

INDEPENDENT BANK CORP
Form 10-Q
May 03, 2018
Table of Contents

UNITED STATES
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, 2018
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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

Non-accelerated Filer Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Acts.

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, 2018, there were 27,524,228 shares of the issuer's common stock outstanding, par value \$0.01 per share.

Table of Contents

Table of Contents

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets - March 31, 2018 and December 31, 2017</u>	4
<u>Consolidated Statements of Income - Three months ended March 31, 2018 and 2017</u>	6
<u>Consolidated Statements of Comprehensive Income - Three months ended March 31, 2018 and 2017</u>	7
<u>Consolidated Statements of Stockholders' Equity - Three months ended March 31, 2018 and 2017</u>	8
<u>Consolidated Statements of Cash Flows - Three months ended March 31, 2018 and 2017</u>	9
Condensed Notes to Consolidated Financial Statements - March 31, 2018	
<u>Note 1 - Basis of Presentation</u>	11
<u>Note 2 - Recent Accounting Standards Updates</u>	11
<u>Note 3 - Securities</u>	12
<u>Note 4 - Loans, Allowance for Loan Losses, and Credit Quality</u>	15
<u>Note 5 - Earnings Per Share</u>	26
<u>Note 6 - Stock Based Compensation</u>	27
<u>Note 7 - Repurchase Agreements</u>	27
<u>Note 8 - Derivative and Hedging Activities</u>	28
<u>Note 9 - Balance Sheet Offsetting</u>	32
<u>Note 10 - Fair Value Measurements</u>	33
<u>Note 11 - Revenue Recognition</u>	41
<u>Note 12 - Comprehensive Income (Loss)</u>	44
<u>Note 13 - Commitments and Contingencies</u>	46
<u>Note 14 - Low Income Housing Project Investments</u>	47
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Table 1 - Closed Residential Real Estate Loans</u>	58
<u>Table 2 - Mortgage Servicing Asset</u>	59
<u>Table 3 - Nonperforming Assets</u>	63
<u>Table 4 - Activity in Nonperforming Assets</u>	63
<u>Table 5 - Troubled Debt Restructurings</u>	64
<u>Table 6 - Activity in Troubled Debt Restructurings</u>	64
<u>Table 7 - Interest Income - Nonaccrual Loans and Troubled Debt Restructurings</u>	64
<u>Table 8 - Summary of Changes in the Allowance for Loan Losses</u>	66
<u>Table 9 - Summary of Allocation of the Allowance for Loan Losses</u>	67
<u>Table 10 - Borrowings</u>	69
<u>Table 11 - Company and Bank's Capital Amounts and Ratios</u>	70
<u>Table 12 - Summary of Results of Operations</u>	72
<u>Table 13 - Average Balance, Interest Earned/Paid & Average Yields Quarter-to-Date</u>	73
<u>Table 14 - Volume Rate Analysis</u>	75
<u>Table 15 - Noninterest Income - Three Months Ended</u>	77
<u>Table 16 - Noninterest Expense - Three Months Ended</u>	78
<u>Table 17 - Tax Provision and Applicable Tax Rates</u>	78

Table of Contents

Table of Contents

<u>Table 18 - New Markets Tax Credit Recognition Schedule</u>	<u>79</u>
<u>Table 19 - Interest Rate Sensitivity</u>	<u>81</u>
<u>Table 20 - Sources of Liquidity</u>	<u>83</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>83</u>
<u>Item 4. Controls and Procedures</u>	<u>84</u>

PART II. OTHER INFORMATION 84

Item 1. Legal Proceedings 84

Item 1A. Risk Factors 84

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 84

Item 3. Defaults Upon Senior Securities 84

Item 4. Mine Safety Disclosures 84

Item 5. Other Information 84

Item 6. Exhibits 85

Signatures 86

Exhibit 31.1 – Certification 302

Exhibit 31.2 – Certification 302

Exhibit 32.1 – Certification 906

Exhibit 32.2 – Certification 906

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

INDEPENDENT BANK CORP.

CONSOLIDATED BALANCE SHEETS

(Unaudited—Dollars in thousands)

	March 31, 2018	December 31 2017
Assets		
Cash and due from banks	\$102,623	\$103,485
Interest-earning deposits with banks	62,925	109,631
Securities		
Trading	1,601	1,324
Equities	20,075	—
Available for sale	445,750	447,498
Held to maturity (fair value \$517,555 and \$494,194)	528,861	497,688
Total securities	996,287	946,510
Loans held for sale (at fair value)	3,937	4,768
Loans		
Commercial and industrial	903,214	888,528
Commercial real estate	3,102,271	3,116,561
Commercial construction	400,934	401,797
Small business	133,666	132,370
Residential real estate	761,331	754,329
Home equity - first position	617,164	612,990
Home equity - subordinate positions	434,288	439,098
Other consumer	9,188	9,880
Total loans	6,362,056	6,355,553
Less: allowance for loan losses	(60,862)	(60,643)
Net loans	6,301,194	6,294,910
Federal Home Loan Bank stock	13,027	11,597
Bank premises and equipment, net	95,214	94,722
Goodwill	231,806	231,806
Other intangible assets	8,462	9,341
Cash surrender value of life insurance policies	152,568	151,528
Other real estate owned and other foreclosed assets	358	612
Other assets	122,009	123,119
Total assets	\$8,090,410	\$8,082,029
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	\$2,167,361	\$2,159,396
Savings and interest checking accounts	2,606,257	2,599,922
Money market	1,323,138	1,325,634
Time certificates of deposit of \$100,000 and over	293,266	278,531
Other time certificates of deposits	361,489	365,770
Total deposits	6,751,511	6,729,253
Borrowings		

Table of Contents

Federal Home Loan Bank borrowings	53,257	53,264
Customer repurchase agreements	137,914	162,679
Junior subordinated debentures (less unamortized debt issuance costs of \$124 and \$125)	73,075	73,073
Subordinated debentures (less unamortized debt issuance costs of \$307 and \$318)	34,693	34,682
Total borrowings	298,939	323,698
Other liabilities	83,901	85,269
Total liabilities	7,134,351	7,138,220
Commitments and contingencies	—	—
Stockholders' equity		
Preferred stock, \$.01 par value, authorized: 1,000,000 shares, outstanding: none	—	—
Common stock, \$.01 par value, authorized: 75,000,000 shares, issued and outstanding: 27,512,328 shares at March 31, 2018 and 27,450,190 shares at December 31, 2017 (includes 169,904 and 177,191 shares of unvested participating restricted stock awards, respectively)	273	273
Value of shares held in rabbi trust at cost: 155,373 shares at March 31, 2018 and 164,438 shares at December 31, 2017	Ø 4,591	Ø 4,590
Deferred compensation and other retirement benefit obligations	4,591	4,590
Additional paid in capital	479,715	