

INDEPENDENT BANK CORP

Form 10-Q

May 08, 2014

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, 2014

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
incorporation or organization)

(I.R.S. Employer
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

☐

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, 2014, there were 23,898,755 shares of the issuer's common stock outstanding, par value \$0.01 per share.

Table of Contents

INDEX

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets - March 31, 2014 and December 31, 2013</u>	<u>4</u>
<u>Consolidated Statements of Income - Three months ended March 31, 2014 and 2013</u>	<u>6</u>
<u>Consolidated Statements of Comprehensive Income -Three months ended March 31, 2014 and 2013</u>	<u>7</u>
<u>Consolidated Statements of Stockholders' Equity - Three months ended March 31, 2014 and 2013</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows - Three months ended March 31, 2014 and 2013</u>	<u>9</u>
 <u>Notes to Consolidated Financial Statements - March 31, 2014</u>	
<u>Note 1 - Basis of Presentation</u>	<u>11</u>
<u>Note 2 - Recent Accounting Standards Updates</u>	<u>11</u>
<u>Note 3 - Securities</u>	<u>12</u>
<u>Note 4 - Loans, Allowance for Loan Losses, and Credit Quality</u>	<u>15</u>
<u>Note 5 - Earnings Per Share</u>	<u>27</u>
<u>Note 6 - Stock Based Compensation</u>	<u>28</u>
<u>Note 7 - Derivative and Hedging Activities</u>	<u>28</u>
<u>Note 8 - Balance Sheet Offsetting</u>	<u>32</u>
<u>Note 9 - Fair Value Measurements</u>	<u>33</u>
<u>Note 10 - Comprehensive Income/(Loss)</u>	<u>41</u>
<u>Note 11 - Commitments and Contingencies</u>	<u>42</u>
<u>Note 12 - Qualified Affordable Housing Project Investments</u>	<u>43</u>
 <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>44</u>
<u>Table 1 - Closed Residential Real Estate Loans</u>	<u>52</u>
<u>Table 2 - Residential Mortgage Loan Sales</u>	<u>52</u>
<u>Table 3 - Mortgage Servicing Asset</u>	<u>53</u>
<u>Table 4 - Nonperforming Assets</u>	<u>57</u>
<u>Table 5 - Activity in Nonperforming Assets</u>	<u>58</u>
<u>Table 6 - Troubled Debt Restructurings</u>	<u>58</u>
<u>Table 7 - Activity in Troubled Debt Restructurings</u>	<u>59</u>
<u>Table 8 - Interest Income Recognized/Collected on Nonaccrual Loans and Troubled Debt Restructurings</u>	<u>59</u>
<u>Table 9 - Summary of Changes in the Allowance for Loan Losses</u>	<u>61</u>
<u>Table 10 - Summary of Allocation of the Allowance for Loan Losses</u>	<u>62</u>
<u>Table 11 - Borrowings</u>	<u>63</u>
<u>Table 12 - Company and Bank's Capital Amounts and Ratios</u>	<u>64</u>
<u>Table 13 - Summary of Results of Operations</u>	<u>65</u>
<u>Table 14 - Average Balance, Interest Earned/Paid & Average Yields – Three Months Ended</u>	<u>66</u>
<u>Table 15 - Volume Rate Analysis</u>	<u>68</u>
<u>Table 16 - Noninterest Income</u>	<u>70</u>
<u>Table 17 - Noninterest Expense</u>	<u>71</u>

Table of Contents

<u>Table 18 - Tax Provision and Applicable Tax Rates</u>	<u>72</u>
<u>Table 19 - New Markets Tax Credit Recognition Schedule</u>	<u>72</u>
<u>Table 20 - Interest Rate Sensitivity</u>	<u>74</u>
<u>Table 21 - Sources of Liquidity</u>	<u>76</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>76</u>
<u>Item 4. Controls and Procedures</u>	<u>76</u>
 <u>PART II. OTHER INFORMATION</u>	 <u>77</u>
<u>Item 1. Legal Proceedings</u>	<u>77</u>
<u>Item 1A. Risk Factors</u>	<u>77</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>77</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>77</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>77</u>
<u>Item 5. Other Information</u>	<u>77</u>
<u>Item 6. Exhibits</u>	<u>78</u>
 <u>Signatures</u>	 <u>79</u>
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, 2014	December 31, 2013
Assets		
Cash and due from banks	\$142,349	\$168,106
Interest-earning deposits with banks	74,934	48,219
Securities		
Securities available for sale	348,258	356,862
Securities held to maturity (fair value \$374,530 and \$346,455)	375,556	350,652
Total securities	723,814	707,514
Loans held for sale (at fair value)	6,788	8,882
Loans		
Commercial and industrial	822,509	784,202
Commercial real estate	2,282,939	2,249,260
Commercial construction	239,536	223,859
Small business	78,147	77,240
Residential real estate	538,626	541,443
Home equity - 1st position	499,095	497,075
Home equity - subordinate positions	328,190	325,066
Other consumer	18,227	20,162
Total loans	4,807,269	4,718,307
Less: allowance for loan losses	(53,629)	(53,239)
Net loans	4,753,640	4,665,068
Federal Home Loan Bank stock	39,926	39,926
Bank premises and equipment, net	64,433	64,950
Goodwill	170,421	170,421
Identifiable intangible assets	11,630	12,221
Cash surrender value of life insurance policies	97,839	100,406
Other real estate owned and other foreclosed assets	7,997	7,633
Other assets	132,149	105,888
Total assets	\$6,225,920	\$6,099,234
Liabilities and Stockholders' Equity		
Deposits		
Demand deposits	\$1,399,717	\$1,369,432
Savings and interest checking accounts	2,032,204	1,940,153
Money market	957,052	933,205
Time certificates of deposit of \$100,000 and over	292,956	297,984
Other time certificates of deposits	432,330	445,644
Total deposits	5,114,259	4,986,418
Borrowings		
Federal Home Loan Bank borrowings	140,228	140,294
Customer repurchase agreements and other short-term borrowings	128,485	154,288
Wholesale repurchase agreements	50,000	50,000

Table of Contents

Junior subordinated debentures	73,852	73,906
Subordinated debentures	30,000	30,000
Total borrowings	422,565	448,488
Other liabilities	86,540	72,788
Total liabilities	5,623,364	5,507,694
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: 23,878,056 shares at March 31, 2014 and 23,805,984 shares at December 31, 2013 (includes 284,453 and 268,290 shares of unvested participating 236 restricted stock awards, respectively)		235
Shares held in rabbi trust at cost: 172,048 shares at March 31, 2014 and 178,765 shares at December 31, 2013	(3,456	) (3,404
Deferred compensation obligation	3,456	3,404
Additional paid in capital	306,156	305,179
Retained earnings	301,218	293,560
Accumulated other comprehensive loss, net of tax	(5,054	) (7,434
Total stockholders' equity	602,556	591,540
Total liabilities and stockholders' equity	\$6,225,920	\$6,099,234
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 per share data)

	Three Months Ended March 31	
	2014	2013
Interest income		
Interest on loans	\$48,204	\$46,978
Taxable interest and dividends on securities	4,650	3,529
Nontaxable interest and dividends on securities	37	11
Interest on loans held for sale	51	268
Interest on federal funds sold	38	34
Total interest and dividend income	52,980	50,820
Interest expense		
Interest on deposits	2,791	2,665
Interest on borrowings	2,583	3,293
Total interest expense	5,374	5,958
Net interest income	47,606	44,862
Provision for loan losses	4,502	1,300
Net interest income after provision for loan losses	43,104	43,562
Noninterest income		
Deposit account fees	4,359	4,217
Interchange and ATM fees	2,975	2,328
Investment management	4,603	3,884
Mortgage banking income	487	2,281
Loan level derivative income	746	532
Increase in cash surrender value of life insurance policies	722	746
Gain on life insurance benefits	1,627	—
Net gain on sale of equity securities	91	—
Other noninterest income	1,906	1,736
Total noninterest income	17,516	15,724
Noninterest expenses		
Salaries and employee benefits	23,080	22,715
Occupancy and equipment expenses	6,146	5,249
Data processing and facilities management	1,253	1,184
FDIC assessment	905	821
Advertising expense	824	1,172
Consulting expense	559	710
Debit card expense	614	670
Merger and acquisition expense	77	1,345
Software maintenance	662	681
Telecommunication expense	548	655
Other noninterest expenses	7,219	7,718
Total noninterest expenses	41,887	42,920
Income before income taxes	18,733	16,366
Provision for income taxes	5,350	4,114
Net income	\$13,383	\$12,252
Basic earnings per share	0.56	0.54
Diluted earnings per share	0.56	0.54

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

Weighted average common shares (basic)	23,819,065	22,823,753
Common shares equivalents	100,173	46,040
Weighted average common shares (diluted)	23,919,238	22,869,793
Cash dividends declared per common share	0.24	0.22

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

Table of Contents

INDEPENDENT BANK CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited—Dollars in thousands)

	Three Months Ended March 31	
	2014	2013
Net income	\$13,383	\$12,252
Other comprehensive income, net of tax		
Unrealized gains (losses) on securities		
Change in fair value of securities available for sale	1,971	(777)
Less: net security gains reclassified into earnings	54	—
Net change in fair value of securities available for sale	1,917	(777)
Unrealized gains (losses) on cash flow hedges		
Change in fair value of cash flow hedges	(177)	(3)
Less: net cash flow hedge losses reclassified into earnings	(679)	(836)
Net change in fair value of cash flow hedges	502	833
Net gain (loss) during the period and amortization of certain costs included in net periodic retirement costs	(39)	1
Total other comprehensive income	2,380	57
Total comprehensive income	\$15,763	\$12,309
The accompanying condensed notes are an integral part of these unaudited consolidated financial statements		

Table of Contents

INDEPENDENT BANK CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited—Dollars in thousands, except per share data)

	Common Stock Outstanding	Common Stock	Value of Shares Held in Rabbi Trust at Cost	Deferred Compensation Obligation	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2013	23,805,984	\$235	\$ (3,404)	\$ 3,404	\$305,179	\$293,560	\$ (7,434)	\$591,540
Net income	—	—	—	—	—	13,383	—	13,383
Other comprehensive income	—	—	—	—	—	—	2,380	2,380
Common dividend declared (\$0.24 per share)	—	—	—	—	—	(5,725)	—	(5,725)
Proceeds from exercise of stock options	7,911	—	—	—	133	—	—	133
Tax benefit related to equity award activity	—	—	—	—	193	—	—	193
Equity based compensation	—	—	—	—	677	—	—	677
Restricted stock awards issued, net of awards surrendered	55,761	1	—	—	(473)	—	—	(472)
Shares issued under direct stock purchase plan	8,400	—	—	—	319	—	—	319
Deferred compensation obligation	—	—	(52)	52	—	—	—	—
Tax benefit related to deferred compensation distributions	—	—	—	—	128	—	—	128
Balance at March 31, 2014	23,878,056	\$236	\$ (3,456)	\$ 3,456	\$306,156	\$301,218	\$ (5,054)	\$602,556
Balance at December 31, 2012	22,774,009	\$225	\$ (3,179)	\$ 3,179	\$269,950	\$263,671	\$ (4,526)	\$529,320
Net income	—	—	—	—	—	12,252	—	12,252
Other comprehensive	—	—	—	—	—	—	57	57

Edgar Filing: INDEPENDENT BANK CORP - Form 10-Q

income								
Common dividend								
declared (\$0.22	—	—	—	—	—	(5,032	)	(5,032
per share))
Proceeds from								
exercise of stock	17,450	—	—	—	451	—	—	451
options								
Tax benefit related								
to equity award	—	—	—	—	166	—	—	166
activity								
Equity based								
compensation	—	—	—	—	760	—	—	760
Restricted stock								
awards issued, net	79,636	1	—	—	(508	)	—	(507
of awards)
surrendered								
Shares issued								
under direct stock	252	—	—	—	8	—	—	8
purchase plan								
Deferred								
compensation	—	—	(19	)	19	—	—	—
obligation								
Tax benefit related								
to deferred								
compensation	—	—	—	—	100	—	—	100
distributions								
Balance March	22,871,347	\$226	\$ (3,198	)	\$ 3,198	\$270,927	\$270,891	\$ (4,469
31, 2013)
								\$537,575

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)

	Three Months Ended March 31	
	2014	2013
Cash flow from operating activities		
Net income	\$ 13,383	\$ 12,252
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	2,671	2,064
Provision for loan losses	4,502	1,300
Deferred income tax expense	471	2
Net gain on sale of equity securities	(91)) —
Net loss on fixed assets	353	28
Net loss on sale of other real estate owned and foreclosed assets	184	198
Realized gain on sale leaseback transaction	(258)	) (258)
Stock based compensation	677	760
Excess tax benefit related to equity award activity	(193)	) (166)
Increase in cash surrender value of life insurance policies	(722)	) (746)
Gain on life insurance benefits	(1,627)) —
Change in fair value on loans held for sale	(51)	) 140
Net change in:		
Loans held for sale	2,145	11,257
Other assets	1,991	11,394
Other liabilities	(8,722)	) (11,862)
Total adjustments	1,330	14,111
Net cash provided by operating activities	14,713	26,363
Cash flows used in investing activities		
Proceeds from sales of securities available for sale	673	—
Proceeds from maturities and principal repayments of securities available for sale	11,705	26,708
Purchase of securities available for sale	(766)	) (34,725)
Proceeds from maturities and principal repayments of securities held to maturity	9,083	13,950
Purchase of securities held to maturity	(34,017)	) (44,902)
Redemption of Federal Home Loan Bank stock	—	3,093
Investment in Low Income Housing Projects	(2,561)) —
Purchase of life insurance policies	(93)	) (93)
Proceeds from life insurance policies	478	—
Net (increase) decrease in loans	(93,858)	) 29,167
Purchase of bank premises and equipment	(2,455)	) (1,478)
Proceeds from the sale of bank premises and equipment	756	—
Proceeds from the sale of other real estate owned and foreclosed assets	642	1,206
Capital improvements to other real estate owned	(444)	) (304)
Net cash used in investing activities	(110,857)	) (7,378)
Cash flows provided by (used in) financing activities		
Net increase (decrease) in time deposits	(18,342)	) 15,141
Net increase (decrease) in other deposits	146,183	(10,408)

Table of Contents

Net increase in short-term Federal Home Loan Bank borrowings	—	305	
Repayments of long-term Federal Home Loan Bank borrowings	—	(9,134)
Net decrease in customer repurchase agreements	(20,803	) (23,741)
Net decrease in other borrowings	(5,000	) (7,000)
Proceeds from exercise of stock options, net of cash paid	133	451	
Restricted stock awards issued, net of awards surrendered	(472	) (507)
Excess tax benefit from stock based compensation	193	166	
Tax benefit from deferred compensation distribution	128	100	
Proceeds from shares issued under direct stock purchase plan	319	8	
Common dividends paid	(5,237) —	
Net cash provided by (used in) financing activities	97,102	(34,619)
Net increase (decrease) in cash and cash equivalents	958	(15,634)
Cash and cash equivalents at beginning of year	216,325	215,474	
Cash and cash equivalents at end of period	\$217,283	\$199,840	
Supplemental schedule of noncash investing and financing activities			
Transfer of loans to other real estate owned & foreclosed assets	\$746	\$771	
Capital commitment relating to Low Income Housing Project investments	\$23,279	\$—	

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.

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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 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, 2013, filed with the Securities and Exchange Commission.

NOTE 2 – RECENT ACCOUNTING STANDARDS UPDATES

FASB ASC Subtopic 310-40 "Receivables - Troubled Debt Restructurings by Creditors" Update No. 2014-04. Update No. 2014-04 was issued in January 2014 to reduce diversity by clarifying when an in substance repossession of foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update should be applied prospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position.

FASB ASC Topic No. 323 "Investments - Equity Method and Joint Ventures" Update No. 2014-01. Update No. 2014-01 was issued in January 2014 to provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for low-income housing tax credit. The amendments in this update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component to income tax expense (benefit). The amendments in the update should be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted and the Company chose to early adopt this guidance effective January 1, 2014. The adoption of this standard did not have a material impact on the Company's consolidated financial

position.

11

Table of Contents

NOTE 3 – SECURITIES

The following table presents a summary of the amortized cost, gross unrealized holding gains and losses, other-than-temporary impairment recorded in other comprehensive income and fair value of securities available for sale and securities held to maturity for the periods below:

	March 31, 2014					December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Other	Other-Than- Temporary Impairment	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Other	Other-Than- Temporary Impairment	Fair Value
(Dollars in thousands)										
Available for sale securities										
U.S. Government agency securities	\$41,335	\$ 4	\$ (415)	\$ —	\$40,924	\$41,331	\$ 3	\$ (885)	\$ —	\$40,449
Agency mortgage-backed securities	223,304	6,339	(2,878)	—	226,765	232,742	6,405	(4,556)	—	234,591
Agency collateralized mortgage obligations	56,277	259	(1,081)	—	55,455	58,765	490	(1,102)	—	58,153
State, county, and municipal securities	5,415	36	(1)	—	5,450	5,439	1	(28)	—	5,412
Single issuer trust preferred securities issued by banks	2,949	68	—	—	3,017	2,960	14	(22)	—	2,952
Pooled trust preferred securities issued by banks and insurers	8,044	—	(1,583)	(1,494)	4,967	8,083	—	(1,913)	(2,329)	3,841
Equity securities	11,182	745	(247)	—	11,680	10,997	762	(295)	—	11,464
Total available for sale securities	\$348,506	\$ 7,451	\$ (6,205)	\$ (1,494)	\$348,258	\$360,317				