

INDEPENDENT BANK CORP

Form 10-Q

May 07, 2010

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**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, 2010

Commission File Number: 1-9047

Independent Bank Corp.

(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

04-2870273
(I.R.S. Employer
Identification No.)

Office Address: 2036 Washington Street, Hanover Massachusetts 02339

Mailing Address: 288 Union Street, Rockland, Massachusetts 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 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, 2010, there were 21,180,436 shares of the issuer's common stock outstanding, par value \$0.01 per share

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EX-32.2

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)*

	March 31, 2010	December 31, 2009
	<i>(Dollars in Thousands)</i>	
ASSETS		
CASH AND DUE FROM BANKS	\$ 219,055	\$ 121,905
SECURITIES		
TRADING ASSETS	7,399	6,171
SECURITIES AVAILABLE FOR SALE	473,515	508,650
SECURITIES HELD TO MATURITY (fair value \$92,320 and \$93,438)	91,059	93,410
TOTAL SECURITIES	571,973	608,231
LOANS HELD FOR SALE	7,570	13,466
LOANS		
COMMERCIAL AND INDUSTRIAL	387,785	373,531
COMMERCIAL REAL ESTATE	1,645,251	1,614,474
COMMERCIAL CONSTRUCTION	167,161	175,312
SMALL BUSINESS	81,696	82,569
RESIDENTIAL REAL ESTATE	539,709	555,306
RESIDENTIAL CONSTRUCTION	7,732	10,736
HOME EQUITY	484,413	471,862
CONSUMER AUTO	67,807	79,273
CONSUMER OTHER	30,238	32,452
TOTAL LOANS	3,411,792	3,395,515
LESS: ALLOWANCE FOR LOAN LOSSES	(45,278)	(42,361)
NET LOANS	3,366,514	3,353,154
FEDERAL HOME LOAN BANK STOCK	35,854	35,854
BANK PREMISES AND EQUIPMENT, NET	44,850	44,235
GOODWILL	129,617	129,348
IDENTIFIABLE INTANGIBLE ASSETS	13,754	14,382
MORTGAGE SERVICING RIGHTS	2,233	2,195
BANK OWNED LIFE INSURANCE	80,067	79,252
OTHER REAL ESTATE OWNED	5,990	3,994
OTHER ASSETS	69,730	76,005
TOTAL ASSETS	\$ 4,547,207	\$ 4,482,021

LIABILITIES AND STOCKHOLDERS EQUITY

DEPOSITS		
DEMAND DEPOSITS	\$ 720,246	\$ 721,792
SAVINGS AND INTEREST CHECKING ACCOUNTS	1,170,194	1,073,990
MONEY MARKET	719,761	661,731
TIME CERTIFICATES OF DEPOSIT OVER \$100,000	281,235	304,621
OTHER TIME CERTIFICATES OF DEPOSIT	582,417	613,160
 TOTAL DEPOSITS	 3,473,853	 3,375,294
 FEDERAL HOME LOAN BANK BORROWINGS		
FEDERAL FUNDS PURCHASED AND ASSETS SOLD UNDER REPURCHASE AGREEMENTS	327,807	362,936
JUNIOR SUBORDINATED DEBENTURES	184,436	190,452
SUBORDINATED DEBENTURES	61,857	61,857
OTHER BORROWINGS	30,000	30,000
	2,873	2,152
 TOTAL BORROWINGS	 606,973	 647,397
 OTHER LIABILITIES	 48,157	 46,681
 TOTAL LIABILITIES	 \$ 4,128,983	 \$ 4,069,372
 COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
PREFERRED STOCK, \$.01 par value. Authorized: 1,000,000 Shares Outstanding: None		
COMMON STOCK, \$.01 par value. Authorized: 30,000,000 Issued and Outstanding : 21,166,995 Shares at March 31, 2010 and 21,072,196 Shares at December 31, 2009 (Includes 223,440 and 136,775 share of unvested restricted stock awards, respectively)		
	\$ 209	\$ 209
SHARES HELD IN RABBI TRUST AT COST 172,052 Shares in March 31, 2010 and 176,507 Shares at December 31, 2009	(2,496)	(2,482)
DEFERRED COMPENSATION OBLIGATION	2,496	2,482
ADDITIONAL PAID IN CAPITAL	225,373	225,088
RETAINED EARNINGS	190,064	184,599
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAX	2,578	2,753
 TOTAL STOCKHOLDERS EQUITY	 418,224	 412,649
 TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	 \$ 4,547,207	 \$ 4,482,021

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

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

	THREE MONTHS ENDED	
	March 31,	
	2010	2009
INTEREST INCOME		
Interest on Loans	\$ 44,047	\$ 35,779
Interest on Loans Held for Sale	106	167
Taxable Interest and Dividends on Securities	6,469	6,963
Non-taxable Interest and Dividends on Securities	202	304
Interest on Federal Funds Sold and Short-Term Investments	24	198
Total Interest and Dividend Income	50,848	43,411
INTEREST EXPENSE		
Interest on Deposits	5,939	8,407
Interest on Borrowings	4,699	5,015
Total Interest Expense	10,638	13,422
Net Interest Income	40,210	29,989
PROVISION FOR LOAN LOSSES	4,650	4,000
Net Interest Income After Provision For Loan Losses	35,560	25,989
NON-INTEREST INCOME		
Service Charges on Deposit Accounts	4,221	3,648
Wealth Management	2,728	2,330
Mortgage Banking Income, Net	1,000	1,156
Bank Owned Life Insurance Income	721	729
Net Gain on Sales of Securities Available for Sale		1,379
Gross Change on Write-Down of certain Investments to Fair Value	180	
Less: Non-Credit Related Other-Than-Temporary Impairment	(358)	
Net Loss on Write-Down of certain Investments to Fair Value	(178)	
Other Non-Interest Income	1,558	1,231
Total Non-Interest Income	10,050	10,473
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	18,464	14,859
Occupancy and Equipment Expenses	4,135	3,705
Data Processing and Facilities Management	1,294	1,416
FDIC Assessment	1,321	536
Telephone	546	468

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Advertising Expense	441	455
Software Maintenance	495	443
Consulting Expense	313	447
Legal	803	476
Merger & Acquisition Expenses		1,538
Other Non-Interest Expense	5,776	3,964
Total Non-Interest Expense	33,588	28,307
INCOME BEFORE INCOME TAXES	12,022	8,155
PROVISION FOR INCOME TAXES	2,795	1,767
NET INCOME	\$ 9,227	\$ 6,388
PREFERRED STOCK DIVIDEND	\$	\$ 1,173
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 9,227	\$ 5,215
BASIC EARNINGS PER SHARE	\$ 0.44	\$ 0.32
DILUTED EARNINGS PER SHARE	\$ 0.44	\$ 0.32
Weighted average common shares (Basic)	20,937,589	16,285,955
Common share equivalents	70,833	17,881
Weighted average common shares (Diluted)	21,008,422	16,303,836

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

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	COMMON PREFERRED SHARES STOCK OUTSTANDING	COMMON STOCK	VALUE OF SHARES HELD	DEFERRED COMPENSATION RABBI TRUST OBLIGATIONS	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (LOSS)	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL	
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 Loss							(175)	(175)	
Total Comprehensive Income Common Declared (\$0.18 per share)									9,052
Proceeds From Exercise of Stock Options	4,050					(3,809)			(3,809)
					27		47		47
									27

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Tax Expense Related to Equity Award Activity									
Equity Based Compensation					276				276
Restricted Stock Awards Granted, net of Awards									
Surrendered Deferred Compensation	90,749				(18)				(18)
Obligation			(14)	14					
BALANCE MARCH 31, 2010	\$	21,166,995	\$209	\$(2,496)	\$2,496	\$225,373	\$190,064	\$2,578	\$418,224
BALANCE DECEMBER 31, 2008	\$	16,301,405	\$163	\$(2,267)	\$2,267	\$137,488	\$177,493	\$(9,870)	\$305,274
Cumulative effect accounting adjustment, net of tax (1)							3,823	(3,823)	
Comprehensive Income: Net Income							6,388		6,388
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains/(Losses)								5,446	
Change in Fair Value of Cash Flow Hedges, Net of Tax and Realized Gains								1,567	
Amortization of Prior Service Cost, net of tax								(65)	
Other Comprehensive								6,948	6,948

Income									
Total Comprehensive Income									13,336
Dividends Declared: Common									
Declared (\$0.18 per share)						(2,939)			(2,939)
Preferred Declared (2)						(391)			(391)
Proceeds From Exercise of Stock Options	1,000					13			13
Tax Benefit Related to Equity Award Activity						(13)			(13)
Equity Based Compensation						85			85
Restricted Stock Awards Granted	24,000								
Deferred Compensation Obligation				(62)	62				
Issuance of Preferred Stock and Stock Warrants	73,578					4,580			78,158
BALANCE MARCH 31, 2009	\$ 73,578	16,326,405	\$ 163	\$(2,329)	\$ 2,329	\$ 142,140	\$ 184,387	\$(6,745)	\$ 393,523

(1) Represents reclassification of the non-credit related component of previously recorded Other-Than-Temporary impairment, pursuant to the provisions of the Investments-Debt and Equity Securities Topic of FASB ASC.

(2) Excludes \$586 of cumulative preferred dividends not declared

as of quarter end and
\$196 of accretion of
discount on preferred
stock issuance, relating
to the U.S. Treasury s
Capital Purchase
Program.

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

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

	THREE MONTHS ENDED MARCH 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 9,227	\$ 6,388
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY(USED IN) OPERATING ACTIVITIES:		
Depreciation and amortization	1,120	1,022
Provision for loan losses	4,650	4,000
Deferred income tax benefit	(7)	(244)
Net gain on sale of investments		(1,379)
Loss on sale of fixed assets	279	6
Loss on write-down of investments in securities available for sale	178	
(Gain)/loss on sale of other real estate owned	(13)	44
Realized gain on sale leaseback transaction	(258)	(258)
Stock based compensation	276	85
Increase in cash surrender value of bank-owned life insurance	(722)	(393)
Net change in:		
Trading assets	(1,228)	121
Loans held for sale	5,896	(14,061)
Other assets	5,218	1,540
Other liabilities	332	766
TOTAL ADJUSTMENTS	15,721	(8,751)
NET CASH PROVIDED BY(USED IN) OPERATING ACTIVITIES	24,948	(2,363)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Proceeds from sales of Securities Available For Sale		63,163
Proceeds from maturities and principal repayments of Securities Available For Sale	37,258	38,670
Proceeds from maturities and principal repayments of Securities Held to Maturity	2,355	1,980
Purchase of Securities Available For Sale		(50,296)
Purchase of Bank Owned Life Insurance	(93)	(93)
Net increase in Loans	(20,340)	(5,806)
Cash Used In Business Combinations	(269)	(426)
Purchase of Bank Premises and Equipment	(2,108)	(1,453)
Proceeds from the sale of Bank Premises and Equipment	36	3
Proceeds from the sale of other real estate owned	836	71
NET CASH PROVIDED BY INVESTING ACTIVITIES	17,675	45,813
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		

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Net decrease in Time Deposits	(54,129)	(35,459)
Net increase in Other Deposits	152,688	110,120
Net decrease in Federal Funds Purchased and Assets Sold Under Repurchase Agreements	(6,016)	(1,264)
Net decrease in Short Term Federal Home Loan Bank Advances	(35,000)	(21,000)
Net increase (decrease) in Treasury Tax & Loan Notes	721	(504)
Proceeds from issuance of Preferred Stock and Stock Warrants		78,158
Proceeds from exercise of stock options	47	13
Tax expense (benefit) from stock option exercises	27	(13)
Restricted Shares Issued	(18)	
Dividends paid		
Common Dividends	(3,793)	(2,934)
Preferred Dividends		(391)
NET CASH PROVIDED BY FINANCING ACTIVITIES	54,527	126,726
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,150	170,176
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	121,905	50,107
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 219,055	\$ 220,283

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Transfer of loans to foreclosed assets	\$ 2,819	\$ 70
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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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. During the first quarter of 2010 Bright Rock Capital Management LLC was established, as a Massachusetts limited liability company, which has been registered with the United States Securities and Exchange Commission to act as a registered investment advisor under the Investment Advisors Act of 1940. There have been no other changes to the entity structure of the Company during the quarter.

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, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010 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, 2009 filed with the Securities and Exchange Commission.

NOTE 2 RECENT ACCOUNTING DEVELOPMENTS

FASB ASC Topic No. 820, Fair Value Measurement and Disclosures Update 2010-06, provides amendments to Subtopic No. 820-10 that require entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. Entities are also required to disclose information in the Level 3 rollforward about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this Topic clarified existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update is effective for interim and annual reporting

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periods beginning after December 15, 2009, except for the requirement to separately disclose purchases, sales, issuances and settlements in the Level 3 rollforward which becomes effective for fiscal years beginning after December 15, 2010. The adoption of this update did not have and is not expected to have a material impact to the Company's consolidated financial position or results of operations.

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 held to maturity for the periods below were as follows:**

	March 31, 2010				December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Other-Than- Temporary Impairment Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Other-Than- Temporary Impairment Losses	Fair Value
	<i>(Dollars In Thousands)</i>				<i>(Dollars In Thousands)</i>			
Agency Mortgage-Backed Securities	\$ 52,993	\$ 825	\$ (38)	\$ 53,780	\$ 54,064	\$ 503	\$ (283)	\$ 54,284
Agency Collateralized Mortgage Obligations	13,659	338		13,997	14,321	85		14,406
State, County, and Municipal Securities	14,642	352		14,994	15,252	384		15,636
Single Issuer Trust Preferred Securities Issued by Banks	9,765	22	(238)	9,549	9,773	(661)		9,112
Total	\$ 91,059	\$ 1,537	\$ (276)	\$ 92,320	\$ 93,410	\$ 972	\$ (944)	\$ 93,438

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, 2010				December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Other-Than- Temporary Impairment Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Other-Than- Temporary Impairment Losses	Fair Value

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	<i>(Dollars In Thousands)</i>				<i>(Dollars In Thousands)</i>					
U.S. Treasury Securities	\$ 737	\$ 3	\$	\$	\$ 740	\$ 744	\$	\$	\$ 744	
Agency Mortgage-Backed Securities	402,680	18,115	(64)		420,731	435,929	16,450	(470)	451,909	
Agency Collateralized Mortgage Obligations	28,429	854	(61)		29,222	31,323	774	(75)	32,022	
Private Mortgage-Backed Securities (1)	14,280		(794)	(423)	13,063	15,640		(681)	(670) 14,289	
State, County, and Municipal Securities	4,000	53			4,053	4,000	81		4,081	
Single Issuer Trust Preferred Securities Issued by Banks	5,000		(1,973)		3,027	5,000		(1,990)	3,010	
Pooled Trust Preferred Securities Issued by Banks and Insurers(1)	8,581		(2,285)	(3,617)	2,679	8,705		(2,382)	(3,728) 2,595	
Total	\$ 463,707	\$ 19,025	\$ (5,177)	\$ (4,040)	\$ 473,515	\$ 501,341	\$ 17,305	\$ (5,598)	\$ (4,398)	\$ 508,650

(1) During the three months ended March 31, 2010 and the year ended December 31, 2009, the Company recorded credit related OTTI of \$178,000 and \$9.0 million. Included in these amounts were \$180,000 and \$1.6 million, respectively, which the Company had previously

recorded in
OCI, as it was
considered to be
non-credit
related.

The Company recorded no gross gains or losses during the quarter ended March 31, 2010 on the sale of available for sale securities. The Company recorded gross gains on the sale of available for sale securities of \$1.4 million for the quarter ended March 31, 2009. When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on the sale.

A schedule of the contractual maturities of securities held to maturity and securities available for sale as of March 31, 2010 is presented below:

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	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	<i>(Dollars In Thousands)</i>		<i>(Dollars In Thousands)</i>	
Due in one year or less	\$ 588	\$ 599	\$ 4,000	\$ 4,053
Due from one year to five years	7,366	7,587	32,029	32,949
Due from five to ten years	6,867	7,147	113,382	118,650
Due after ten years	76,238	76,987	314,296	317,863
Total	\$ 91,059	\$ 92,320	\$ 463,707	\$ 473,515

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, 2010, the Bank has \$30.9 million of callable securities in its investment portfolio.

At March 31, 2010 and December 31, 2009 investment securities carried at \$308.1 million and \$297.2 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 as required by law.

At March 31, 2010 and December 31, 2009, the Company had no investments in obligations of individual states, counties, or municipalities, which exceed 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 is 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.

Management prepares an estimate of the expected cash flows for investment securities that potentially may be deemed to have OTTI. This estimate begins with the contractual cash flows of the security. This amount is then reduced by an estimate of probable credit losses associated with the security. When estimating the extent of probable losses on the securities, management considers the strength of the underlying issuers. Indicators of diminished credit quality of the issuers includes defaults, interest deferrals, or payments in kind. Management also considers those factors listed in the Investments Debt and Equity Securities topic of the FASB ASC when estimating the ultimate realizability of the cash flows for each individual security. The resulting estimate of cash flows after considering credit is then subject to a present value computation using a discount rate equal to the current yield used to accrete the

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beneficial interest or the effective interest rate implicit in the security at the date of acquisition. If the present value of the estimated cash flows is less than the current amortized cost basis, an OTTI is considered to have occurred and the security is written down to the fair value indicated by the cash flows analysis. As part of the analysis, management considers whether it intends to sell the security or whether it is more than likely that it would be required to sell the security before the recovery of its amortized cost basis.

In determining which portion of the OTTI charge is related to credit, and what portion is related to other factors, management considers the reductions in the cash flows due to credit and ascribes that portion of the OTTI charge to credit. Simply, to the extent the estimated cash flows do not support the amortized cost, that amount is considered credit loss and the remainder of the OTTI charge is considered due to other factors, such as liquidity or interest rates, and thus is not recognized in earnings, but rather through other comprehensive income.

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:

Description of Securities	# of holdings	At March 31, 2010					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency Mortgage-Backed Securities	2	\$ 18,961	\$ (102)	\$	\$	\$ 18,961	\$ (102)
Agency Collateralized Mortgage Obligations	7	3,816	(61)			3,816	(61)
Private Mortgage-Backed Securities	1			7,716	(794)	7,716	(794)
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	3			11,016	(2,211)	11,016	(2,211)
Pooled Trust Preferred Securities Issued by Banks and Insurers	2			2,420	(2,285)	2,420	(2,285)
Total Temporarily Impaired Securities	15	\$ 22,777	\$ (163)	\$ 21,152	\$ (5,290)	\$ 43,929	\$ (5,453)

Description of Securities	# of holdings	At December 31, 2009					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency Mortgage-Backed Securities	8	\$ 62,716	\$ (753)	\$	\$	\$ 62,716	\$ (753)
Agency Collateralized Mortgage Obligations	5	3,557	(75)			3,557	(75)

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Private Mortgage-Backed Securities	1			8,653	(681)	8,653	(681)
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	4			12,122	(2,651)	12,122	(2,651)
Pooled Trust Preferred Securities Issued by Banks and Insurers	2			2,334	(2,382)	2,334	(2,382)
Total Temporarily Impaired Securities	20	\$ 66,273	\$ (828)	\$ 23,109	\$ (5,714)	\$ 89,382	\$ (6,542)

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, 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:

Agency Mortgage-Backed Securities and Agency 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.

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Private Mortgage-Backed Securities: The unrealized loss on this security, which is below investment grade, is attributable to the increase in late stage delinquencies and foreclosures in the housing market and its potential impact on securitized mortgage loans. Management evaluates various factors, including current and expected performance of underlying collateral, to determine collectability of amounts due.

Single Issuer Trust Preferred Securities: This portfolio consists of three securities in an unrealized loss position, two of which are below investment grade and one which is not rated. 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 capital ratios.

Pooled Trust Preferred Securities: This portfolio consists of both investment grade and below investment grade securities. 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.

Management monitors the following issuances closely for impairment due to the history of OTTI losses recorded within these classes of securities. Management has determined that the securities possess characteristics which in this economic environment could lead to further OTTI charges. The following tables summarize pertinent information, as of March 31, 2010, that was considered by management in determining if OTTI existed.

Security Name	Class	Amortized Cost*	Gross Unrealized Gain/(Loss)	Non-Credit Related Other-	Fair Value	Lowest Credit Ratings as of March 31, 2010	Total Cumulative Other-Than-Temporary Impairment thru March 31, 2010
				Impairment (Dollars in Thousands)			
Pooled Trust Preferred Securities							
Pooled Trust Preferred Security A	C1	\$ 1,283	\$	\$ (1,217)	\$ 66	CC (Fitch); Caa3 (Moody's)	\$ (4,893)
Pooled Trust Preferred Security B	D					C (Fitch)	(3,481)
Pooled Trust Preferred Security C	C1	513		(479)	34	C (Fitch)	(954)
Pooled Trust Preferred Security D	D					C (Fitch)	(990)
Pooled Trust Preferred Security E	C1	2,081		(1,921)	160	CC (Fitch); Ca (Moody's)	(3,288)
Pooled Trust Preferred Security F	B	1,887	(1,249)		638	BBB- (S&P)	
Pooled Trust Preferred Security G	A1	2,817	(1,036)		1,781	Caa3 (Moody's)	

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\$ 8,581 \$ (2,285) \$ (3,617) \$ 2,679 \$ (13,606)

**Private
Mortgage-Backed
Securities**

Private

Mortgage-Backed

Securities One

2A1 \$ 5,769 \$ (423) \$ 5,346 CC (Fitch) \$ (806)

Private

Mortgage-Backed

Securities Two

A19 8,511 (794) 7,717 B (Fitch)

\$ 14,280 \$ (794) \$ (423) \$ 13,063 \$ (806)

* For the securities deemed impaired the amortized cost reflects previous OTTI recognized in earnings.

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Security Name	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) Deferrals/Defaults/Losses)*	Excess Subordination (After Taking Into Account Best Estimate of Future)
Pooled Trust Preferred Securities				
Trust Preferred Security A	64	31.39%	24.96%	0.00%
Trust Preferred Security B	64	31.39%	24.96%	0.00%
Trust Preferred Security C	53	30.96%	21.42%	0.00%
Trust Preferred Security D	53	30.96%	21.42%	0.00%
Trust Preferred Security E	53	28.31%	22.91%	0.00%
Trust Preferred Security F	35	25.08%	24.92%	21.24%
Trust Preferred Security G	35	25.08%	24.92%	43.02%
Private Mortgage-Backed Securities				
Private Mortgage-Backed Securities One	N/A	0.18%	9.17%	0.00%
Private Mortgage-Backed Securities Two	N/A	0.80%	5.84%	0.00%

* 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.

Per review of the factors outlined above it was determined that six 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 \$178,000 through earnings during the first quarter of 2010. The Company recorded credit related OTTI of \$9.0 million through earnings for the year ended December 31, 2009. The following table shows the cumulative credit related component of OTTI.

Credit Related Component of Other-Than-Temporary Impairment

(Dollars in Thousands)

For the three months ended:

Balance at January 1, 2010 (10,194)

Add:

Incurred on Securities not Previously Impaired

Incurred on Securities Previously Impaired (178)

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 March 31, 2010 (10,372)

Table of Contents**NOTE 4 EARNINGS PER SHARE**

Basic earnings per share (EPS) are calculated by dividing net income available to the common shareholder by the weighted average number of common shares (excluding shares of unvested restricted stock) outstanding before any dilution during the period. 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, unvested restricted stock awards, and outstanding warrants) were issued during the period, computed using the treasury stock method.

Earnings per share consisted of the following components for the three months ended March 31, 2010 and 2009:

	Three Months Ended March 31,	
	2010	2009
	(Dollars in Thousands)	
Net Income	\$ 9,227	\$ 6,388
Less: Preferred Stock Dividends		1,173
Net Income Available to Common Shareholders	\$ 9,227	\$ 5,215
Weighted Average Shares		
Basic EPS	20,937,589	16,285,955
Effect of dilutive securities	70,833	17,881
Diluted EPS	21,008,422	16,303,836
Net Income Available to Common Shareholders per Share		
Basic EPS	\$ 0.44	\$ 0.32
Effect of dilutive securities		
Diluted EPS	\$ 0.44	\$ 0.32

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

	For the Three Months Ended March 31,	
	2010	2009
Stock Options	792,847	934,053
Restricted Stock	21,194	7,950
Warrants		481,664

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NOTE 5 STOCK BASED COMPENSATION

On February 25, 2010 the Company granted 54,500 restricted stock awards to certain executive officers of the Company and/or Bank, from the 2005 Employee Stock Plan. On February 11, 2010 the Company granted 37,000 restricted stock awards to certain non-executive officers of the Company and/or Bank, from the 2005 Employee Stock Plan. The restricted stock awards have been determined to have a fair value per share of \$25.12 and \$23.39, respectively, based on the average of the high price 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 three year period.

NOTE 6 DERIVATIVES AND HEDGING ACTIVITIES

The Company manages economic risks, including interest rate and liquidity risk, primarily by managing the amount, sources, and duration of its debt, funding, and the use of derivative financial instruments. 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 has been designated and qualifies as part of a hedging relationship, and further, by the type of hedging relationship. As of March 31, 2010, 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 customers, which are not designated as hedging instruments.

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 ten years. At March 31, 2010 and December 31, 2009, the Company had \$200.0 million and \$235.0 million, respectively, of interest rate swaps, which is inclusive of a

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\$25.0 million notional amount interest rate swap that failed to qualify for hedge accounting during the first quarter of 2010.

Derivative Positions
(Dollars In Thousands)

Derivatives Designated as Hedging:**Cash Flow Hedges****As of March 31, 2010**

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive	Current Rate Received	Pay Fixed Swap Rate	Fair Value at
				(Variable) Index			March 31, 2010
(Unaudited Dollars in Thousands)							
			28-Dec-16	Month			
25,000	16-Feb-08	28-Dec-06	3	LIBOR	0.26%	5.04%	\$ (482)
			28-Dec-16	Month			
25,000	16-Feb-08	28-Dec-06	3	LIBOR	0.26%	5.04%	(2,950)
			10-Dec-13	Month			
25,000	8-Dec-08	10-Dec-08	3	LIBOR	0.25%	2.65%	(2,916)
			10-Dec-13	Month			
25,000	9-Dec-08	10-Dec-08	3	LIBOR	0.25%	2.59%	(429)
			10-Dec-18	Month			
25,000	9-Dec-08	10-Dec-08	3	LIBOR	0.25%	2.94%	1,027
			18-Dec-13	Month			
25,000	16-Dec-08	8-Dec-08	3	LIBOR	0.26%	2.09%	15(a)
			20-Dec-14	Month			
50,000	17-Nov-09	20-Dec-10	3	LIBOR	0.00%	3.04%	(170)(b)
Total	\$ 200,000					Total	\$ (5,905)

As of December 31, 2009

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive	Current Rate Received	Pay Fixed Swap Rate	Fair Value at
				(Variable) Index			December 31, 2009
(Dollars in Thousands)							
			20-Jan-10	Month			
\$ 35,000	19-Mar-08	9-Mar-08	3	LIBOR	0.28%	2.28%	\$ (37)
			28-Dec-16	Month			
25,000	16-Feb-08	28-Dec-06	3	LIBOR	0.26%	5.04%	(2,641)

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		28-Dec-16	Month				
25,000	16-Feb-08	8-Dec-06	3	LIBOR	0.25%	5.04%	(2,588)
		10-Dec-13	Month				
25,000	8-Dec-08	10-Dec-08	3	LIBOR	0.26%	2.65%	(156)
		10-Dec-13	Month				
25,000	9-Dec-08	10-Dec-08	3	LIBOR	0.26%	2.59%	(101)
		10-Dec-18	Month				
25,000	9-Dec-08	10-Dec-08	3	LIBOR	0.26%	2.94%	1,400
		18-Dec-13	Month				
25,000	16-Dec-08	8-Dec-08	3	LIBOR	0.25%	2.09%	354
		20-Dec-14	Month				
50,000	17-Nov-09	20-Dec-10	3	LIBOR	0.00%	3.04%	766(b)
Total	\$ 235,000					Total	\$ (3,003)

(a) Represents an interest rate swap which failed to qualify for hedge accounting as of January 6, 2010. Subsequent changes in fair value were recognized directly in earnings.

(b) Represents a forward starting swap which the Company intends to hedge a replacement of an existing variable rate FHLB advance, set to mature in December 2010.

For derivative instruments that are designated and qualify as hedging instruments, the effective portion of the gains or losses are reported as a component of OCI, and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The Company expects approximately \$4.0 million 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.

The ineffective portion of the cash flow hedge is recognized directly in earnings. The Company recognized an immaterial amount related to hedge ineffectiveness during the quarter ending March 31, 2010, and the Company did not recognize any ineffectiveness for the quarter ending March 31, 2009.

During the quarter ending March 31, 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 other losses and reclassified \$107,000 from interest expense to other losses. Additionally, a gain of \$191,000 which was previously deferred in OCI was immediately recognized in income during

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the quarter, based on the Company's anticipation of the hedge forecasted transaction no longer being probable to occur.

The Company recognized \$37,000 of net amortization in interest income for the quarter ended March 31, 2010 and \$155,000 of net amortization in interest expense for the quarter ended March 31, 2009, related to previously terminated swaps.

Customer Related Positions

Interest rate derivatives, primarily interest-rate swaps, offered to commercial borrowers through the Bank's derivative program are not designated as hedging instruments. However, 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. It is anticipated that over time, customer interest rate derivatives will reduce the interest rate risk inherent in the longer-term, fixed-rate commercial business and real estate loans. At March 31, 2010 and December 31, 2009 the Company has entered into thirty-seven and twenty-seven customer-related positions and offsetting dealer transactions with dealer banks, respectively. At March 31, 2010 and December 31, 2009 the Bank had a total notional amount of \$147.9 million and \$122.1 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 are not designated as hedging instruments. 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, 2010 and December 31, 2009 the Company has entered into twenty and four foreign exchange contracts and offsetting dealer transactions, respectively. As of March 31, 2010 and December 31, 2009 the Bank had a total notional amount of \$41.6 million and \$8.4 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.

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(Dollars In Thousands)**Derivatives Not Designated as Hedging:**

As of March 31, 2010	Notional Amount Maturing					Total	Fair Value
	2010	2011	2012	2013	Thereafter		
	(Unaudited Dollars in Thousands)						
Customer Related Positions							
Loan Level Swaps							
Receive fixed, pay variable	\$				147,950	\$ 147,950	\$ (3,240)
Pay fixed, receive variable	\$				147,950	\$ 147,950	\$ 3,296
Foreign Exchange Contracts							
Buys foreign exchange sells U.S. currency	\$ 41,581					\$ 41,581	\$ (1,339)
Buys US currency sells foreign exchange	\$ 41,581					\$ 41,581	\$ 1,361

As of December 31, 2009	Notional Amount Maturing					Total	Fair Value
	2010	2011	2012	2013	Thereafter		
	(Unaudited Dollars in Thousands)						
Customer Related Positions							
Loan Level Swaps							
Receive fixed, pay variable	\$				122,125	\$ 122,125	\$ (1,273)
Pay fixed, receive variable	\$				122,125	\$ 122,125	\$ 1,404
Foreign Exchange Contracts							
Buys foreign exchange sells U.S. currency	\$ 8,424					\$ 8,424	(\$5)
Buys US currency sells foreign exchange	\$ 8,424					\$ 8,424	\$ 12

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 decrease in fair value of \$60,000 for the quarter ended March 31, 2010 and an increase in fair value of \$150,000 for the quarter ended March 31, 2009.

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet:

Fair Values of Derivative Instruments
(In thousands)

	Asset Derivatives				Liability Derivatives			
	March 31, 2010		December 31, 2009		March 31, 2010		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedges:								
Interest rate swaps	Other Assets	\$ 1,027	Other Assets	\$ 2,519	Other Liabilities	\$ 6,947	Other Liabilities	\$ 5,522
Derivatives not designated as hedges:								
Interest rate swaps (a)	Other Assets	\$ 15	Other Assets	\$	Other Liabilities	\$	Other Liabilities	\$
Customer related positions	Other Assets	3,674	Other Assets	2,224	Other Liabilities	3,618	Other Liabilities	2,093
Foreign exchange contracts	Other Assets	1,361	Other Assets	15	Other Liabilities	1,339	Other Liabilities	8
		\$ 5,050		\$ 2,239		\$ 4,957		\$ 2,101

(a) Represents an interest rate swap which failed to qualify for hedge accounting as of January 6, 2010.

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The tables below present the effect of the Company's derivative financial instruments on the Income Statement:
Amount of Derivative Gain/(Loss) Recognized/Reclassified

For the three months ended March 31, 2010	Gain/ (Loss) in OCI on Derivative (Effective Portion), net of tax		Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	From Accumulated OCI Into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount excluded from Effectiveness Testing)	On Derivative (Ineffective Portion and Amount excluded from Effectiveness Testing)
	3/31/2010	3/31/2009	OCI into Income (Effective Portion)	3/31/2010 3/31/2009	Interest Income/(expense)	3/31/2010 3/31/2009
Interest rate swaps	\$ (2,229)	\$ (1,567)	Interest Income/(expense)	\$ (1,068)	\$ 862	\$

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 had no such exposure at March 31, 2010. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. Additionally, the Company currently holds derivative instruments that contain credit-risk related contingent features that are in a net liability position. The notional amount of these instruments as of March 31, 2010 was \$238.4 million. The aggregate fair value of these instruments at March 31, 2010 was \$9.3 million and the Company has collateral assigned to these derivative instruments amounting to \$13.1 million. Per a review completed by management of these instruments at March 31, 2010 it was determined that no additional collateral would have to be posted to settle these instruments immediately.

The Company's credit exposure relating to interest rate swaps with bank customers was approximately \$3.7 million at March 31, 2010. The credit exposure is partly mitigated as transactions with customers are secured by the collateral, if any, securing the underlying transaction being hedged. Collateral legally required to be maintained at dealer banks by the Company is monitored and adjusted as necessary.

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.

Certain derivative instruments, primarily forward sales of mortgage loans, are utilized by the Company in its efforts to manage risk of loss associated with its mortgage loan commitments and mortgage loans held for sale. Prior to closing and funding certain single-family residential mortgage loans, an interest rate locked 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 locked commitments and forward sales commitments are recorded at fair value, with changes in fair value recorded in current period earnings. Loans held for sales are carried at the lower of aggregate cost or fair value.

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

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	Fair Value at	
	March	December
	31,	31,
	2010	2009
	(Dollars in Thousands)	
Residential Mortgage Loan Commitments	\$64	\$ (523)
Forward Sales Agreements	\$45	\$ 767
	Change for the Three	
	Months	
	Ended March 31,	
	2010	2009
Residential Mortgage Loan Commitments	\$ 587	\$ 538
Forward Sales Agreements	(722)	(474)
Total Change in Fair Value*	\$ (135)	\$ 64

* Changes in these fair values are recorded as a component of mortgage banking income.

NOTE 7 FAIR VALUE

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 during 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

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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.

U.S. Treasury and Government Sponsored Enterprises

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 within the fair value hierarchy.

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.

State, County, and Municipal Securities

The fair value is estimated using a valuation matrix with inputs including bond interest rate tables, recent transactions, and yield relationships. These securities are categorized as Level 2 within the fair value hierarchy.

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Single/Pooled Issuer Trust Preferred Securities

The fair value of trust preferred securities, including pooled and single issued 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 within the fair value hierarchy.

Derivative Instruments

Derivatives

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses 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, 2010, 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 Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market value. Fair value is measured on a non-recurring basis using quoted market prices when available. If quoted market prices are

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not available, comparable market values or discounted cash flow analysis may be utilized. These assets are typically categorized as Level 2.

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 within the fair value hierarchy.

Mortgage Servicing Asset

The mortgage servicing asset is carried at cost and is subject to impairment testing. A valuation model, which utilizes a discounted cash flow analysis encompassing interest rates and prepayment speed assumptions currently quoted for comparable instruments, is used for impairment analysis. 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 are as follows:

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	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)
As of March 31, 2010				
Description				
Assets				
Trading Securities	\$ 7,399	\$ 7,399	\$	\$
Securities Available for Sale:				
U.S. Treasury and Government Sponsored Enterprise	740		740	
Agency Mortgage-Backed Securities	420,731		420,731	
Agency Collateralized Mortgage Obligations	29,222		29,222	
Private Mortgage-Backed Securities	13,063			13,063
State, County, and Municipal Securities	4,053		4,053	
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	3,027			3,027
Pooled Trust Preferred Securities Issued by Banks and Insurers	2,679			2,679
Derivative Instruments	6,186		6,186	
Liabilities				
Derivative Instruments	11,904		11,904	
As of December 31, 2009				
Description				
Assets				
Trading Securities	\$ 6,171	\$ 6,171	\$	\$
Securities Available for Sale:				
U.S. Treasury and Government Sponsored Enterprise	744		744	
Agency Mortgage-Backed Securities	451,909		451,909	
Agency Collateralized Mortgage Obligations	32,022		32,022	
Private Mortgage-Backed Securities	14,289			14,289
State, County, and Municipal Securities	4,081		4,081	
Single Issuer Trust Preferred Securities Issued by Banks and Insurers	3,010			3,010
Pooled Trust Preferred Securities Issued by Banks and Insurers	2,595			2,595
Derivative Instruments	5,525		5,525	
Liabilities				
Derivative Instruments	8,146		8,146	

There were no transfers between levels of the fair value hierarchy during the quarter ended March 31, 2010.

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) during the three months ended March 31, 2010 and year ended December 31, 2009. These instruments were valued using pricing models and discounted cash flow methodologies.

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

	Securities Available for Sale			Total
	Pooled Trust Preferred Securities	Single Trust Preferred Securities	Private Mortgage- Backed Securities	
	(Dollars in Thousands)			
Balance at January 1, 2009	\$ 5,193	\$	\$	\$ 5,193
Gains and Losses (realized/unrealized)				
Included in earnings	(8,641)		(317)	(8,958)
Included in Other Comprehensive Income	6,138	808	5,170	12,116
Purchases, issuances and settlements	(95)		(6,078)	(6,173)
Transfers in to Level 3		2,202	15,514	17,716
Balance at December 31, 2009	\$ 2,595	\$ 3,010	\$ 14,289	\$ 19,894
Gains and Losses (realized/unrealized)				
Included in earnings	(112)		(66)	(178)
Included in Other Comprehensive Income	209	17	137	363
Purchases, issuances and settlements	(13)		(1,297)	(1,310)
Transfers in to Level 3				
Balance at March 31, 2010	\$ 2,679	\$ 3,027	\$ 13,063	\$ 18,769

Assets and liabilities measured at fair value on a non-recurring basis are as follows:

**Fair Value Measurements at Reporting Date Using
Quoted
Prices in
Active
Markets
for
Identical
Assets
(Level 1)**

**As of March 31, 2010
Description**

Balance	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
(Dollars in Thousands)			
Impaired Loans	\$ 9,679	\$ 41,066	\$ (4,295)
Loans Held For Sale	7,698		
Other Real Estate Owned	4,276	1,714	

Mortgage Servicing Asset	2,233	2,233
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As of December 31, 2009

Description

Impaired Loans	\$ 16,680	\$	\$	\$ 16,680	\$ (449)
Loans Held For Sale	13,527		13,527		
Other Real Estate Owned	3,994		1,134	2,860	
Mortgage Servicing Asset	2,195			2,195	

As required by the FASB ASC Topic No. 825, Fair Value Measurements and Disclosures, the estimated fair values and related carrying amounts of the Company's financial instruments are listed below. Excluded from this listing are certain financial instruments such as post retirement plans, lease contracts, investments accounted for under the equity method, equity investments in consolidated subsidiaries, and all non-financial instruments. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company. The estimated fair values and related carrying amounts of the Company's financial instruments are as follows:

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	MARCH 31, 2010		DECEMBER 31, 2009	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
	(Dollars In Thousands)		(Dollars In Thousands)	
FINANCIAL ASSETS				
Securities Held To Maturity (a)	\$ 91,059	\$ 92,320	\$ 93,410	\$ 93,438
Loans, Net of Allowance for Loan Losses (b)(e)	3,366,514	3,377,108	3,353,154	3,316,117
FINANCIAL LIABILITIES				
Time Certificates of Deposits (c)	\$ 863,652	\$ 855,364	\$ 917,781	\$ 907,499
Federal Home Loan Bank Advances (c)	327,807	322,747	362,936	350,503
Federal Funds Purchased, Assets Sold Under Repurchase Agreements, and other borrowings (c)	187,309	187,918	190,452	193,943
Subordinated Debentures (c)	61,857	55,671	61,857	52,888
Junior Subordinated Debentures (d)	30,000	27,751	30,000	27,529

(a) The fair value 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.
- (e) The book value of net loans excludes loans held for sale.

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 of Boston stock, and Bank Owned Life Insurance. For financial liabilities, these include demand, savings, and money market deposits. The estimated fair value of demand, savings and money market deposits is the amount payable at the reporting date. The Financial Instruments topic of the FASB ASC requires the use of carrying value because the accounts have no stated maturity date and the customer has the ability to withdraw funds immediately. Also excluded from the summary are financial instruments measured at fair value on a recurring and non-recurring basis, as previously described.

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Information on the Company's comprehensive income(loss), presented net of taxes, is set forth below for the three months ended March 31, 2010 and 2009:

Three Months Ended March 31, 2010 <i>(Dollars in Thousands)</i>	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount
Change in Fair Value of Securities Available for Sale	\$ 2,322	\$ 904	\$ 1,418
Net Security Losses Reclassified into Earnings (a)	178	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 (b)	(3,768)	(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 Income	\$ (352)	\$ (177)	\$ (175)
Three Months Ended March 31, 2009 <i>(Dollars in Thousands)</i>	Pre Tax Amount	Tax (Expense) Benefit	After Tax Amount
Change in Fair Value of Securities Available for Sale	\$ 9,857	\$ 3,568	\$ 6,289
Net Security Losses Reclassified into Earnings	(1,379)	(536)	(843)
Net Change in Fair Value of Securities Available for Sale	8,478	3,032	5,446
Change in Fair Value of Cash Flow Hedges (d)	2,486	1,015	1,471
Net Cash Flow Hedge Losses Reclassified into Earnings	155	59	96
Net Change in Fair Value of Cash Flow Hedges	2,641	1,074	1,567
Amortization of Certain Costs Included in Net Periodic Retirement Costs	(110)	(45)	(65)
Total Other Comprehensive Income	\$ 11,009	\$ 4,061	\$ 6,948
Cumulative Effect Accounting Adjustment (c)	(5,974)	(2,151)	(3,823)
Total Other Comprehensive Income As Adjusted	\$ 5,035	\$ 1,910	\$ 3,125

(a) Net security losses represent pre-tax OTTI credit related losses of \$178,000 for the

three months
ended March 31,
2010.

- (b) Includes the remaining balance of \$1.3 million at March 31, 2010 of realized but unrecognized gain, net of tax, from the termination of interest rate swaps in June 2009. The gain will be recognized in earnings through December 2018, the original maturity date of the swap.
- (c) Represents reclassifications of non credit related components of previously recorded OTTI pursuant to the adoption of the Investments Debt and Equity Securities topic of the FASB ASC.
- (d) Includes the remaining balance of \$290,000 at March 31, 2009 of realized but unrecognized loss from the termination of an interest rate swap in

March 2008. The loss was recognized in earnings until January 2010, the original maturity date of the interest rate swap.

Accumulated Other Comprehensive Income, net of tax, is comprised of the following components:

	At March 31,	
	2010	2009
Unrealized gain(loss) on available for sale securities	\$ 5,917	\$ 251
Net actuarial loss and prior service cost for pension and other post retirement benefit plans	(1,189)	(689)
Unrealized loss on cash flow hedge	(3,406)	(6,017)
Deferred gain on hedge accounting transactions	1,256	(290)
Total	\$ 2,578	\$ (6,745)

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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, 2009, 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 Independent Bank Corp. (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 strength of the United States economy in general and the strength of 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 southeastern Massachusetts and Cape Cod, and to a lesser extent, Rhode Island, and a substantial portion of these loans have real estate as collateral;

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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;

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 result in adversely affecting financial results;

competitive pressures could intensify and affect the Company's profitability, including as a result of 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;

the potential 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;

adverse conditions in the securities markets could lead to impairment in the value of securities in the Company's investment portfolios and consequently have an adverse effect on the Company's earnings;

laws and programs designed to address capital and liquidity issues in the banking system, including, but not limited to, the Federal Deposit Insurance Corporation's Temporary Liquidity Guaranty Program and the U.S. Treasury Department's Capital Purchase Program and Troubled Asset Relief Program may continue to have significant effects on the financial services industry, the exact nature and extent of which is still uncertain;

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

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

If one or more of the factors affecting the Company's forward-looking information and statements proves incorrect, then the Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Form 10-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.

EXECUTIVE LEVEL OVERVIEW

The Company's results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and the interest paid on deposits and borrowings. The results of operations are also affected by the level of income/fees from loans, deposits, mortgage banking, and wealth management activities, as well as operating expenses, the provision for loan losses, the impact of federal and state income taxes, and the relative levels of interest rates and economic activity. As of March 31, 2010, the Company's business lines continued to perform well. The Company was able to generate robust commercial loan growth and strong core deposit growth, primarily driven by an increase in municipal deposits, despite a tumultuous economy. The Company attained this growth by capitalizing on its competitive strengths to attract new customers and expand existing relationships within the geographies that the Company operates.

The Company's earnings performance for the first quarter was positive. The Company's performance was driven by solid commercial loan growth as well as the Company's focus on increasing core deposits and by maintaining a strong net interest margin for the quarter of 4.08%.

The Company reported diluted earnings per share of \$0.44 for the three months ending March 31, 2010, representing an increase from the prior year period. Additionally, the Company's return on average assets and return on average equity were 0.84% and 8.95%, respectively, for the quarter ended March 31, 2010 as compared to 0.57% and 6.68%, respectively, for the quarter ended March 31, 2009.

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Total loans increased \$16.3 million, or 0.5% from December 31, 2009. The Company continues to focus on its ability to generate commercial and home equity loan originations as part of its strategic growth plan. The Company is able to generate this volume of lending due to management's in-depth knowledge of local markets and the dislocation of customers dissatisfied with larger competitors.

Total deposits of \$3.5 billion at March 31, 2010 increased \$98.6 million, or 2.9%, compared to December 31, 2009, primarily as a result of a strategy to increase core municipal deposits. Time deposits decreased by \$54.1 million due to the Company's strategy to focus on lower-cost core deposits. The Company remains committed to deposit generation, with careful management of deposit pricing and selective deposit promotion. In an effort to control the cost of funds, the Company mitigates rising rate exposures by focusing on core deposits. In the current interest rate environment, management is focused on cultivating a strong deposit base with rational pricing for customer retention as well as core deposit growth. At March 31, 2010 core deposits were 75.1% of total deposits.

At March 31, 2010 borrowings were \$607.0 million, a decrease of \$40.4 million or 6.2% from December 31, 2009. The Bank utilizes borrowings as a source of liquidity and more importantly as a means to manage interest rate risk by executing term funding to mitigate the interest rate risk inherent in the origination of fixed rate assets.

While the Company has been experiencing increases in the level of nonperforming assets, loan charge-offs, delinquencies, and other asset quality measurements, the Company's increases have been consistent with the weakening economy. Asset quality for the first quarter performed as management expected. While the losses recognized for some asset classes increased, the overall level of net charge-offs decreased significantly on both the linked quarter and year to date basis. While some individual borrowers will likely encounter difficulties, the Company does not currently anticipate a broad-based weakening of its loan portfolio. The tables below shows our asset quality for the periods indicated:

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The following graph displays the Company's levels of loan loss reserves for the periods indicated:

- * Loans obtained in connection with the Ben Franklin acquisition during April of 2009, have been recorded at fair value in accordance with the Business Combinations Topic of the FASB ASC, which prohibits the carry-over of the allowance for credit losses.

The Company's capital position is sound. The Company's tangible common equity ratio is 6.7%, pro forma to include the tax deductibility of goodwill. Regulatory capital levels exceed prescribed thresholds, and the Company maintained a common stock dividend of \$0.18 for the quarter ended March 31, 2010, consistent with quarter ended December 31, 2009.

The Company reported net income of \$9.2 million for the quarter ended March 31, 2010, an increase of 44.4% as compared to the same period in 2009 due to an expanded net interest margin, good expense control, the scale benefits realized with the Ben Franklin acquisition that took place in the second quarter of 2009, and a lack of costs associated with the U.S. Treasury Preferred Stock in 2010 as compared to 2009. Excluding certain non-core items mentioned below, net operating earnings were up 73.5% from the same period in the prior year.

The following table summarizes the impact of non-core items recorded for the time periods indicated below and reconciles them to the most comparable amounts calculated in accordance with GAAP:

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	Net Income Available to Common Shareholders		Diluted Earnings Per Share	
	March 31,		March 31,	
	2010	2009	2010	2009
AS REPORTED (GAAP)				
Net Income	\$ 9,227	\$ 6,388	\$ 0.44	\$ 0.39
Preferred Stock Dividend		1,173		0.07
Net Income available to Common Shareholders (GAAP)	\$ 9,227	\$ 5,215	\$ 0.44	\$ 0.32
Non-GAAP Measures:				
Non-Interest Income Components				
Net Gain on Sale of Securities		(896)		(0.05)
Non-Interest Expense Components				
Merger & Acquisition Expenses		1,000		0.06
TOTAL IMPACT OF NON-CORE ITEMS		104		0.01
AS ADJUSTED (NON-GAAP)	\$ 9,227	\$ 5,319	\$ 0.44	\$ 0.33

For the quarter ended March 31, 2010, the Company recorded other-than-temporary impairment (OTTI) on certain securities, resulting in a negative charge to non-interest income of approximately \$178,000 for the portion of OTTI which was determined to be credit related, with the remainder of the OTTI recorded through other comprehensive income (OCI). The tables above do not reflect the impact of the OTTI recorded by the Company, as the Company has determined those items to be core in nature.

When management assesses the Company's financial performance for purposes of making day-to-day and strategic decisions it does so based upon the performance of its core banking business, which is primarily derived from the combination of net interest income and non-interest or fee income, reduced by operating expenses, the provision for loan losses, and the impact of income taxes. The Company's financial performance is determined in accordance with Generally Accepted Accounting Principles (GAAP) which, sometimes includes gain or loss due to items that management does not believe are related to its core banking business, such as gains or losses on the sales of securities, merger and acquisition expenses, and other items. Management, therefore, also computes the Company's non-GAAP operating earnings, which excludes these items, to measure the strength of the Company's core banking business and to identify trends that may to some extent be obscured by gains or losses which management deems not to be core to the Company's operations. Management believes that the financial impact of the items excluded when computing non-GAAP operating earnings will disappear or become immaterial within a near-term finite period.

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

Non-GAAP operating earnings should not be considered a substitute for GAAP operating results. An item which management deems to be non-core and excludes when computing non-GAAP operating earnings can be of substantial importance to the Company's results for any particular quarter or year. The Company's non-GAAP operating

earnings set forth above are not necessarily comparable to non-GAAP information which may be presented by other companies.

A key determinant in the Company's profitability is the net interest margin, which represents the difference between the yield on interest earning assets and the cost of liabilities. The Company has effectively managed its net interest margin despite a volatile

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interest rate environment. The Company's net interest margin was 4.08% and 3.62% for the quarters ended March 31, 2010 and March 31, 2009, respectively.

The following graph shows the trend in the Company's net interest margin versus the Federal Funds Rate for nine quarters beginning with the quarter ended March 31, 2008 and ending with the quarter ended March 31, 2010:

Non-interest income decreased by 4.0% for the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009. Excluding certain items, non-interest income increased \$1.1 million, or 12.5%, when compared to 2009. The table below reconciles non-interest income adjusted for certain items:

	Years Ended March 31,		\$ Variance	% Variance
	2010	2009		
	(Dollars in Thousands)			
Non-Interest Income GAAP	\$ 10,050	\$ 10,473	(\$423)	-4.0%
Less/Add Net Gain/ Loss on Sale of Securities		(1,379)	1,379	-100.0%
Add Loss on Write-Down of Investments to Fair Value	178		178	n/a
Non-Interest Income as Adjusted (Non-GAAP)	\$ 10,228	\$ 9,094	\$ 1,134	12.5%

The Company's Wealth Management business had aggregate revenues of \$2.7 million, which increased by 17.1% for the quarter ended March 31, 2010 as compared to the same period in 2009. Assets under administration amounted to \$1.3 billion, an increase of \$264.3 million, or 24.9%, as compared to the assets under administration at March 31, 2009. The increase is due to the general increases in the stock market in these comparable periods and new client asset flows.

The Company's service charges were \$4.2 million for the quarter ended March 31, 2010, an increase of \$573,000 or 15.7% as compared to the same period in 2009, due mainly to the Ben Franklin acquisition.

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Non-interest expense has increased by 18.7% for the quarter ended March 31, 2010, as compared to the prior year period. The table below reconciles non-interest expense adjusted for certain items:

	Years Ended March 31,		\$ Variance	% Variance
	2010	2009		
	(Dollars in Thousands)			
Non-Interest Expense GAAP	\$ 33,588	\$ 28,307	\$ 5,281	18.7%
Less Merger & Acquisition Expenses		(1,538)	1,538	-100.0%
Non-Interest Expense as Adjusted (Non-GAAP)	\$ 33,588	\$ 26,769	\$ 6,819	25.5%

The increase in expenses is primarily attributable to growth associated with the Ben Franklin merger which closed in the second quarter of 2009 in addition to increases in FDIC deposit insurance assessment fees, and loan workout costs.

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 2010. Please refer to the 2009 Form 10-K for a complete listing of critical accounting policies.

FINANCIAL POSITION

Loan Portfolio Total loans increased by \$16.3 million, or 0.5%, for the period ended March 31, 2010 as compared to the amount of total loans at December 31, 2009. Loan growth achieved was concentrated in the commercial real estate, commercial and industrial, and home equity categories. This was offset by a continued decline in the residential real estate and other consumer lending categories. Total commercial loans (including small business loans) now represent 66.9% of the total loan portfolio.

Loans obtained in connection with the Ben Franklin acquisition during April of 2009 were \$687.4 million and have been recorded at fair value in accordance with the Business Combinations Topic of the FASB ASC, which prohibits the carry-over of the allowance for credit losses. The Company's evaluation of loans with evidence of loan deterioration as of the acquisition date resulted in a nonaccretable difference of \$806,000, which is defined as the loan's contractually required payments receivable in excess of the amounts of its cash flows expected to be collected. The Company considered factors such as payment history, collateral values, and accrual status when determining whether there was evidence of deterioration of loan's credit quality at the acquisition date. As of March 31, 2010 the remaining nonaccretable

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difference was \$14,000. The majority of the decrease in the nonaccretable difference was due to loan charge-offs, with the remainder of the decrease being amortized into interest income.

The Bank's commercial real estate portfolio, the Bank's largest portfolio, is diversified with loans secured by a variety of property types, such as owner-occupied and non-owner-occupied commercial, retail, office, industrial, and warehouse facilities as well as other special purpose properties, such as hotels, motels, restaurants, golf courses, and healthcare-related properties. Commercial real estate also includes loans secured by certain residential-related property types including multi-family apartment buildings, residential development tracts and, to a lesser extent, condominiums. The following pie chart shows the diversification of the commercial real estate portfolio as of March 31, 2010:

Commercial Real Estate Portfolio by Property Type as of 3/31/10

The Bank considers a concentration of credit to a particular industry to exist when the aggregate credit exposure to a borrower, an affiliated group of borrowers or a non-affiliated group of borrowers engaged in one industry exceeds 10% of the Bank's loan portfolio which includes direct, indirect or contingent obligations. As of March 31, 2010, loans made by the Company to the industry concentration of lessors of non-residential buildings constituted 13.4% of the Company's total loan portfolio.

The Bank does not originate sub-prime real-estate loans as a line of business.

Asset Quality The Bank actively manages all delinquent loans in accordance with formally documented policies and established procedures. In addition, the Company's Board

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of Directors reviews delinquency statistics, by loan type, on a monthly basis. Inclusive in the discussion below are the loans acquired from Ben Franklin.

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 situations over the shortest possible time frame. Generally, the Bank requires that delinquency notices be mailed to borrowers upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices and telephone calls may be issued prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of delinquent notices, the Bank's personnel charged with managing its loan portfolios, contacts the borrowers 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.

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 troubled debt restructuring (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 based upon current market rates. 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 and will terminate foreclosure proceedings if the borrower is able to work out a satisfactory payment plan.

Loans that are considered to be TDRs are reported as a TDR by the Company within the calendar year that the loan is modified. In subsequent calendar years, the loan is reviewed to determine if the borrower is performing under modified terms and if the loan is meeting current market rates. If a loan meets both of these criteria, the Company no longer reports that loan as a TDR. The Company continually reviews the prior year TDRs to monitor these criteria.

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 not on nonaccrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status.

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

Table of Contents**Table 1 Troubled Debt Restructured Loans****As of March 31, 2010**

	Number of Loans (Dollars in Thousands)	Balance of Loans (Dollars in Thousands)
TDRs on accrual status	138	\$ 17,570
TDRs on nonaccrual status	12	2,340
	150	\$ 19,910

As of December 31, 2009

	Number of Loans (Dollars in Thousands)	Balance of Loans (Dollars in Thousands)
TDRs on accrual status	97	\$ 10,484
TDRs on nonaccrual status	11	3,498
	108	\$ 13,982

The following table sets forth a summary of certain delinquency information as of the dates indicated:

Table 2 Summary of Delinquency Information

	At March 31, 2010						At December 31, 2009					
	30-59 days		60-89 days		90 days or more		30-59 days		60-89 days		90 days or more	
	Number of Loans	Principal Balance (Dollars in Thousands)	Number of Loans	Principal Balance (Dollars in Thousands)	Number of Loans	Principal Balance (Dollars in Thousands)	Number of Loans	Principal Balance (Dollars in Thousands)	Number of Loans	Principal Balance (Dollars in Thousands)	Number of Loans	Principal Balance (Dollars in Thousands)
Commercial and Industrial	17	\$ 1,030	5	\$ 372	27	\$ 6,675	22	\$ 3,519	8	\$ 2,182	18	\$ 3,972
Commercial Real Estate	22	12,358	10	2,094	50	22,953	22	5,803	8	6,163	43	16,875
Commercial Construction												
Small Business	28	910	14	474	25	651	34	945	13	163	21	419
Residential Real Estate	5	394	13	1,839	25	5,404	11	2,815	12	2,431	22	5,130
Residential Construction												
Home Equity	18	1,339	8	747	12	620	26	1,956	7	303	14	876
Consumer												
Auto	284	2,430	41	364	40	301	371	3,041	26	522	16	248

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Consumer												
Other	78	915	32	171	25	129	109	858	20	237	31	261
Total	452	\$ 19,376	123	\$ 6,061	204	\$ 36,733	595	\$ 18,937	94	\$ 12,001	165	\$ 27,781

Nonaccrual Loans As permitted by banking regulations, certain consumer loans which are 90 days or more past due 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, commercial and real estate categories, as well as home equity loans more than 90 days past due with respect to principal or interest, are classified as a nonaccrual loan. 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 three months), when

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the loan is liquidated, or when the loan is determined to be uncollectible and it is charged-off against the allowance for loan losses.

Nonperforming Assets Nonperforming assets are comprised of nonperforming loans, nonperforming securities, Other Real Estate Owned (OREO) and other assets. 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. OREO includes properties held by the Bank as a result of foreclosure or by acceptance of a deed in lieu of foreclosure. As of March 31, 2010, nonperforming assets totaled \$48.8 million, an increase of \$7.6 million from December 31, 2009. The increase in nonperforming assets is attributable mainly to increases in nonperforming loans in the commercial real estate and commercial and industrial categories and OREO. Nonperforming assets represented 1.07% of total assets at March 31, 2010, as compared to 0.92% at December 31, 2009. The Bank had twenty-three and nineteen properties totaling \$6.0 million and \$4.0 million held as OREO as of March 31, 2010 and December 31, 2009, respectively.

Repossessed automobile loan balances continue to be classified as nonperforming loans and not as other assets, because the borrower has the potential to satisfy the obligation within twenty days from the date of repossession (before the Bank can schedule disposal of the collateral). The borrower can redeem the property by payment in full at any time prior to the property's disposal by the Bank. Repossessed automobile loan balances amounted to \$353,000 as of March 31, 2010, \$198,000 at December 31, 2009 and \$438,000 at March 31, 2009.

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

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Table 3 Nonperforming Assets / Loans
(Unaudited Dollars in Thousands)

	As of March 31, 2010	As of December 31, 2009	As of March 31, 2009
Loans past due 90 days or more but still accruing			
Consumer Auto	\$ 86	\$ 44	\$ 227
Consumer Other	49	248	229
Total	\$ 135	\$ 292	\$ 456
Loans accounted for on a nonaccrual basis (1)			
Commercial and Industrial	\$ 7,252	\$ 4,205	\$ 3,884
Small Business	1,294	793	1,638
Commercial Real Estate	23,645	18,525	10,833
Residential Real Estate	8,091	10,829	8,521
Consumer Home Equity	948	1,166	2,940
Consumer Auto	353	198	438
Consumer Other	121	175	250
Total	\$ 41,704	\$ 35,891	\$ 28,504
Total nonperforming loans	\$ 41,839	\$ 36,183	\$ 28,960
Nonaccrual securities	899	920	1,698
Other assets in possession	99	148	224
Other real estate owned	5,990	3,994	1,764
Total nonperforming assets	\$ 48,827	\$ 41,245	\$ 32,646
Nonperforming loans as a percent of gross loans	1.23%	1.07%	1.08%
Nonperforming assets as a percent of total assets	1.07%	0.92%	0.87%
Restructured Accruing Loans	\$ 17,570	\$ 10,484	\$ 4,365

(1) There were
\$2.3 million,
\$3.4 million,
and \$1.3 million

of restructured,
nonaccruing
loans at
March 31, 2010,
December 31,
2009, and
March 31, 2009,
respectively.

Potential problem commercial loans are those which are not included in nonaccrual or nonperforming loans and which are not considered troubled debt restructures, but 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. At both March 31, 2010 and December 31, 2009, the Bank had one-hundred nine and one-hundred two potential problem commercial loan relationships, respectively, which are not included in nonperforming loans, with an aggregate outstanding balance of \$108.9 million and \$122.1 million, respectively. At March 31, 2010 and December 31, 2009, 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.

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See the table below for interest income that was recognized or collected on the nonaccrual loans as of the dates indicated:

Table 4 Interest Income Recognized/Collected on Nonaccrual / Troubled Debt Restructured Loans

	Three Months Ended March 31,	
	2010	2009
	(Dollars in Thousands)	
Interest income that would have been recognized, if nonaccruing loans at their respective dates had been performing	\$ 923	\$ 698
Interest income recognized on troubled debt restructured accruing loans at their respective dates	\$ 203	25
Interest collected on these nonaccrual and restructured loans and included in interest income	\$ 211	\$ 63

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, commercial real estate, and 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.

At March 31, 2010, impaired loans included all commercial real estate loans and commercial and industrial loans on nonaccrual status, troubled debt restructures, and other loans that have been categorized as impaired. Total impaired loans at March 31, 2010 and December 31, 2009 were \$50.7 million and \$39.2 million, respectively.

Real estate acquired by the Bank through foreclosure proceedings or the acceptance of a deed in lieu of foreclosure is classified as OREO. When property is acquired, it is recorded at the lesser of the loan's remaining principal balance or the estimated fair value of the property acquired, less estimated costs to sell. Any loan balance in excess of the estimated fair value less estimated cost to sell on the date of transfer is charged to the allowance for loan

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losses on that date. All costs incurred thereafter in maintaining the property, as well as subsequent declines in fair value are charged to non-interest expense.

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 structure, 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 the more senior tranches. As a result, the Company has placed the six securities on nonaccrual status and has reversed any previously accrued income related to these securities.

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 provisions for loan losses and by recoveries of loans previously charged-off and is reduced by loans charged-off.

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

As of March 31, 2010, the allowance for loan losses totaled \$45.3 million, or 1.33% of total loans as compared to \$42.4 million, or 1.25% of total loans, at December 31, 2009. The increase in allowance was due to a combination of factors including changes in asset quality and organic loan growth.

Compared to March 31, 2009, the ratio of allowance for loan losses to total loans decreased from 1.40%. The year-over-year decrease in the ratio of allowance to total loans was due to the implementation of recent accounting guidance pertaining to the business combinations topic of the FASB ASC, which precluded the combination of any general allowance amounts associated with the acquired loans within the Ben Franklin loan portfolio.

Accordingly, loans obtained in connection with the acquisition were initially recorded at fair value, based on management s estimates of cash flows expected to be collected on the loans. Subsequent to the acquisition, management updates its estimates of cash flows to be collected on these loans to determine if impairment exists. Based on management s analysis, management believes that the level of the allowance for loan losses at March 31, 2010 is adequate.

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**

	March 31, 2010	Quarter to Date			March 31, 2009
		December 31, 2009	September 30, 2009	June 30, 2009	
	<i>(Unaudited - Dollars in Thousands)</i>				
Average loans	\$ 3,403,909	\$ 3,389,219	\$ 3,375,581	\$ 3,284,764	\$ 2,651,959
Allowance for loan losses, beginning of period	\$ 42,361	\$ 41,357	\$ 40,068	\$ 37,488	\$ 37,049
Charged-off loans:					
Commercial and Industrial	531	614	1,243	31	20
Small Business	331	388	821	532	306
Commercial Real Estate	199	518		72	
Residential Real Estate	139	149	379	207	94
Commercial Construction		621			2,059
Residential Construction					
Consumer Home Equity	242	632	301	611	254
Consumer Auto	246	356	431	353	795
Consumer Other	336	420	299	386	363
Total charged-off loans	2,024	3,698	3,474	2,192	3,891
Recoveries on loans previously charged-off:					
Commercial and Industrial	4	18	2	5	2
Small Business	80	61	59	57	26
Commercial Real Estate	1				
Residential Real Estate	4				104
Commercial Construction					
Residential Construction					
Consumer Home Equity	8	33	3	3	3
Consumer Auto	114	133	203	196	130
Consumer Other	80	33	53	43	65
Total recoveries	291	278	320	304	330
Net loans charged-off	1,733	3,420	3,154	1,888	3,561
Provision for loan losses	4,650	4,424	4,443	4,468	4,000
Total allowance for loan losses, end of period	\$ 45,278	\$ 42,361	\$ 41,357	\$ 40,068	\$ 37,488
Net loans charged-off as a percent of average total loans (annualized)	0.21%	0.40%	0.37%	0.23%	0.54%
	1.33%	1.25%	1.22%	1.19%	1.41%

Total allowance for loan losses as a percent of total loans					
Total allowance for loan losses as a percent of nonperforming loans	108.22%	117.07%	111.97%	127.24%	129.45%
Net loans charged-off as a percent of allowance for loan losses (annualized)	15.5%	32.03%	30.26%	18.90%	38.52%
Recoveries as a percent of charge-offs (annualized)	14.38%	7.52%	9.21%	13.87%	8.48%

The allowance for loan losses is allocated to various loan categories as part of the Bank's process of evaluating the adequacy of the allowance for loan losses. During the first quarter, allocated allowance amounts increased by approximately \$2.9 million to \$45.3 million at March 31, 2010.

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 expected losses at the evaluation

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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. The total allowance is available to absorb losses from any segment of the loan portfolio. The following table sets forth the allocation of the allowance for loan losses by loan category at the dates indicated:

Table 6 - Summary of Allocation of the Allowance for Loan Losses
(Unaudited Dollars In Thousands)

	AT MARCH 31, 2010		AT DECEMBER 31, 2009	
	Allowance Amount*	Percent of Loans In Category To Total Loans	Allowance Amount	Percent of Loans In Category To Total Loans
Allocated Allowances:				
Commercial and Industrial	\$ 9,674	11.4%	\$ 7,545	11.0%
Small Business	3,521	2.4%	3,372	2.4%
Commercial Real Estate	20,617	48.2%	19,451	47.5%
Real Estate Construction	2,692	5.1%	2,457	5.5%
Real Estate Residential	2,768	15.8%	2,840	16.4%
Consumer Home Equity	3,934	14.2%	3,945	13.9%
Consumer Auto	902	2.0%	1,422	2.3%
Consumer Other	1,170	0.9%	1,329	1.0%
Total Allowance for Loan Losses	\$ 45,278	100.0%	\$ 42,361	100.0%

The allowance for loan losses is allocated to loan types using both a formula-based approach applied to groups of loans and an analysis of certain individual loans for impairment. The formula-based approach emphasizes loss factors derived from actual historical portfolio loss rates, which are combined with an assessment of certain qualitative factors to determine the allowance amounts allocated to the various loan categories.

Management has identified certain qualitative risk factors which impact the inherent risk of loss within the portfolio represented by historic measures. These include: (a) market risk factors, such as the effects of economic variability on the entire portfolio, and (b) unique portfolio risk factors that are inherent characteristics of the Bank's loan portfolio. Market risk factors consist of changes to general economic and business conditions that impact the Bank's loan portfolio customer base in terms of ability to repay and that may result in changes in value of underlying collateral. Unique portfolio risk factors may include industry concentration or covariant industry concentrations, geographic concentrations or trends that impact the inherent risk of loss in the loan portfolio resulting from economic events which the Bank may not be able to fully diversify out of its portfolios. These qualitative risk factors capture the element of loan loss associated with current market and portfolio conditions that may not be adequately reflected in the loss factors derived from historic experience.

The formula-based approach evaluates groups of loans with common characteristics, which consist of similar loan types with similar terms and conditions, to determine the allocation appropriate within each portfolio section. This approach incorporates qualitative

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adjustments based upon management's assessment of various market and portfolio specific risk factors into its formula-based estimate.

The allowance for loan loss also includes a component as an addition to the amount of allowance determined to be required using the formula-based estimation techniques described herein. This component is maintained as a margin for imprecision to account for the inherent subjectivity and imprecise nature of the analytical processes employed. Due to the imprecise nature of the loan loss estimation process and ever changing conditions, the qualitative risk attributes may not adequately capture amounts of incurred loss in the formula-based loan loss components used to determine allocations in the Bank's analysis of the adequacy of the allowance for loan losses. As noted above, this component is allocated to the various loan types.

It is management's objective to strive to minimize the amount of allowance attributable to the margin for imprecision, as the quantitative and qualitative factors, together with the results of its analysis of individual impaired loans, are the primary drivers in estimating the required allowance and the testing of its adequacy.

Amounts of allowance may also be assigned to individual loans on the basis of loan impairment. Certain loans are evaluated individually and are judged to be impaired when management believes it is probable that the Bank will not collect all of the contractual interest and principal payments as scheduled in the loan agreement. Under this method, loans are selected for evaluation based upon a change in internal risk rating, occurrence of delinquency, loan classification, loan modifications meeting the definition of a troubled debt restructure, or nonaccrual status. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of a probable loss is able to be estimated on the basis of: (a) the present value of anticipated future cash flows or on the loan's observable fair market value, or (b) the fair value of collateral, if the loan is collateral dependent. Loans evaluated individually for impairment and the amount of specific allowance assigned to such loans totaled \$50.7 million and \$4.3 million, respectively, at March 31, 2010 and \$39.2 million and \$1.8 million respectively, at December 31, 2009. Impaired loans at December 31, 2009 exclude those loans acquired from Ben Franklin which were recorded at fair value at the date of acquisition, and for which impairment amounts were recorded based upon an estimate of cash flows to be collected over the life of the loan at the time. However, loans acquired from Ben Franklin that were not impaired at the acquisition date, but were subsequently identified as impaired loans have been included in the impaired total with their respective allowance amounts.

Goodwill and Identifiable Intangible Assets Goodwill and Identifiable Intangible Assets were \$143.4 million and \$143.7 million at March 31, 2010 and December 31, 2009, respectively.

Securities Trading assets increased by \$1.2 million at March 31, 2010 to \$7.4 million, as compared to December 31, 2009. Available for sale and held to maturity securities decreased by \$37.5 million, or 6.2%, at March 31, 2010 as compared to December 31, 2009. The ratio of securities to total assets as of March 31, 2010 was 12.6%, compared to 13.6% at December 31, 2009.

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The Company continually reviews investment securities for the presence of OTTI. Further analysis of the Company's OTTI can be found in Note 3 Securities within the *Condensed Notes to the Unaudited Consolidated Financial Statements*.

Federal Home Loan Bank Stock The Company held an investment in Federal Home Loan Bank Boston (FHLBB) of \$35.9 million at both March 31, 2010 and December 31, 2009. The FHLBB is a cooperative that provides services to its member banking institutions. The primary reason for joining the FHLBB was to obtain funding from the FHLBB. 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.

In February 2009 the FHLBB announced that it had indefinitely suspended its dividend payment which began in the first quarter of 2009, and continued the moratorium, put into effect during the fourth quarter of 2008, on all excess stock repurchases in an effort to help preserve capital. Although the FHLBB reported a net loss for the years ended December 31, 2009 and December 31, 2008, the Company reviewed recent public filings and rating agencies analysis which showed acceptable ratings, a capital position which exceeds all required capital levels, and other factors, which were considered by the Company's management when determining if an OTTI exists with respect to the Company's investment in FHLBB. As a result of the Company's review for OTTI, management deemed the investment in the FHLBB stock not to be OTTI as of March 31, 2010 and management will continue to monitor it closely. There can be no assurance as to the outcome of management's future evaluation of the Company's investment in the FHLBB.

Bank Owned Life Insurance Bank Owned Life Insurance (BOLI) increased by \$815,000, or 1.0% to \$80.1 million at March 31, 2010, compared to \$79.3 million at December 31, 2009. Revenue recognized related to these policies was \$721,000 for the three month period ended March 31, 2010, a slight decrease, compared to the year ago period. The Company uses these tax exempt insurance contracts as a vehicle to defray the cost of employee benefits. The Company performs pre-purchase and ongoing risk assessments as part of its BOLI program and presents such an assessment to the Board of Directors no less than annually.

Deposits Total deposits of \$3.5 billion increased 2.9% at March 31, 2010 compared to \$3.4 billion at December 31, 2009. The Company continued its focus on core deposits, which increased \$152.7 million, or 6.2%, since December 31, 2009, representing 75.1% of total deposits at March 31, 2010. Management is focused on improving deposit mix and in controlling the cost of deposits as reflected in the decrease of the cost of funds.

Borrowings Total borrowings decreased \$40.4 million, or 6.2%, from December 31, 2009 to \$607.0 million at March 31, 2010, primarily due to deposit growth.

Stockholders Equity Stockholders equity as of March 31, 2010 totaled \$418.2 million, as compared to \$412.6 million at December 31, 2009.

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RESULTS OF OPERATIONS

Summary of Results of Operations The Company's results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans, short term investments, and securities and the interest paid on deposits and borrowings. The results of operations are also affected by the level of income/fees from loans, deposits, mortgage banking, and wealth management activities, as well as operating expenses, the provision for loan losses, the impact of federal and state income taxes, and the relative levels of interest rates and economic activity.

The Company reported net income of \$9.2 million, a \$2.8 million, or a 44.4% increase, for the first quarter of 2010 as compared to the first quarter of 2009. On a diluted earnings per share basis the Company reported earnings of \$0.44 for the three months ended March 31, 2010, compared to earnings of \$0.32 for the three months ended March 31, 2009. Net income available to the common shareholder, which includes the effect of preferred stock dividends, was \$5.2 million, for the three months ended March 31, 2009. There were no preferred stock dividends in 2010.

The fluctuations in the Company's results comparing the quarters ending March 31, 2010 and 2009, were due to the following:

The acquisition of Ben Franklin during the second quarter of 2009 which has been fully integrated into the Company as of March 31, 2010.

The higher level of provision for loan losses, consistent with current economic conditions and anticipated higher levels of loan losses.

The 2009 issuance of preferred stock related to the Company's participation in the United States Treasury Department's Capital Purchase program, which decreased the net income available to common shareholders by the preferred dividends declared of \$1.2 million in the first quarter of 2009. There were no preferred stock dividends in the first quarter of 2010, as the Company subsequently exited this program during the second quarter of 2009.

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 2010 increased \$10.2 million, or 33.8%, to \$40.5 million, as compared to the first quarter of 2009. The Company's net interest margin was 4.08% for the quarter ended March 31, 2010 as compared to 3.62% for the quarter ended March 31, 2009. 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 3.83% and 3.26% for the first quarter of 2010 and 2009, respectively.

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The yield on earning assets was 5.15% for the quarter ending March 31, 2010, compared with 5.23% in the same quarter ending in 2009. The average balance of securities has decreased by \$4.2 million, or 0.7%, as compared with the prior year, while the yield on securities has decreased 38 basis points to 4.65%. The average balance of loans increased by \$752.0 million, or 28.4%, and the yield on loans decreased by 22 basis points to 5.27% for the first quarter of 2010 compared to 5.49% for the first quarter in 2009. The primary reasons for the increase in the loan balances is the Ben Franklin acquisition and organic growth.

For the three months ending March 31, 2010, the cost of funds decreased 56 basis points to 1.09% as compared to the same period in 2009 and the average balance of interest-bearing liabilities increased by \$500.8 million, or 18.1%. The average cost of these interest bearing liabilities decreased to 1.32% for the quarter ending March 31, 2010 as compared to 1.97% in the same period in 2009. The primary reason for this decrease is the active management of deposit costs and the shift in the Company's deposit mix.

The following table presents the Company's daily average balances, net interest income, interest rate spread, and net interest margin for the quarter ending March 31, 2010 and March 31, 2009. 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 statutory tax rate:

Table of Contents**Table 7 Average Balance, Interest Earned/Paid & Average Yields**
(Unaudited Dollars in Thousands)

	QUARTER ENDED MARCH 31,					
	AVERAGE BALANCE	2010 INTEREST EARNED/ PAID	YIELD/ RATE	AVERAGE BALANCE	2009 INTEREST EARNED/ PAID	YIELD/ RATE
Interest-Earning Assets:						
Interest Bearing Cash, Federal Funds Sold, and Short Term Investments	\$ 23,125	\$ 24	0.42%	\$ 121,394	\$ 198	0.66%
Securities:						
Trading Assets	6,800	60	3.58%	2,706	25	3.75%
Taxable Investment Securities	568,550	6,409	4.57%	565,797	6,937	4.97%
Non-taxable Investment Securities (1)	19,111	342	7.26%	30,161	469	6.31%
Total Securities:	594,461	6,811	4.65%	598,664	7,431	5.03%
Loans						
Commercial and Industrial	377,855	4,417	4.74%	274,480	3,303	4.88%
Commercial Real Estate	1,630,944	23,089	5.74%	1,129,022	17,067	6.13%
Commercial Construction	171,535	2,076	4.91%	174,507	1,915	4.45%
Small Business	82,476	1,217	5.98%	87,181	1,289	6.00%
Total Commercial	2,262,810	30,799	5.52%	1,665,190	23,574	5.74%
Residential Real Estate	548,533	6,765	5.00%	408,250	5,296	5.26%
Residential Construction	9,102	118	5.26%	10,924	172	6.39%
Consumer Home Equity	478,324	4,522	3.83%	407,860	4,010	3.99%
Total Consumer Real Estate	1,035,959	11,405	4.46%	827,034	9,478	4.65%
Consumer Auto	73,656	1,278	7.04%	122,247	2,044	6.78%
Consumer Other	31,484	734	9.45%	37,488	801	8.67%
Total Other Consumer	105,140	2,012	7.76%	159,735	2,845	7.22%
Total Loans	3,403,909	44,216	5.27%	2,651,959	35,897	5.49%
Loans Held for Sale	7,125	106	6.03%	15,114	168	4.51%
Total Interest-Earning Assets	\$ 4,028,620	\$ 51,157	5.15%	\$ 3,387,131	\$ 43,694	5.23%
Cash and Due from Banks	66,424			60,079		
Federal Home Loan Bank Stock	35,854			24,603		
Other Assets	304,200			251,307		

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Total Assets	\$ 4,435,098			\$ 3,723,120		
Interest-bearing Liabilities:						
Deposits:						
Savings and Interest						
Checking Accounts	\$ 1,056,156	\$ 1,184	0.45%	\$ 740,020	\$ 996	0.55%
Money Market	702,390	1,320	0.76%	518,438	1,696	1.33%
Time Deposits	889,449	3,435	1.57%	831,196	5,715	2.79%
Total interest-bearing deposits:	\$ 2,647,995	\$ 5,939	0.91%	\$ 2,089,654	\$ 8,407	1.63%
Borrowings:						
Federal Home Loan Bank Borrowings	\$ 340,301	\$ 2,432	2.90%	\$ 410,126	\$ 2,675	2.65%
Federal Funds Purchased and Assets Sold Under Repurchase Agreement	184,624	830	1.82%	172,884	856	2.01%
Junior Subordinated Debentures	61,857	902	5.91%	61,857	947	6.21%
Subordinated Debentures	30,000	535	7.23%	30,000	537	7.26%
Other Borrowings	2,360		0.00%	1,772		0.00%
Total Borrowings:	619,142	4,699	3.08%	676,639	5,015	3.01%
Total Interest-Bearing Liabilities	\$ 3,267,137	\$ 10,638	1.32%	\$ 2,766,293	\$ 13,422	1.97%
Demand Deposits	702,833			530,425		
Other Liabilities	47,020			42,405		
Total Liabilities	\$ 4,016,990			\$ 3,339,123		
Stockholders Equity	418,108			383,997		
Total Liabilities and Stockholders Equity	\$ 4,435,098			\$ 3,723,120		
Net Interest Income		\$ 40,519			\$ 30,272	
Interest Rate Spread (2)			3.83%			3.26%
Net Interest Margin (3)			4.08%			3.62%

Supplemental Information:

Total Deposits, including Demand Deposits	\$ 3,350,828	\$ 5,939		\$ 2,620,079	\$ 8,407	
Cost of Total Deposits			0.72%			1.30%
Total Funding Liabilities, including Demand Deposits	\$ 3,969,970	\$ 10,638		\$ 3,296,718	\$ 13,422	
Cost of Total Funding Liabilities			1.09%			1.65%

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is \$309 and \$283 for the quarter ended March 31, 2010 and March 31, 2009, 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.

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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 8 Volume Rate Analysis

	Three Months Ended March 31, 2010 Compared to 2009			Three Months Ended March 31, 2009 Compared to 2008		
	Change Due to Rate (1)	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change
<i>(Unaudited - Dollars in Thousands)</i>						
Income on Interest-Earning Assets:						
Interest Bearing Cash, Federal Funds Sold and Short Term Investments	\$ (14)	\$ (160)	\$ (174)	\$ (3,498)	\$ 3,677	\$ 179
Securities:						
Taxable Securities	(562)	34	(528)	(254)	1,805	1,551
Non-Taxable Securities (2)	45	(172)	(127)	(15)	(251)	(266)
Trading Assets	(3)	38	35	(4)	1	(3)
Total Securities:	(520)	(100)	(620)	(273)	1,555	1,282
Loans (2) (3)	(1,859)	10,178	8,319	(6,621)	7,378	757
Loans Held for Sale	27	(89)	(62)	27	(4)	23
Total	\$ (2,366)	\$ 9,829	\$ 7,463	\$ (10,365)	\$ 12,606	\$ 2,241
Expense of Interest-Bearing Liabilities:						
Deposits:						
Savings and Interest Checking Accounts	\$ (237)	\$ 425	\$ 188	\$ (942)	\$ 347	\$ (595)
Money Market	(978)	602	(376)	(1,245)	363	(882)
Time Deposits	(2,681)	401	(2,280)	(2,696)	2,265	(431)
Total Interest-Bearing Deposits:	(3,896)	1,428	(2,468)	(4,883)	2,975	(1,908)
Borrowings:						
Federal Home Loan Bank Borrowings	\$ 212	\$ (455)	\$ (243)	\$ (1,339)	\$ 1,072	\$ (267)
Federal Funds Purchased and Assets Sold Under Repurchase Agreements	(84)	58	(26)	(575)	278	(297)
Junior Subordinated Debentures	(45)		(45)	(19)	106	87
Subordinated Debentures	(2)		(2)	537		537

Other Borrowings				(18)	(26)	(44)
Total Borrowings:	81	(397)	(316)	(1,414)	1,430	16
Total	\$ (3,815)	\$ 1,031	\$ (2,784)	\$ (6,297)	\$ 4,405	\$ (1,892)
Change in Net Interest Income	\$ 1,449	\$ 8,798	\$ 10,247	\$ (4,068)	\$ 8,201	\$ 4,133

(1) The changes for each category of interest income and expense are divided between the portion of change attributable to the variance 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 \$309 and \$283 for the three months ended March 31, 2010 and 2009, 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 \$4.7 million at March 31, 2010, compared with \$4.0 million in the comparable year-ago period, an increase of \$650,000. The Company's allowance for loan losses, as a percentage of total loans, was 1.33%, as compared to 1.25% at December 31, 2009 and 1.41% at March 31, 2009. For the quarter ended March 31, 2010, net loan charge-offs totaled \$1.7 million, a decrease of \$1.8 million from the quarter ended March 31, 2009.

The increase in the amount of the provision for loan losses is the result of a combination of factors including: shifting growth rates among various components of the Bank's loan portfolio with differing facets of risk; continued challenges with respect to the economic environment, increases in specific allocations for impaired loans, and the level of loan

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delinquencies and nonperforming loans. While the total loan portfolio increased by 28.5% for the quarter ended March 31, 2010, as compared to the quarter ended March 31, 2009, growth among the commercial components of the loan portfolio outpaced growth among those consumer components, which exhibit different credit risk characteristics.

Regional and local general economic conditions showed signs of improvement during the first quarter of 2010, as measured in terms of employment levels, statewide economic activity, and other regional economic indicators. Additionally, improving market fundamentals were observed in residential real estate markets in terms of both sales data and home prices. Regional commercial real estate markets, however, continued to struggle, characterized by higher vacancy rates and declining rents. Despite some of the positive economic indicators, improvement is expected to be gradual and the economic environment should remain challenging for the remainder of 2010.

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 Non-interest income decreased by \$423,000, or 4.0%, during the quarter ended March 31, 2010, 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 by \$573,000, or 15.7%, during the quarter ended March 31, 2010, primarily due to the Ben Franklin acquisition.

Wealth management revenue increased by \$398,000, or 17.1%. Assets under management at March 31, 2010 were \$1.3 billion, an increase of \$264.3 million, or 24.9% as compared to the same period a year ago. The increase is due to the general increases in the stock market in these comparable periods and new client asset flows.

Mortgage banking income decreased by \$156,000, or 13.5%, during the quarter ended March 31, 2010 as compared to the quarter ended March 31, 2009, primarily due to decreases in the fair value adjustments on mortgage derivatives and a decrease in mortgage originations. The balance of the loans serviced amounted to \$341.7 million as of March 31, 2010, as compared to a \$237.9 million at March 31, 2009. The Company accounts for the mortgage servicing asset at fair value with changes in fair value recorded in earnings as a component of mortgage banking income. Changes in the mortgage servicing asset were as follows:

Table of Contents**Table 9 Mortgage Servicing Asset**
(Dollars in thousands)

	2010	2009
Balance as of December 31,	\$ 2,195	\$ 1,498
Additions		15
Amortization	(154)	(131)
Change in Valuation Allowance	192	115
Balance as of March 31,	\$ 2,233	\$ 1,497

There were no gains or losses on the sale of securities recorded during the quarter ended March 31, 2010 and a gain of \$1.4 million on the sale of securities, during the quarter ended March 31, 2009.

The Company deemed certain pooled trust preferred securities and one private mortgage-backed security to be OTTI during the first quarter of 2010. The Company recorded a total credit related impairment charge of \$178,000 for the quarter ended March 31, 2010. The Company recorded no OTTI charges in the first quarter of 2009.

Other non-interest income increased by \$327,000, or 26.6%, for the quarter ended March 31, 2010, as compared to the same period in 2009, mainly due to gains on trading assets.

Non-Interest Expense Non-interest expense increased by \$5.3 million, or 18.7% for the quarter ended March 31, 2010, as compared to the same period in 2009. The change in non-interest income is attributable to the following.

Salaries and employee benefits increased by \$3.6 million, or 24.3%. The increase in salaries and benefits is attributable to the addition of employees as a result of Ben Franklin acquisition, annual salary increases, and incentive programs.

Occupancy and equipment expense increased by \$430,000, or 11.6%. The increase is mainly due to an increase in rent and maintenance expense due to the acquisition of additional space and equipment in connection with the Ben Franklin acquisition.

Data processing and facilities management expense decreased by \$122,000, or 8.6%.

The FDIC insurance assessment increased by \$785,000.

Other non-interest expense increased by \$2.1 million, or 33.9%. The increases are primarily attributable to increases in fees and expenses related to credit related loan workout and collection expenses and branch closing costs. Also, intangible amortization costs have increased due to the addition of intangible assets associated with Ben Franklin acquisition.

Income Taxes For the quarters ending March 31, 2010 and March 31, 2009, the Company recorded combined federal and state income tax provisions of \$2.8 million and \$1.8 million, respectively. The effective tax rate for the quarters ending March 31, 2010 and 2009 was 23.25% and 21.67%, respectively, and was positively impacted by the Company's New

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Market Tax Credit allocation, a schedule showing the expected tax credit recognition by year is shown in the table below:

Table 10 New Markets Tax Credit Recognition Schedule
(Unaudited Dollars in Thousands)

Investment		2004-2010	2011	2012	2013	2014	2015	2016	Total Credits
2004	\$ 15 M	\$ 5,850	\$	\$	\$	\$	\$	\$	\$ 5,850
2005	15 M	4,950	900						5,850
2007	38.2 M	8,022	2,292	2,292	2,292				14,898
2008	6.8 M	1,020	408	408	408	408			2,652
2009	10 M	1,000	500	600	600	600	600		3,900
2010	5 M	250	250	250	300	300	300	300	1,950
Total	\$ 90 M	\$ 21,092	\$ 4,350	\$ 3,550	\$ 3,600	\$ 1,308	\$ 900	\$ 300	\$ 35,100

In 2009 the United States Secretary of the Treasury awarded, \$50 million in tax credit allocation authority under the federal New Markets Tax Credit Program to Rockland Trust Community Development Corporation, a wholly-owned, second-tier subsidiary of the Company. The Company will be eligible to receive tax credits over a seven year period totaling 39% of its award, or \$19.5 million, as it invests capital into the subsidiary which will lend to qualifying businesses in low income communities. As of March 31, 2010 the Company has invested \$15.0 million related to this award. The Company anticipates investing the remaining \$35.0 million throughout the remainder of 2010 and it has been included in the Company's calculation of its effective tax rate. The tax effects of all income and expense transaction are recognized by the Company in each year's consolidated statements of income regardless of the year in which the transactions are reported for income purposes.

Return on Average Assets and Equity The annualized consolidated returns on average common equity and average assets for the three months ended March 31, 2010 and 2009 were as follows:

Table 11 Return on Average Equity and Assets

	Three Months Ended	
	March 31,	
	2010	2009
Return on Average Equity	8.95%	6.68%
Return on Average Assets	0.84%	0.57%

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 of the Company. 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.

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The Asset/Liability Management Committee (ALCO), whose members are comprised of the Bank's senior management, develops 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 Committee 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 FHLBB 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 leverage the balance sheet.

The Bank may choose to utilize interest rate swap agreements and interest rates 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. For additional information regarding the Company's *Derivatives Instruments*, see *Note 7 in Item 1* hereof.

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 accounts managed by the Company's investment management group within a trust to fund non-qualified executive retirement obligations and the Company has a \$3.2 million equities portfolio at March 31, 2010, of which \$1.2 million was acquired as part of the Slades transaction and \$2.0 was acquired as part of the Ben Franklin transaction. The equity positions are comprised of a fund whose objective is to invest in geographically specific private placement debt securities designed to support underlying economic activities such as community development and affordable housing.

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 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,

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the timing of cash flows on loans and securities and the fair value of securities and derivatives as well as other affects.

The primary goal of interest-rate risk management is to manage this risk within limits approved by the Board. These limits reflect the Company's tolerance for interest-rate risk over both short-term and long-term horizons. The Company attempts to mitigate 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 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 resulting 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 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 rate-locked loan commitments.

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, 2010 the Company 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, 2010 and 2009.

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 of Contents**Table 12 Interest Rate Sensitivity**

	200 Basis Point Rate Increase	100 Basis Point Rate Decrease
March 31, 2010	0.5%	0.4%
March 31, 2009	(0.8%)	(0.9%)

The results implied in the above table indicate estimated changes in simulated net interest income for the subsequent 12 months assuming a gradual shift up in market rates of 200 basis points or down in market rates of 100 basis points across the entire yield curve. 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 2010 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 rates paid on deposit accounts.

The Company's earnings are not directly and materially impacted by movements in foreign currency rates or commodity prices. Movements in equity prices may have an indirect but modest impact on earnings by affecting the volume of activity or the amount of fees from investment-related business lines, and directly by affecting the value at the Company's trading portfolio. Also, declines in the value of certain debt securities may have an impact on earnings if the decline is determined to be other-than-temporary and the security is considered impaired.

Liquidity 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, unused borrowing capacity, 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.

The parent of the Company, as a separately incorporated bank holding company, has no significant operations other than serving as the sole stockholder of the Bank. Its commitments and debt service requirement at March 31, 2010 consist of \$61.9 million in junior subordinated debentures, including accrued interest.

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The Company actively manages its liquidity position under the direction of the Asset/Liability Management Committee. Periodic review under prescribed policies and procedures is intended to ensure that the Company will maintain adequate levels of available funds. At March 31, 2010, the Company's liquidity position was above policy guidelines. Management believes that the Bank has adequate liquidity available to respond to current and anticipated liquidity demands.

Capital Resources and Dividends The Federal Reserve Board, the Federal Deposit Insurance Corporation, 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.

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

Table 13 Company and Bank's Capital Amounts and Ratios

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2010:						
Company: (Consolidated)						
Total capital (to risk weighted assets)	\$419,452	12.14%	276,386≥	8.0%	N/A	N/A
Tier 1 capital (to risk weighted assets)	346,236	10.02	138,193≥	4.0	N/A	N/A
Tier 1 capital (to average assets)	346,236	8.06	171,754≥	4.0	N/A	N/A
Bank:						
Total capital (to risk weighted assets)	\$405,611	11.70%	\$ 277,363≥	8.0%	\$ 346,704≥	10.0%
Tier 1 capital (to risk weighted assets)	332,244	9.58	\$ 138,681≥	4.0	\$ 208,022≥	6.0
Tier 1 capital (to average assets)	332,244	7.73	115,615≥	4.0	144,519≥	5.0
As of December 31, 2009:						
Company: (Consolidated)						
Total capital (to risk weighted assets)	\$412,674	11.92%	\$ 277,029≥	8.0%	N/A	N/A
Tier 1 capital (to risk weighted assets)	340,313	9.83	138,515≥	4.0	N/A	N/A
Tier 1 capital (to average assets)	340,313	7.87	172,897≥	4.0	N/A	N/A
Bank:						

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Total capital (to risk weighted assets)	\$ 398,890	11.49%	\$ 277,699≥	8.0%	\$ 347,124≥	10.0%
Tier 1 capital (to risk weighted assets)	326,529	9.41	138,850≥	4.0	208,275≥	6.0
Tier 1 capital (to average assets)	326,529	7.55	173,022≥	4.0	216,278≥	5.0

On March 18, 2010 the Company's Board of Directors declared a cash dividend of \$0.18 per share, to stockholders of record as of the close of business on March 29, 2010. This dividend was paid on April 9, 2010. On an annualized basis, the dividend payout ratio amounted to 72.5%, based on net income available to the common shareholder of the trailing four quarters' earnings.

Off-Balance Sheet Arrangements There have been no material changes in off-balance sheet financial instruments during the first quarter of 2010. Please refer to the 2009 Form 10-K

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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 2010. Please refer to the 2009 Form 10-K for a complete table of contractual obligations, commitments, contingencies, and off-balance sheet financial instruments.

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 during the first quarter of 2010 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Item 4T. Controls and Procedures N/A

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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.

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 2009 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

No. Exhibit

- 3.(i) Restated Articles of Organization, as amended as of February 10, 2005, incorporated by reference to Form 8-K filed on May 18, 2005.
- 3.(ii) Amended and Restated Bylaws of the Company, as amended as of February 10, 2005, incorporated by reference to Form 8-K filed on May 18, 2005.
- 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.

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- 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 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.
- 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. Saksay, 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.

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- 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 on October 14, 2004.
- 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. 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. 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 Agreement and Plan of Merger dated November 8, 2008 with Benjamin Franklin Bancorp, Inc. is incorporated by reference to Form 8-K filed on November 10, 2008.
- 10.16 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.
- 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

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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, 2010

/s/ Christopher Oddleifson

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

Date: May 5, 2010

/s/ Denis K. Sheahan

Denis K. Sheahan
Chief Financial Officer
(Principal Financial Officer)
INDEPENDENT BANK CORP.
(registrant)

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