INDEPENDENT BANK CORP
Form 10-Q
August 07, 2007

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SECURITIES AND EXCHANGE COMMISSION<br>WASHINGTON, D.C. 20549<br>FORM 10-Q<br>QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)<br>OF THE SECURITIES EXCHANGE ACT OF 1934<br>For the quarterly period ended June 30, 2007<br>Commission File Number: 1-9047<br>Independent Bank Corp.<br>(Exact name of registrant as specified in its charter)

> Massachusetts (State or other jurisdiction of (I.R.S. Employer incorporation or organization) 288 Union Street, Rockland, Massachusetts 02370 (Adentification No.) (Registrant of principal executive offices, including zip code) (781) 878-6100,

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.

$$
\text { Yes } \mathrm{p} \quad \text { No o }
$$

Indicate by check mark whether the registrant is a large accelerated filer; an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act) (check one).

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

As of August 1,2007 , there were $13,800,543$ shares of the issuer s common stock outstanding, par value $\$ 0.01$ per share.

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## PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

## INDEPENDENT BANK CORP. CONSOLIDATED BALANCE SHEETS

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


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| DEMAND DEPOSITS | \$ 500,924 | \$ 490,036 |
| :---: | :---: | :---: |
| SAVINGS AND INTEREST CHECKING ACCOUNTS | 580,897 | 577,443 |
| MONEY MARKET | 444,787 | 455,737 |
| TIME CERTIFICATES OF DEPOSIT OVER \$100,000 | 169,038 | 179,154 |
| OTHER TIME CERTIFICATES OF DEPOSIT | 356,441 | 387,974 |
| TOTAL DEPOSITS | 2,052,087 | 2,090,344 |
| FEDERAL HOME LOAN BANK BORROWINGS | 231,215 | 305,128 |
| FEDERAL FUNDS PURCHASED AND ASSETS SOLD UNDER |  |  |
| REPURCHASE AGREEMENTS | 94,199 | 108,248 |
| JUNIOR SUBORDINATED DEBENTURES | 51,547 | 77,320 |
| TREASURY TAX AND LOAN NOTES | 1,070 | 2,953 |
| TOTAL BORROWINGS | 378,031 | 493,649 |
| OTHER LIABILITIES | 16,318 | 15,143 |
| TOTAL LIABILITIES | \$2,446,436 | \$2,599,136 |
| COMMITMENTS AND CONTINGENCIES |  |  |
| STOCKHOLDERS EQUITY |  |  |
| PREFERRED STOCK, \$0.01 par value. Authorized: 1,000,000 Shares |  |  |
| Outstanding: None | \$ | \$ |
| COMMON STOCK, \$0.01 par value. Authorized: 30,000,000 |  |  |
| Issued and Outstanding: 13,907,543 Shares at June 30, 2007 and |  |  |
| 14,686,481 Shares at December 31, 2006 | 139 | 147 |
| SHARES HELD IN RABBI TRUST AT COST |  |  |
| 166,447 Shares at June 30, 2007 and 168,961 Shares at December 31, 2006 | $(1,866)$ | $(1,786)$ |
| DEFERRED COMPENSATION OBLIGATION | 1,866 | 1,786 |
| ADDITIONAL PAID IN CAPITAL | 60,411 | 60,181 |
| RETAINED EARNINGS | 157,983 | 175,146 |
| ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX | $(6,471)$ | $(5,691)$ |
| TOTAL STOCKHOLDERS EQUITY | 212,062 | 229,783 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$2,658,498 | \$2,828,919 |

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

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

|  | THREE MONTHS ENDED June 30, |  |  |  | SIX MONTHS ENDED <br> June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2007 |  | 2006 |  | 2007 |  | 2006 |  |
| INTEREST INCOME |  |  |  |  |  |  |  |  |
| Interest on Loans | \$ | 33,788 | \$ | 34,082 | \$ | 67,487 | \$ | 66,786 |
| Taxable Interest and Dividends on |  |  |  |  |  |  |  |  |
| Securities |  | 4,984 |  | 6,411 |  | 10,400 |  | 13,639 |
| Non-taxable Interest and Dividends on |  |  |  |  |  |  |  |  |
| Securities |  | 542 |  | 662 |  | 1,106 |  | 1,332 |
| Interest on Federal Funds Sold and |  |  |  |  |  |  |  |  |
| Short-Term Investments |  | 289 |  | 52 |  | 733 |  | 152 |
| Total Interest and Dividend Income |  | 39,603 |  | 41,207 |  | 79,726 |  | 81,909 |
| INTEREST EXPENSE |  |  |  |  |  |  |  |  |
| Interest on Deposits |  | 10,816 |  | 9,404 |  | 21,910 |  | 17,864 |
| Interest on Borrowings |  | 5,354 |  | 5,994 |  | 10,395 |  | 11,929 |
| Total Interest Expense |  | 16,170 |  | 15,398 |  | 32,305 |  | 29,793 |
| Net Interest Income |  | 23,433 |  | 25,809 |  | 47,421 |  | 52,116 |
| PROVISION FOR LOAN LOSSES |  | 584 |  | 350 |  | 1,475 |  | 1,100 |
| Net Interest Income After Provision For |  |  |  |  |  |  |  |  |
| Loan Losses |  | 22,849 |  | 25,459 |  | 45,946 |  | 51,016 |
| NON-INTEREST INCOME |  |  |  |  |  |  |  |  |
| Service Charges on Deposit Accounts |  | 3,531 |  | 3,565 |  | 6,941 |  | 6,983 |
| Wealth Management |  | 2,180 |  | 1,704 |  | 3,994 |  | 3,059 |
| Mortgage Banking Income, Net |  | 820 |  | 650 |  | 1,594 |  | 1,468 |
| Bank Owned Life Insurance Income |  | 427 |  | 506 |  | 915 |  | 2,250 |
| Net (Loss) on Sales of Securities |  |  |  |  |  |  |  |  |
| Available for Sale |  |  |  |  |  |  |  | $(1,769)$ |
| Other Non-Interest Income |  | 1,081 |  | 797 |  | 2,388 |  | 1,651 |
| Total Non-Interest Income |  | 8,039 |  | 7,222 |  | 15,832 |  | 13,642 |
| NON-INTEREST EXPENSE |  |  |  |  |  |  |  |  |
| Salaries and Employee Benefits |  | 13,013 |  | 12,072 |  | 26,166 |  | 23,937 |
| Occupancy and Equipment Expenses |  | 2,607 |  | 2,526 |  | 5,161 |  | 5,239 |
| Data Processing and Facilities |  |  |  |  |  |  |  |  |
| Management |  | 1,202 |  | 1,036 |  | 2,290 |  | 2,096 |
| Other Non-Interest Expense |  | 6,444 |  | 5,012 |  | 11,102 |  | 9,846 |


| Total Non-Interest Expense |  | 23,266 |  | 20,646 |  | 44,719 |  | 41,118 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| INCOME BEFORE INCOME TAXES |  | 7,622 |  | 12,035 |  | 17,059 |  | 23,540 |
| PROVISION FOR INCOME TAXES |  | 1,908 |  | 3,745 |  | 4,720 |  | 7,346 |
| NET INCOME | \$ | 5,714 | \$ | 8,290 | \$ | 12,339 | \$ | 16,194 |
| BASIC EARNINGS PER SHARE | \$ | 0.41 | \$ | 0.55 | \$ | 0.86 | \$ | 1.07 |
| DILUTED EARNINGS PER SHARE | \$ | 0.40 | \$ | 0.55 | \$ | 0.86 | \$ | 1.06 |
| Weighted average common shares |  |  |  |  |  |  |  |  |
| (Basic) |  | 14,101,468 |  | 14,999,127 |  | 14,282,226 |  | 15,159,252 |
| Common share equivalents |  | 129,796 |  | 162,747 |  | 146,097 |  | 159,472 |
| Weighted average common shares |  |  |  |  |  |  |  |  |
| (Diluted) |  | 14,231,264 |  | 15,161,874 |  | 14,428,323 |  | 15,318,724 |

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

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## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited - Dollars in Thousands, Except Share and Per Share Data)

|  | ACCUMULATED |  |
| :---: | :--- | :---: |
| COMMON | SHARES DEFERREADDITIONAL |  |

BALANCE
DECEMBER 31, $2005 \quad 15,402,391 \quad \$ 154 \quad(\$ 1,577) \quad \$ 1,577 \quad \$ 59,700 \quad \$ 175,284 \quad(\$ 6,986) \quad \$ 228,152$

Net Income
Cash Dividends
Declared (\$0.64
per share)
Purchases and
Retirements of
Common Stock
$(800,000) \quad(8)$
32,851
32,851

Proceeds From
Exercise of Stock
Options
82,118 $\quad 1$
1,343
1,344
Excess Tax
Benefit Related to
Equity Award
Activity
Equity Based
Compensation $159 \quad 159$
Restricted Shares
Issued
1,972
(4)

Change in Fair
Value of
Derivatives
During Period,
Net of Tax, and
Realized Gains
(909)

Deferred
Compensation
Obligation
(209) 209

Adjustments or reduction of amortization
amounts
recognized as a component of net periodic post retirement cost , net of tax

| Change in |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Unrealized Gain on Securities |  |  |  |  |  |  |  |  |
| Available For |  |  |  |  |  |  |  |  |
| Sale, Net of Tax |  |  |  |  |  |  |  |  |
| Gains |  |  |  |  |  |  | 2,617 | 2,617 |
| BALANCE |  |  |  |  |  |  |  |  |
| DECEMBER 31, | 14,686,481 | \$147 | (\$1,786) | \$ 1,786 | \$60,181 | \$175,146 | $(\$ 5,691)$ | \$229,783 |
| Net Income |  |  |  |  |  | 12,339 |  | 12,339 |
| Cash Dividends |  |  |  |  |  |  |  |  |
| Declared (\$0.34 |  |  |  |  |  |  |  |  |
| Purchases and |  |  |  |  |  |  |  |  |
| Retirements of |  |  |  |  |  |  |  |  |
| Common Stock | $(805,747)$ | (8) |  |  |  | $(25,284)$ |  | $(25,292)$ |
| Proceeds From |  |  |  |  |  |  |  |  |
| Exercise of Stock |  |  |  |  |  |  |  |  |
| Options | 25,209 |  |  |  |  | 429 |  | 429 |
| Excess Tax |  |  |  |  |  |  |  |  |
| Benefit Related to |  |  |  |  |  |  |  |  |
| Equity Award |  |  |  |  |  |  |  |  |
| Activity |  |  |  |  | 43 |  |  | 43 |
| Equity Based |  |  |  |  |  |  |  |  |
| Compensation |  |  |  |  | 187 |  |  | 187 |
| Restricted Shares |  |  |  |  |  |  |  |  |
| Issued | 1,600 |  |  |  |  |  |  |  |
| Change in Fair |  |  |  |  |  |  |  |  |
| Value of |  |  |  |  |  |  |  |  |
| Derivatives |  |  |  |  |  |  |  |  |
| During Period, |  |  |  |  |  |  |  |  |
| Net of Tax, and |  |  |  |  |  |  |  |  |
| Realized Gains |  |  |  |  |  |  | 718 | 718 |
| Deferred |  |  |  |  |  |  |  |  |
| Compensation |  |  |  |  |  |  |  |  |
| Obligation |  |  | (80) | 80 |  |  |  |  |
| Cumulative Effect of Accounting |  |  |  |  |  |  |  |  |
| Change (Adoption |  |  |  |  |  |  |  |  |
| of FIN No. 48) |  |  |  |  |  | 177 |  | 177 |
| Amortization of |  |  |  |  |  |  |  |  |
| Certain Costs |  |  |  |  |  |  |  |  |
| Included in Net |  |  |  |  |  |  |  |  |
| Periodic Pension |  |  |  |  |  |  |  |  |
| Costs, net of tax |  |  |  |  |  |  | 55 | 55 |
| Change in |  |  |  |  |  |  | $(1,553)$ | $(1,553)$ |
| Unrealized Gain on Securities |  |  |  |  |  |  |  |  |

Available For
Sale, Net of Tax
and Realized
Gains
BALANCE JUNE
30, $2007 \quad 13,907,543 \quad \$ 139 \quad(\$ 1,866) \quad \$ 1,866 \quad \$ 60,411 \quad \$ 157,983 \quad(\$ 6,471) \quad \$ 212,062$

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

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## INDEPENDENT BANK CORP. CONSOLIDATED STATEMENTS OF CASH FLOWS <br> (Unaudited - Dollars in Thousands)

|  | SIX MONTHS ENDED <br> JUNE 30, |  |  |
| :---: | :---: | :---: | :---: |
|  | 2007 |  | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES: |  |  |  |
| Net Income | \$ 12,339 | \$ | 16,194 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH |  |  |  |
| PROVIDED FROM OPERATING ACTIVITIES: |  |  |  |
| Depreciation and Amortization | 3,221 |  | 2,865 |
| Provision for Loan Losses | 1,475 |  | 1,100 |
| Deferred income tax benefit | (506) |  | $(1,415)$ |
| Mortgage loans originated for resale | $(100,983)$ |  | $(79,470)$ |
| Proceeds from Mortgage loan sales | 102,360 |  | 76,446 |
| Gain on sale of Mortgages | (359) |  | (645) |
| Proceeds from Bank Owned Life Insurance |  |  | $(1,316)$ |
| Loss on sale of Securities |  |  | 1,769 |
| Other Real Estate Owned | (305) |  |  |
| Gain on sale of Other Real Estate Owned | (43) |  |  |
| Gain recorded from Mortgage Servicing Rights, net of amortization | 178 |  | 186 |
| Stock Based Compensation expense | 187 |  | 81 |
| Changes in Assets and Liabilities: |  |  |  |
| (Increase) decrease in Other Assets | $(1,342)$ |  | 3,745 |
| Increase (decrease) in Other Liabilities | 1,150 |  | $(1,046)$ |
| TOTAL ADJUSTMENTS | 5,033 |  | 2,300 |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | 17,372 |  | 18,494 |
| CASH FLOWS FROM INVESTING ACTIVITIES: |  |  |  |
| Proceeds from maturities and principal repayments of Securities Held to |  |  |  |
| Maturity | 28,374 |  | 4,227 |
| Proceeds from maturities and principal repayments and sales of Securities |  |  |  |
| Available For Sale | 30,270 |  | 69,109 |
| Purchase of Securities Available For Sale | $(10,502)$ |  |  |
| Net change in Federal Funds Sold and Short Term Investments | 74,518 |  | 48,617 |
| Redemption of Federal Home Loan Bank Stock | 5,450 |  | 6,653 |
| Net decrease (increase) in Loans | 41,282 |  | $(3,651)$ |
| Cash paid for acquisition of CEA LLC | $(2,097)$ |  |  |
| Investment in Bank Premises and Equipment | $(2,893)$ |  | $(2,029)$ |
| Proceeds from sale of OREO | 233 |  |  |
| NET CASH PROVIDED FROM INVESTING ACTIVITIES | 164,635 |  | 122,926 |
| CASH FLOWS FROM FINANCING ACTIVITIES: |  |  |  |
| Net (decrease)/ increase in Time Certificates of Deposits | $(41,649)$ |  | 40,030 |

Net increase/ (decrease) in Other Deposits ..... 3,392
Net decrease/ (increase) in Federal Funds Purchased and Assets Sold Under$(14,049)$$(68,163)$
Repurchase Agreements
Net decrease in Treasury Tax and Loan Notes ..... $(1,883)$1,432
$(73,913)$
$(25,773)$
Redemption of Junior Subordinated Debentures
922
Amortization/ write-off of issuance costs ..... 44
429
Proceeds from exercise of stock options ..... 1,019
43
Excess tax benefit related to equity award activity ..... 223
$(25,292)$
Payments for purchases and retirements of Common Stock ..... $(22,024)$
$(4,799)$
Dividends paid$(182,572)$$(4,767)$
NET CASH USED IN FINANCING ACTIVITIES
NET CASH USED IN FINANCING ACTIVITIES$(132,372)$
(565)
NET DECREASE IN CASH AND CASH EQUIVALENTS ..... 9,048
62,773
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD ..... 66,289
\$ 62,208
CASH AND CASH EQUIVALENTS AS OF JUNE 30,$(77,058)$$(3,108)$
(182,572)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:Cash paid during the six months for:Interest on deposits and borrowings\$ 31,893\$ 29,701
Income taxes ..... 6,709 ..... 7,377
Noncash investing and financing activities:
Change in fair value of derivatives, net of tax and realized gains ..... 7181,668
Change in fair value of securities available for sale, net of tax and realized gains ..... $(1,553)$
Adjustments or reduction of amortization amounts recognized as acomponent of net periodic post retirement cost, net of tax55
Cumulative Effect of Accounting Change (Adoption of FIN No. 48) ..... 177
The accompanying condensed 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 headquartered in Rockland, Massachusetts, incorporated in 1985. The Company is the sole stockholder of Rockland Trust Company ( Rockland or the Bank ), a Massachusetts trust company chartered in 1907. The Company was the sponsor of Delaware statutory trusts named Independent Capital Trust III ( Trust III ), Independent Capital Trust IV ( Trust IV ), and is currently the sponsor of Independent Capital Trust V (Trust V ), each of which were formed to issue trust preferred securities.

The proceeds which the Company derived from Trust V were used on December 31, 2006 and April 30, 2007 to redeem all of the outstanding trust preferred securities of Trust III and Trust IV respectively. Trust III and IV have been dissolved. Trust V is not included in the Company s consolidated financial statements.

As of June 30, 2007 the Bank had the following corporate subsidiaries, all of which were wholly-owned by the Bank and were included in the Company s consolidated financial statements:

Four Massachusetts security corporations, namely Rockland Borrowing Collateral Securities Corp., Rockland IMG Collateral Securities Corp., Rockland Deposit Collateral Securities Corp., and Taunton Avenue Securities Corp., which hold securities, industrial development bonds, and other qualifying assets;

Rockland Trust Community Development Corporation (the Parent CDE ) which, in turn, has two wholly-owned corporate subsidiaries named Rockland Trust Community Development LLC ( RTC CDE I ) and Rockland Trust Community Development Corporation II ( RTC CDE II ). The Parent CDE, CDE I, and CDE II were all formed to qualify as community development entities under federal New Markets Tax Credit Program criteria; and,

Compass Exchange Advisors LLC, which provides like-kind exchange services pursuant to section 1031 of the Internal Revenue Code.
All material intercompany balances and transactions have been eliminated in consolidation. When necessary, certain amounts in prior period s financial statements have been reclassified to conform to the current period 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

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the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007 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, 2006 filed with the Securities and Exchange Commission.

## NOTE 2- STOCK BASED COMPENSATION

On April 17, 2007 the Company granted 5,200 restricted stock awards from the 2006 Non-Employee Director Stock Plan to certain directors of the Company and/or the Bank. The restricted stock awards have been determined to have a fair value of $\$ 31.57$ per share. The Company measured the fair market value of the awards 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 restricted stock awards vest at the end of a five year period.

On February 15, 2007 the Company awarded 133,000 options from the 2005 Employee Stock Plan to certain officers of the Company and/or the Bank. The expected volatility, expected life, expected dividend yield, and expected risk free interest rate for this grant used to determine their fair value were determined on February 15, 2007 and were $30 \%, 6.5$ years, $1.95 \%$, and $4.68 \%$, respectively. The options have been determined to have a fair value of $\$ 10.51$ per share.

On April 18, 2006 the Company granted 10,000 options and 5,200 restricted stock awards from the 2006 Non-Employee Director Stock Plan to certain directors of the Company and/or the Bank. The expected volatility, expected life, expected dividend yield, and expected risk free interest rate for this grant of options used to determine their fair value were determined on April 18, 2006 and were $27 \%, 4$ years, $2.36 \%$, and $4.86 \%$, respectively. The options have been determined to have a fair value of $\$ 7.30$ per share. The restricted stock awards have been determined to have a fair value of $\$ 32.23$ per share. The Company measured the fair value of the restricted awards 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 restricted stock awards vest at the end of a five year period.

## NOTE 3 - RECENT ACCOUNTING DEVELOPMENTS

## Accounting Pronouncements Adopted in the First Six Months of 2007

FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes In June 2006, the FASB issued FIN 48, an interpretation of SFAS No. 109, Accounting for Income Taxes, in order to add clarity to the accounting for uncertainty in income taxes recognized in a Company s financial statements. The interpretation requires that only tax positions that are more likely than not to be sustained upon a tax examination are to be recognized in a Company s financial statements to the extent that the benefit has a greater than $50 \%$ likelihood of being recognized. The differences that arise between the amounts recognized in the financial statements and the amounts recognized in the tax return will lead to an increase or decrease in current taxes, an increase or decrease to the deferred tax asset or deferred tax liability, respectively, or both. FIN 48 is effective for fiscal years beginning after December 15, 2006 with early application encouraged if interim financial statements have not

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yet been issued. Upon the adoption of FIN 48 the Company recognized a $\$ 177,000$ decrease in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of retained earnings.
New Accounting Pronouncements Not Yet Adopted
SFAS No. 157 ( SFAS 157 ), Fair Value Measurements In September 2006, the FASB issued SFAS 157. SFAS 157 was issued to provide consistency and comparability in determining fair value measurements and to provide for expanded disclosures about fair value measurements. The definition of fair value maintains the exchange price notion in earlier definitions of fair value but focuses on the exit price of the asset or liability. The exit price is the price that would be received to sell the asset or paid to transfer the liability adjusted for certain inherent risks and restrictions. Expanded disclosures are also required about the use of fair value to measure assets and liabilities. The effective date is for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating if the adoption of SFAS 157 will have a material impact on the Company s financial position or results of operations.

SFAS No. 159 ( SFAS 159 ), The Fair Value Option for Financial Assets and Financial Liabilities In February 2007, the FASB issued SFAS 159. SFAS 159 allows entities to choose to measure financial instruments and certain other items at fair value. By doing so, companies can mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. The fair value option can be applied on an instrument by instrument basis (with some exceptions), is irrevocable unless a new election date occurs, and is applied only to entire instruments and not to portions of instruments. The effective date is as of the beginning of the first fiscal year beginning after November, 15, 2007. Early adoption is permissible as of the beginning of the fiscal year that begins before November 17, 2007 provided that SFAS No. 157, Fair Value Measurements, is adopted as well. The Company plans to adopt SFAS 159 as of January 1, 2008. The Company has not yet determined the impact of the adoption of SFAS 159 to the Company s statement of financial position or results of operations.

Emerging Issues Task Force ( EITF ) 06-10 Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements In March 2007, the FASB ratified the consensus reached by the EITF on EITF 06-10. EITF 06-10 will require employers to recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement if the employer remains subject to the risks or rewards associated with the underlying insurance contract (in the postretirement period) that collateralizes the employer s asset. Additionally, an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement by assessing what future cash flows the employer is entitled to, if any, as well as the employee s obligation and ability to repay the employer. The employer $s$ asset should be limited to the amount of the cash surrender value of the insurance policy unless the arrangement requires the employee (or retiree) to repay the employer irrespective of the amount of the cash surrender value of the insurance policy (and assuming the employee (or retiree) is an adequate credit risk), then the employer should recognize the value of the loan (including accrued interest, if applicable). EITF 06-10 is effective for fiscal years beginning after December 15, 2007, with earlier

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application permitted. Entities should recognize the effects of applying EITF 06-10 through either a change in accounting principle through a cumulative-effect adjustment to retained earnings in the statement of financial position as of the beginning of the year of adoption or through a change in accounting principle through retrospective application to all prior periods. The Company has not yet determined the impact of EITF 06-10 to the Company s consolidated financial statements or results of operations.

## NOTE 4 - EARNINGS PER SHARE

Basic earnings per share ( EPS ) are calculated by dividing net income 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 and unvested restricted stock awards) were issued during the period, computed using the treasury stock method.

Earnings per share consisted of the following components for the three and six months ended June 30, 2007 and 2006:

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For the Three Months Ended June 30,

Net Income

|  | Weighted Average |  |
| :--- | :---: | ---: |
|  | Shares |  |
| Basic EPS | $\mathbf{2 0 0 7}$ | $\mathbf{2 0 0 6}$ |
| Effect of dilutive securities | $14,101,468$ | $14,999,127$ |
| Diluted EPS | 129,796 | 162,747 |


|  | Net Income Per Share |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  |  | 2007 |  | 2006 |
| Basic EPS |  | 0.41 |  | 0.55 |
| Effect of dilutive securities |  | 0.01 |  | 0.00 |
| Diluted EPS |  | 0.40 |  | 0.55 |

For the Six Months Ended June 30,

Net Income
Net Income
20072006 (Dollars in Thousands) \$ 12,339 \$ 16,194

Weighted Average
Shares
$2007 \quad 2006$
Basic EPS
Effect of dilutive securities
Diluted EPS
14,282,226
146,097
15,159,252
146,097
14,428,323
15,318,724

|  | Net Income Per Share |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  |  | 2007 |  | 2006 |
| Basic EPS |  | 0.86 |  | 1.07 |
| Effect of dilutive securities |  | 0.00 |  | 0.01 |
| Diluted EPS | \$ | 0.86 |  | 1.06 |

For the three months ended June 30, 2007, there were 342,592 options to purchase common stock and 3,626 shares of restricted stock excluded from the calculation of diluted earnings per share because they were anti-dilutive. For the six months ended June 30, 2007, there were 274,907 options to purchase common stock and no shares of restricted stock excluded from the calculation of diluted earnings per share because they were anti-dilutive. For the three and six months ended June 30, 2006, there were 168,732 and 208,442, respectively, options to purchase common stock excluded from the calculation of diluted earnings per share because they were anti-dilutive. For the three and six months ended June 30, 2006, there were 325 and 1,635 shares of restricted stock excluded from the calculation of diluted earnings per share because they were anti-dilutive.

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## NOTE 5- COMMON STOCK REPURCHASE PROGRAM

On January 19, 2006, the Company s Board of Directors approved a common stock repurchase program. Under the program, the Company was authorized to repurchase up to 800,000 shares, or approximately $5 \%$ of the Company s outstanding common stock. During the quarter ended September 30, 2006, the Company completed its repurchase plan with a total of 800,000 shares of common stock repurchased at a weighted average share price of $\$ 31.04$.

On December 14, 2006, the Company s Board of Directors approved another common stock repurchase program. Under the program, which was effective immediately, the Company is authorized to repurchase up to $1,000,000$ shares, or approximately $7 \%$, of the Company s outstanding common stock. The Company placed no deadline on the repurchase program, but expects to make open market or privately negotiated purchases from time to time. The timing and amount of stock repurchases will depend upon market conditions, securities law limitations, and other corporate considerations. The repurchase program may be modified, suspended, or terminated by the Board of Directors at any time. During the quarter ended June 30, 2007, the Company repurchased 393,900 shares of common stock at a weighted average share price of $\$ 30.32$. For the year to date period ending June 30, 2007 the Company repurchased 805,747 shares of common stock with at a weighted average price of \$31.39.

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## NOTE 6- EMPLOYEE BENEFITS <br> POST RETIREMENT BENEFITS AND SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

The following table illustrates the status of the post-retirement benefit plan and supplemental executive retirement plans ( SERPs ) as of June 30, for the periods presented:
Components of Net Periodic Benefit Cost


Included in the SERP net periodic benefit cost above is an additional $\$ 60,000$ accrued during the first quarter of 2007 associated with the early retirement of an executive.

The Company previously disclosed in its financial statements for the fiscal year ended December 31, 2006 that it expected to contribute $\$ 59,000$ to its post retirement benefit plan and $\$ 113,000$ to its SERPs in 2007 and presently anticipates making these contributions. For the three months ended June 30, 2007, \$10,000 and \$28,000 of contributions have been made to the post retirement benefit plan and the SERPs, respectively. For the six months ended June 30, 2007, $\$ 21,000$ and $\$ 60,000$ of contributions have been made to the post retirement benefit plan and the SERPs, respectively.

Not included in the above summary are the components of net periodic benefit cost for the noncontributory defined benefit pension plan administered by Pentegra ( the Fund ). The Fund does not segregate the assets or liabilities of all participating employers and, accordingly, disclosure of accumulated vested and non-vested benefits is not possible. The pension plan year is July 1st through June 30th. Contributions for the 2006-2007 plan year were all paid in 2006. It has not yet been determined what pension expense is expected to be related to the

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2007-2008 plan year. $\$ 355,000$ and $\$ 709,000$ of pension expense has been recognized during the three and six months ended June 30, 2007 for the 2006-2007 plan year.

## NOTE 7 - REPURCHASE AGREEMENTS

Both wholesale and retail repurchase agreements are collateralized by mortgage-backed securities and U.S. Government enterprises. At June 30, 2007, the Company had no securities of repurchase agreements outstanding with third party brokers and $\$ 94.2$ million of customer repurchase agreements outstanding. The related securities are included in the securities available for sale portfolio.

## NOTE 8 - COMPREHENSIVE INCOME

Information on the Company s comprehensive income, presented net of taxes, is set forth below for the three and six months ended June 30, 2007 and 2006.

Comprehensive income (loss) is reported net of taxes, as follows:
(Unaudited - Dollars in Thousands)

|  | FOR THE THREE |  | FOR THE SIX |  |
| :---: | :---: | :---: | :---: | :---: |
|  | MONTHS ENDED | MONTHS ENDED |  |  |
|  | JUNE 30, |  | JUNE 30, |  |
| MOT |  |  |  |  |
| Net Income | $\mathbf{2 0 0 7}$ | $\mathbf{2 0 0 6}$ | $\mathbf{2 0 0 7}$ | $\mathbf{2 0 0 6}$ |
|  | $\$ 5,714$ | $\$ 8,290$ | $\$ 12,339$ | $\$ 16,194$ |

Other Comprehensive Income/(Loss), Net of Tax:
Decrease in fair value of securities available for sale, net of tax of $\$ 1,242$ and $\$ 980$ for the three months ended June 30, 2007 and 2006, respectively, and $\$ 769$ and $\$ 3,260$ for the six months ended June 30, 2007 and 2006, respectively.
$(1,593)$
Less: reclassification adjustment for realized losses included in net income, net of tax of $\$ 637$ for the six months ended June 30, 2006.

Net change in fair value of securities available for sale, net of tax of $\$ 1,242$ and $\$ 980$ for the three months ended June 30, 2007 and 2006, respectively, and $\$ 769$ and $\$ 2,623$ for the six months ended June 30, 2007 and 2006, respectively.

Increase in fair value of derivatives, net of tax of $\$ 936$ and $\$ 678$ for the three months ended June 30, 2007 and 2006, respectively, and $\$ 623$ and $\$ 1,462$ for the six months ended June 30, 2007 and 2006, respectively.

Less: reclassification of realized gains on derivatives, net of tax of $\$ 26$ and $\$ 77$ for the three months ended June 30, 2007 and 2006, respectively, and $\$ 103$ and $\$ 254$ for the six months ended June 30, 2007 and 2006, respectively
(107)
(142)

Net change in fair value of derivatives, net of tax of \$910 and $\$ 601$ for the three months ended June 30, 2007 and 2006 , respectively, and $\$ 520$ and $\$ 1,208$, for the six months ended June 30, 2007 and 2006, respectively.

Adjustments or reduction of amounts not yet recognized as a component of net periodic post retirement cost, net of tax of $\$ 20$ for the three months ended June 30, 2007 and $\$ 40$ for the six months ended June 30, 2007.

Other Comprehensive Loss, Net of Tax:
$(1,012)$
(763)
(780)
$(2,571)$

Comprehensive Income
$\$ 4,702 \quad \$ 7,527 \quad \$ 11,559$
\$ 13,623

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## NOTE 9 - UNCERTAINTY IN INCOME TAXES

The Company adopted FASB Interpretation No. 48 ( FIN No. 48), Accounting for Uncertainty in Income Taxes on January 1, 2007. As a result of the implementation of FIN No. 48, the Company recognized a $\$ 177,000$ decrease in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007, balance of retained earnings.

At January 1, 2007, after implementation of FIN No. 48, the Company had unrecognized tax benefits of approximately $\$ 760,000$ largely related to certain deductions of interest expense, all of which if recognized would be recorded as a component of income tax expense therefore affecting the effective tax rate.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in the state of Massachusetts and various other states as required. The Company is subject to U.S. federal, state and local income tax examinations by tax authorities for the years 2003 to the present.

Upon filing the 2006 returns in September of 2007 the income tax returns for 2003 will no longer be subject to income tax examinations and therefore the related uncertainties in income taxes will be realized.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits as income taxes. As of January 1, 2007 the Company had approximately $\$ 79,000$ accrued for the payment of interest and penalties.

## NOTE 10 - SUBSEQUENT EVENT

As previously disclosed, Rockland Trust is the plaintiff in the pending federal court case commonly known as Rockland Trust Company v. Computer Associates International, Inc., United States District Court for the District of Massachusetts Civil Action No. 95-11683-DPW (the CA Case ). At trial Computer Associates International, Inc. ( CA ) asserted that Rockland Trust owes CA at least approximately $\$ 1.1$ Million.

On July 24, 2007 the judge who is presiding over the CA Case informed the parties that he is going to enter judgment for Computer Associates. The judge, however, has not yet rendered a Final Judgment or any written opinion to describe the basis for his decision or the amount of any damages to be awarded.

On August 1, 2007 the Company established a $\$ 1.4$ Million reserve for the CA Case, effective as of June 30, 2007. While the final outcome of the CA Case may differ from the $\$ 1.4$ Million charge that the Company has recorded, the Company does not believe that the final outcome will have either an impact on its operations or any significant effect on its financial position.

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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, 2006, 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, amounts of charge-offs, the rates of loan growth, and any statements preceded by, followed by, or which include the words may, could, should, will, woul hope, might, believe, expect, anticipate, estimate, intend, plan, assume or similar expressions consti forward-looking statements.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to the Company s beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business, including the Company s expectations and estimates with respect to the Company s revenues, expenses, earnings, return on equity, return on 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 sforward-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, as most of the Company s loans are concentrated in southeastern Massachusetts and Cape Cod and a substantial portion of these loans have real estate as collateral, could result in a deterioration of credit quality and an increase in the allowance for loan losses;
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;

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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;
competitive pressures, including those pressures resulting from continued industry consolidation and the increase in non-banks providing financial services could intensify and affect the Company s profitability;
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 sfinancial results; and
future acquisitions may not produce results at levels or within time frames originally anticipated and may result in unforeseen integration issues.
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 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.

During the second quarter of 2007 management continued to implement its strategy to alter the overall composition of the Company s earning assets in order to focus resources in higher return segments. While net income of $\$ 5.7$ million and earnings per share on a diluted basis of $\$ 0.40$ for the second quarter of 2007 were down from $\$ 8.3$ million, or $31.1 \%$, and $\$ 0.15$, or $27.3 \%$, respectively, as compared to the same period in 2006 , the net interest margin

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remains strong. The net interest margin for the second quarter of 2007 was $3.85 \%$ (which includes a write-off of debt issuance costs as interest expense of $\$ 907,000$, contributing to a decrease in the margin of 15 basis points), as compared to a net interest margin of $3.84 \%$ for the first quarter of 2007 and $3.89 \%$ for the second quarter of 2006.

The following graph shows the trend in the net interest margin versus the Federal Funds Rate for each quarter end beginning March 31, 2005 through June 30, 2007:

* The Q4 2006

Net Interest
Margin is normalized for the impact of the write-off of $\$ 995 \mathrm{~K}$ of issuance costs to interest expense associated with the refinancing of higher rate trust preferred securities during the fourth quarter of 2006.
** The Q2 2007
Net Interest
Margin is normalized for the impact of the write-off of $\$ 907 \mathrm{~K}$ of issuance costs to interest expense associated with the refinancing of higher rate trust preferred securities during the second quarter of 2007.
While changes in the prevailing interest rate environment (see Historical U.S. Treasury Yield Curve graph above) have and will continue to have an impact on the Company s earnings, management strives to mitigate volatility in net interest income resulting from changes in benchmark interest rates through adjustable rate asset generation, effective liability management, and utilization of off-balance sheet interest rate derivatives. (For a discussion of interest rate derivatives and interest rate sensitivity see the Asset/Liability Management section, Table 8 Interest Rate Derivatives and Market Risk section, Table 10 Interest Rate Sensitivity within the Management s Discussion and Analysis of Financial Condition and Results of Operations hereof.)

Below is a graph showing the historical U.S. Treasury yield curve for the past four years for the period ending June 30. As the graph illustrates, the shape of the yield curve has changed dramatically over the past four years from a normal sloping yield curve into a relatively flat yield curve.

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A yield curve is a graphic line chart that shows interest rates at a specific point for all securities having equal risk, but different maturity dates. ${ }^{1}$ A flat yield curve is one in which there is little difference between short-term and long-term rates for bonds of the same credit quality. When short- and long-term bonds are offering equivalent yields, there is usually little benefit in holding the longer-term instruments that is, the investor does not gain any excess compensation for the risks associated with holding longer-term securities. For example, a flat yield curve on U.S. Treasury Securities would be one in which the yield on a two-year bond is 5\% and the yield on a 30-year bond is $5.1 \%{ }^{2}$

1 The Free
Dictionary.com

2 Investopedia.com
The Company s return on average assets and return on average equity were $0.85 \%$ and $10.44 \%$, respectively, for the three month period ending June 30, 2007. The Company s return on average assets and return on average equity were $1.14 \%$ and $14.90 \%$, respectively, for the three month period ending June 30, 2006.

A table describing the impact of certain items on the statements of income for the quarters and six months ending on June 30, 2007 and 2006 is set forth below:

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The following table summarizes the impact of non-core items recorded for the time periods indicated below:
Table of Impact of Non-core Items


| Net Interest Income |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Components |  |  |  |  |  |  |  |  |
| Write-Off of Debt Issuance |  |  |  |  |  |  |  |  |
| Cost | \$ 907 | \$ | \$ | 590 | \$ | \$ | 0.04 | \$ |
| Non-Interest Expense |  |  |  |  |  |  |  |  |
| Components |  |  |  |  |  |  |  |  |
| Litigation Reserve | 1,361 |  |  | 885 |  |  | 0.06 |  |
| Total | \$ 2,268 | \$ | \$ | 1,475 | \$ | \$ | 0.10 | \$ |

Year to Date Ending June 30,


Net Interest Income
Components
Write-Off of Debt Issuance

| Cost | $\$$ | 907 | $\$$ | $\$$ | 590 | $\$$ | $\$$ | 0.04 | $\$$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |

Non-Interest Income
Components
Loss on Sale of Securitie
BOLI Benefit Proceeds
1,769
1,150
0.08

Non-Interest Expense
Components
Executive Early Retirement
Costs 406
$264 \quad 0.02$
Litigation Reserve
1,361
$(1,316) \quad(1,316)$
(0.09)

Total $\quad \$ 2,674 \quad \$ \quad 453 \quad \$ 1,739 \quad \$ \quad(166) \quad \$ 0.12 \quad \$(0.01)$
Certain non-core items are included in the computation of earnings in accordance with generally accepted accounting principles ( GAAP ) in both 2007 and 2006 as indicated by the table above. In an effort to provide investors information regarding the Company s results, the Company has disclosed in the tables above certain non-GAAP information, which management believes provides useful information to the investor. This information should not be viewed as a substitute for operating results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP information which may be presented by other companies.

Non interest income grew by $11.3 \%$ and $16.1 \%$, respectively, for this quarter and year to date as compared to the same periods in 2006. Leading the growth in non interest income is the Company s Wealth Management product set, the aggregate revenues of which have grown by $27.9 \%$ and $30.6 \%$, respectively, for the three and six month periods
ending June 30, 2007 as compared to the same periods in 2006.
Non interest expense has grown by $12.7 \%$ and $8.8 \%$ for the three and six month periods ending June 30, 2007 compared to the same periods in the prior year. The increase in expenses is partially attributable to early retirement costs of $\$ 406,000$ recorded in the first quarter of 2007 as well as a charge of $\$ 1.4$ million recorded in the second quarter of 2007 associated with the Computer Associates litigation reserve. See Item 1, Note 10-Subsequent Event, above. The remaining increase in expenses is driven by the investments made in the Company s growth initiatives such as adding commercial lenders to its commercial business, costs associated with acquiring the 1031 like-kind exchange business, commissions connected with retail wealth management, and adding originators to the mortgage lending business.

Management continues to focus on earning asset growth in the commercial and home equity lending segments, while de-emphasizing indirect auto, portfolio residential lending, and the securities portfolio. Loan growth during the second quarter of 2007 remained a challenge

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for the Company. The commercial loan growth has slowed due to a reduction of the development of real estate in the Company s market area. However, the commercial pipeline remains strong and the Company continues to implement its New Market Tax Credit Lending program. Overall, year to date total business lending is up $1.0 \%$.

Consumer home equity loans have increased by $\$ 11.3$ million, or $4.1 \%$, since the year ended December 31, 2006. Residential real estate and consumer auto lending loan categories have decreased by $\$ 35.0$ million, or $9.2 \%$, and $\$ 28.0$ million, or $13.5 \%$, respectively from year end 2006. Overall growth in the loan portfolio is expected to be down by $3.0 \%$ by year-end.

As the current interest rate environment is not conducive to maintaining or increasing the securities portfolio, the Company is permitting the securities portfolio to run-off and thereby decrease on both a relative basis (as a percent of earning assets) and an actual basis.

The following pie charts depict the continuing shift in the composition of earning assets into the commercial, home equity, and small business banking lending as of June 30, 2007, 2006, and 2005.

The following graph shows the decline in the Company s securities portfolio on both an actual and relative basis from March 2006 into June 2007:

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Management is also focused on other initiatives and opportunities, some of which are described below:
For the second year in a row, the Company is engaged in a stock buyback program to return excess capital to the Company s shareholders;

Adding new commercial bankers to facilitate commercial loan growth;
Increasing utilization of the second New Markets Tax Credit award to offer preferential rates and terms to businesses operating in economically distressed areas;

Increasing the number of net new household banking relationships;
Expanding fee income through organic growth of the wealth management business and offering new fee income services such as the 1031 like-kind exchange services offered by the Company s new Compass Exchange Advisors ( CEA ) subsidiary;

Closely managing expenses, while we plan to open two new branches in 2007, we closed a location in the first half of 2007; and

Targeting expansion through opening new branches in selected markets and evaluating potential acquisition opportunities in the wealth management industry.
Total deposits of $\$ 2.1$ billion at June 30, 2007 decreased $\$ 38.3$ million, or $1.8 \%$, compared to December 31, 2006, due in part to the competitive pricing environment. The Company remains committed to deposit generation, with careful management of deposit pricing and selective deposit promotion, in an effort to control the Company scost of funds. In the current interest rate environment the Company is focused on pricing deposits for customer

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retention as well as core deposit growth and does not feel a need to aggressively grow non-core deposits to fund balance sheet growth.

While net loan charge-offs were somewhat higher in the second quarter of 2007 than in the same period in 2006, they were still relatively low at an annualized rate of 16 basis points of average loans. Net charge-offs were 9 basis points of average loans on annualized basis at June 30, 2006. The allowance for loan losses increased to $1.35 \%$ of loans as compared to $1.32 \%$ at December 31, 2006. Nonperforming assets were $\$ 6.2$ million at June 30, 2007, a decrease of $\$ 1.0$ million from December 31, 2006. See Table 2- Nonperforming Assets/ Loans for detail on nonperforming assets.

The following graph depicts the Company s non-performing assets to total assets at the periods indicated:
Some of the Company s other highlights for the first six months of 2007 included:
o Acquired Compass Exchange Advisors LLC on January 2, 2007.
o Projecting a $\$ 25$ million capital contribution, in the aggregate, during 2007 into RTC CDE II to continue implementation of the $\$ 45$ million in tax credit allocation authority recently awarded under the New Markets Tax Credit Program.
o Continued disciplined capital management, as reflected by the following:
§ During the quarter ending June 30, 2007 the Company repurchased 393,900 shares of common stock with a weighted average price of $\$ 30.32$. For the year to date period ending June 30, 2007 the Company repurchased 805,747 shares of common stock with a weighted average price of $\$ 31.39$.
§ The Bank redeemed all of its outstanding 8.375\% Cumulative Trust Preferred Securities on April 30, 2007 which completed the refinancing plan of its Trust

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Preferred Securities. The Company will benefit from the redemption with a savings of approximately $\$ 1.0$ million in interest expense, on an annualized basis (the Company also wrote-off unamortized issuance costs associated with the debt of approximately $\$ 907,000$ in April of 2007 upon redemption of these Trust Preferred Securities); and, by
§ The quarterly dividend increased $6.3 \%$ to $\$ 0.17$ per share, compared to second quarter 2006.

## FINANCIAL POSITION

Loan Portfolio Total loans decreased by $\$ 43.9$ million, or $2.2 \%$, during the six months ended June 30, 2007. The decreases were mainly in residential real estate which decreased in total by $\$ 37.6$ million, or $9.5 \%$, and the consumer-auto portfolio, which decreased by $\$ 28.0$ million, or $13.5 \%$. Partially offsetting these decreases were increases in the total commercial portfolio, which increased by $\$ 5.0$ million, or $0.5 \%$, the consumer-home equity portfolio of $\$ 11.3$ million, or $4.1 \%$, and in small business banking loans of $\$ 6.2$ million, or $10.4 \%$.

The Bank s commercial real estate portfolio, the Bank s largest portfolio, is well-diversified with loans secured by a variety of property types, such as owner-occupied and non-owner-occupied commercial, retail, office, industrial, warehouse and other special purpose properties, such as hotels, motels, restaurants, and golf courses. Commercial real estate also includes loans secured by certain residential-related property types including multi-family apartment buildings, residential development tracts and, to a lesser extent, condominiums. The following pie chart shows the diversification of the commercial real estate portfolio as of June 30, 2007.

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## Commercial Real Estate Portfolio by Property Type

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 June 30, 2007, loans made by the Company to the industry concentration of lessors of non-residential buildings constituted $10.9 \%$ of the Company s total loan portfolio. All of these loans were performing at June 30, 2007.

Asset Quality Rockland Trust Company actively manages all delinquent loans in accordance with formally drafted policies and established procedures. In addition, Rockland Trust Company s Board of Directors reviews delinquency statistics, by loan type, on a monthly basis.

Delinquency The Bank s philosophy toward managing its loan portfolios is predicated upon careful monitoring which stresses early detection and response to delinquent and default situations. The Bank seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time. Generally, the Bank requires that a delinquency notice be mailed to a borrower upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices 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 following the mailing of a delinquency notice, the Bank personnel charged with managing its loan portfolios contact the borrower to determine 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.

On loans secured by one-to-four family owner-occupied properties, the Bank attempts to work out an alternative payment schedule with the borrower in order to avoid foreclosure action. If such efforts do not result in a satisfactory arrangement, the loan is referred to legal

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counsel to initiate foreclosure proceedings. 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. On loans secured by commercial real estate or other business assets, the Bank similarly seeks to reach a satisfactory payment plan so as to avoid foreclosure or liquidation.

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

|  |  | Table 1 - S | mmary of | elinquenc | , |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | At Jun | 0, 2007 |  |  | At Dece | er 31, 2 |  |
|  | days | 90 day | or more |  | days | 90 d | or more |
| Number of | Principal | Number of | Principal | $\begin{aligned} & \text { Number } \\ & \text { of } \end{aligned}$ | Principal | Number of | Principal |
| Loans | Balance | Loans | Balance | Loans | Balance | Loans | Balance | (Unaudited - Dollars in Thousands)


| Commercial and | 2 | $\$$ | 323 | 5 | $\$$ | 304 | 6 | $\$$ | 1,173 | 6 | $\$$ |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Industrial <br> Commercial Real <br> Estate | 1 |  | 357 | 7 | 1,585 | 1 | 104 | 328 | 538 |  |  |
| Commercial |  |  |  |  |  |  |  |  |  |  |  |
| Construction |  |  |  |  |  |  |  |  |  |  |  |
| Business Banking <br> Residential Real | 4 | 25 | 13 | 222 | 3 | 86 | 6 |  | 74 |  |  |
| Estate <br> Residential | 2 | 101 | 2 | 1,142 | 4 | 621 | 3 | 1,409 |  |  |  |
| Construction <br> Consumer - Home <br> Equity |  |  |  |  |  |  |  |  |  |  |  |
| Consumer - Auto <br> Consumer - Other | 50 | 58 | 145 | 7 | 373 | 1 | 16 | 7 | 345 |  |  |
| Total | 100 | $\$$ | 1,681 | 137 | $\$$ | 4,296 | 94 | $\$$ | 2,620 | 110 | $\$$ |

The Company s total loan delinquency was $0.85 \%$ of total loans outstanding at June 30, 2007, as compared to $0.72 \%$ at December 31, 2006. Increases shown above in the 90 day category are contained primarily in the commercial real estate category. Management believes these loans are adequately collateralized.

Nonaccrual Loans As permitted by banking regulations, consumer loans past due 90 days or more may continue to accrue interest. In addition, certain commercial, business banking, or real estate loans, including consumer home equity loans, that are generally 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, business banking, or real estate loans, including consumer home equity loans, more than 90 days past due with respect to principal or interest are classified as nonaccrual loans. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. Generally, 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 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 and Other Real Estate Owned ( OREO ). Nonperforming loans consist of loans that are more than 90 days past due, but still accruing interest, and nonaccrual loans. OREO includes properties held by the Bank as a result of foreclosure or by acceptance of a deed in lieu of foreclosure. As of June 30, 2007, nonperforming assets totaled $\$ 6.2$ million, a decrease of $\$ 1.0$ million, or $14.0 \%$, compared to December 31, 2006. The overall decrease in nonperforming assets is

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attributable mainly to decreases in nonperforming loans shown in the commercial and residential mortgage loan categories and in the commercial and industrial category. Nonperforming assets represented $0.23 \%$ of total assets at June 30, 2007 and $0.25 \%$ at December 31, 2006. The Bank had one property held as OREO totaling $\$ 305,000$ and no nonperforming securities for the period ending June 30, 2007.

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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 $\$ 567,000$ $\$ 451,000$ and $\$ 392,000$ as of June 30, 2007, December 31, 2006, and June 30, 2006, respectively.

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

Table 2 - Nonperforming Assets / Loans (Unaudited - Dollars in Thousands)

|  | As of |  | As of December |  | As of |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { June 30, } \\ 2007 \end{gathered}$ |  | $\begin{gathered} 31, \\ 2006 \end{gathered}$ |  | $\begin{gathered} \text { June 30, } \\ 2006 \end{gathered}$ |  |
| Loans past due 90 days or more but still accruing |  |  |  |  |  |  |
| Consumer - Home Equity | \$ |  | \$ |  | \$ | 16 |
| Consumer - Auto |  | 243 |  | 252 |  | 298 |
| Consumer - Other |  | 67 |  | 137 |  | 69 |
| Total | \$ | 310 | \$ | 389 | \$ | 383 |
| Loans accounted for on a nonaccrual basis (1) |  |  |  |  |  |  |
| Commercial and Industrial | \$ | 301 | \$ | 872 | \$ | 322 |
| Business Banking |  | 343 |  | 74 |  | 80 |
| Commercial Real Estate |  | 2,014 |  | 2,346 |  | 2,801 |
| Residential Real Estate |  | 1,927 |  | 2,318 |  | 918 |
| Consumer - Home Equity |  | 373 |  | 358 |  |  |
| Consumer - Auto |  | 567 |  | 451 |  | 392 |
| Consumer - Other |  | 23 |  | 171 |  | 31 |
| Total | \$ | 5,548 | \$ | 6,590 | \$ | 4,544 |
| Total nonperforming loans | \$ | 5,858 | \$ | 6,979 | \$ | 4,927 |
| Other real estate owned | \$ | 305 | \$ | 190 | \$ |  |
| Total nonperforming assets | \$ | 6,163 | \$ | 7,169 | \$ | 4,927 |
| Restructured loans | \$ |  | \$ |  | \$ |  |


| Nonperforming loans as a percent of gross loans | $0.30 \%$ | $0.34 \%$ | $0.24 \%$ |
| :--- | :--- | :--- | :--- |
| Nonperforming assets as a percent of total assets | $0.23 \%$ | $0.25 \%$ | $0.17 \%$ |

(1) There were no restructured
nonaccruing
loans at June 30, 2007,
December 31, 2006 and
June 30, 2006.
In the course of resolving nonperforming loans, the Bank may choose to restructure the contractual terms of certain commercial and real estate loans. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. It is the Bank s policy to maintain restructured loans on nonaccrual status for approximately six months before management considers a restructured loan s return to accrual status. At June 30, 2007, December 31, 2006 and June 30, 2006 the Bank had no restructured loans.

Potential problem loans are any loans, which are not categorized as nonaccrual or non-performing loans and which are not considered troubled debt restructures, 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

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June 30, 2007 the Bank had fourteen potential problem loan relationships and at December 31, 2006 the Bank had fifteen potential problem loan relationships, which are not included in nonperforming loans. Outstanding balances on these loans totaled $\$ 23.7$ million and $\$ 21.8$ million at June 30, 2007 and December 31, 2006, respectively. At June 30, 2007, these problem loans continued to perform and the Company s management actively monitors these loans and strives to minimize any possible adverse impact to the Bank.

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 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.

Interest income that would have been recognized for both the three months ended June 30, 2007, and June 30, 2006, if nonperforming loans at the respective dates had been performing in accordance with their original terms, approximated $\$ 34,000$ and $\$ 52,000$, respectively. Interest income that would have been recognized for both the six months ended June 30, 2007, and June 30, 2006, if nonperforming loans at the respective dates had been performing in accordance with their original terms, approximated $\$ 122,000$ and $\$ 118,000$, respectively. The actual amount of interest that was collected on these nonaccrual and restructured loans during the three months ended June 30, 2007 and June 30, 2006 and included in interest income was approximately $\$ 28,000$ and $\$ 8,000$, respectively. The actual amount of interest that was collected on these nonaccrual and restructured loans during the six months ended June 30, 2007 and June 30, 2006, including interest income, was approximately $\$ 94,000$ and $\$ 47,000$, respectively.

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, and selectively, for certain consumer, residential or home equity loans, 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. Large groups of homogeneous loans are collectively evaluated for impairment. As such, the Bank does not typically identify individual loans within these groupings for impairment evaluation and disclosure.

At June 30, 2007, impaired loans include all commercial real estate loans and commercial and industrial loans on nonaccrual status and other loans that have been categorized as impaired. Total impaired loans at June 30, 2007 and December 31, 2006 were $\$ 2.7$ million and $\$ 3.6$ million, respectively.

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Allowance For Loan Losses 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. Various regulatory agencies, as an integral part of their examination process, periodically review the Bank s 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.

As of June 30, 2007, the allowance for loan losses totaled $\$ 26.7$ million, or $1.35 \%$, of total loans as compared to $\$ 26.8$ million, or $1.32 \%$, of total loans at December 31, 2006. Based on management s analysis, management believes that the level of the allowance for loan losses at June 30, 2007 is adequate.

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

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Table 3-Summary of Changes in the Allowance for Loan Losses


Total allowance for loan
losses as a percent of total
loans
Total allowance for loan
losses as a percent of nonperforming loans Net loans charged-off as a percent of allowance for loan losses (annualized)
Recoveries as a percent of charge-offs (annualized)

The allowance for loan losses is allocated to various loan categories as part of the Bank s process of evaluating its adequacy. The amount of allowance allocated to these loan categories was $\$ 24.5$ million at June 30, 2007, compared to $\$ 25.4$ million at December 31, 2006. The distribution of allowances allocated among the various loan categories as of June 30, 2007 was categorically similar to the distribution as of December 31, 2006. Increases or decreases in the amounts allocated to each category, as compared to those shown as of December 31, 2006, generally, reflect changes in portfolio balances outstanding due to new loan originations, loans re-paid, changes in levels of credit line usage and the results of ongoing credit risk assessments of the loan portfolio.

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The following table sets for the allocation of the allowance for loan losses by loan category at the dates indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which actual losses may occur. The total allowance is available to absorb losses from any segment of the loan portfolio.

## Table 4-Summary of Allocation of the Allowance for Loan Losses (Unaudited - Dollars In Thousands)

|  | $\begin{gathered} \text { AT JUNE 30, } \\ 2007 \end{gathered}$ |  | AT DECEMBER 31,2006 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Allowance Amount | Percent of Loans <br> In Category To Total Loans | Allowance Amount | Percent of Loans <br> In Category To Total Loans |
| Allocated Allowances: |  |  |  |  |
| Commercial and Industrial | \$ 3,332 | 8.7\% | \$ 3,615 | 8.6\% |
| Business Banking | 1,037 | 3.3\% | 1,340 | 3.0\% |
| Commercial Real Estate | 13,160 | 37.9\% | 13,136 | 36.5\% |
| Real Estate Construction | 2,882 | 6.1\% | 2,955 | 6.3\% |
| Real Estate Residential | 517 | 18.0\% | 566 | 19.3\% |
| Consumer - Home Equity | 1,058 | 14.6\% | 1,024 | 13.7\% |
| Consumer - Auto | 1,786 | 9.0\% | 2,066 | 10.2\% |
| Consumer - Other | 742 | 2.4\% | 652 | 2.4\% |
| Unallocated Allowance | 2,136 | NA | 1,461 | NA |
| Total Allowance for Loan Losses | \$ 26,650 | 100.0\% | \$ 26,815 | 100.0\% |

Allocated allowances for loan losses are determined using both a formula-based approach applied to groups of loans and an analysis of certain individual loans for impairment.

The formula-based approach evaluates groups of loans to determine the allocation appropriate within each portfolio section. Individual loans within the commercial and industrial, commercial real estate and real estate construction loan portfolio sections are assigned internal risk ratings to group them with other loans possessing similar risk characteristics. The level of allowance allocable to each group of risk-rated loans is then determined by management applying a loss factor that estimates the amount of probable loss inherent in each category. The assigned loss factor for each risk rating is a formula-based assessment of historical loss data, portfolio characteristics, economic trends, overall market conditions, past experience and management $s$ analysis of considerations of probable loan loss based on these factors.

Allocations for business banking, residential real estate and other consumer loan categories are principally determined by applying loss factors that represent management s estimate of probable or expected losses inherent in those categories. In each section, inherent losses are estimated, based on a formula-based assessment of historical loss data, portfolio characteristics, economic trends, overall market conditions, past loan loss experience and management s considerations of probable loan loss based on these factors.

The other method used to allocate allowances for loan losses entails the assignment of allowance amounts 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 or non-accrual

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status. A specific allowance amount is allocated to an impaired loan 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 for impairment and the specific allowance assigned to these loans totaled $\$ 2.7$ million and $\$ 0$, respectively, at June 30, 2007 and $\$ 3.6$ million and $\$ 414,000$, respectively, at December 31, 2006. In addition, at June 30, 2007, there were $\$ 1.2$ million of residential loans that were evaluated individually and assigned a specific allowance of $\$ 194,000$.

A portion of the allowance for loan losses is not allocated to any specific section of the loan portfolio. This unallocated allowance is maintained for two primary reasons: (a) there exists an inherent subjectivity and imprecision to the analytical processes employed and (b) the prevailing business environment, as it is affected by changing economic conditions and various external factors, may impact the portfolio. Moreover, management has identified certain risk factors, which could impact the degree of loss sustained within the portfolio. 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 may consist of changes to general economic and business conditions that may 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 may exacerbate losses resulting from economic events which the Bank may not be able to fully diversify out of its portfolio.

Due to the imprecise nature of the loan loss estimation process and ever changing conditions, these risk attributes may not be adequately captured in data related to the formula- based loan loss components used to determine allocations in the Bank s analysis of the adequacy of the allowance for loan losses. Management, therefore, has established and maintains an unallocated allowance for loan losses. The amounts of the unallocated allowance were $\$ 2.1$ million, $\$ 1.5$ million, and $\$ 2.5$ million at June 30, 2007, December 31, 2006, and December 31, 2005, respectively.

The unallocated allowance was reduced at December 31, 2006 due to an incremental increase in the amount of allowance allocated towards the commercial loan portfolio. Certain commercial credit relationships were identified as classified in the third quarter of 2006, requiring greater allowance amounts based upon the application of standard loan loss allocation factors reflecting expected losses for classified loans. In light of the recognition of the incremental increase in risk for certain of these credit relationships, management elected to pursue its available options to exit these relationships during the latter half of 2006. It was the expectation of management that the disposition of these credit relationships might not require the entire allowance allocated to them by the use of the standard loss factor, pending the outcome of the bank s exit strategy. Accordingly, as management was actively seeking to exit out of these relationships through its portfolio management practices, the unallocated allowance was reduced during the third and fourth quarters of 2006 as expectations related to these relationships improved. In the first half of 2007, substantive amounts of these higher-risk relationships were resolved, and removed from their respective loan categories. As a result, the unallocated allowance amount at June 30, 2007 was aligned more closely with its 2005 level.

Management has deemed the current unallocated allowance level adequate based on a careful analysis of national and local economic conditions in conjunction with an evaluation of asset quality trends in the loan portfolio. The Massachusetts economy exhibited significant growth during the first quarter of 2007, outpacing national GDP growth according to the most

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recent data from local economic experts. Additionally, statewide growth is expected to remain robust over the next one to two quarters. The weak dollar has boosted exports statewide, especially in the technology and science-related sectors, and employment growth has remained strong. Within the bank s loan portfolio, delinquency balances remained at acceptable levels, nonperforming asset balances decreased during the second quarter, and the level of charge-offs has slowed from the first quarter of 2007.

Goodwill and Core Deposit Intangibles Goodwill and Core Deposit Intangibles (CDI ) increased $\$ 1.9$ million, or $3.4 \%$, to $\$ 58.5$ million at June 30, 2007 from December 31, 2006. Goodwill increased $\$ 2.1$ million as a result of the asset acquisition of Compass Exchange Advisors LLC completed on January 2, 2007. In connection with that acquisition the Bank established a wholly-owned subsidiary known as Compass Exchange Advisors LLC ( CEA ). CEA offers qualified intermediary like-kind exchange services pursuant to Internal Revenue Code Section 1031 to corporate, institutional, and individual property owners.

Core deposit intangibles decreased $\$ 161,000$ due to normal amortization.
Securities Securities decreased by $\$ 56.9$ million, or $11.0 \%$, during the six months ended June 30, 2007. This decrease resulted mainly from the call of securities and normal runoff in the portfolio. The ratio of securities to total assets as of June 30, 2007 was $17.3 \%$, as compared to $18.3 \%$ at December 31, 2006 and $21.5 \%$ at June 30, 2006.

Deposits Total deposits of $\$ 2.1$ billion at June 30, 2007 decreased $\$ 38.3$ million, or $1.8 \%$, compared to December 31, 2006. The Company experienced an increase in core deposits of $\$ 3.4$ million, or $0.2 \%$, offset by a decrease in time deposits of $\$ 41.6$ million, or $7.3 \%$.

Borrowings Total borrowings decreased $\$ 115.6$ million, or $23.4 \%$, from December 31, 2006 to $\$ 378.0$ million at June 30,2007 , of which $\$ 25.8$ million relates to the calling of the $\$ 25.0$ million trust preferred securities as part of the Company s trust preferred refinancing strategy. The remaining decrease is due to the excess cash flow from the securities portfolio and certain loan categories being used to decrease wholesale borrowing.

Stockholders Equity Stockholders equity as of June 30, 2007 totaled $\$ 212.1$ million, as compared to $\$ 229.8$ million at December 31, 2006. Equity decreased due to stock repurchases of $\$ 25.3$ million, dividends declared of $\$ 4.8$ million, and the net change in the unrealized losses on securities of $\$ 1.6$ million, offset by net income of $\$ 12.3$ million, a net increase in the change in fair value of derivatives of $\$ 718,000$, and stock option exercise proceeds of $\$ 429,000$.

Equity to Assets Ratio The ratio of equity to assets was $8.0 \%$ and $8.1 \%$ at June 30, 2007 and at December 31, 2006, respectively.

## 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

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loans and securities and 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 $\$ 5.7$ million, a $\$ 2.6$ million, or $31.1 \%$ decrease, for the second quarter of 2007 as compared to the second quarter of 2006. Diluted earnings per share were $\$ 0.40$ for the three months ended June 30, 2007, compared to $\$ 0.55$ for the three months ended June 30, 2006. The Company reported net income of $\$ 12.3$ million, a $\$ 3.9$ million, or $23.8 \%$ decrease, for the six months ended June 30, 2007 as compared with the same period in 2006. Diluted earnings per share were $\$ 0.86$ for the six months ended June 30, 2007, compared to $\$ 1.06$ for the six months ended June 30, 2006.
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 second quarter of 2007 decreased $\$ 2.4$ million, or $9.2 \%$, to $\$ 23.8$ million, as compared to the second quarter of 2006. The Company s net interest margin was $3.85 \%$ for the quarter ended June 30, 2007 as compared to $3.89 \%$ for the quarter ended June 30, 2006. 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 $3.17 \%$ for the second quarter of 2007, 18 basis points less than the comparable period in the prior year.

The decrease in net interest income on a fully tax equivalent basis in the second quarter of 2007 compared with that of 2006 is primarily attributable to a smaller balance sheet and an increase in the cost of deposits. Additionally, the Company wrote off $\$ 907,000$ of unamortized debt issuance costs upon redemption of $\$ 25.0$ million of trust preferred securities in April 2007 which was realized as a component of interest expense on borrowings.

The yield on earning assets was $6.45 \%$ for the quarter ending June 30, 2007, compared with $6.18 \%$ the same quarter ending in 2006. The average balance of securities has deliberately decreased by $\$ 170.1$ million, or $26.5 \%$, as compared with the prior year as management has decided not to reinvest the normal amortization of the securities in the current low interest rate environment. The average balance of loans decreased by $\$ 63.9$ million, or $3.1 \%$, and the yield on loans increased by 16 basis points to $6.83 \%$ for the second quarter of 2007 compared to $6.67 \%$ for the second quarter in 2006. This increase in the yield on earning assets is largely attributable to variable rate loans re-pricing higher with increases in the underlying rate index (e.g. LIBOR, Prime).

During the second quarter of 2007, as compared to the same period in 2006, the average balance of interest-bearing liabilities decreased by $\$ 205.3$ million, or $9.4 \%$. The average cost of these liabilities increased to $3.29 \%$ compared to $2.83 \%$ in 2006. The write-off of the unamortized debt issuance costs represented $0.19 \%$ of the increase. The majority of the remaining increase in cost of funds is due to the cost of deposits primarily attributable to deposit competition.

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For the six months ending June 30, 2007 the cost of funds increased 53 basis points to $3.23 \%$ as compared to the same period in 2006 and the average balance decreased by $\$ 201.3$ million. In addition to the contributors to the increase in cost of funds for the quarter ended June 30, 2007, the additional $\$ 25.7$ million of junior subordinated debentures outstanding as part of the refinancing strategy of the trust preferred securities contributed to the higher cost of funds for the six month period ending June 30, 2007. On April 30, 2007, $\$ 25.8$ million of $8.375 \%$ junior subordinated debentures were called (see Borrowings discussion above).

The following tables present the Company s daily average balances, net interest income, interest rate spread, and net interest margin for the three and six months ending June 30, 2007 and June 30, 2006. 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 loans to qualifying borrowers and on certain of the Company s securities to make them equivalent to income and yields on fully-taxable investments, assuming a federal income tax rate of $35 \%$.

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## Table 5 - Average Balance, Interest Earned/Paid \& Average Yields (Unaudited - Dollars in Thousands)

|  | INTEREST |  |  | INTEREST |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | AVERAGEEARNEPNERAGEAVERAGEEARNEAVERAGE |  |  |  |  |  |
|  | BALANCE | PAIDIE | LD/RAT | BALANCE | PAIDIE | LD/RATE |
| FOR THE THREE MONTHS ENDED JUNE 30,Interest-earning Assets: |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Federal Funds Sold and Short Term Investments | \$ 20,962 | \$ 289 | 5.51\% | \$ 4,005 | \$ 52 | 5.19\% |
| Securities: |  |  |  |  |  |  |
| Trading Assets | 1,647 | 9 | 2.19\% | 1,597 | 6 | 1.50\% |
| Taxable Investment Securities (1) | 418,893 | 4,975 | 4.75\% | 582,922 | 6,405 | 4.40\% |
| Non-taxable Investment Securities (1)(2) | 51,893 | 834 | 6.43\% | 58,036 | 1,018 | 7.02\% |
| Total Securities: | 472,433 | 5,818 | 4.93\% | 642,555 | 7,429 | 4.62\% |
| Loans (1) | 1,987,156 | 33,911 | 6.83\% | 2,051,032 | 34,177 | 6.67\% |
| Total Interest-Earning Assets | \$ 2,480,551 | \$40,018 | 6.45\% | \$ 2,697,592 | \$41,658 | 6.18\% |
| Cash and Due from Banks | 60,949 |  |  | 58,671 |  |  |
| Other Assets | 148,885 |  |  | 152,569 |  |  |
| Total Assets | \$2,690,385 |  |  | \$ 2,908,832 |  |  |
| Interest-bearing Liabilities: |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |
| Savings and Interest Checking Accounts | \$ 580,449 | \$ 1,994 | 1.37\% | \$ 560,402 | \$ 999 | 0.71\% |
| Money Market | 467,846 | 3,509 | 3.00\% | 520,827 | 3,505 | 2.69\% |
| Time Deposits | 522,282 | 5,313 | 4.07\% | 549,066 | 4,900 | 3.57\% |
| Total interest-bearing deposits: | 1,570,577 | 10,816 | 2.75\% | 1,630,295 | 9,404 | 2.31\% |
| Borrowings: |  |  |  |  |  |  |
| Federal Home Loan Bank Borrowings | \$ 238,246 | \$ 2,668 | 4.48\% | \$ 383,200 | \$ 4,165 | 4.35\% |
| Federal Funds Purchased and Assets Sold Under |  |  |  |  |  |  |
| Repurchase Agreement | 99,300 | 733 | 2.95\% | 107,927 | 699 | 2.59\% |
| Junior Subordinated Debentures | 59,760 | 1,935 | 12.95\% | 51,546 | 1,117 | 8.67\% |
| Other Borrowings | 997 | 18 | 7.22\% | 1,216 | 13 | 4.28\% |
| Total borrowings: | 398,303 | 5,354 | 5.38\% | 543,889 | 5,994 | 4.41\% |
| Total Interest-Bearing Liabilities | \$ 1,968,880 | \$ 16,170 | 3.29\% | \$ 2,174,184 | \$ 15,398 | 2.83\% |
| Demand Deposits | 488,571 |  |  | 492,945 |  |  |
| Other Liabilities | 13,908 |  |  | 19,131 |  |  |
| Total Liabilities | 2,471,359 |  |  | 2,686,260 |  |  |
| Stockholders Equity | 219,026 |  |  | 222,572 |  |  |

Total Liabilities and Stockholders Equity \$2,690,385 \$2,908,832

| Net Interest Income | \$ 23,848 |  |  | \$ 26,260 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Interest Rate Spread (3) |  | 3.17\% |  |  |  | 3.35\% |
| Net Interest Margin (3) |  |  | 3.85\% |  |  | 3.89\% |
| Supplemental Information: |  |  |  |  |  |  |
| Total Deposits, including Demand Deposits | \$2,059,148 | \$ 10,816 |  | \$ 2,123,240 | \$ |  |
| Cost of Total Deposits |  |  | 2.10\% |  |  | 1.77\% |
| Total Funding Liabilities, including Demand |  |  |  |  |  |  |
| Deposits | \$ 2,457,451 | \$ 16,170 |  | \$ 2,667,129 |  |  |
| Cost of Total Funding Liabilities |  |  | 2.63\% |  |  | 2.31\% |

(1) Investment

Securities are at average fair value.
(2) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $\$ 415$ and $\$ 451$ for the three months ended June 30, 2007 and 2006, respectively.
Also, non-accrual loans have been included in the average loan category; however, unpaid interest on non-accrual loans has not been included for purposes of determining
interest income.
(3) Interest rate
spread
represents the
difference
between the
weighted
average yield on interest-earning assets and the weighted
average cost of interest-bearing liabilities. Net interest margin represents annualized net interest income as a percent of average interest-earning assets.

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## Table 6 - Average Balance, Interest Earned/Paid \& Average Yields (Unaudited - Dollars in Thousands)

|  | INTEREST |  |  | INTEREST |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | AVERAGE EARNELNERAGEAVERAGE EARNELNERAGE |  |  |  |  |  |  |
|  | BALANCE | PAIIYIELD/RATBALANCE |  |  | PAIIYIELD/RATE |  |  |
| FOR THE SIX MONTHS ENDED JUNE 30, | 2007 | 2007 | 2007 | 2006 |  | 2006 | 2006 |
| Interest-earning Assets: |  |  |  |  |  |  |  |
| Federal Funds Sold and Short Term Investments | \$ 27,265 | \$ 733 | 5.38\% | 6,914 |  | \$ 152 | 4.40\% |
| Securities: |  |  |  |  |  |  |  |
| Trading Assets | 1,669 | 23 | 2.76\% | 1,576 |  | 19 | 2.41\% |
| Taxable Investment Securities (1) | 433,625 | 10,377 | 4.79\% | 611,327 |  | 13,620 | 4.46\% |
| Non-taxable Investment Securities (1)(2) | 52,722 | 1,701 | 6.45\% | 59,777 |  | 2,049 | 6.86\% |
| Total Securities: | 488,016 | 12,101 | 4.96\% | 672,680 |  | 15,688 | 4.66\% |
| Loans (2) | 1,995,143 | 67,727 | 6.79\% | 2,047,030 |  | 66,975 | 6.54\% |
| Total Interest-Earning Assets | \$ 2,510,424 | \$ 80,561 | 6.42\% | \$ 2,726,624 |  | \$ 82,815 | 6.07\% |
| Cash and Due from Banks | 60,142 |  |  | 59,840 |  |  |  |
| Other Assets | 148,565 |  |  | 151,456 |  |  |  |
| Total Assets | \$2,719,131 |  |  | \$ 2,937,920 |  |  |  |
| Interest-bearing Liabilities: |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |
| Savings and Interest Checking Accounts | \$ 576,067 | \$ 3,794 | 1.32\% | \$ 567,135 |  | \$ 1,908 | 0.67\% |
| Money Market | 468,603 | 7,049 | 3.01\% | 533,091 |  | 6,852 | 2.57\% |
| Time Deposits | 540,289 | 11,067 | 4.10\% | 543,292 |  | 9,104 | 3.35\% |
| Total interest-bearing deposits: | 1,584,959 | 21,910 | 2.76\% | 1,643,518 |  | 17,864 | 2.17\% |
| Borrowings: |  |  |  |  |  |  |  |
| Federal Home Loan Bank Borrowings | \$ 245,471 | \$ 5,459 | 4.45\% | \$ 399,551 |  | \$ 8,331 | 4.17\% |
| Federal Funds Purchased and Assets Sold Under |  |  |  |  |  |  |  |
| Repurchase Agreement | 102,483 | 1,585 | 3.09\% | 107,589 |  | 1,335 | 2.48\% |
| Junior Subordinated Debentures | 68,492 | 3,326 | 9.71\% | 51,546 |  | 2,235 | 8.67\% |
| Other Borrowings | 792 | 25 | 6.31\% | 1,329 |  | 28 | 4.21\% |
| Total borrowings: | 417,238 | 10,395 | 4.98\% | 560,015 |  | 11,929 | 4.26\% |
| Total Interest-Bearing Liabilities | \$ 2,002,197 | \$ 32,305 | 3.23\% | \$ 2,203,533 |  | \$ 29,793 | 2.70\% |
| Demand Deposits | 480,671 |  |  | 489,490 |  |  |  |
| Other Liabilities | 13,831 |  |  | 18,544 |  |  |  |
| Total Liabilities | 2,496,699 |  |  | 2,711,567 |  |  |  |
| Stockholders Equity | 222,432 |  |  | 226,353 |  |  |  |

Total Liabilities and Stockholders Equity \$2,719,131 \$2,937,920

| Net Interest Income |  | \$ 48,256 |  |  | \$ 53,022 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Interest Rate Spread (3) |  |  | 3.19\% |  |  | 3.37\% |
| Net Interest Margin (3) |  |  | 3.84\% |  |  | 3.89\% |
| Supplemental Information: |  |  |  |  |  |  |
| Total Deposits, including Demand Deposits | \$ 2,065,630 | \$ 21,910 |  | \$ 2,133,008 | \$ 17,864 |  |
| Cost of Total Deposits |  |  | 2.12\% |  |  | 1.68\% |
| Total Funding Liabilities, including Demand |  |  |  |  |  |  |
| Deposits | \$ 2,482,868 | \$ 32,305 |  | \$ 2,693,023 | \$ 29,793 |  |
| Cost of Total Funding Liabilities |  |  | 2.60\% |  |  | 2.21\% |

(1) Investment

Securities are at average fair value.
(2) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $\$ 835$ and $\$ 906$ for the six months ended June 30, 2007 and 2006, respectively.
Also, non-accrual loans have been included in the average loan category; however, unpaid interest on non-accrual loans has not been included for purposes of determining
interest income.
(3) Interest rate
spread
represents the
difference
between the
weighted
average yield on
interest-earning
assets and the
weighted
average cost of interest-bearing liabilities. Net interest margin
represents
annualized net
interest income
as a percent of
average
interest-earning assets.
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).

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## Table 7 - Volume Rate Analysis

| Three Months Ended June 30, |  |  |  |  | Six Months Ended June 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2007 Compared to 2006 |  |  | 2007 Compared to 2006 |  |  |  |  |  |

Income on interest-earning assets:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Federal funds sold <br> Securities: <br> Taxable securities | $\$$ | 3 | $\$$ | 220 | $\$$ | 14 | $\$$ | 237 | $\$$ | 34 | $\$$ | 447 | $\$$ | 100 | $\$ 8$ |
| Non-taxable |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

## Expense of interest-bearing liabilities:

Deposits:
Savings and Interest

| Checking accounts | $\$$ | 926 | $\$$ | 36 | $\$$ | 33 | $\$$ | 995 | $\$ 1,827$ | $\$$ | 30 | $\$$ | 29 | $\$ 1,886$ |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Money Market |  | 402 |  | $(357)$ |  | $(41)$ |  | 4 | 1,167 |  | $(829)$ |  | $(141)$ | 197 |  |
| Time deposits |  | 685 |  | $(239)$ |  | $(33)$ |  | 413 |  | 2,024 |  | $(50)$ |  | $(11)$ | 1,963 |

Total interest-bearing deposits: $\quad 2,013 \quad(560) \quad(41) \quad 1,412 \quad 5,018 \quad$ (849) (123) 4,046
Borrowings:
Federal Home Loan
Bank borrowings $\quad \$ 127 \quad \$(1,576) \quad \$ \quad(48) \quad \$(1,497) \quad \$ \quad 555 \quad \$(3,213) \quad \$ \quad(214) \quad \$(2,872)$
Federal funds purchased and assets sold under repurchase

| 266 |  |  |  |  |  |  |  |  |
| :--- | ---: | :---: | :---: | ---: | :---: | ---: | ---: | ---: |
| agreements | 98 | $(56)$ | $(8)$ | 34 | 329 | $(63)$ |  | 268 |
| Junior Subordinated |  |  |  |  |  |  |  |  |
| Debentures | 552 | 178 | 88 | 818 | 268 | 735 | 88 | 1,091 |
| Other Borrowings | 9 | $(2)$ | $(2)$ | 5 | 14 | $(11)$ | $(6)$ | $(3)$ |
| Total borrowings: | 786 | $(1,456)$ | 30 | $(640)$ | 1,166 | $(2,552)$ | $(132)$ | $(1,518)$ |

Total
$\$ 2,799 \quad \$(2,016) \quad \$ \quad(11) \quad \$ \quad 772 \quad \$ 6,184 \quad \$(3,401) \quad \$(255) \quad \$ 2,528$
Change in net interest income $\quad \$(1,536) \quad \$(738) \quad \$ \quad(138) \quad \$(2,412) \quad \$(2,744) \quad \$(2,050) \quad \$ \quad 12 \quad \$(4,782)$
(1) The total amount of adjustment to present income and yield on a fully tax-equivalent basis is $\$ 415$ and $\$ 451$ for the three months ended June 30, 2007 and 2006, respectively, and is $\$ 835$ and $\$ 906$ for the six months ended June 30, 2007 and 2006, respectively.
(2) Loans include portfolio loans, loans held for sale 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. Management speriodic evaluation of the adequacy of the allowance 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 economic conditions. Substantial portions of the Bank s loans are secured by real estate in Massachusetts.
Accordingly, the ultimate collectibility of a substantial portion of the Bank s loan portfolio is susceptible to changes in property values within the state.

The provision for loan losses increased to $\$ 584,000$ and $\$ 1.5$ million for the three and six months ended June 30, 2007 , respectively, compared with the $\$ 350,000$ and $\$ 1.1$ million reported in the comparable year-ago period. The increase in the level of loan loss provisions is due to increased charge-offs and nonperforming loans slightly offset by the decline in the loan portfolio.

The ratio of the allowance for loan losses to total loans increased to $1.35 \%$ at June 30,2007 from $1.32 \%$ at December 31, 2006 and $1.31 \%$ at June 30, 2006. The allowance for loan losses at June 30, 2007 was $454.93 \%$ of nonperforming loans, as compared to $384.22 \%$ at December 31, 2006 and $544.16 \%$ at June 30, 2006.

The provision for loan losses is based upon management s evaluation of the level of the allowance for loan losses in relation to the estimate of loss exposure in the loan portfolio. An analysis of individual loans and the overall risk characteristics and size of the different loan

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portfolios is conducted on an ongoing basis and is reviewed periodically by an independent third-party loan review consultant. As adjustments are identified, they are reported in the earnings of the period in which they become known.

Non-Interest Income Non-interest income increased by $\$ 817,000$, or $11.3 \%$, and by $\$ 2.2$ million, or $16.1 \%$, during the three and six months ended June 30, 2007, respectively, as compared to the same period in the prior year.

Service charges on deposit accounts decreased by $\$ 34,000$, or $1.0 \%$, and by $\$ 42,000$, or $0.6 \%$, for the three and six months ended June 30, 2007, as compared to the same periods in 2006.

Wealth management revenue increased by $\$ 476,000$, or $27.9 \%$, and $\$ 935,000$, or $30.6 \%$, for the three and six months ended June 30, 2007, compared to the same period in 2006. Investment management income increased by $\$ 257,000$, or $16.9 \%$, and $\$ 541,000$, or $19.5 \%$, for the three and six months ended June 30, 2007. Assets under administration at June 30, 2007 were $\$ 895.9$ million, an increase of $\$ 180.1$ million, or $25.2 \%$, as compared to June 30, 2006. Retail wealth management revenue improved by $\$ 219,000$, or $117.2 \%$, and $\$ 394,000$, or $141.4 \%$, for the three and six months ended June 30, 2007, due to a change in the model of annuities and mutual funds origination and an increase in sales.

Mortgage banking income increased by $\$ 170,000$, or $26.2 \%$, and $\$ 126,000$, or $8.6 \%$, for the three and six months ended June 30, 2007, as compared to the same period in 2006. The balance of the mortgage servicing asset was $\$ 2.3$ million and loans serviced amounted to $\$ 270.5$ million as of June 30, 2007. The increase in mortgage banking income for both the three and six month periods in 2007 is mainly attributable to the premiums received on loans sold with servicing released.

Bank owned life insurance ( BOLI ) income decreased $\$ 79,000$, or $15.6 \%$, and $\$ 1.3$ million, or $59.3 \%$, for the three and six months ended June 30, 2007 as compared to the same period ended June 30, 2006. The decrease in the six month period is due to the $\$ 1.3$ million tax exempt BOLI death benefit proceeds realized during the first quarter of 2006.

There were no gains or losses on the sale of securities during the second quarter of 2007 or 2006 and no gain or losses on the sale of securities were recorded during the first six months of 2007. A $\$ 1.8$ million loss on the sale of securities was recorded in the first quarter of 2006 reflecting a loss for the six months ended June 30, 2006.

Other non-interest income increased by $\$ 284,000$, or $35.6 \%$, and $\$ 737,000$, or $44.6 \%$, for the three and six months ended June 30, 2007, as compared to the same period in 2006, largely attributable to the revenue associated with the new 1031 deferred exchange business.

Non-Interest Expense Non-interest expense increased by $\$ 2.6$ million, or $12.7 \%$, and $\$ 3.6$ million, or $8.8 \%$, for the three and six months ended June 30, 2007, as compared to the same period in 2006.

Salaries and employee benefits increased by $\$ 941,000$, or $7.8 \%$, and $\$ 2.2$ million, or $9.3 \%$, for the three and six months ended June 30, 2007, as compared to the same period in 2006. Included in salaries and benefits are executive early retirement costs amounting to $\$ 406,000$ recorded in the first quarter of 2007. The remaining increase in salaries and benefits

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is attributable to annual merit increases, the Compass Exchange Advisors acquisition at the beginning of 2007, commissions, and other new hires to support growth initiatives.

Occupancy and equipment related expense increased by $\$ 81,000$, or $3.2 \%$, and decreased by $\$ 78,000$, or $1.5 \%$, for the three and six months ending June 30, 2007, as compared to the same period in 2006.

Data processing and facilities management increased by $\$ 166,000$, or $16.0 \%$, and $\$ 194,000$, or $9.3 \%$, for the three and six month periods ending June 30, 2007, respectively, as compared to the same periods in 2006. The increases are largely due to the outsourcing of the Bank s computer support in the second quarter of 2006.

Other non-interest expense increased by $\$ 1.4$ million, or $28.6 \%$, and increased $\$ 1.3$ million, or $12.8 \%$, for the three and six months ended June 30, 2007, as compared to the same period in the prior year. The increase for both the three and six month periods is due to the $\$ 1.4$ Million charge described above in Item 1, Note 10 Subsequent Event.

Income Taxes For the quarters ending June 30, 2007 and June 30, 2006, the Company recorded combined federal and state income tax provisions of $\$ 1.9$ million and $\$ 4.7$ million, respectively. These provisions reflect effective income tax rates of $25.0 \%$ and $31.1 \%$ for the quarters ending June 30, 2007 and June 30, 2006, respectively. The decrease in the effective tax rate is mainly attributable to additional new markets tax credits being recognized in 2007 (see below for more information).

The tax effects of all income and expense transactions 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 tax purposes.

During the second quarter of 2004, the Company announced that one of its subsidiaries (a Community Development Entity, or CDE, described above as RTC CDE I), had been awarded $\$ 30.0$ million in tax credit allocation authority under the New Markets Tax Credit ( NMTC ) program of the United States Department of Treasury. During 2006, the Company, through another of its CDE subsidiaries described above as RTC CDE II, was awarded an additional $\$ 45.0$ million in tax credit allocation authority under the New Markets Tax Credit program.

In both 2004 and 2005, the Bank invested $\$ 15.0$ million during each year from the first $\$ 30.0$ million award into RTC CDE I. During the first six months of 2007 the Bank invested $\$ 13.0$ million into RTC CDE II to provide it with the capital necessary to begin assisting qualified businesses in low-income communities throughout its market area. The Company plans to invest an additional $\$ 12.0$ million during 2007 and therefore has recognized the related credits in its effective tax rate. Based upon the Bank s total $\$ 43.0$ million investment in RTC CDE I and RTC CDE II and a planned additional $\$ 12.0$ million investment to be made in 2007, it is eligible to receive tax credits over an eight year period totaling $39.0 \%$ of its investment, or $\$ 21.5$ million. The Company recognized a $\$ 1.5$ million benefit of these tax credits for the six months ending June 30 , 2007, of which $\$ 1.3$ million relates to investments made to date and the remainder recognized through the effective tax rate based upon the expected additional $\$ 12.0$ million investment to be made in CDE II during 2007. A $\$ 750,000$ tax credit benefit was recognized for the six months ending June 30, 2006. The following table details the remaining expected tax credit recognition by year based upon the two $\$ 15.0$ million investments made in 2004 and 2005, the $\$ 13.0$ million investment made in the first six months of 2007 and the planned additional $\$ 12.0$ million investment to be made in 2007.

# Table 8 - New Markets Tax Credit Recognition Schedule (Dollars in Thousands) 


(1) At June 30,

2007 \$13M of
the $\$ 25 \mathrm{M}$ has
been invested.
Return on Average Assets and Equity The annualized consolidated returns on average equity and average assets for the three months ended June 30, 2007 were $10.44 \%$ and $0.85 \%$, respectively, compared to $14.90 \%$ and $1.14 \%$ reported for the same period last year. For the six months ended June 30, 2007, annualized consolidated returns on average equity and were $11.09 \%$ and $0.91 \%$, respectively, compared to $14.31 \%$ and $1.10 \%$ for the six months ended June 30, 2006.

## Asset/Liability Management

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

The Asset/Liability Management Committee ( ALCO ), whose members are comprised of the Bank s senior management, 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 FHLB advances and repurchase agreement lines. These non-deposit funds are also viewed as a contingent source of liquidity and, when profitable lending and investment opportunities exist, access to such funds provides a means to leverage the balance sheet.

From time to time, the Bank has utilized interest rate swap agreements and interest rates caps and floors as hedging instruments against 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

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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.

At June 30, 2007 and December 31, 2006 the Company had interest rate swaps and interest rate caps designated as cash flow hedges. The purpose of these swaps is to hedge the variability in the cash outflows of LIBOR-based borrowings attributable to changes in interest rates. The table below shows interest rate derivatives the Company held as of June 30, 2007 and December 31, 2006:

## Table 9 - Interest Rate Derivatives

As of June 30, 2007


Swaps

|  | 3 Month |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | \$ | 35,000 | 18-Jan-020-Jan-020-Jan-10 | LIBOR | 5.36\% | 4.06\% | \$ | 1,018 |
|  |  |  |  | 3 Month |  |  |  |  |
|  | \$ | 25,000 | 16-Feb-088-Dec-088-Dec-16 | LIBOR | 5.36\% | 5.04\% | \$ | 927 |
|  |  |  |  | 3 Month |  |  |  |  |
|  | \$ | 25,000 | 16-Feb-088-Dec-088-Dec-16 | LIBOR | 5.36\% | 5.04\% | \$ | 923 |
| Total | \$ | 85,000 |  |  |  | Total | \$ | 2,868 |

Interest Rate
Caps

$$
3 \text { Month }
$$

$\begin{array}{llllll}\$ 100,000 & \text { 27-Jan-081-Jan-081-Jan-08 } & \text { LIBOR } & 5.36 \% & 4.00 \% & \$\end{array}$

|  |  | Grand |  |
| :--- | :--- | :--- | :--- |
| Grand Total | $\mathbf{1 8 5 , 0 0 0}$ | Total | $\mathbf{3 , 6 3 6}$ |

As of December 31, 2006

(Dollars in Thousands)
Interest Rate
Swaps

|  | 3 Month |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | \$ | 25,000 | 16-Jan-041-Jan-041-Jan-07 | LIBOR | 5.37\% | 2.49\% | \$ | 47 |
|  |  |  |  | 3 Month |  |  |  |  |
|  | \$ | 35,000 | 18-Jan-080-Jan-080-Jan-10 | LIBOR | 5.37\% | 4.06\% | \$ | 936 |
|  |  |  |  | 3 Month |  |  |  |  |
|  | \$ | 25,000 | 16-Feb-18-Dec-8-Dec-16 | LIBOR | 5.36\% | 5.04\% | \$ | 82 |
|  |  |  |  | 3 Month |  |  |  |  |
|  | \$ | 25,000 | 16-Feb-(28-Dec-m-Dec-16 | LIBOR | 5.36\% | 5.04\% | \$ | 89 |
| Total | \$ | 110,000 |  |  |  | Total | \$ | 1,154 |

Interest Rate
Caps
3 Month
$5.38 \% \quad 4.00 \% \quad \$ \quad 1,284$

|  |  |  |  |
| :--- | :--- | :---: | :---: | :---: |
| Grand Total | $\$ 210,000$ | Grand |  |
| Total | $\$$ | $\mathbf{2 , 4 3 8}$ |  |

During February, 2006 the Company entered into two forward starting swaps, each with a $\$ 25.0$ million notional amount, with the intention of hedging $\$ 50.0$ million variable rate (LIBOR plus 148 basis points) trust preferred securities. On December 28, 2006, these forward starting swaps became effective when Trust V issued $\$ 50.0$ million of trust preferred securities which pay interest at a variable rate of interest of LIBOR plus 148 basis points. Through these swaps the Company has effectively locked in a fixed rate of $6.52 \%$ on that debt obligation.

As a result of the prolonged flat/inverted yield curve environment and the resulting strategy to de-leverage the balance sheet, management unwound $\$ 25.0$ million of notional value of interest rate swaps hedging 3 month revolving FHLB advances tied to LIBOR and paid down the underlying borrowings during 2006. The influx of liquidity associated with cash flows from the securities portfolio not being reinvested made the borrowings unnecessary. Gains of $\$ 237,000$ were realized against interest expense in the first quarter of 2006 associated with the sale of these interest rate swaps.

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Additionally, the Company enters into commitments to fund residential mortgage loans with the intention of selling them in the secondary markets. The Company also enters into forward sales agreements for certain funded loans and loan commitments to protect against changes in interest rates. The Company records unfunded commitments and forward sales agreements at fair value with changes in fair value as a component of Mortgage Banking Income.

The following table set forth the fair value of residential mortgage loan commitments and forward sales agreements at the periods indicated:

Table 10 - Fair Value of Residential Mortgage Loan Commitments and Forward Sales Agreements

|  | Fair Value At <br> December |  |  |  |
| :--- | :---: | :---: | :---: | :---: |
|  | June 30, | 31, | June 30, |  |
|  | $\mathbf{2 0 0 7}$ | 2006 | 2006 |  |
| Residential Mortgage Loan Commitments |  | (Dollars in Thousands) |  |  |
| Forward Sales Agreements | $\$ 148$ | $\$$ | 93 | $\$ 122$ |
|  | $\$ 158$ | $\$ 60$ | $\$ 107$ |  |


|  | Change for the Six Months |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Ended June 30, |  |  |  |
|  | 2007 |  | 2006 |  |
| Residential Mortgage Loan Commitments | \$ | 54 | \$ | 14 |
| Forward Sales Agreements | \$ | 98 | \$ | 129 |
| Total Change in Fair Value | \$ | 152 | \$ | 143 |

Changes in these fair values are recorded as a component of mortgage banking income.
Market Risk Market risk is the sensitivity of income to changes in interest rates, foreign exchange rates, commodity prices and other market-driven rates or prices. The Company has no trading operations, with the exception of funds managed by the Company s investment management group and that are held within a trust to fund non-qualified executive retirement obligations, and thus is only primarily exposed to non-trading market risk.

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, 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 control 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 control interest-rate risk by identifying, quantifying and, where appropriate, hedging its exposure. The Company manages its interest-rate exposure using a combination of on and off-balance sheet instruments, primarily fixed rate portfolio securities, and interest rate swaps.

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

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

The 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 $6.0 \%$.

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 11 - Interest Rate Sensitivity

June 30, 2007
June 30, 2006

(2.49\%)
(1.76\%)

200 Basis Point Rate Decrease
0.39\%
(0.55\%)

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 or down in market rates of 200 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.

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The most significant factors affecting market risk exposure of the Company $s$ net interest income during the second quarter of 2007 were (i) changes in the composition and prepayment speeds of mortgage assets and loans, (ii) the shape of the U.S. Government securities and interest rate swap yield curve, (iii) the level of U.S. prime interest rates, and (iv) 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.

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, borrowings, and the amortization, prepayment and maturities of loans and securities.

The Bank utilizes its extensive branch network to access retail customers who provide a stable base of in-market core deposits. These funds are principally comprised of demand deposits, interest checking accounts, savings accounts, and money market accounts. Deposit levels are greatly influenced by interest rates, economic conditions, and competitive factors. The Bank has also established repurchase agreements with major brokerage firms as potential sources of liquidity. At June 30, 2007, the Company had no outstanding repurchase agreements. In addition to agreements with brokers, the Bank also had customer repurchase agreements outstanding amounting to $\$ 94.2$ million at June 30, 2007. As a member of the Federal Home Loan Bank, the Bank has access to approximately $\$ 615.3$ million of borrowing capacity. On June 30, 2007, the Bank had $\$ 231.2$ million outstanding in FHLB borrowings.

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 June 30, 2007, consist of $\$ 51.5$ million junior subordinated debentures, including accrued interest, issued to an unconsolidated subsidiary Independent Capital Trust V, in connection with the issuance of variable rate (LIBOR plus $1.48 \%$ ) Capital Securities due in 2037, for which the Company has locked in a fixed rate of interest of $6.52 \%$ for 10 years through an interest rate swap. The Company called the junior subordinated debentures issued to Independent Capital Trust IV in April 2007. The Company s only obligations relate to its reporting obligations under the Securities and Exchange Act of 1934, as amended and related expenses as a publicly traded company. The Company funds virtually all expenses through dividends paid by the Bank.

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 June 30, 2007, the Company s liquidity position was well above policy guidelines. Management believes that the Bank has adequate liquidity available to respond to current and anticipated liquidity demands.

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

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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 $8.0 \%$. At June 30, 2007, the Company had a Tier 1 risk-based capital ratio of $10.40 \%$ and a total risk-based capital ratio of $11.65 \%$. The Bank had a Tier 1 risk-based capital ratio of $10.51 \%$ and a total risk-based capital ratio of $11.76 \%$ as of the same date.

A minimum requirement of $4.0 \%$ Tier 1 leverage capital is also mandated. On June 30, 2007, the Company and the Bank had Tier 1 leverage capital ratios of $7.94 \%$ and $8.03 \%$, respectively.

On June 21, 2007 the Company s Board of Directors declared a cash dividend of $\$ 0.17$ per share, a $6.3 \%$ increase from December 2006, to stockholders of record as of the close of business on June 26, 2007. This dividend was paid on July 6, 2007. On an annualized basis, the dividend payout ratio amounted to $32.66 \%$ of the trailing four quarters earnings.

Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Financial Instruments The Company has entered into contractual obligations and commitments and off-balance sheet financial instruments. The following tables summarize the Company s contractual cash obligation and other commitment and off-balance sheet financial instruments at June 30, 2007:
Table 12-Contractual Obligations, Commitments and Off-Balance Sheet Financial Instruments by Maturity (Unaudited - Dollars in Thousands)

|  | Payments Due - By Period |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Less than | One to Three | Four to | After |
| Contractual Obligations | Total | One Year | Years | Five Years | Five Years |
| FHLB advances (1) | \$231,215 | \$ 161,092 | \$ 6 | \$70,006 | \$ 111 |
| Junior subordinated debentures (1) | 51,547 |  |  |  | 51,547 |
| Lease obligations | 16,437 | 2,627 | 4,739 | 3,072 | 5,999 |
| Data processing and core systems | 15,931 | 5,201 | 9,486 | 1,244 |  |
| Other vendor contracts | 2,603 | 1,408 | 1,133 | 62 |  |
| Retirement benefit obligations (2) | 26,971 | 1,183 | 517 | 619 | 24,652 |
| Other |  |  |  |  |  |
| Treasury tax \& loan notes | 1,070 | 1,070 |  |  |  |
| Securities sold under repurchase agreements |  |  |  |  |  |
| Customer repurchase agreements | 94,199 | 94,199 |  |  |  |
| Total contractual cash obligations | \$439,973 | \$266,780 | \$15,881 | \$75,003 | \$82,309 |
| Amount of Commitment Expiring - By Period |  |  |  |  |  |
| Off-Balance Sheet |  | Less than | One to Three | Four to Five | After |
| Financial Instruments | Total | One Year | Years | Years | Five Years |
| Lines of credit | \$331,040 | \$ 45,718 | \$ | \$ | \$285,322 |
| Standby letters of credit | 9,122 | 9,122 |  |  |  |
| Other loan commitments | 269,863 | 203,022 | 51,751 | 3,446 | 11,644 |
| Forward commitments to sell loans | 27,959 | 27,959 |  |  |  |
| Interest rate swaps - notional value (1) (3) | 85,000 |  | 35,000 |  | 50,000 |
| Interest rate caps - notional value (1) (4) | 100,000 | 100,000 |  |  |  |


| Tota | Commitments |
| :---: | :---: |
| (1) | The Company has hedged certain short-term borrowings and junior subordinated debentures. |
| (2) | Retirement benefit obligations include expected contributions to the Company s pension plan, post retirement plan, and supplemental executive retirement plans. Expected contributions for the pension plan have been included only through plan year July 1, |
|  | 2007 June 30, 2008. <br> Contributions beyond this plan year can not be quantified as they will be determined based upon the return on the investments in the plan. |
|  | Expected contributions for the post retirement plan and supplemental executive |

retirement plans
include
obligations that are payable over the life of the participants.
(3) Interest rate swaps on borrowings and junior subordinated debentures
(Bank pays
fixed, receives
variable).
(4) Interest rate cap on borrowings (4.00\% 3-month LIBOR strike rate).

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## 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 Securities Exchange Act of 1934, as amended (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 second quarter of 2007 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
PART II. OTHER INFORMATION
Item 1. Legal Proceedings
As previously disclosed, Rockland Trust is the plaintiff in the pending federal court case commonly known as Rockland Trust Company v. Computer Associates International, Inc., United States District Court for the District of Massachusetts Civil Action No. 95-11683-DPW (the CA Case ). At trial Computer Associates International, Inc. ( CA ) asserted that Rockland Trust owes CA at least approximately \$1.1 Million.

On July 24, 2007 the judge who is presiding over the CA Case informed the parties that he is going to enter judgment for Computer Associates. The judge, however, has not yet rendered a Final Judgment or any written opinion to describe the basis for his decision or the amount of any damages to be awarded.

On August 1, 2007 the Company established a $\$ 1.4$ Million reserve for the CA Case, effective as of June 30, 2007. While the final outcome of the CA Case may differ from the $\$ 1.4$ Million charge that the Company has recorded, the Company does not believe that the final

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outcome will have either an impact on its operations or any significant effect on its financial position.
In addition to the foregoing, the Company is involved in routine legal proceedings occurring in the ordinary course of business which in the aggregate are believed by us to be immaterial to our 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 2006 Annual Report on Form 10-K, which are incorporated herein by reference.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
(a) - (b) Not applicable.
(c) The following table sets forth information with respect to any purchase made by or on behalf of Independent Bank Corp. or any affiliated purchaser, as defined in 204.10b-18(a)(3) under the Exchange Act, of shares of Independent Bank Corp. common stock during the indicated periods:
$\left.\begin{array}{cccc} & & \text { Issuer Purchases of Equity Securities } \\ \text { Total number of } \\ \text { shares } \\ \text { purchased as } \\ \text { part of }\end{array} \quad \begin{array}{c}\text { Maximum } \\ \text { number of } \\ \text { shares that may } \\ \text { yet be }\end{array}\right]$
(1) On

December 14,
2006, the
Company
announced a
common stock
repurchase
program to
repurchase up to
1,000,000
shares. The
Company
placed no
deadline on the
repurchase
program. There were no shares purchased other than through a publicly announced plan or program.
Item 3. Defaults Upon Senior Securities None
Item 4. Submission of Matters to a Vote of Security Holders
The Company s Annual Stockholders Meeting was held on April 12, 2007. Information regarding each Director who was elected at that Meeting, and information regarding each other

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Director whose term of office as a Director continued after that Meeting, is incorporated by reference to pages $8 \quad 14$ of the Company s definitive Proxy Statement for that Meeting.

The matters voted upon at the Meeting and the outcome of voting is as follows:
Proposal 1. Re-elect W. Paul Clark, Benjamin A. Gilmore, II, Eileen C. Miskell, and John H. Spurr, Jr. to serve as Class II Directors;

|  | Director | For | Withheld |
| :--- | :---: | ---: | ---: |
| W. Paul Clark |  | $12,352,539$ | 124,220 |
| Benjamin A Gilmore, II |  | $12,357,913$ | 118,846 |
| Eileen C. Miskell | $12,383,474$ | 93,285 |  |
| John H. Spurr, Jr. | $11,483,379$ | 993,380 |  |

Proposal 2. Ratify the selection of KPMG LLP as the independent registered public accounting firm of Independent Bank Corp. for 2007.

For 12,412,374
Against $\quad 55,676$
Abstain 8,709
No Vote
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 the Company s 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 the Company s Form 8-K filed on May 18, 2005.
4.1 Specimen Common Stock Certificate, incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 1992.
4.2 Specimen preferred Stock Purchase Rights Certificate, incorporated by reference to the Company s Form 8-A Registration Statement filed by the Company on November 5, 2001.
4.3 Indenture of Registrant relating to the 8.375\% Junior Subordinated Debentures issued to Independent Capital Trust IV, incorporated by reference to the Form 8-K filed by the Company on April 18, 2002.

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## No. Exhibit

4.4 Form of Certificate of 8.375\% Junior Subordinated Debenture (included as Exhibit A to Exhibit 4.3).
4.5 Amended and Restated Declaration of Trust for Independent Capital Trust IV, incorporated by reference to the Form 8-K filed by the Company on April 18, 2002.
4.6 Form of Preferred Security Certificate for Independent Capital Trust IV (included as Exhibit D to Exhibit 4.5).
4.7 Preferred Securities Guarantee Agreement of Independent Capital Trust IV, incorporated by reference to the Form 8-K filed by the Company on April 18, 2002.
4.8 Indenture of Registrant relating the Junior Subordinated Debt Securities issued to Independent Capital Trust V is incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 2006, filed by the Company on February 28, 2007.
4.9 Form of Certificate of Junior Subordinated Debt Security for Independent Capital Trust V (included as Exhibit A to Exhibit 4.8)
4.10 Amended and Restated Declaration of Trust for Independent Capital Trust V is incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 2006, filed by the Company on February 28, 2007.
4.11 Form of Capital Security Certificate for Independent Capital Trust V (included as Exhibit A-1 to Exhibit 4.10).
4.12 Guarantee Agreement relating to Independent Capital Trust V is incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 2006, filed by the Company on February 28, 2007.
4.13 Forms of Capital Securities Purchase Agreements for Independent Capital Trust V is incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 2006, filed by the Company on February 28, 2007.
10.1 Independent Bank Corp. 1996 Non-Employee Directors Stock Option Plan (Management contract under Item 601 (10)(iii)(A)). Incorporated by reference to the Company s Definitive Proxy Statement for the 1996 Annual Meeting of Stockholders filed with the Commission on March 19, 1996.
10.2 Independent Bank Corp. 1997 Employee Stock Option Plan (Management contract under Item 601 (10)(iii)(A)). Incorporated by reference to the Company s Definitive Proxy Statement for the 1997 Annual Meeting of Stockholders filed with the Commission on March 20, 1997.
10.3 Independent Bank Corp. 2005 Employee Stock Plan incorporated by reference to Form S-8 filed by the Company on July 28, 2005.
10.4 Renewal Rights Agreement noted as of September 14, 2000 by and between the Company and Rockland, as Rights Agent (Exhibit to Form 8-K filed on October 23, 2000).

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## No. Exhibit

10.5 Independent Bank Corp. Deferred Compensation Program for Directors (restated as amended as of December 1, 2000). Incorporated by reference to the Company s annual report on 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 by the Company on September 18, 1992.
10.7 First Amended and Restated Employment Agreement between Christopher Oddleifson and the Company and Rockland Trust dated April 14, 2005 is filed as an exhibit under the Form 8-K filed on April 14, 2005.
10.8 Revised employment agreements between Raymond G. Fuerschbach, Edward F. Jankowski, Ferdinand T. Kelley, Jane L. Lundquist, Edward H. Seksay and Denis K. Sheahan and the Company and Rockland Trust (Management Contracts under Item 601 (10)(iii)(A)) dated December 6, 2004 are filed as an exhibit under the Form 8-K filed on December 9, 2004.
10.9 Amended employment agreement with Ferdinand T. Kelley filed as an exhibit under the 8-K filed on March 16, 2007.
10.10 Options to acquire shares of the Company s Common Stock pursuant to the Independent Bank Corp. 1997 Employee Stock Option Plan were awarded to Christopher Oddleifson, Raymond G. Fuerschbach, Edward F. Jankowski, Ferdinand T. Kelley, Jane L. Lundquist, Edward H. Seksay and Denis K. Sheahan pursuant to option agreements dated December 9, 2004. The form of these option agreements were filed as exhibits under the Form 8-K filed on December 15, 2004.
10.11 On-Site Outsourcing Agreement by and between Fidelity Information Services, Inc. and Independent Bank Corp., effective as of November 1, 2004. Incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 2004 filed on March 4, 2005. (PLEASE NOTE: Portions of this contract, and its exhibits and attachments, have been omitted pursuant to a request for confidential treatment sent on March 4, 2005 to the Securities and Exchange Commission. The locations where material has been omitted are indicated by the following notation: $\left\{{ }^{* * * *}\right\}$. The entire contract, in unredacted form, has been filed separately with the Commission with the request for confidential treatment.)
10.12 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 filed as an exhibit under the Form 8-K filed on October 14, 2004.
10.13 Options to acquire shares of the Company s Common Stock pursuant to the Independent Bank Corp. 2005 Employee Stock Plan were awarded to Christopher Oddleifson, Raymond G. Fuerschbach, Edward F. Jankowski, Ferdinand T. Kelley, Jane L. Lundquist, Edward H. Seksay, and Denis K. Sheahan pursuant to option agreements dated December 15, 2005. The form of option agreements used for these awards were filed as exhibits under the Form 8-K filed on December 20, 2005.
10.14 Independent Bank Corp. 2006 Non-Employee Director Stock Plan incorporated by reference to Form S-8 filed by the Company on April 17, 2006.
10.15 Independent Bank Corp. Stock Option Agreement for Non-Employee Director is filed as an exhibit under the Form 10-Q filed on May 9, 2006.
10.16 Independent Bank Corp. Restricted Stock Agreement for Non-Employee Director is filed as an exhibit under the Form 10-Q filed on May 9, 2006.

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## No. Exhibit

10.17 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 the Company s annual report on Form 10-K for the year ended December 31, 2006, filed by the Company on February 28, 2007.
10.18 Independent Bank Corp. and Rockland Trust Company 2007 Executive Officer Performance Incentive Plan (the 2007 Executive Incentive Plan ) (Management contract under Item 601 (10)(iii)(A)). Incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 2006, filed by the Company on February 28, 2007. (PLEASE NOTE: Portions of the 2007 Executive Incentive Plan, and its exhibits and attachments, have been omitted pursuant to a request for confidential treatment sent on March 1, 2007 to the Securities and Exchange Commission. The locations where material has been omitted are indicated by the following notation: $\left\{{ }^{* * * *}\right\}$. The entire 2007 Executive Incentive Plan, in unredacted form, has been filed separately with the Commission with the request for confidential treatment.)
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.

Date: August 1, 2007

Date: August 1, 2007

INDEPENDENT BANK CORP. (registrant)<br>/s/ Christopher Oddleifson<br>Christopher Oddleifson<br>President and Chief Executive Officer

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

INDEPENDENT BANK CORP. (registrant)

