from OCI, as an increase in interest expense, related to the Company's cash flow hedges in the next twelve months. This reclassification is due to anticipated payments that will be made and/or received on the swaps based upon the forward curve as of March 31, 2011.

The ineffective portion of the cash flow hedge is recognized directly in earnings. The Company did not recognize any ineffectiveness for the quarter ending March 31, 2011, and recognized an immaterial amount related to hedge ineffectiveness during the quarter ending March 31, 2010.

**Table of Contents**

During the first quarter of 2010, one of the Company's \$25.0 million interest rate swaps failed to qualify for hedge accounting. The Company ceased hedge accounting on January 6, 2010, which was the last date the interest rate swap qualified for hedge accounting. As a result, the Company recognized a loss of \$238,000 directly in earnings as part of non-interest expense and reclassified \$107,000 from interest expense to non-interest expense within the first quarter of 2010. Additionally, a gain of \$191,000 which was previously deferred in OCI was immediately recognized in income during the first quarter, based on the Company's anticipation of the hedged forecasted transaction no longer being probable to occur. The Company terminated the swap in June 2010 as a result of management's decision to pay down the underlying borrowing and recognized \$792,000 in earnings through the date of termination.

The Company recognized net amortization income of \$61,000 and \$37,000, recorded as an offset to interest expense during the quarters ended March 31, 2011 and 2010, respectively, related to previously terminated swaps.

*Customer Related Positions*

Interest rate derivatives, primarily interest-rate swaps, offered to commercial borrowers through the Bank's loan level derivative program do not qualify as hedges for accounting purposes. The Bank believes that its exposure to commercial customer derivatives is limited because these contracts are simultaneously matched at inception with an offsetting dealer transaction. The commercial customer derivative program allows the Bank to retain variable-rate commercial loans while allowing the customer to synthetically fix the loan rate by entering into a variable-to-fixed interest rate swap. At March 31, 2011 and December 31, 2010 the Company had eighty-four and seventy-two customer-related positions and offsetting dealer transactions with dealer banks, respectively. At March 31, 2011 and December 31, 2010 the Bank had a total notional amount of \$338.8 million and \$307.0 million, respectively, of interest rate swap agreements with commercial borrowers and an equal notional amount of dealer transactions.

Foreign exchange contracts offered to commercial borrowers through the Bank's derivative program do not qualify as hedges for accounting purposes. The Company acts as a seller and buyer of foreign exchange contracts to accommodate its customers. To mitigate the market and liquidity risk associated with these derivatives, the Company enters into similar offsetting positions. At March 31, 2011 and December 31, 2010 the Company had eleven and eighteen foreign exchange contracts and offsetting dealer transactions, respectively. As of March 31, 2011 and December 31, 2010 the Company had a total notional amount of \$23.0 million and \$41.7 million of foreign exchange contracts with commercial borrowers and an equal notional amount of dealer transactions.

The Company does not enter into proprietary trading positions for any derivatives.

The following table reflects the Company's derivative positions for the periods indicated below for those derivatives not designated as hedging:

**Table of Contents****Derivative Positions****Derivatives Not Designated as Hedging:**

As of March 31, 2011	2011	2012	Notional Amount Maturing			Total	Fair Value
			2013	2014	Thereafter		
(Dollars in Thousands)							
<b>Customer Related Positions</b>							
Loan Level Swaps Receive fixed, pay variable	\$		21,018	82,352	235,466	\$ 338,836	\$ 5,321
Pay fixed, receive variable	\$		21,018	82,352	235,466	\$ 338,836	\$(5,464)
Foreign Exchange Contracts Buys foreign exchange, sells US currency	\$22,974					\$ 22,974	\$ 1,933
Buys US currency, sells foreign exchange	\$22,974					\$ 22,974	\$(1,916)

As of December 31, 2010	2011	2012	Notional Amount Maturing			Total	Fair Value
			2013	2014	Thereafter		
(Dollars in Thousands)							
<b>Customer Related Positions</b>							
Loan Level Swaps Receive fixed, pay variable	\$		21,624	83,051	202,275	\$ 306,950	\$ 7,673
Pay fixed, receive variable	\$		21,624	83,051	202,275	\$ 306,950	\$ (7,835)
Foreign Exchange Contracts Buys foreign exchange, sells US currency	\$ 41,706					\$ 41,706	\$ 1,301
Buys US currency, sells foreign exchange	\$ 41,706					\$ 41,706	\$ (1,286)

Changes in the fair value of customer related positions are recorded directly in earnings as they are not afforded hedge accounting treatment. The Company recorded a net increase in fair value of \$22,000 for the quarter ended March 31, 2011 and a net decrease in fair value of \$60,000 for the quarter ended March 31, 2010.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet at the periods indicated:



**Table of Contents****Amount of Derivative Gain/(Loss) Recognized/Reclassified**  
**(Dollars in Thousands)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Gain/(Loss) in OCI on Derivative (Effective Portion), Net of Tax	\$ 304	\$ (2,229)
Gain/(Loss) Reclassified from OCI into Interest Income (Effective Portion)	\$ (1,326)	\$ (1,068)
Gain/(Loss) Recognized in Interest Income on Derivative (Ineffective Portion & Amount Excluded from Effectiveness Testing)	\$	\$

Derivative contracts involve the risk of dealing with derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have an investment grade credit rating and be approved by the Company's Board of Directors. The Company's credit exposure on interest rate swaps is limited to the net positive fair value and accrued interest of all swaps with each counterparty. The Company's exposure relating to interest rate swaps with institutional counterparties was \$210,000 at March 31, 2011 and the Company had no exposure at December 31, 2010. The Company's exposure relating to customer related positions was approximately \$9.5 million and \$10.2 million at March 31, 2011 and December 31, 2010, respectively. Credit exposure may be reduced by the amount of collateral pledged by the counterparty.

The Company currently holds derivative instruments that contain credit-risk related contingent features that are in a net liability position, which require the Company to assign collateral. The notional amount of these instruments as of March 31, 2011 and December 31, 2010 was \$513.8 million and \$482.0 million, respectively. The aggregate fair value of these instruments at March 31, 2011 and December 31, 2010 were \$15.8 million and \$20.0 million, respectively. The Company has collateral assigned to these derivative instruments amounting to \$18.6 million and \$30.8 million, respectively. Collateral legally required to be maintained at dealer banks by the Company is monitored and adjusted as necessary. Per a review completed by management of these instruments at March 31, 2011 it was determined that no additional collateral would have to be posted to immediately settle these instruments.

The Company does not offset fair value amounts recognized for derivative instruments. The Company does net the amount recognized for the right to reclaim cash collateral against the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Forward sale contracts of residential mortgage loans, considered derivative instruments for accounting purposes, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans intended for sale. Prior to closing and funding certain single-family residential mortgage loans, an interest rate lock

**Table of Contents**

commitment is generally extended to the borrower. During the period from commitment date to closing date, the Company is subject to the risk that market rates of interest may change. If market rates rise, investors generally will pay less to purchase such loans resulting in a reduction in the gain on sale of the loans or, possibly, a loss. In an effort to mitigate such risk, forward delivery sales commitments are executed, under which the Company agrees to deliver whole mortgage loans to various investors. The interest rate lock commitments and forward sales commitments are recorded at fair value, with changes in fair value recorded in current period earnings. Effective July 1, 2010, pursuant to FASB ASC Topic No. 825, Financial Instruments, the Company elected to carry newly originated closed loans held for sale at fair value. As such, the change in fair value of loans held for sale is recorded in current period earnings.

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

	<b>Fair Value at</b>	
	<b>March</b>	<b>December</b>
	<b>31,</b>	<b>31,</b>
	<b>2011</b>	<b>2010</b>
	<b>(Dollars in Thousands)</b>	
Interest Rate Lock Commitments	\$(23)	\$ (459)
Forward Sales Agreements	\$(22)	\$ 1,052
Loans Held for Sale Fair Value Adjustment	\$ 46	\$ (593)
	<b>Change for the Three</b>	
	<b>Months</b>	
	<b>Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Interest Rate Lock Commitments	\$ 436	\$ 587
Forward Sales Agreements	(1,075)	(722)
Loans Held for Sale Fair Value Adjustment	639	
Total Change in Fair Value (1)	\$	\$ (135)

(1) Changes in these fair values are recorded as a component of Mortgage Banking Income.

**Table of Contents**

**NOTE 8 FAIR VALUE MEASUREMENTS**

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

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the Fair Value Measurements and Disclosures Topic of the FASB ASC are described below:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

*Valuation Techniques*

There have been no changes in the valuation techniques used during the current period.

Trading Securities

These equity and fixed income securities are valued based on market quoted prices. These securities are categorized in Level 1 as they are actively traded and no valuation adjustments have been applied.

**Table of Contents**

**U.S. Treasury Securities**

Fair value is estimated using either multi-dimensional spread tables or benchmarks. The inputs used include benchmark yields, reported trades, and broker/dealer quotes. These securities are classified as Level 2.

**Agency Mortgage-Backed Securities**

Fair value is estimated using either a matrix or benchmarks. The inputs used include benchmark yields, reported trades, broker/dealer quotes, and issuer spreads. These securities are categorized as Level 2.

**Agency Collateralized Mortgage Obligations and Private Mortgage-Backed Securities**

The valuation model for these securities is volatility-driven and ratings based, and uses multi-dimensional spread tables. The inputs used include benchmark yields, recent reported trades, new issue data, broker and dealer quotes, and collateral performance. If there is at least one significant model assumption or input that is not observable, these securities are categorized as Level 3 within the fair value hierarchy; otherwise, they are classified as Level 2.

**Single and Pooled Issuer Trust Preferred Securities**

The fair value of trust preferred securities, including pooled and single issuer preferred securities, is estimated using external pricing models, discounted cash flow methodologies or similar techniques. The inputs used in these valuations include benchmark yields, recent reported trades, new issue data, broker and dealer quotes and collateral performance. Accordingly, these trust preferred securities are categorized as Level 3.

**Loans Held for Sale**

The Company measures loans held for sale pursuant to the fair value option. The fair value of loans held for sale is measured using quoted market prices when available. If quoted market prices are not available, comparable market values or discounted cash flow analysis may be utilized. These assets are typically categorized as Level 2.

**Derivative Instruments**

**Derivatives**

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analyses on the expected cash flows of derivatives. These analyses reflect the contractual terms of the derivatives, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings. Although the Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. However, as of March 31, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the



**Table of Contents**

Company has determined that its derivative valuations in their entirety are classified in Level 2.

**Residential Mortgage Loan Commitments and Forward Sales Agreements**

The fair value of the commitments and agreements are estimated using the anticipated market price based on pricing indications provided from syndicate banks. These commitments and agreements are categorized as Level 2.

**Impaired Loans**

Loans that are deemed to be impaired are valued based upon the lower of cost or fair value of the underlying collateral or discounted cash flow analyses. The inputs used in the appraisals of the collateral are not always observable, and therefore the loans may be categorized as Level 3 within the fair value hierarchy; otherwise, they are classified as Level 2. The inputs used in performing discounted cash flow analyses are not observable and therefore such loans are classified as Level 3.

**Other Real Estate Owned**

The fair values are estimated based upon recent appraisal values of the property less costs to sell the property. Certain inputs used in appraisals are not always observable, and therefore Other Real Estate Owned may be categorized as Level 3 within the fair value hierarchy. When inputs in appraisals are observable, they are classified as Level 2.

**Mortgage Servicing Asset**

The mortgage servicing asset is amortized in proportion to and over the period of estimated servicing income, and is assessed for impairment based upon fair value at each reporting date. A valuation model, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments, is used for impairment testing. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Company classifies the mortgage servicing asset as Level 3.

**Goodwill and Other Intangible Assets**

Goodwill and identified intangible assets are subject to impairment testing. The Company conducts an annual impairment test of goodwill in the third quarter of each year and more frequently if necessary. To estimate the fair value of goodwill and other intangible assets the Company utilizes both a comparable analysis of relevant price multiples in recent market transactions and discounted cash flow analysis. Both valuation models require a significant degree of management judgment. In the event the fair value as determined by the valuation model is less than the carrying value, the intangibles may be impaired. If the impairment testing resulted in impairment, the Company would classify goodwill and other intangible assets subjected to non-recurring fair value adjustments as Level 3.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at the periods indicated were as follows:

**Table of Contents**

	Balance	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>March 31, 2011</b>				
<b>Description</b>				
<b>Assets</b>				
Trading Securities	\$ 8,521	\$ 8,521	\$	\$
Securities Available for Sale:				
U.S. Treasury Securities	709		709	
Agency Mortgage-Backed Securities	282,736		282,736	
Agency Collateralized Mortgage Obligations	41,307		41,307	
Private Mortgage-Backed Securities	9,012			9,012
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	4,462			4,462
Pooled Trust Preferred Securities Issued by Banks and Insurers	3,136			3,136
Loans Held for Sale	8,643		8,643	
Derivative Instruments	11,188		11,188	
<b>Liabilities</b>				
Derivative Instruments	21,663		21,663	
<b>December 31, 2010</b>				
<b>Description</b>				
<b>Assets</b>				
Trading Securities	\$ 7,597	\$ 7,597	\$	\$
Securities Available for Sale:				
U.S. Treasury Securities	717		717	
Agency Mortgage-Backed Securities	313,302		313,302	
Agency Collateralized Mortgage Obligations	46,135		46,135	
Private Mortgage-Backed Securities	10,254			10,254
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	4,221			4,221
Pooled Trust Preferred Securities Issued by Banks and Insurers	2,828			2,828
Loans Held for Sale	27,917		27,917	
Derivative Instruments	12,520		12,520	
<b>Liabilities</b>				
Derivative Instruments	24,280		24,280	

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3). These instruments were valued using pricing models and discounted

cash flow methodologies.

**Table of Contents**

Reconciliation for All Assets and Liabilities Measured at Fair  
Value on  
a Recurring Basis Using Significant Unobservable Inputs  
(Level 3)

	Securities Available for Sale			
	Pooled Trust Preferred Securities	Single Trust Preferred Securities	Private Mortgage- Backed Securities	Total
	(Dollars in Thousands)			
<b>Balance at January 1, 2010</b>	\$2,595	\$3,010	\$14,289	\$19,894
Gains and Losses (realized/unrealized)				
Included in earnings	(112)		(222)	(334)
Included in Other Comprehensive Income	388	1,211	1,197	2,796
Purchases				
Issuances				
Settlements	(43)		(5,010)	(5,053)
Transfers in to Level 3				
<b>Balance at December 31, 2010</b>	\$2,828	\$4,221	\$10,254	\$17,303
Gains and Losses (realized/unrealized)				
Included in earnings	(8)		(32)	(40)
Included in Other Comprehensive Income	325	241	160	726
Purchases				
Issuances				
Settlements	(9)		(1,370)	(1,379)
Transfers in to Level 3				
<b>Balance at March 31, 2011</b>	\$3,136	\$4,462	\$9,012	\$16,610

Assets and liabilities measured at fair value on a non-recurring basis at the periods indicated were as follows:

**Fair Value Measurements at Reporting Date Using**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Balance	(Dollars in Thousands)			
<b>As of March 31, 2011</b>				

**Description**

Impaired Loans	\$18,044	\$	\$	\$18,044	\$(2,153)
Other Real Estate Owned	9,346		4,117	5,229	
Mortgage Servicing Asset	1,564			1,564	

**As of December 31, 2010**

**Description**

Impaired Loans	\$23,411	\$	\$	\$23,411	\$(2,547)
Other Real Estate Owned	7,273		2,933	4,340	
Mortgage Servicing Asset	1,635			1,635	

The estimated fair values and related carrying amounts of the Company's financial instruments are as follows:

**Table of Contents**

	<b>March 31, 2011</b>		<b>December 31, 2010</b>	
	<b>BOOK VALUE</b>	<b>FAIR VALUE</b>	<b>BOOK VALUE</b>	<b>FAIR VALUE</b>
	<b>(Dollars In Thousands)</b>		<b>(Dollars In Thousands)</b>	
<b>FINANCIAL ASSETS</b>				
Securities Held To Maturity (a)	\$ 239,305	\$ 237,828	\$ 202,732	\$ 201,234
Loans, Net of Allowance for Loan Losses (b)	3,581,930	3,557,415	3,509,424	3,554,761
<b>FINANCIAL LIABILITIES</b>				
Time Certificates of Deposits ( c)	\$ 674,776	\$ 677,557	\$ 693,176	\$ 697,064
Federal Home Loan Bank Advances ( c)	277,285	268,299	302,414	297,740
Federal Funds Purchased and Assets Sold Under Repurchase Agreements ( c)	184,738	187,921	168,119	171,702
Junior Subordinated Debentures (d)	61,857	60,465	61,857	60,796
Subordinated Debentures ( c)	30,000	23,177	30,000	23,655

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

This summary excludes financial assets and liabilities for which the carrying value approximates fair value. For financial assets, these include cash and due from banks, federal funds sold, short-term investments, Federal Home Loan Bank stock, and bank owned life insurance. For financial liabilities, these include demand, savings, money market deposits, and federal funds purchased, and assets sold under repurchase agreements. The estimated fair value of demand, savings and money market deposits is the amount payable at the reporting date. Also excluded from the summary are financial instruments measured at fair value on a recurring and non-recurring basis, as previously described.

**Table of Contents****NOTE 9 COMPREHENSIVE INCOME/(LOSS)**

Information on the Company's comprehensive income/(loss), presented net of taxes, is set forth below for the three months ended March 31, 2011 and 2010:

<b>Three Months Ended March 31, 2011</b> <i>(Dollars in Thousands)</i>	<b>Pre Tax Amount</b>	<b>Tax Expense (Benefit)</b>	<b>After Tax Amount</b>
Change in Fair Value of Securities Available for Sale	\$ 1,051	\$ (387)	\$ (664)
Net Security Losses Reclassified into Earnings	(40)(1)	16	24
Net Change in Fair Value of Securities Available for Sale	1,011	(371)	(640)
Change in Fair Value of Cash Flow Hedges	(514)(2)	210	304
Net Cash Flow Hedge Gains Reclassified into Earnings	(1,232)	542	690
Net Change in Fair Value of Cash Flow Hedges	(1,746)	752	994
Amortization of Certain Costs Included in Net Periodic Retirement Costs	(187)	26	161
Total Other Comprehensive Income	\$ (922)	\$ 407	\$ 515
<b>Three Months Ended March 31, 2010</b> <i>(Dollars in Thousands)</i>	<b>Pre Tax Amount</b>	<b>Tax Expense (Benefit)</b>	<b>After Tax Amount</b>
Change in Fair Value of Securities Available for Sale	\$ (2,322)	\$ 904	\$ 1,418
Net Security Losses Reclassified into Earnings	(178)(1)	73	105
Net Change in Fair Value of Securities Available for Sale	(2,500)	977	1,523
Change in Fair Value of Cash Flow Hedges	3,768(2)	(1,539)	(2,229)
Net Cash Flow Hedge Gains Reclassified into Earnings	(877)	369	508
Net Change in Fair Value of Cash Flow Hedges	2,891	(1,170)	(1,721)
Amortization of Certain Costs Included in Net Periodic Retirement Costs	(39)	16	23
Total Other Comprehensive Loss	\$ 352	\$ (177)	\$ (175)

(1) Net security losses represent pre-tax OTTI credit related losses of \$40,000 and \$178,000 for the three months ended March 31, 2011 and 2010, respectively.

- (2) Includes the remaining balance of a realized but unrecognized gain, net of tax, from the termination of interest rate swaps in June 2009. The original gain of \$1.3 million will be recognized in earnings through December 2018, the original maturity date of the swap. The balance of this gain had amortized to \$1.1 million and \$1.3 million at March 31, 2011 and 2010, respectively.

**Accumulated Other Comprehensive Income (Loss), net of tax, is comprised of the following components:**

	<b>At March 31,</b>	
	<b>2011</b>	<b>2010</b>
Unrealized gain on securities available for sale	\$ 5,665	\$ 5,917
Net actuarial loss and prior service cost for pension and other post retirement benefit plans	(933)	(1,189)
Unrealized loss on cash flow hedge	(6,095)	(3,406)
Deferred gain on hedge accounting transactions	1,112	1,256
<b>Total</b>	<b>\$ (251)</b>	<b>\$ 2,578</b>



**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the Securities and Exchange Commission.

**Cautionary Statement Regarding Forward-Looking Statements**

A number of the presentations and disclosures in this Form 10-Q, including, without limitation, statements regarding the level of allowance for loan losses, the rate of delinquencies and amounts of charge-offs, and the rates of loan growth, and any statements preceded by, followed by, or which include the words may, could, should, will, would, hope, might, believe, expect, anticipate, estimate, intend, plan, assume or similar expressions, are 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, efficiency ratio, 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 Massachusetts, 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 loss, as most of the Company's loans are concentrated in eastern Massachusetts and Cape Cod, and to a lesser extent, Rhode Island, and a substantial portion of these loans have real estate as collateral;

the effects of, and 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;

**Table of Contents**

the effects of, 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;

changes in the deferred tax asset valuation allowance in future periods may adversely affect financial results;

competitive pressures could intensify and affect the Company's profitability, including continued industry consolidation, the increased financial services provided by non-banks 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;

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

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;

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

changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) generally applicable to the Company's business could adversely affect the Company's operations; and

changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters, could negatively impact the Company's financial results.

**Table of Contents**

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

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

**Table of Contents****Selected Quarterly Financial Data**

The selected consolidated financial and other data of the Company set forth below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including the Consolidated Financial Statements and related notes, appearing elsewhere herein.

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>Three Months Ended September 30, 2010</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>
(Dollars in Thousands, Except Per Share Data)					
<b>FINANCIAL</b>					
<b>CONDITION DATA:</b>					
Securities available for sale	\$ 341,362	\$ 377,457	\$ 436,887	\$ 482,989	\$ 473,515
Securities held to maturity	239,305	202,732	180,623	103,463	91,059
Loans	3,628,374	3,555,679	3,408,043	3,428,912	3,411,792
Allowance for loan losses	46,444	46,255	45,619	45,291	45,278
Goodwill and Core Deposit Intangibles	141,951	141,956	142,422	142,888	143,371
Total assets	4,645,783	4,695,738	4,703,791	4,740,975	4,547,207
Total deposits	3,584,926	3,627,783	3,617,158	3,679,873	3,473,853
Total borrowings	556,718	565,434	577,429	576,146	606,973
Stockholders equity	447,985	436,472	425,661	422,062	418,224
Non-performing loans	23,397	23,108	24,687	23,678	41,840
Non-performing assets	33,856	31,493	34,789	32,083	48,827
<b>OPERATING DATA:</b>					
Interest income	\$ 48,958	\$ 49,971	\$ 50,588	\$ 51,319	\$ 50,848
Interest expense	7,485	8,582	9,391	10,152	10,638
Net interest income	41,473	41,389	41,197	41,167	40,210
Provision for loan losses	2,200	3,575	3,500	6,931	4,650
Non-interest income	12,598	14,263	11,654	10,938	10,050
Non-interest expenses	36,482	36,688	34,540	34,929	33,588
Net income available to the common shareholder	11,188	11,838	11,145	8,030	9,227
<b>PER SHARE DATA:</b>					
Net income Basic	\$ 0.53	\$ 0.56	\$ 0.53	\$ 0.38	\$ 0.44
Net income Diluted	0.52	0.56	0.53	0.38	0.44
Cash dividends declared	0.19	0.18	0.18	0.18	0.18
Book value (1)	20.93	20.57	20.08	19.91	19.76
<b>OPERATING RATIOS:</b>					
Return on average assets	0.98%	1.01%	0.95%	0.70%	0.84%
Return on average common equity	10.24%	10.85%	10.38%	7.60%	8.95%
Net interest margin (on a fully tax equivalent basis)	4.02%	3.91%	3.89%	3.96%	4.08%
Equity to assets	9.64%	9.30%	9.05%	8.90%	9.20%

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

Dividend payout ratio	36.33%	32.25%	34.26%	47.52%	41.28%
<b>ASSET QUALITY RATIOS:</b>					
Non-performing loans as a percent of gross loans	0.64%	0.65%	0.72%	0.69%	1.23%
Non-performing assets as a percent of total assets	0.73%	0.67%	0.74%	0.68%	1.07%
Allowance for loan losses as a percent of total loans	1.28%	1.30%	1.34%	1.32%	1.33%
Allowance for loan losses as a percent of non-performing loans	198.50%	200.17%	184.79%	191.28%	108.22%
<b>CAPITAL RATIOS:</b>					
Tier 1 leverage capital ratio	8.48%	8.19%	7.99%	7.86%	8.06%
Tier 1 risk-based capital ratio	10.48%	10.28%	10.35%	10.01%	10.02%
Total risk-based capital ratio	12.55%	12.37%	12.47%	12.11%	12.14%

(1) Calculated by dividing total stockholders equity by the total outstanding shares as of the end of each period.

**Table of Contents****Executive Level Overview**

The first quarter of 2011 was marked by continued positive results. The Company experienced solid loan growth, strong core deposit levels, and favorable asset quality trends, resulting in net income of \$11.2 million, or \$0.52 on a diluted per share basis for the three months ended March 31, 2011, which represents an increase of 21.3% and 18.2%, respectively as compared to the three months ended March 31, 2010. The Company was able to achieve such strong results by continuing to generate growth in both the commercial and industrial and commercial real estate categories, resulting in total commercial loan portfolio growth of 2.2%, or 9.0% annualized from the prior quarter. The Company's home equity portfolio has also shown solid growth, with an increase of 6.9%, or 28.3% on an annualized basis, as compared to prior quarter. The following table illustrates key performance measures for the periods indicated, highlighting the positive results:

	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Diluted Earnings Per Share	\$ 0.52	\$0.44
Return on Average Assets	0.98%	0.84%
Return on Average Common Equity	10.24%	8.95%
Net Interest Margin	4.02%	4.08%

The Company's overall financial position is influenced by a variety of factors, such as current economic conditions and the interest rate environment. For the first quarter of 2011, the Company's financial performance includes the impact of:

Commercial loan growth driven by continued relationship building with new and existing customers.

Home equity outstanding balances have increased significantly due largely to marketing and product promotion endeavors.

Lower cost core deposits now represent 81.2% of total deposits, leading to a cost of funds of 0.40%.

Investment management had a strong quarter with revenues of \$3.2 million, an increase of 17.9% as compared to the same prior year period, driven by the increase in the assets under administration to \$1.6 billion.

The Company continued to experience positive asset quality trends during the first quarter of 2011. Net charge-offs have decreased to \$2.0 million, or 0.23% of average loans on an annualized basis, down from \$2.9 million, or 0.33% of average loans on an annualized basis for the quarter ended December 31, 2010. Both early and late stage delinquencies were stable quarter over quarter, which is attributed to the Company's focused loan workout efforts, with total delinquencies representing 1.19% and 1.11% of loans and early stage delinquencies representing 0.71% and 0.65% of loans at March 31, 2011 and December 31, 2010, respectively. Although nonperforming assets increased modestly in the first quarter of 2011 to \$33.9 million, or 0.73% of assets as compared to \$31.5 million, or 0.67% of total assets at December 31, 2010, they are down significantly when compared to the first quarter of 2010 with decreases of \$15.0 million, or 30.7%. Nonperforming assets are reviewed and

**Table of Contents**

closely managed to ensure an expedient workout. The following table shows the rollforward of nonperforming assets for the quarter ended March 31, 2011:

<b>Nonperforming Assets</b>		
(Dollars in Thousands)		
Beginning Balance at January 1, 2011		\$ 31,493
New to Nonperforming		9,046
Loans Charged-Off		(2,484)
Loans Paid-Off		(1,934)
Loans Transferred to Other Real Estate Owned		(3,061)
Loans Restored to Accrual Status		(1,116)
Change to Other Real Estate Owned:		
New to Other Real Estate Owned	\$ 3,061	
Valuation Write Down	(530)	
Sale of Other Real Estate Owned	(457)	
Total Change to Other Real Estate Owned	2,074	2,074
Other		(162)
Ending Balance at March 31, 2011		\$ 33,856

The following tables display the asset quality trends that the Company has experienced over the trailing five quarters for nonperforming loan levels, delinquency levels, and net charge-offs:

**Table of Contents**



**Table of Contents**

As a result of the positive asset quality trends, the Company reduced provision for loan loss levels. The provision for loan losses was \$2.2 million for the three months ended March 31, 2011 as compared to \$4.7 million for the three months ended March 31, 2010. The Company's allowance as a percentage of total loans was at 1.28% as compared to 1.30% and 1.33% for the quarters ended December 31, 2010 and March 31, 2010, respectively.

The Company continues to generate adequate levels of capital internally to fund future growth. The Company's capital levels increased by \$11.5 million, or 2.6%, from December 31, 2010, resulting in strong capital ratios and a tangible common equity ratio which improved to 7.22%, pro forma to include the tax deductibility of certain goodwill, and regulatory capital levels exceeded prescribed thresholds. As a result, the Company increased the common stock dividend to \$0.19 per share for the quarter ended March 31, 2011, an increase of 5.56%.

**Critical Accounting Policies**

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that the Company's most critical accounting policies are those which the Company's financial condition depends upon, and which involve the most complex or subjective decisions or assessments.

There have been no material changes in critical accounting policies during the first quarter of 2011. Please refer to the 2010 Form 10-K for a complete listing of critical accounting policies.

**Table of Contents****FINANCIAL POSITION**

**Securities Portfolio** The Company's securities portfolio consists of trading assets, securities available for sale, and securities which management intends to hold until maturity. Securities remained relatively flat at \$589.2 million at March 31, 2011 as compared to December 31, 2010. The Company purchased fixed rate mortgage-backed securities to replace runoff of existing securities during the quarter. The ratio of securities to total assets as of March 31, 2011 was 12.7% compared to 12.5% at December 31, 2010.

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

The Company's trading assets were \$8.5 million and \$7.6 million at March 31, 2011 and December 31, 2010, respectively. Trading assets are comprised of securities which are held solely for the purpose of funding certain executive non-qualified retirement obligations and an equity fund security whose investment objective is to invest in geographically specific private placement debt securities designed to support underlying economic activities such as community development and affordable housing.

**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 2011 and 2010, 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 1 Residential Mortgage Loan Sales**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	(Dollars in Thousands)	
Loans originated and sold with servicing rights released	\$79,191	\$60,247
Loans originated and sold with servicing rights retained	\$ 3,670	\$ 2,168

The Company recognizes a mortgage servicing asset when it sells a loan with servicing rights retained. When the Company sells a loan the Company enters into agreements that contain representations and warranties about the characteristics of the loans sold and their origination. The Company may be required to either repurchase mortgage loans or to indemnify the purchaser from losses if representations and warranties are breached. The Company has not at this time established a reserve for loan repurchases as it believes material losses are not probable.

**Loan Portfolio** Management has been focusing on changing the overall composition of the balance sheet by emphasizing growth in commercial and home equity lending categories, while placing less emphasis on the other lending categories. Although changing the composition of the Company's loan portfolio has led to a slower growth rate than what

**Table of Contents**

otherwise may have been achieved, management believes the change to be prudent given the prevailing interest rate and economic environment. At March 31, 2011, the Bank's loan portfolio amounted to \$3.6 billion, an increase of \$72.7 million, or 2.0%, from December 31, 2010. The Company was able to sustain growth by continuing to generate growth in both the commercial and industrial and commercial real estate categories, resulting in total commercial portfolio growth of 2.2%, or 9.0% annualized from the prior quarter. The Company's home equity portfolio has also shown solid growth, with increases of 6.9%, or 28.3% on an annualized basis, as compared to prior quarter.

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 non-owner-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 March 31, 2011:

Average Loan Size	\$631.3k	Non-Performing Loans/Loans	0.49%
Largest Individual CRE Mortgage \$11.0 million		Owner Occupied	21.7%

**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

**Table of Contents**

the borrower's ability to repay the loan based on their current financial condition. If a restructured loan meets certain criteria, it may be categorized as a troubled debt restructuring ( TDR ).

*Delinquency* The Bank's philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. The Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. Generally, the Bank requires that a delinquency notice be mailed to a borrower upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices may be sent and telephone calls may be made prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of a delinquency notice, the Bank's personnel charged with managing its loan portfolios contacts 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 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 loan is well secured and in the process of collection. 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. 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 nonperforming loans, the Bank may choose to restructure the contractual terms of certain loans. The Bank attempts to work-out an alternative payment schedule with the borrower in order to avoid foreclosure actions. Any loans that are modified are reviewed by the Bank to identify if a TDR has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two. If such efforts by the Bank do not result in a satisfactory arrangement, 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 approximately 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

**Table of Contents**

as performing, unless they are on nonaccrual status. All TDRs are considered impaired by the Company, unless 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 rate for a comparable new loan.

*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 loans that are more than 90 days past due but still accruing interest and nonaccrual loans.

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 these securities on nonaccrual status and has reversed any previously accrued income related to these securities.

When an OREO property is deemed to be in the Bank s control, it is 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 non-interest expense. In the event the real estate is utilized as a rental property, rental income and expenses are recorded as incurred and included in non-interest income and non-interest expense, respectively.

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

**Table of Contents****Table 2 Nonperforming Assets/Loans**

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>March 31, 2010</b>
	<i>(Dollars In Thousands)</i>		
<b>Loans Past Due 90 Days or More but Still Accruing</b>			
Home Equity	\$	\$ 4	\$
Consumer Other	226	273	135
Total	\$ 226	\$ 277	\$ 135
<b>Loans Accounted for on a Nonaccrual Basis (1)</b>			
Commercial and Industrial	\$ 3,011	\$ 3,123	\$ 7,252
Commercial Real Estate	9,229	9,836	23,645
Small Business	617	887	1,294
Residential Real Estate	7,299	6,728	8,091
Home Equity	2,589	1,752	948
Consumer Other	426	505	474
Total	\$ 23,171	\$ 22,831	\$ 41,704
Total Nonperforming Loans	\$ 23,397	\$ 23,108	\$ 41,839
Nonaccrual Securities	1,054	1,051	899
Other Real Estate Owned and Assets in Possession	9,405	7,334	6,089
Total Nonperforming Assets	\$ 33,856	\$ 31,493	\$ 48,827
Nonperforming Loans as a Percent of Gross Loans	0.64%	0.65%	1.23%
Nonperforming Assets as a Percent of Total Assets	0.73%	0.67%	1.07%

(1) There were \$4.5 million, \$4.0 million, and \$2.3 million TDRs on nonaccrual at March 31, 2011, December 31, 2010, and March 31, 2010, respectively.

Potential problem loans are any loans which are not included in nonaccrual or nonperforming loans and which are not considered TDRs, 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 3 Potential Problem Commercial Loans**

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
	(Dollars in Thousands)	
Number of Loan Relationships	57	62
Aggregate Outstanding Balance	\$116,607	\$126,167

48

---

**Table of Contents**

At March 31, 2011, 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.

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 nonaccrual and performing TDRs as of the dates indicated:

**Table 4 Interest Income Recognized/Collected on Nonaccrual Loans and Troubled Debt Restructurings**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	(Dollars in Thousands)	
Interest income that would have been recognized if nonaccruing loans had been performing	\$717	\$923
Interest income recognized on TDRs still accruing	\$354	\$203
Interest collected on these nonaccrual and TDRs and included in interest income	\$411	\$211

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, and commercial construction categories by 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 March 31, 2011, 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 certain other loans that have been categorized as impaired.



**Table of Contents**

Total impaired loans at March 31, 2011 and December 31, 2010 were \$46.3 million and \$47.4 million, respectively. For additional information regarding the Bank's asset quality, including delinquent loans, nonaccruals, TDRs, and impaired loans, see *Note 4, Loans, Allowance for Loan Losses, and Credit Quality* within Notes to Consolidated Financial Statements included in Item 1 hereof.

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

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

As of March 31, 2011, the allowance for loan losses totaled \$46.4 million, or 1.28% of total loans as compared to \$46.3 million, or 1.30% of total loans, at December 31, 2010. The change in the allowance was due to a combination of factors including shifts in the composition of the loan portfolio mix, changes in asset quality and loan growth.

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

**Table of Contents****Table 5 Summary of Changes in the Allowance for Loan Losses**

	Three Months Ended				
	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	(Dollars in Thousands)				
AVERAGE LOANS	\$3,590,829	\$3,481,884	\$3,430,372	\$3,422,101	\$3,403,909
Allowance for Loan Losses, Beginning of Period	\$ 46,255	\$ 45,619	\$ 45,291	\$ 45,278	\$ 42,361
Charged-Off Loans:					
Commercial and Industrial	888	1,313	1,489	1,837	531
Commercial Real Estate	652	594	851	1,804	199
Commercial Construction				1,716	
Small Business	266	541	549	858	331
Residential Real Estate	122	46	51	321	139
Consumer Home Equity	78	384	24	289	242
Consumer Other	478	512	515	469	582
Total Charged-Off Loans	2,484	3,390	3,479	7,294	2,024
Recoveries on Loans Previously Charged-Off:					
Commercial and Industrial	202	276	60	21	4
Commercial Real Estate					1
Commercial Construction	50				
Small Business	28	46	34	57	80
Residential Real Estate			26	28	4
Consumer Home Equity	4	6	63	55	8
Consumer Other	189	123	124	215	194
Total Recoveries	473	451	307	376	291
Net Loans Charged-Off:					
Commercial and Industrial	686	1,037	1,429	1,816	527
Commercial Real Estate	652	594	851	1,804	198
Commercial Construction	(50)			1,716	
Small Business	238	495	515	801	251
Residential Real Estate	122	46	25	293	135
Consumer Home Equity	74	378	(39)	234	234
Consumer Other	289	389	391	254	388
Total Net Loans Charged-Off	2,011	2,939	3,172	6,918	1,733
Provision for Loan Losses	2,200	3,575	3,500	6,931	4,650

TOTAL ALLOWANCES FOR LOAN LOSSES, END OF PERIOD	\$ 46,444	\$ 46,255	\$ 45,619	\$ 45,291	\$ 45,278
Net Loans Charged-off as a Percent of Average Total Loans (Annualized)	0.23%	0.33%	0.37%	0.81%	0.21%
Total Allowance for Loan Losses as a Percent of Total Loans	1.28%	1.30%	1.34%	1.32%	1.33%
Total Allowance for Loan Losses as a Percent of Nonperforming Loans	198.50%	200.17%	184.79%	191.28%	108.22%
Net Loans Charged-Off as a Percent of Allowance for Loan Losses (Annualized)	17.56%	25.21%	27.89%	61.3%	15.5%
Recoveries as a Percent of Charge-Offs (Annualized)	19.04%	13.30%	8.82%	5.15%	14.38%

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.

**Table of Contents**

The following table sets forth the allocation of the allowance for loan losses by loan category at the dates indicated:

**Table 6 Summary of Allocation of Allowance for Loan Losses**

	<b>March 31, 2011</b>	<b>December 31, 2010</b>		
	<i>(Dollars In thousands)</i>			
	Allowance	Percent of Loans In Category To Total Loans	Allowance	Percent of Loans In Category To Total Loans
	Amount		Amount	
Commercial and Industrial	\$ 10,843	14.0%	\$ 10,423	14.1%
Commercial Real Estate	22,353	48.8%	21,939	52.0%
Commercial Construction	1,993	3.4%	2,145	0.1%
Small Business	3,387	2.2%	3,740	2.3%
Residential Real Estate (1)	2,856	12.8%	2,915	13.3%
Home Equity	3,395	17.1%	3,369	16.3%
Consumer Other	1,617	1.7%	1,724	1.9%
<b>Total Allowance for Loan Losses</b>	<b>\$ 46,444</b>	<b>100.0%</b>	<b>\$ 46,255</b>	<b>100.0%</b>

(1) Includes residential construction.

When available information confirms that specific loans or portions thereof are uncollectible, these amounts are promptly charged-off against the allowance for loan losses. All charge-offs of loans or financing receivables are charged directly to the allowance for loan losses and any recoveries of such previously charged-off amounts are credited to the allowance.

Loans which are determined to be uncollectible by management are charged-off. 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.

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 the first quarter of 2011, the allowance increased by approximately \$189,000 to \$46.4 million at March 31, 2011.

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

**Table of Contents**

**Federal Home Loan Bank Stock** The Bank held an investment in Federal Home Loan Bank Boston ( FHLBB ) of \$35.9 million at March 31, 2011 and December 31, 2010 respectively. The FHLBB is a cooperative that provides services to its member banking institutions. The primary reason for the FHLBB 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 FHLBB is a requirement for a member to gain access to funding. The Company purchases FHLBB 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.

During the first quarter of 2011 the FHLBB continued the moratorium on excess stock repurchases that was put into effect during 2008, as the FHLBB s board of directors have continued to focus on building retained earnings while delivering core solutions of liquidity and longer-term funding to their members. As a result of these efforts, the FHLBB was able to restore a modest dividend as announced on February 22, 2011.

**Goodwill and Identifiable Intangible Assets** Goodwill and identifiable intangible assets were \$142.0 million at both March 31, 2011 and December 31, 2010.

**Bank Owned Life Insurance** The bank holds Bank Owned Life Insurance ( BOLI ) for the purpose of offsetting the Bank s future obligations to its employees under its retirement and benefits plans. The value of BOLI was \$83.5 million and \$82.7 million at March 31, 2011 and December 31, 2010, respectively. The bank recorded tax exempt income from BOLI of \$706,000 and \$721,000 for the quarters ended March 31, 2011 and 2010, respectively.

**Deposits** Total deposits decreased by \$42.9 million, or 1.2%, during the quarter ended March 31, 2011. Core deposits were lower by \$24.5 million, or 0.8%, driven by seasonality in the Company s deposit base. The Company s emphasis on lower cost core deposits has led to a steady reduction in time deposits which declined by \$18.4 million, or 2.7%, in the first quarter. Core deposits to total deposits rose to 81.2% and the total cost of deposits continued to decline to 0.40% for the current quarter, down 5 basis points from the prior period.

The Bank also participates in the Certificate of Deposit Registry Service ( CDARS ) program, allowing the Bank to provide easy access to multi-million dollar FDIC deposit insurance protection on certificate of deposits investments for consumers, businesses and public entities. As of March 31, 2011 and December 31, 2010, CDARS deposits totaled \$26.9 million and \$13.6 million, respectively.

**Borrowings** The Company s borrowings amounted to \$556.7 million at March 31, 2011, a decrease of \$8.7 million from year-end 2010. The following table shows the balance of borrowings at the periods indicated:

Table of ContentsTable 7 Borrowings by Category

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>% Change</b>
	(Dollars in Thousands)		
Federal Home Loan Bank Advances	\$ 277,285	\$ 302,414	-8.3%
Fed Funds Purchased and Assets Sold Under Repurchase Agreements	184,738	168,119	9.9%
Junior Subordinated Debentures	61,857	61,857	0.0%
Subordinated Debentures	30,000	30,000	0.0%
Other Borrowings	2,838	3,044	-6.8%
Total Borrowings	\$ 556,718	\$ 565,434	-1.5%

**Capital Resources** The Federal Reserve, the FDIC, and other regulatory agencies have established capital guidelines for banks and bank holding companies. Risk-based capital guidelines issued by the federal regulatory agencies require banks to meet a minimum Tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0%. A minimum requirement of 4.0% Tier 1 leverage capital is also mandated. At March 31, 2011, the Company and the Bank exceeded the minimum requirements for Tier 1 risk-based, total risk-based capital, and Tier 1 leverage capital.

The Company's and the Bank's actual capital amounts and ratios are also presented in the following table:

**Table of Contents****Table 8 Company and Bank's Capital Amounts and Ratios****March 31, 2011**

	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>			<b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b>		
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>		<b>Amount</b>	<b>Ratio</b>	
<b>Company:</b>								
<b>(Consolidated)</b>								
Total capital (to risk weighted assets)	\$456,237	12.55%	\$290,724	>	8.0%	N/A		N/A
Tier 1 capital (to risk weighted assets)	380,793	10.48	\$145,362	>	4.0	N/A		N/A
Tier 1 capital (to average assets)	380,793	8.48	179,650	>	4.0	N/A		N/A
<b>Bank:</b>								
Total capital (to risk weighted assets)	\$437,164	12.03%	\$290,656	>	8.0%	\$363,320	>	10.0%
Tier 1 capital (to risk weighted assets)	361,730	9.96	\$145,328	>	4.0	\$217,992	>	6.0
Tier 1 capital (to average assets)	361,730	8.05	179,716	>	4.0	224,645	>	5.0

**December 31, 2010**

<b>Company:</b>								
<b>(Consolidated)</b>								
Total capital (to risk weighted assets)	\$444,963	12.37%	\$287,846	>	8.0%	N/A		N/A
Tier 1 capital (to risk weighted assets)	369,965	10.28	143,923	>	4.0	N/A		N/A

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

Tier 1 capital (to average assets)	369,965	8.19	180,784	>	4.0	N/A		N/A
Bank:								
Total capital (to risk weighted assets)	\$429,304	11.92%	\$288,098	>	8.0%	\$360,123	>	10.0%
Tier 1 capital (to risk weighted assets)	354,267	9.84	144,049	>	4.0	216,074	>	6.0
Tier 1 capital (to average assets)	354,267	7.83	181,039	>	4.0	226,299	>	5.0

On March 17, 2011 the Company's Board of Directors declared a cash dividend of \$0.19 per share to stockholders of record as of the close of business on March 28, 2011. This dividend was paid on April 8, 2011. For the quarter ended March 31, 2011, the dividend payout ratio amounted to 36.33%.

**Investment Management**

As of March 31, 2011, the Rockland Trust Investment Management Group had assets under administration of \$1.6 billion representing approximately 3,318 trust, fiduciary, and agency accounts. At December 31, 2010, assets under administration were \$1.6 billion, representing approximately 3,181 trust, fiduciary, and agency accounts. Included in these amounts as of March 31, 2011 and December 31, 2010 are assets under administration of \$112.9 million and \$103.6 million, respectively, relating to the Company's registered investment advisor, Bright Rock Capital Management, LLC., which was established in 2010 and provides institutional quality investment management services to institutional and high net worth clients. Revenue from the Investment Management Group amounted to \$2.9 million and \$2.3 million for the quarters ended March 31, 2011 and 2010, respectively.

Additionally, for the quarters ended March 31, 2011 and 2010, retail investments and insurance revenue was \$350,000 and \$410,000, respectively. Retail investments and insurance includes revenue from LPL Financial ( LPL ) and its affiliates, LPL Insurance Associates, Inc., Savings Bank Life Insurance of Massachusetts ( SBLI ), Independent Financial Market Group, Inc. ( IFMG ) and their insurance subsidiary, IFS Agencies, Inc. ( IFS ).



**Table of Contents**

**Mortgage Banking**

The Bank originates residential loans for its portfolio as well as with the intention of selling them in the secondary market. The Bank's mortgage banking income consists primarily of revenue from premiums received on loans sold with servicing released, origination fees, and gains and losses on sold mortgages less related commission expense. The gains and losses resulting from the sales of loans with servicing retained are adjusted to recognize the present value of future servicing fee income over the estimated lives of the related loans. For the quarter ended March 31, 2011, the Bank closed approximately \$81.7 million of residential loans, of which \$19.3 million were held in portfolio and \$62.4 million were sold or held for sale in the secondary market. This volume reflects an overall increase from the quarter ended March 31, 2010, during which closings totaled approximately \$72.9 million, of which \$15.7 million were held in portfolio and \$57.2 million were sold or held for sale in the secondary market.

Included in the mortgage banking income results is the impact of the Bank's mortgage servicing assets. Servicing assets are recognized as separate assets when rights are acquired through sale of loans with servicing rights retained. Mortgage servicing assets are amortized into non-interest income in proportion to, and over the period of, the estimated net servicing income. The principal balance of loans serviced by the Bank on behalf of investors amounted to \$268.0 million at March 31, 2011 and \$279.7 million at December 31, 2010. Upon sale, the mortgage servicing asset (MSA) is established, which represents the then current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Impairment is determined by stratifying the rights based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the capitalized amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. Servicing rights are recorded in other assets in the consolidated balance sheets and are amortized in proportion to and over the period of estimated net servicing income, and are assessed for impairment based on fair value at each reporting date. The following table shows fair value of the servicing rights associated with these loans and the changes for the periods indicated:

**Table of Contents****Table 9 Mortgage Servicing Asset**

		<b>(Dollars in Thousands)</b>
Balance as of January 1, 2010	\$	2,195
Additions		77
Amortization		(652)
Change in Valuation Allowance		(1)
Balance as of December 31, 2010	\$	1,619
Balance as of January 1, 2011	\$	1,619
Additions		33
Amortization		(139)
Change in Valuation Allowance		38
Balance as of March 31, 2011	\$	1,551

**RESULTS OF OPERATIONS**

The following table provides a summary of results of operations:

**Table 10 Summary of Results of Operations**

	<b>For the Three Months Ended, March 31,</b>	
	<b>2011</b>	<b>2010</b>
	(Dollars in Thousands)	
Net Income Available to Common Shareholders	\$11,188	\$9,227
Diluted Earnings Per Share	\$ 0.52	\$ 0.44
Return on Average Assets	0.98%	0.84%
Return on Average Equity	10.24%	8.95%
Stockholders' Equity as % of Assets	9.64%	9.20%

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

On a fully tax equivalent basis, net interest income for the first quarter of 2011 increased \$1.3 million, or 3.2%, to \$41.8 million, when compared to the first quarter of 2010. The Company's net interest margin was 4.02% for the quarter ended March 31, 2011 as compared to 4.08% for the quarter ended March 31, 2010. The Company's interest rate spread (the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities) was 3.82% and 3.83% for the first quarters of 2011 and 2010, respectively.

**Table of Contents**

The decline in the net interest margin is primarily the result of assets re-pricing in a lower rate environment without the ability to fully offset this impact through a reduction in funding costs.

The following tables present the Company's daily average balances, net interest income, interest rate spread, and net interest margin for the three months ending March 31, 2011 and 2010. For purposes of the table and the following discussion, income from interest-earning assets and net interest income are presented on a fully-taxable equivalent basis by adjusting income and yields earned on tax-exempt interest received on securities and loans, to make them equivalent to income and yields on fully-taxable earning assets. The fully-taxable equivalent was calculated using the blended federal and state statutory tax rate:

**Table of Contents****Table 11 Average Balance, Interest Earned/Paid & Average Yields**

	Three Months Ended March 31,					
	Average Balance	2011 Interest Earned/ Paid	Yield/ Rate	Average Balance	2010 Interest Earned/ Paid	Yield/ Rate
(Dollar in Thousands)						
<b>INTEREST-EARNING ASSETS</b>						
Interest Earning Deposits with Banks, Federal Funds Sold, and Short Term Investments	\$ 27,652	\$ 17	0.25%	\$ 23,144	\$ 24	0.42%
<b>SECURITIES</b>						
Trading Assets	8,124	63	3.15%	6,800	60	3.58%
Taxable Investment Securities	568,933	5,430	3.87%	568,550	6,409	4.57%
Non-taxable Investment Securities (1)	10,175	191	7.61%	19,111	342	7.26%
<b>TOTAL SECURITIES</b>	<b>587,232</b>	<b>5,684</b>	<b>3.93%</b>	<b>594,461</b>	<b>6,811</b>	<b>4.65%</b>
<b>LOANS HELD FOR SALE</b>	<b>14,190</b>	<b>119</b>	<b>3.40%</b>	<b>7,125</b>	<b>106</b>	<b>6.03%</b>
<b>LOANS</b>						
Commercial and Industrial	500,202	5,401	4.38%	377,855	4,248	4.56%
Commercial Real Estate	1,749,292	23,197	5.38%	1,630,944	23,258	5.78%
Commercial Construction	123,501	1,410	4.63%	171,535	2,076	4.91%
Small Business	80,286	1,179	5.96%	82,476	1,217	5.98%
<b>TOTAL COMMERCIAL</b>	<b>2,453,281</b>	<b>31,187</b>	<b>5.16%</b>	<b>2,262,810</b>	<b>30,799</b>	<b>5.52%</b>
Residential Real Estate	468,146	5,399	4.68%	548,533	6,765	5.00%
Residential Construction	3,712	44	4.81%	9,102	118	5.26%
Consumer Home Equity	601,624	5,622	3.79%	478,324	4,522	3.83%
<b>TOTAL CONSUMER</b>	<b>1,073,482</b>	<b>11,065</b>	<b>4.18%</b>	<b>1,035,959</b>	<b>11,405</b>	<b>4.46%</b>
<b>TOTAL OTHER CONSUMER</b>	<b>64,066</b>	<b>1,229</b>	<b>7.78%</b>	<b>105,140</b>	<b>2,012</b>	<b>7.76%</b>
<b>TOTAL LOANS</b>	<b>3,590,829</b>	<b>43,481</b>	<b>4.91%</b>	<b>3,403,909</b>	<b>44,216</b>	<b>5.27%</b>
<b>TOTAL INTEREST EARNING ASSETS</b>	<b>4,219,903</b>	<b>49,301</b>	<b>4.74%</b>	<b>4,028,639</b>	<b>51,157</b>	<b>5.15%</b>
<b>CASH AND DUE FROM BANKS</b>	<b>52,023</b>			<b>66,405</b>		
<b>FEDERAL HOME LOAN BANK STOCK</b>	<b>35,854</b>			<b>35,854</b>		
<b>OTHER ASSETS</b>	<b>320,658</b>			<b>304,200</b>		

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

TOTAL ASSETS	\$4,628,438			\$4,435,098		
INTEREST-BEARING LIABILITIES DEPOSITS						
Savings and Interest						
Checking Accounts	\$1,289,201	\$ 760	0.24%	\$1,056,156	\$ 1,184	0.45%
Money Market	723,946	785	0.44%	702,390	1,320	0.76%
Time Deposits	672,893	1,940	1.17%	889,449	3,435	1.57%
TOTAL INTEREST-BEARING DEPOSITS	2,686,040	3,485	0.53%	2,647,995	5,939	0.91%
BORROWINGS						
Federal Home Loan Bank Borrowings	335,457	1,910	2.31%	340,301	2,432	2.90%
Federal Funds Purchased and Assets Sold Under Repurchase Agreement	178,185	651	1.48%	184,624	830	1.82%
Junior Subordinated Debentures	61,857	904	5.93%	61,857	902	5.91%
Subordinated Debentures	30,000	535	7.23%	30,000	535	7.23%
Other Borrowings	2,761		0.00%	2,360		0.00%
TOTAL BORROWINGS	608,260	4,000	2.67%	619,142	4,699	3.08%
TOTAL INTEREST-BEARING LIABILITIES						
	3,294,300	7,485	0.92%	3,267,137	10,638	1.32%
DEMAND DEPOSITS	831,032			702,833		
OTHER LIABILITIES	59,791			47,020		
TOTAL LIABILITIES	4,185,123			4,016,990		
STOCKHOLDERS EQUITY	443,315			418,108		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$4,628,438			\$4,435,098		
NET INTEREST INCOME		\$41,816			\$40,519	
INTEREST RATE SPREAD (2)			3.82%			3.83%

NET INTEREST MARGIN

(3) 4.02% 4.08%

Supplemental Information:

Total Deposits, including Demand Deposits	\$3,517,072	\$ 3,485	\$3,350,828	\$ 5,939	
Cost of Total Deposits			0.40%		0.72%
Total Funding Liabilities, including Demand Deposits	\$4,125,332	\$ 7,485	\$3,969,970	\$10,638	
Cost of Total Funding Liabilities			0.74%		1.09%

- (1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is \$343 and \$309 for the three months ended March 31, 2011 and 2010, respectively.
- (2) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (3) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets. *Certain amounts in prior year financial statement have been reclassified to conform to the current year's presentation.*

**Table of Contents**

The following table presents certain information on a fully tax-equivalent basis regarding changes in the Company's interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to: (1) changes in rate (change in rate multiplied by old volume), (2) changes in volume (change in volume multiplied by old rate), and (3) changes in volume/rate (change in volume multiplied by change in rate) which is allocated to the change due to rate column:

**Table 12 Volume Rate Analysis**

	Three Months Ended March 31, 2011 Compared to 2010			Three Months Ended March 31, 2010 Compared to 2009		
	Change Due to Rate (1)	Change Due to Volume	Total Change	Change Due to Rate (1)	Change Due to Volume	Total Change
(Dollars in Thousands)						
INCOME ON INTEREST-EARNING ASSETS:						
INTEREST EARNING DEPOSITIS WITH BANKS, FEDERAL FUNDS SOLD AND SHORT TERM INVESTMENTS						
	\$ (12)	\$ 5	\$ (7)	\$ (14)	\$ (160)	\$ (174)
SECURITIES:						
Taxable Securities	(983)	4	(979)	(562)	34	(528)
Non-Taxable Securities (2)	9	(160)	(151)	45	(172)	(127)
Trading Assets	(9)	12	3	(3)	38	35
TOTAL SECURITIES	(983)	(144)	(1,127)	(520)	(100)	(620)
LOANS HELD FOR SALE	(92)	105	13	27	(89)	(62)
LOANS (2)(3)	(3,163)	2,428	(735)	(1,859)	10,178	8,319
TOTAL	\$ (4,250)	\$ 2,394	\$ (1,856)	\$ (2,366)	\$ 9,829	\$ 7,463
EXPENSE OF INTEREST-BEARING LIABILITIES:						
DEPOSITS:						
Savings and Interest						
Checking Accounts	\$ (685)	\$ 261	\$ (424)	\$ (237)	\$ 425	\$ 188
Money Market	(576)	41	(535)	(978)	602	(376)
Time Deposits	(659)	(836)	(1,495)	(2,681)	401	(2,280)
TOTAL INTEREST-BEARING DEPOSITS	(1,920)	(534)	(2,454)	(3,896)	1,428	(2,468)
BORROWINGS:						
Federal Home Loan Bank Borrowings						
	\$ (487)	\$ (35)	\$ (522)	\$ 212	\$ (455)	\$ (243)

Federal Funds Purchased and Assets Sold Under Repurchase Agreements	(150)	(29)	(179)	(84)	58	(26)
Junior Subordinated Debentures	2		2	(45)		(45)
Subordinated Debentures				(2)		(2)
Other Borrowings						
<b>TOTAL BORROWINGS</b>	<b>(635)</b>	<b>(64)</b>	<b>(699)</b>	<b>81</b>	<b>(397)</b>	<b>(316)</b>
<b>TOTAL</b>	<b>\$(2,555)</b>	<b>\$ (598)</b>	<b>\$(3,153)</b>	<b>\$(3,815)</b>	<b>\$ 1,031</b>	<b>\$(2,784)</b>
<b>CHANGE IN NET INTEREST INCOME</b>	<b>\$(1,695)</b>	<b>\$2,992</b>	<b>\$ 1,297</b>	<b>\$ 1,449</b>	<b>\$ 8,798</b>	<b>\$10,247</b>

- (1) The changes for each category of interest income and expense are divided between the portion of change attributable to the variances in volume and the portion of the change attributable to the variances in rate for that category. The unallocated change in rate or volume variance has been allocated to the rate variances.
- (2) The total amount of the adjustment to present income and yield on a fully tax-equivalent basis is \$343 and \$309 for the three months ended March 31, 2011 and 2010, respectively.
- (3) Loans include portfolio loans, and nonperforming loans; however unpaid interest on nonaccrual loans has not been included for purposes of determining interest income.

**Provision For Loan Losses** The provision for loan losses represents the charge to expense that is required to maintain an adequate level of allowance for loan losses. The provision for loan losses totaled \$2.2 million at March 31, 2011, compared with \$4.7 million at March 31, 2010. The Company's allowance for loan losses, as a percentage of total loans, was 1.28% at March 31, 2011 compared to 1.30% at December 31, 2010 and 1.33% at March 31, 2010. For the quarter ended March 31, 2011, net loan charge-offs totaled \$2.0 million, an increase of \$278,000 from the quarter ended March 31, 2010. While the total loan portfolio increased by 6.4% for the quarter ended March 31, 2011 as compared to the first quarter of 2010, the Company's improved asset quality trends led to lower provisioning levels in the first quarter of 2011.

Although the economic environment remains challenging, regional and local general economic conditions continued to show gradual improvement during the first quarter of 2011,



**Table of Contents**

as measured in terms of employment levels, statewide economic activity, and other regional economic indicators. Local residential real estate market fundamentals weakened during the first quarter of 2011, partially resulting from severe winter weather and the lasting effects of the expiration of the Federal Housing Tax Credit in 2010. However, foreclosure activity in Massachusetts slowed during early 2011. Regional commercial real estate market conditions were mixed during the first three months of 2011, with some areas experiencing a recovery, and others still exhibiting higher vacancy rates and negative absorption. Leading economic indicators signal continued economic improvement through the remainder of 2011, however uncertainty persists and growth is expected to be slow.

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

**Non-Interest Income** The following table sets forth information regarding non-interest income for the periods shown:

**Table 13 Non-Interest Income**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
	(Dollars In Thousands)	
Service Charges on Deposit Accounts	\$ 3,959	\$ 3,131
Interchange and ATM Fees	1,702	1,090
Investment Management	3,216	2,728
Mortgage Banking	1,047	1,000
Bank Owned Life Insurance	706	721
Gross Change on Write-Down of Certain Investments to Fair Value	249	180
Less: Non-Credit Related Other-Than-Temporary Impairment	(289)	(358)
Net Loss on Write-Down of Certain Investments to Fair Value	(40)	(178)
Other Non-Interest Income	2,008	1,558
<b>TOTAL</b>	<b>\$12,598</b>	<b>\$10,050</b>

Non-interest income increased by \$2.5 million, or 25.4%, during the three months ended March 31, 2011, as compared to the same period in the prior year. The change in non-interest income is attributable to the following:

Service charges on deposit accounts increased \$828,000, or 26.5%, due primarily to increased customer utilization of the Bank's overdraft privilege program.

Interchange and ATM fees increased \$612,000, or 56.2%, mainly due to the reclassification of certain net interchange revenue as other non-interest expense. Previously, the net amount was recorded in noninterest expense.

Investment management revenue increased by \$488,000, or 17.9%, for the three months ended March 31, 2011, as compared to the same period in the prior year. This increase is mainly due to increases in assets under administration, which were \$1.6 billion at March 31, 2011, an increase of \$317.5 million, or 23.9%, as compared to the same period in

**Table of Contents**

the prior year. The increase is due to the general increases in the stock market in these comparable periods and net new client asset flows.

Other non-interest income increased by \$450,000, or 28.9%, the increases in the quarter are primarily due to income associated with loan level interest rate derivatives.

**Non-Interest Expense** The following table sets forth information regarding non-interest expense for the periods shown:

**Table 14- Non-Interest Expense**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	(Dollars in Thousands)	
Salaries and Employee Benefits	\$20,252	\$18,464
Occupancy and Equipment Expenses	4,575	4,135
Data Processing and Facilities Management	1,638	1,294
FDIC Assessment	1,291	1,321
Advertising	938	441
Telephone	527	546
Software Maintenance	463	495
Legal Fees	419	803
Other Non-Interest Expense	6,379	6,089
<b>TOTAL</b>	<b>\$36,482</b>	<b>\$33,588</b>

Non-interest expense increased by \$2.9 million, or 8.6%, for the quarter ended March 31, 2011, as compared to the same period in 2010. The change in non-interest expense is attributable to the following:

Salaries and employee benefits increased by \$1.8 million, or 9.7%, with the increase attributable to salary increases, incentive programs and equity compensation plans.

Occupancy and equipment expense increased by \$440,000, or 10.6%, mainly due to snow removal.

Data processing and facilities management expense increased by \$344,000, or 26.6%, due primarily to one time system conversion costs incurred by the Company.

Advertising expense increased by \$497,000, or 112.7%. The large increase is due to a kickoff of a major advertising campaign including television, radio and billboard advertisements.

Other non-interest expense increased by \$290,000, or 4.8%, primarily due to increases in write-downs on OREO properties offset by reduced loan workout costs.

**Income Taxes** For the quarters ended March 31, 2011 and 2010, the Company recorded combined federal and state income tax provisions of \$4.2 million and \$2.8 million equating to an effective tax rate of 27.3% and 23.1%, respectively. The Company's effective rates for each year were lower than the blended federal and state statutory rates of 41.2% and

**Table of Contents**

41.5% for the 2011 and 2010 tax years, attributable to certain tax preference assets such as BOLI, tax exempt bonds, as well as federal tax credits recognized in connection with the New Markets Tax Credit ( NMTC ) program. The increase in the Company's effective tax rate in 2011 was primarily attributable to a reduction in tax credits from the NMTC program in 2011. Effective July 1, 2008 Massachusetts state legislation was passed which enacted corporate tax reform. As a result of this new legislation, the state tax rate is being reduced 1.5% over a three year period which began on January 1, 2010 and will result in a blended statutory rate of 40.9% in 2012.

Deferred tax assets generally represent items that can be used as a tax deduction or credit in future income tax returns, for which a financial statement tax benefit has already been recognized. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years' taxable income to which carry-back refund claims could be made. Valuation allowances are established against those deferred tax assets determined not likely to be realized. The Company had no recorded tax valuation allowance as of March 31, 2011 and 2010.

To date the Company has been awarded a total of \$125.0 million in tax credit allocation authority under the Federal New Markets Tax Credit Program. Tax credits are eligible to be recognized over a seven year period totaling 39% of the total award, as capital is invested into a subsidiary which will lend to qualifying businesses in low income communities. Accordingly, the Company has received and continues to receive eligible aggregated tax credits totaling \$48.8 million. The tax effect of all income and expense transactions is recognized by the Company in each year's consolidated statements of income, regardless of the year in which the transactions are reported for income tax purposes. The following table details the tax credit recognition by year associated with this program:

**Table 15 New Markets Tax Credit Recognition Schedule**

		2004 -								Total
Investment		2009	2010	2011	2012	2013	2014	2015	2016	Credits
		(Dollars in Thousands)								
2004	\$ 15 M	\$ 4,950	\$ 900	\$	\$	\$	\$	\$	\$	\$ 5,850
2005	15 M	4,050	900	900						5,850
2007	38.2 M	5,730	2,292	2,292	2,292	2,292				14,898
2008	6.8 M	680	340	408	408	408	408			2,652
2009	10 M	500	500	500	600	600	600	600		3,900
2010	40 M		2,000	2,000	2,000	2,400	2,400	2,400	2,400	15,600
TOTAL	\$ 125 M	\$15,910	\$6,932	\$6,100	\$5,300	\$5,700	\$3,408	\$3,000	\$2,400	\$48,750

**Market Risk** Market risk is the sensitivity of income to changes in interest rates, foreign exchange rates, commodity prices and other market-driven rates or prices. The Company has no trading operations, with the exception of funds held for the purpose of funding an executive non-qualified supplementary retirement plan managed by the Company's investment management group.

Interest-rate risk is the most significant non-credit risk to which the Company is exposed. Interest-rate risk is the sensitivity of income to changes in interest rates. Changes in interest rates, as well as fluctuations in the level and duration of assets and liabilities, affect net interest income, the Company's primary source of revenue. Interest-rate risk arises directly

**Table of Contents**

from the Company's core banking activities. In addition to directly impacting net interest income, changes in the level of interest rates can also affect the amount of loans originated, the timing of cash flows on loans and securities, and the fair value of securities and derivatives, as well as other effects.

The primary goal of interest-rate risk management is to control this risk within limits approved by the Board of Directors. These limits reflect the Company's tolerance for interest-rate risk over both short-term and long-term horizons. The Company attempts to control interest-rate risk by identifying, quantifying, and where appropriate, hedging its exposure. The Company manages its interest-rate exposure using a combination of on and off-balance sheet instruments, primarily fixed rate portfolio securities, and interest rate swaps.

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

To mitigate these uncertainties, the Company gives careful attention to its assumptions. In the case of prepayment of mortgage assets, assumptions are derived from published dealer median prepayment estimates for comparable mortgage loans.

The Bank may choose to utilize interest rate swap agreements and interest rate caps and floors to mitigate interest-rate risk. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount for a predetermined period of time from a second party. Interest rate caps and floors are agreements whereby one party agrees to pay a floating rate of interest on a notional principal amount for a predetermined period of time to a second party if certain market interest rate thresholds are realized. The amounts relating to the notional principal amount are not actually exchanged. See *Note 7, Derivatives and Hedging Activities* within Notes to Consolidated Financial Statements included in Item 1 hereof for additional information regarding the Company's Derivative Financial Instruments.

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

The Company's earnings are not directly or materially impacted by movements in foreign currency rates or commodity prices. Movements in equity prices may have a modest impact on earnings by affecting the volume of activity or the amount of fees from investment-related business lines, as well as changes in the fair value of trading securities.

**Table of Contents**

The Company's policy on interest-rate risk simulation specifies that if interest rates were to shift gradually up or down 200 basis points, estimated net interest income for the subsequent 12 months should decline by less than 6.0%. Given the unusually low rate environment at March 31, 2011 and 2010, the Company also assumed a 100 basis point decline in interest rates, for certain points of the yield curve, in addition to the normal 200 basis point increase in rates. The Company was well within policy limits at March 31, 2011 and 2010. The Company also reviews numerous other scenarios, such as a 500 basis point increasing rate scenario. This scenario assumes a flattening yield curve where short term rates move up by 500 basis points while longer term rates only increase marginally.

The following table sets forth the estimated effects on the Company's net interest income over a 12-month period following the indicated dates in the event of the indicated increases or decreases in market interest rates:

**Table 16 Interest Rate Sensitivity**

	<b>200 Basis Point Rate Increase</b>	<b>100 Basis Point Rate Decrease</b>	<b>500 Basis Point Rate Increase Flattening Curve</b>
March 31, 2011	0.4%	0.4%	0.3%
March 31, 2010	0.5%	0.4%	0.0%

It should be emphasized, however, that the results are dependent on material assumptions such as those discussed above. For instance, asymmetrical rate behavior can have a material impact on the simulation results. If competition for deposits forced the Company to raise rates on those liabilities quicker than is assumed in the simulation analysis without a corresponding increase in asset yields, net interest income may be negatively impacted. Alternatively, if the Company is able to lag increases in deposit rates as loans re-price upward net interest income would be positively impacted.

The most significant factors affecting market risk exposure of the Company's net interest income during the first quarter of 2011 were (i) the shape of the U.S. Government securities and interest rate swap yield curve, (ii) the level of U.S. prime interest rate and LIBOR rates, and (iii) the level of interest rates being offered on long-term fixed rate loans.

**Liquidity Risk** Liquidity, as it pertains to the Company, is the ability to generate adequate amounts of cash in the most economical way for the institution to meet its ongoing obligations to pay deposit withdrawals and to fund loan commitments. The Company's primary sources of funds are deposits, borrowings, and the amortization, prepayment and maturities of loans and securities.

The Bank utilizes its extensive branch network to access retail customers who provide a stable base of in-market core deposits. These funds are principally comprised of demand deposits, interest checking accounts, savings accounts, and money market accounts. Deposit levels are greatly influenced by interest rates, economic conditions, and competitive factors. The Bank has also established repurchase agreements, with major brokerage firms as potential sources of liquidity. At March 31, 2011 the Bank had the following sources of liquidity:

**Table of Contents**

Outstanding FHLBB borrowings of \$277.3 million, with access to \$393.1 million additional available borrowing capacity.

No outstanding borrowings with the Federal Reserve Bank of Boston with access to \$649.1 million of available borrowing capacity.

Unpledged securities of \$154.2 million.

Outstanding repurchase agreements with major brokerage firms of \$50.0 million.

Outstanding customer repurchase agreements amounting to \$134.7 million.

In connection with the repurchase agreements, the Company had investment securities carried at \$222.5 million that were pledged to secure assets sold under these repurchase agreements.

Also included in borrowings at March 31, 2011 were \$61.8 million of junior subordinated debentures, comprised primarily of trust preferred debt issued to the public and \$30.0 million of subordinated debt.

**Asset/Liability Management** The Bank's asset/liability management process monitors and manages, among other things, the interest rate sensitivity of the balance sheet, the composition of the securities portfolio, funding needs and sources, and the liquidity position. All of these factors, as well as projected asset growth, current and potential pricing actions, competitive influences, national monetary and fiscal policy, and the regional economic environment are considered in the asset/liability management process.

The Asset/Liability Management Committee (ALCO), whose members are comprised of the Bank's senior management, develop procedures consistent with policies established by the Board of Directors, which monitor and coordinate the Bank's interest rate sensitivity and the sources, uses, and pricing of funds. Interest rate sensitivity refers to the Bank's exposure to fluctuations in interest rates and its effect on earnings. If assets and liabilities do not re-price simultaneously and in equal volume, the potential for interest rate exposure exists. It is management's objective to maintain stability in the growth of net interest income through the maintenance of an appropriate mix of interest-earning assets and interest-bearing liabilities and, when necessary, within prudent limits, through the use of off-balance sheet hedging instruments such as interest rate swaps, floors and caps. The ALCO employs simulation analyses in an attempt to quantify, evaluate, and manage the impact of changes in interest rates on the Bank's net interest income. In addition, the Bank engages an independent consultant to render advice with respect to asset and liability management strategy.

The Bank is careful to increase deposits without adversely impacting the weighted average cost of those funds. Accordingly, management has implemented funding strategies that include FHLB advances and repurchase agreement lines. These non-deposit funds are also viewed as a contingent source of liquidity and, when profitable lending and investment opportunities exist, access to such funds provides a means to grow the balance sheet.

The Company actively manages its liquidity position under the direction of the ALCO. Periodic review under prescribed policies and procedures is intended to ensure that the Company will maintain adequate levels of available funds. At March 31, 2011 the Company's liquidity position was well above policy guidelines. Management believes that the Bank has adequate liquidity available to respond to current and anticipated liquidity demands.

**Table of Contents**

**Off-Balance Sheet Arrangements** There have been no material changes in off-balance sheet financial instruments during the first quarter of 2011. Please refer to the 2010 Form 10-K for a complete table of contractual obligations, commitments, contingencies and off-balance sheet financial instruments.

**Contractual Obligations, Commitments, and Contingencies** There have been no material changes in contractual obligations, commitments, or contingencies during the first quarter of 2011. Please refer to the 2010 Form 10-K for a complete table of contractual obligations, commitments, contingencies, and off-balance sheet financial instruments.

**Regulatory Update** In July 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ). This law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of implementing rules and regulations, and to prepare numerous studies and reports for Congress.

The Company continues to review the provisions of the Dodd-Frank Act, monitor its implementation and assess its probable impact on our 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, remains uncertain at this time.

Provisions under the Dodd-Frank Act are as follows:

Effective July 1, 2011 is a provision of the Dodd-Frank Act that eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Company's interest expense.

The Dodd-Frank Act also broadens 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 non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own board candidates using a company's proxy materials. The legislation also directs 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.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The

**Table of Contents**

Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. 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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Information required by this Item 3 is included in Item 2 of Part I of this Form 10-Q, entitled Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Item 4. Controls and Procedures**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.** The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

**Changes in Internal Controls over Financial Reporting.** There were no changes in our internal control over financial reporting that occurred through the first quarter of 2011 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company is not involved in any legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Management believes that those routine legal proceedings involve, in the aggregate, amounts that are immaterial to the Company's financial condition and results of operations.



**Table of Contents**

**Item 1A. Risk Factors**

As of the date of this report, there have been no material changes with regard to the Risk Factors disclosed in Item 1A of our 2010 Annual Report on Form 10-K, which are incorporated herein by reference.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) - (c) Not applicable.

**Item 3. Defaults Upon Senior Securities None**

**Item 5. Other Information None**

**Item 6. Exhibits**

**Exhibits Index**

<b>No.</b>	<b>Exhibit</b>
3.(i)	Restated Articles of Organization, as adopted May 20, 2010, incorporated by reference to Form 8-K filed on May 24, 2010.
3.(ii)	Amended and Restated Bylaws of the Company, incorporated by reference to Form 8-K filed on May 24, 2010.
4.1	Specimen Common Stock Certificate, incorporated by reference to Form 10-K for the year ended December 31, 1992.
4.2	Specimen preferred Stock Purchase Rights Certificate, incorporated by reference to Form 8-A Registration Statement filed on November 5, 2001.
4.3	Indenture of Registrant relating the Junior Subordinated Debt Securities issued to Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.4	Form of Certificate of Junior Subordinated Debt Security for Independent Capital Trust V (included as Exhibit A to Exhibit 4.9)
4.5	Amended and Restated Declaration of Trust for Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.6	Form of Capital Security Certificate for Independent Capital Trust V (included as Exhibit A-1 to Exhibit 4.9).
4.7	Guarantee Agreement relating to Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
4.8	Forms of Capital Securities Purchase Agreements for Independent Capital Trust V is incorporated by reference to Form 10-K for the year ended

**Table of Contents**

<b>No.</b>	<b>Exhibit</b>
	December 31, 2006 filed on February 28, 2007.
4.9	Subordinated Debt Purchase Agreement between USB Capital Resources and Rockland Trust Company dated as of August 27, 2008 is incorporated by reference to Form 8-K filed on September 2, 2008.
4.10	Rockland Trust Company Employee Savings, Profit Sharing and Stock Ownership Plan incorporated by reference to Form S-8 filed on April 16, 2010.
4.11	Independent Bank Corp. 2010 Dividend Reinvestment and Stock Purchase Plan incorporated by reference to Form S-3 filed on August 24, 2010.
10.1	Independent Bank Corp. 1996 Non-Employee Directors Stock Option Plan incorporated by reference to Definitive Proxy Statement for the 1996 Annual Meeting of Stockholders filed on March 19, 1996.
10.2	Independent Bank Corp. 1997 Employee Stock Option Plan incorporated by reference to the Definitive Proxy Statement for the 1997 Annual Meeting of Stockholders filed on March 20, 1997.
10.3	Independent Bank Corp. 2005 Employee Stock Plan incorporated by reference to Form S-8 filed on July 28, 2005.
10.4	Renewal Rights Agreement dated as of September 14, 2000 by and between the Company and Rockland Trust, as Rights Agent, is incorporated by reference to Form 8-K filed on October 23, 2000.
10.5	Independent Bank Corp. Deferred Compensation Program for Directors (restated as amended as of December 1, 2000) is incorporated by reference to Form 10-K for the year ended December 31, 2000.
10.6	Master Securities Repurchase Agreement, incorporated by reference to Form S-1 Registration Statement filed on September 18, 1992.
10.7	Revised employment agreements between Christopher Oddleifson, Raymond G. Fuerschbach, Edward F. Jankowski, Jane L. Lundquist, Gerard F. Nadeau, Edward H. Seksay, and Denis K. Sheahan and the Company and/or Rockland Trust and a Rockland Trust Company amended and restated Supplemental Executive Retirement Plan dated November 20, 2008 are incorporated by reference to Form 8-K filed on November 21, 2008.
10.8	Specimen forms of stock option agreements for the Company's Chief Executive and other executive officers are incorporated by reference to Form 8-K filed on December 20, 2005.
10.9	On-Site Outsourcing Agreement by and between Fidelity Information Services, Inc. and Independent Bank Corp., effective as of November 1, 2004 is incorporated by reference to Form 10-K for the year ended December 31, 2004 filed on March 4, 2005. Amendment to On-Site Outsourcing Agreement incorporated by reference to Form 8-K filed on May 7, 2008.
10.10	New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of September 22, 2004 is incorporated by reference to Form 8-K filed



**Table of Contents**

<b>No.</b>	<b>Exhibit</b>
10.11	Independent Bank Corp. 2006 Non-Employee Director Stock Plan incorporated by reference to Form S-8 filed on April 17, 2006.
10.12	Independent Bank Corp. 2006 Stock Option Agreement for Non-Employee Director is incorporated by reference to Form 10-Q filed on May 9, 2006.
10.13	Independent Bank Corp. 2006 Restricted Stock Agreement for Non-Employee Director is incorporated by reference to Form 10-Q filed on May 9, 2006.
10.14	New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of January 9, 2007 is incorporated by reference to Form 10-K for the year ended December 31, 2006 filed on February 28, 2007.
10.15	New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of June 18, 2009 is incorporated by reference to the third quarter 2009 Form 10-Q.
10.16	Item Processing and Other Services Agreement dated and effective as of July 1, 2010 by and between Fidelity Information Services, Inc. and Independent Bank Corp. is incorporated by reference to Form 10-Q filed August 5, 2010.
10.17	Independent Bank Corp. 2010 Non-Employee Director Stock Plan, incorporated by reference to Form 8-K filed May 24, 2010.
10.18	Independent Bank Corp. 2010 Stock Option Agreement for Non-Employee Director, incorporated by reference to Form 8-K filed May 24, 2010.
10.20	Independent Bank Corp. 2010 Restricted Stock Agreement for Non-Employee Director, incorporated by reference to Form 8-K filed May 24, 2010.
31.1	Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*
31.2	Section 302 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.*
32.1	Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+
32.2	Section 906 Certification of Sarbanes-Oxley Act of 2002 is attached hereto.+

\* Filed herewith

+ Furnished herewith

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INDEPENDENT BANK CORP.  
(registrant)

Date: May 5, 2011

/s/ Christopher Oddleifson  
Christopher Oddleifson  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 5, 2011

/s/ Denis K. Sheahan  
Denis K. Sheahan  
Chief Financial Officer  
(Principal Financial Officer)

INDEPENDENT BANK CORP.  
(registrant)