INDEPENDENT BANK CORP
Form 10-K
February 28, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 1-9047
Independent Bank Corp.
(Exact name of registrant as specified in its charter)

Massachusetts	**04-2870273**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
288 Union Street Rockland, Massachusetts	**02370**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(781) 878-6100

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.0l par value per share	Nasdaq Global Select Market
Preferred Stock Purchase Rights	Nasdaq Global Select Market

Securities registered pursuant to section 12(b) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):

Large Accelerated filer o Accelerated filer þ 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 þ

The aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on June 30, 2006, was approximately $446,729,890

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. January 31, 2007: 14,502,235

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

Portions of the Registrant s definitive proxy statement for its 2007 Annual Meeting of Stockholders are incorporated into Part III, Items 10-13 of this Form 10-K.

INDEPENDENT BANK CORP.

2006 ANNUAL REPORT ON FORM 10-K

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

A number of the presentations and disclosures in this Form 10-K, including, without limitation, statements regarding the level of allowance for loan losses, the rate of delinquencies and amounts of charge-offs, and the rates of loan growth, and any statements preceded by, followed by, or which include the words may, could, should, will, would hope, might, believe, expect, anticipate, estimate, intend, plan, assume or similar expressions constit forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to the 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 s forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors (some of which are beyond the Company s control). The following factors, among others, could cause the Company s financial performance to differ materially from the Company s goals, plans, objectives, intentions, expectations and other forward-looking statements:

A weakening in the strength of the United States economy in general and the strength of the regional and local economies within the New England region and Massachusetts which could result in a deterioration on 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 loss;

the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System could affect the Company s business environment or affect the Company s operations;

the effects of, any changes in, and any failure by the Company to comply with tax laws generally and requirements of the federal New Markets Tax Credit program in particular could adversely affect the Company s tax provision and its financial results;

inflation, interest rate, market and monetary fluctuations could reduce net interest income and could increase credit losses;

adverse changes in asset quality could result in increasing credit risk-related losses and expenses;

competitive pressures could intensify and affect the Company s profitability, including as a result of continued industry consolidation, the increased financial services provided by non-banks and banking reform;

a deterioration in the conditions of the securities markets could adversely affect the value or credit quality of the Company s assets, the availability and terms of funding necessary to meet the Company s liquidity needs and

- the Company s ability to originate loans;
- the potential to adapt to changes in information technology could adversely impact the Company s operations and require increased capital spending;
- changes in consumer spending and savings habits could negatively impact the Company s financial results; 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-K. 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.

PART I.

Item 1. *Business*

General

Independent Bank Corp. (the Company) is a state chartered, federally registered bank holding company headquartered in Rockland, Massachusetts that was incorporated under Massachusetts law in 1985. The Company is the sole stockholder of Rockland Trust Company (Rockland or the Bank), a Massachusetts trust company chartered in 1907. Rockland is a community-oriented commercial bank. The community banking business, the Company s only reportable operating segment, consists of commercial banking, retail banking, investment management services, retail investments and insurance sales and is managed as a single strategic unit. The community banking business derives its revenues from a wide range of banking services, including lending activities, acceptance of demand, savings, and time deposits, investment management and trust services, retail investments and insurance services, and mortgage banking income. Rockland offers a full range of community banking services through its network of 52 banking offices (including 50 full-service branches), nine commercial banking centers, three investment management group offices, and four residential lending centers, which are located in the Plymouth, Norfolk, Barnstable and Bristol counties of southeastern Massachusetts and Cape Cod. At December 31, 2006, the Company had total assets of $2.8 billion, total deposits of $2.1 billion, stockholders equity of $229.8 million, and 708 full-time equivalent employees.

Market Area and Competition

The Bank contends with considerable competition both in generating loans and attracting deposits. The Bank s competition for loans is primarily from other commercial banks, savings banks, credit unions, mortgage banking companies, insurance companies, finance companies, and other institutional lenders. Competitive factors considered for loan generation include interest rates and terms offered, loan fees charged, loan products offered, service provided, and geographic locations.

In attracting deposits, the Bank s primary competitors are savings banks, commercial and co-operative banks, credit unions, internet banks, as well as other non-bank institutions that offer financial alternatives such as brokerage firms and insurance companies. Competitive factors considered in attracting and retaining deposits include deposit and investment products and their respective rates of return, liquidity, and risk among other factors, such as, convenient branch locations and hours of operation, personalized customer service, online access to accounts, and automated teller machines.

The Bank s market area is attractive and entry into the market by financial institutions previously not competing in the market area may continue to occur. The entry into the market area by these institutions, and other non-bank institutions that offer financial alternatives could impact the Bank s growth or profitability.

Lending Activities

The Bank s gross loan portfolio (loans before allowance for loan losses) amounted to $2.0 billion on December 31, 2006 or 71.6% of total assets on that date. The Bank classifies loans as commercial, business banking, real estate, or consumer. Commercial loans consist primarily of loans to businesses with credit needs in excess of $250,000 and revenue in excess of $2.5 million for working capital and other business-related purposes and floor plan financing. Business banking loans consist primarily of loans to businesses with commercial credit needs of less than or equal to $250,000 and revenues of less than $2.5 million. Real estate loans are comprised of commercial mortgages that are secured by non-residential properties, residential mortgages that are secured primarily by owner-occupied residences and mortgages for the construction of commercial and residential properties. Consumer loans consist primarily of automobile loans and home equity loans.

The Bank s borrowers consist of small-to-medium sized businesses and retail customers. The Bank s market area is generally comprised of the Plymouth, Norfolk, Barnstable and Bristol Counties located in southeastern Massachusetts and Cape Cod. Substantially all of the Bank s commercial, business banking and consumer loan portfolios consist of loans made to residents of and businesses located in southeastern Massachusetts and Cape Cod. The majority of the real estate loans in the Bank s loan portfolio are secured by properties located within this market area.

Interest rates charged on loans may be fixed or variable and vary with the degree of risk, loan term, underwriting and servicing costs, loan amount and the extent of other banking relationships maintained with customers. Rates are further subject to competitive pressures, the current interest rate environment, availability of funds and government regulations.

The Bank s principal earning assets are its loans. Although the Bank judges its borrowers to be creditworthy, the risk of deterioration in borrowers abilities to repay their loans in accordance with their existing loan agreements is inherent in any lending function. Participating as a lender in the credit market requires a strict underwriting and monitoring process to minimize credit risk. This process requires substantial analysis of the loan application, an evaluation of the customer s capacity to repay according to the loan s contractual terms, and an objective determination of the value of the collateral. The Bank also utilizes the services of an independent third-party consulting firm to provide loan review services, which consist of a variety of monitoring techniques performed after a loan becomes part of the Bank s portfolio.

The Bank s Controlled Asset and Consumer Collections Departments are responsible for the management and resolution of nonperforming assets. In the course of resolving nonperforming loans, the Bank may choose to restructure certain contractual provisions. 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. In order to facilitate the disposition of OREO, the Bank may finance the purchase of such properties at market rates, if the borrower qualifies under the Bank s standard underwriting guidelines. The Bank had one property held as OREO for both periods ending December 31, 2006 and December 31, 2005.

Origination of Loans Commercial and industrial loan applications are obtained through existing customers, solicitation by Bank personnel, referrals from current or past customers, or walk-in customers. Commercial real estate loan applications are obtained primarily from previous borrowers, direct contact with the Bank, or referrals. Business banking loan applications are typically originated by the Bank s retail staff, through a dedicated team of business officers, by referrals from other areas of the Bank, referrals from current or past customers or through walk-in customers. Customers for residential real estate loans are referred to Mortgage Loan Officers who will meet with the borrowers at the borrower s convenience. Pre-approvals may be completed by a customer online via a seamless link to the Federal National Mortgage Association s (FNMA) Loan Portal through the Company s website. Residential real estate loan applications primarily result from referrals by real estate brokers, homebuilders, and existing or walk-in customers. The Bank also maintains a staff of field originators who solicit and refer residential real estate loan applications to the Bank. These employees are compensated on a commission basis and provide convenient origination services during banking and non-banking hours. The Company uses a select group of third party originators to generate additional real estate loan volume. The loans are underwritten and closed in the name of the Bank. Volume generated by these third party originators was less than 5% of total origination in 2006. Consumer loan applications are directly obtained through existing or walk-in customers who have been made aware of the Bank s consumer loan services through advertising and other media, as well as indirectly through a network of automobile, recreational vehicle, and boat dealers.

Commercial and industrial loans, commercial real estate loans, and construction loans may be approved by commercial loan underwriters up to their individually assigned lending limits, which are established and modified periodically by management, with ratification by the Board of Directors, to reflect the officer s expertise and experience. Any of those types of loans which are in excess of a commercial loan officer s assigned lending authority must be approved by various levels of authority within the Commercial Lending Division, depending on the loan amount, up to and including the Senior Loan Committee and, ultimately, the Executive Committee of the Board of

Directors.

Business banking loans may be approved by business banking underwriters up to their individually assigned lending limits which are established and modified periodically by the Director of Consumer and Business Banking and ratified by the Board of Directors to reflect the officer s expertise and experience. The Director of Consumer and Business Banking s lending limit is recommended by the Chief Financial Officer (CFO) and ratified by the

Board of Directors. Any loan which is in excess of the business banking officer s assigned lending authority must be approved by the Director of Consumer and Business Banking.

Residential real estate and construction loans may be approved by residential underwriters and residential loan analysts up to their individually assigned lending limits, which are established and modified periodically by management, with ratification by the Board of Directors, to reflect the underwriter s and analyst s expertise and experience. Any loan which is in excess of the residential underwriter s and residential analyst s assigned residential lending authority must be approved by various levels of authority within the Residential Lending Division, depending on the loan amount, up to and including the Senior Loan Committee and, ultimately, the Executive Committee of the Board of Directors.

Consumer loans may be approved by consumer lenders up to their individually assigned lending limits which are established and modified periodically by the Consumer Loan Administrator and the Director of Consumer and Business Banking to reflect the officer s expertise and experience. The Director of Consumer and Business Banking s lending limit is recommended by the CFO and ratified by the Board of Directors. Any loan which is in excess of the consumer lender s assigned lending authority must be approved by the Consumer Loan Administrator or the Director of Consumer and Business Banking.

In accordance with governing banking statutes, Rockland is permitted, with certain exceptions, to make loans and commitments to any one borrower, including related entities, in the aggregate amount of not more than 20% of the Bank s stockholders equity, which is the Banks legal lending limit or $53.3 million at December 31, 2006. Notwithstanding the foregoing, the Bank has established a more restrictive limit of not more than 75% of the Bank s legal lending limit, or $40.0 million at December 31, 2006, which may only be exceeded with the approval of the Board of Directors. There were no borrowers whose total indebtedness in aggregate exceeded $40.0 million as of December 31, 2006.

Sale of Loans The Bank s residential real estate loans are generally originated in compliance with terms, conditions and documentation which permit the sale of such loans to the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA), and other investors in the secondary market. Loan sales in the secondary market provide funds for additional lending and other banking activities. The Bank sells the servicing on a majority of the sold loans for a servicing released premium, simultaneous with the sale of the loan. As part of its asset/liability management strategy, the Bank may retain a portion of the adjustable rate residential real estate loan originations for its portfolio. During 2006, the Bank originated $209.7 million in residential real estate loans of which $34.0 million was retained in its portfolio, comprised primarily of adjustable rate loans.

Commercial and Industrial Loans The Bank offers secured and unsecured commercial loans for business purposes, including issuing letters of credit. At December 31, 2006, $174.4 million, or 8.6% of the Bank s gross loan portfolio consisted of commercial and industrial loans. Commercial and industrial loans generated 8.0%, 7.2%, and 6.9% of total interest income for the fiscal years ending 2006, 2005 and 2004, respectively.

Commercial loans may be structured as term loans or as revolving lines of credit. Commercial term loans generally have a repayment schedule of five years or less and, although the Bank occasionally originates some commercial term loans with interest rates which float in accordance with a designated index rate, the majority of commercial term loans have fixed rates of interest. The majority of commercial term loans are collateralized by equipment, machinery or other corporate assets. In addition, the Bank generally obtains personal guarantees from the principals of the borrower for virtually all of its commercial loans. At December 31, 2006, there were $63.8 million of term loans in the commercial loan portfolio.

Collateral for commercial revolving lines of credit may consist of accounts receivable, inventory or both, as well as other business assets. Commercial revolving lines of credit generally are reviewed on an annual basis and usually require substantial repayment of principal during the course of a year. The vast majority of these revolving lines of credit have variable rates of interest. At December 31, 2006, there were $110.6 million of revolving lines of credit in the commercial loan portfolio.

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The Bank s standby letters of credit generally are secured, generally have terms of not more than one year, and are reviewed for renewal in general on an annualized basis. At December 31, 2006, the Bank had $8.3 million of commercial and standby letters of credit.

The Bank also provides automobile and, to a lesser extent, boat and other vehicle floor plan financing. Floor plan loans are secured by the automobiles, boats, or other vehicles, which constitute the dealer s inventory. Upon the sale of a floor plan unit, the proceeds of the sale are applied to reduce the loan balance. In the event a unit financed under a floor plan line of credit remains in the dealer s inventory for an extended period, the Bank requires the dealer to pay-down the outstanding balance associated with such unit. Bank personnel make unannounced periodic inspections of each dealer to review the value and condition of the underlying collateral. At December 31, 2006, there were $14.1 million in floor plan loans, all of which have variable rates of interest.

Business Banking Loans The business banking initiative caters to all of the banking needs of businesses with commercial credit requirements and revenues typically less than or equal to $250,000 and $2.5 million respectively, with automated loan underwriting capabilities and new loan and deposit products. Business banking loans totaled $59.9 million at December 31, 2006, or 3.0% of the Bank s gross loan portfolio. Business banking loans generated 2.9%, 2.4%, and 1.3% of total interest income for the fiscal years ending 2006, 2005 and 2004, respectively.

Business banking loans may be structured as term loans, lines of credit including overdraft protection, owner and non-owner occupied commercial mortgages and standby letters of credit. Business banking generally obtains personal guarantees from the principals of the borrower for virtually all of its loan products.

Business banking term loans generally have an amortization schedule of five years or less and, although business banking occasionally originates some term loans with interest rates that float in accordance with the prime rate, the majority of business banking term loans have fixed rates of interest. The majority of business banking term loans are collateralized by machinery, equipment and other corporate assets. At December 31, 2006, there were $20.2 million of term loans in the business banking loan portfolio.

Business banking lines of credit and overdraft protection may be offered on an unsecured basis to qualified applicants. Collateral for secured lines of credit and overdraft protection typically consists of accounts receivable and inventory as well as other business assets. Business banking lines of credit and overdraft protection are reviewed on a periodic basis based upon the total amount of exposure to the customer and are typically written on a demand basis. The vast majority of these lines of credit and overdraft protection have variable rates of interest. At December 31, 2006, there were $33.8 million of lines of credit and overdraft protection in the business banking loan portfolio.

Both business banking owner and non-owner occupied commercial mortgages typically have an amortization schedule of twenty years or less but are written with a five year maturity. The majority of business banking owner occupied commercial mortgages have fixed rates of interest that are adjusted typically every three to five years. The majority of business banking owner occupied commercial mortgages are collateralized by first or second mortgages on owner occupied commercial real estate. At December 31, 2006, there were $3.4 million of owner occupied commercial mortgages in the business banking loan portfolio.

Business banking s standby letters of credit generally are secured, have expirations of not more than one year, and are reviewed periodically for renewal. The business banking team makes use of the Bank s authority as a preferred lender with the U.S. Small Business Administration. At December 31, 2006, there were $3.7 million of U.S. Small Business Administration guaranteed loans in the business banking loan portfolio.

Real Estate Loans The Bank s real estate loans consist of loans secured by commercial properties, loans secured by one-to-four family residential properties, and construction loans. As of December 31, 2006, the Bank s loan portfolio included $740.5 million in commercial real estate loans, $390.2 million in residential real estate loans, $119.7 million in commercial construction loans and $7.3 million in residential construction loans, altogether totaling 62.1% of the Bank s gross loan portfolio. Real estate loans generated an aggregate of 48.2%, 47.5%, and 46.2% of total interest income for the fiscal years ending December 31, 2006, 2005 and 2004, respectively.

The Bank s commercial real estate 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

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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 December 31, 2006.

Commercial Real Estate Portfolio by Property Type

Although terms vary, commercial real estate loans generally have maturities of five years or less, amortization periods of 20 years, and interest rates that either float in accordance with a designated index or have fixed rates of interest. It is also the Bank s policy to obtain personal guarantees from the principals of the borrower on commercial real estate loans and to obtain financial statements at least annually from all commercial and multi-family borrowers.

Commercial real estate lending entails additional risks as compared to residential real estate lending. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. Development of commercial real estate projects also may be subject to numerous land use and environmental issues. The payment experience on such loans is typically dependent on the successful operation of the real estate project, which can be significantly impacted by supply and demand conditions in the market for commercial and retail space.

Rockland originates both fixed-rate and adjustable-rate residential real estate loans. The Bank will lend up to 100% of the lesser of the appraised value of the residential property securing the loan or the purchase price, and generally requires borrowers to obtain private mortgage insurance when the amount of the loan exceeds 80% of the value of the property. The rates of these loans are typically competitive with market rates. The Bank s residential real estate loans are generally originated only under terms, conditions and documentation, which permit sale in the secondary market.

The Bank generally requires title insurance protecting the priority of its mortgage lien, as well as fire, extended coverage casualty and flood insurance when necessary in order to protect the properties securing its residential and other real estate loans. Independent appraisers appraise properties securing all of the Bank s first mortgage real estate loans.

Construction loans are intended to finance the construction of residential and commercial properties, including loans for the acquisition and development of land or rehabilitation of existing homes. Construction loans generally have terms of six months, but not more than two years. They usually do not provide for amortization of the loan balance during the term. The majority of the Bank s commercial construction loans have floating rates of interest based upon the Rockland base rate or the prime rate published daily in the Wall Street Journal.

A significant portion of the Bank s construction lending is related to one-to-four family residential development within the Bank s market area. The Bank typically has focused its construction lending on relatively small projects and has developed and maintains a relationship with a significant number of homebuilders in the Plymouth, Norfolk, Barnstable and Bristol Counties of southeastern Massachusetts and Cape Cod.

Construction loans are generally considered to present a higher degree of risk than permanent real estate loans. A borrower s ability to complete construction may be affected by a variety of factors such as adverse changes in interest rates and the borrower s ability to control costs and adhere to time schedules.

Consumer Loans The Bank makes loans for a wide variety of personal needs. Consumer loans primarily consist of installment loans, home equity loans, overdraft protection, and personal lines of credit. As of December 31, 2006, $532.9 million, or 26.3%, of the Bank s gross loan portfolio consisted of consumer loans. Consumer loans generated 22.2%, 20.8% and 20.1% of total interest income for the fiscal years ending December 31, 2006, 2005, and 2004, respectively.

The Bank s installment loans consist primarily of automobile loans, which totaled $206.8 million, at December 31, 2006, or 10.2% of loans, a decrease from 12.9% of loans at year-end 2005, and a decrease from 14.8% of loans at year-end 2004. A substantial portion of the Bank s automobile loans are originated indirectly by a network of approximately 185 new and used automobile dealers located within the Bank s market area. Although employees of the dealer take applications for such loans, the loans are made pursuant to Rockland s underwriting standards using Rockland s documentation. A Rockland loan officer must approve all indirect loans. In addition to indirect automobile lending, the Bank also originates automobile loans directly.

The maximum term for the Bank s automobile loans is 84 months for a new car loan and 72 months with respect to a used car loan. Loans on new and used automobiles are generally made without recourse to the dealer. The Bank requires all borrowers to maintain automobile insurance, including full collision, fire and theft, with a maximum allowable deductible and with the Bank listed as loss payee. In addition, in order to mitigate the adverse effect on interest income caused by prepayments, dealers are required to maintain a reserve, of up to 3% of the outstanding balance of the indirect loans originated by them under Reserve option A . Reserve option A allows the Bank to be rebated the prepaid dealer reserve on a pro-rata basis in the event of prepayment prior to maturity. Reserve option B allows the dealer to share the reserve with the Bank, split 75/25, however for the Bank s receipt of 25%, no rebates are applied to the account after 90 days from date of first payment. Indirect automobile loans at December 31, 2006, had a weighted average FICO[1] score of 721 and a weighted average combined loan to value ratio of 98.9%.

The Bank s consumer loans also include home equity, unsecured loans and loans secured by deposit accounts, loans to purchase motorcycles, recreational vehicles, motor homes, boats, or mobile homes. The Bank generally will lend up to 100% of the purchase price of vehicles other than automobiles with terms of up to three years for motorcycles and up to fifteen years for recreational vehicles.

Home equity loans and lines may be made as a fixed rate term loan or under a variable rate revolving line of credit secured by a first or second mortgage on the borrower s residence or second home. At December 31, 2006, $80.2 million, or 28.9%, of the home equity portfolio were term loans and $196.8 million, or 71.1%, of the home equity portfolio were revolving lines of credit. The Bank will originate home equity loans and lines in an amount up to 89.9% of the appraised value or on-line valuation, reduced for any loans outstanding secured by such collateral. Home equity loans and lines are underwritten in accordance with the Bank s loan policy which includes a combination of credit score, loan to value ratio[2], employment history and debt to income ratio. Home equity lines of credit at December 31, 2006, had a weighted average FICO[1] score of 749 and a weighted average combined loan to value ratio of 58.0%.

[1] FICO   represents a credit score determined by the Fair Isaac Corporation, with data provided by the three major credit repositories (Trans Union, Experian, and Equifax). This score predicts the likelihood of loan default. The lower the score, the more likely an individual is to default. The actual FICO scores range from 300 to 850 (fairissaac.com).
[2] Loan to Value   is the ratio of the total potential exposure on a loan to the fair market value of the collateral. The higher the Loan to Value, the higher the loss risk in the event of default.

Cash reserve loans are made pursuant to previously approved unsecured cash reserve lines of credit. The rate on these loans is tied to the prime rate.

Investment Activities

The Bank s securities portfolio consists of U.S. Treasury and U.S. Government agency obligations, state, county and municipal securities, mortgage-backed securities, collateralized mortgage obligations, Federal Home Loan Bank (FHLB) stock, corporate debt securities and equity securities held for the purpose of funding supplemental executive retirement plan obligations through a Rabbi Trust. Most of these securities are investment grade debt obligations with average lives of five years or less. U.S. Treasury and U.S. Government agency securities entail a lesser degree of risk than loans made by the Bank by virtue of the guarantees that back them, require less capital under risk-based capital rules than non-insured or non-guaranteed mortgage loans, are more liquid than individual mortgage loans, and may be used to collateralize borrowings or other obligations of the Bank. The Bank views its securities portfolio as a source of income and liquidity. Interest and principal payments generated from securities provide a source of liquidity to fund loans and meet short-term cash needs. The Bank s securities portfolio is managed in accordance with the Rockland Trust Company Investment Policy adopted by the Board of Directors. The Chief Executive Officer or the Chief Financial Officer may make investments with the approval of one additional member of the Asset/Liability Management Committee, subject to limits on the type, size and quality of all investments, which are specified in the Investment Policy. The Bank s Asset/Liability Management Committee, or its appointee, is required to evaluate any proposed purchase from the standpoint of overall diversification of the portfolio. At December 31, 2006, securities totaled $517.3 million. Total securities generated interest and dividends on securities of 17.8%, 21.8%, and 25.5% of total interest income for the fiscal years ended 2006, 2005 and 2004, respectively. The chart below shows the level of securities versus assets for the year end 2004, 2005 and 2006.

Level of Securities/Assets
(Dollars in thousands)

Sources of Funds

Deposits Deposits obtained through Rockland s branch banking network have traditionally been the principal source of the Bank s funds for use in lending and for other general business purposes. The Bank has built a stable base of in-market core deposits from consumers, businesses, and municipalities located in southeastern Massachusetts and Cape Cod. Rockland offers a range of demand deposits, interest checking, money market accounts, savings accounts, and time certificates of deposit. Interest rates on deposits are based on factors that include loan demand, deposit maturities, alternative costs of funds, and interest rates offered by competing financial institutions in the Bank s market area. The Bank believes it has been able to attract and maintain satisfactory levels of deposits based on the level of service it provides to its customers, the convenience of its banking locations, and its interest rates that are generally competitive with those of competing financial institutions. Rockland has a municipal banking department that focuses on providing service to local municipalities. At December 31, 2006, there were municipal deposits from customers of $122.0 million which are included in total deposits. As of December 31, 2006, total deposits were $2.1 billion.

Rockland s branch locations are supplemented by the Bank s internet banking services as well as automated teller machine (ATM) cards and debit cards, which may be used to conduct various banking transactions at ATMs maintained at each of the Bank s full-service offices and four additional remote ATM locations. The ATM cards and debit cards also allow customers access to the NYCE regional ATM network, as well as the Cirrus nationwide ATM network. In addition, Rockland is a member of the SUM network, which allows access to 2,800 participating ATM machines free of surcharge. These networks provide the Bank s customers access to their accounts through ATMs located throughout Massachusetts, the United States, and the world. The debit card also can be used at any place that accepts MasterCard worldwide.

Borrowings Borrowings consist of short-term and intermediate-term obligations. Short-term borrowings can consist of FHLB advances, federal funds purchased, treasury tax and loan notes and assets sold under repurchase agreements. In a repurchase agreement transaction, the Bank will generally sell a security agreeing to repurchase either the same or a substantially identical security on a specified later date at a price slightly greater than the original sales price. The difference in the sale price and purchase price is the cost of the proceeds recorded as interest expense. The securities underlying the agreements are delivered to the dealer who arranges the transactions as security for the repurchase obligation. Payments on such borrowings are interest only until the scheduled repurchase date, which generally occurs within a period of 30 days or less. Repurchase agreements represent a non-deposit funding source for the Bank and the Bank is subject to the risk that the purchaser may default at maturity and not return the collateral. In order to minimize this potential risk, the Bank only deals with established investment brokerage firms when entering into these transactions. On December 31, 2006, the Bank had $25.0 million outstanding under these repurchase agreements with investment brokerage firms. In addition to agreements with brokers, the Bank has entered into similar agreements with its customers. At December 31, 2006, the Bank had $83.2 million of customer repurchase agreements outstanding.

In July 1994, Rockland became a member of the FHLB of Boston. Among the many advantages of this membership, this affiliation provides the Bank with access to short-to-medium term borrowing capacity. At December 31, 2006, the Bank had $305.1 million outstanding in FHLB borrowings with initial maturities ranging from 3 months to 20 years. In addition, the Bank had $198.7 million of borrowing capacity remaining with the FHLB at December 31, 2006.

Also included in borrowings are junior subordinated debentures payable to the Company s unconsolidated special purpose entities (Independent Capital Trust IV (Trust IV) and Independent Capital Trust V (Trust V)) that issued trust preferred securities to the public. At December 31, 2006 there were $25.8 million outstanding junior subordinated debentures at a fixed rate of 8.375% issued by Trust IV and $51.5 million outstanding junior subordinated debentures issued by Trust V at a variable rate defined as the 3 month London Interbank Offered Rate plus 148 basis points. The Company has entered into interest rate swap agreements to fix the interest rate paid on these debentures for the next ten years at 6.52%. The debentures have a stated maturity of April 30, 2032 and March 31, 2037 for amounts due to Trust IV and V, respectively. Proceeds from the issuance of junior subordinated debentures from Trust V will be used to redeem all of the outstanding 8.375% junior subordinated debentures issued by Trust IV when they are first callable on April 30, 2007.

Investment Management, Retail Investments and Insurance

Investment Management The Rockland Trust Investment Management Group provides investment management and trust services to individuals, small businesses, and charitable institutions throughout southeastern Massachusetts and Cape Cod. In addition, the Bank serves as executor or administrator of estates.

Accounts maintained by the Rockland Trust Investment Management Group consist of managed and non-managed accounts. Managed accounts are those for which the Bank is responsible for administration and investment management and/or investment advice. Non-managed accounts are those for which the Bank acts solely as a custodian or directed trustee. The Bank receives fees dependent upon the level and type of service(s) provided. For the year ended December 31, 2006, the Investment Management Group generated gross fee revenues of $5.5 million. Total assets under administration as of December 31, 2006, were $815.8 million, an increase of $135.7 million, or 20.0%, from December 31, 2005.

The administration of trust and fiduciary accounts is monitored by the Trust Committee of the Bank s Board of Directors. The Trust Committee has delegated administrative responsibilities to three committees, one for investments, one for administration, and one for operations, all of which are comprised of Investment Management Group officers who meet not less than monthly.

Retail Investments and Insurance In 1999, the Bank entered into an agreement with Independent Financial Marketing Group, Inc. (IFMG) and their insurance subsidiary IFS Agencies, Inc. (IFS) for the sale of mutual fund shares, unit investment trust shares, general securities, fixed and variable annuities and life insurance. At the end of June 2006, the Bank terminated its relationship with IFMG Securities and IFS Agencies and entered into agreements with Linsco/Private Ledger Corp. (LPL) and their insurance subsidiary Private Ledger Insurance Services of Massachusetts, Inc. to offer those services. Under the new arrangement, registered representatives who are dually employed by both the Bank and LPL are onsite to offer these products to the Bank s customer base. In 2005, the Bank entered into an agreement with Savings Bank Life Insurance of Massachusetts (SBLI) to enable appropriately licensed Bank employees to offer SBLI s fixed annuities and life insurance to the Bank s customer base. For the year ended December 31, 2006, the retail investments and insurance group generated gross fee revenues of $593,000.

Regulation

The following discussion sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides certain specific information relevant to the Company. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy, may have a material effect on our business. The laws and regulations governing the Company and Rockland generally have been promulgated to protect depositors and not for the purpose of protecting stockholders.

General The Company is registered as a bank holding company under the Bank Holding Company Act of 1956 (BHCA), as amended, and as such is subject to regulation by the Board of Governors of the Federal Reserve System (Federal Reserve). Rockland is subject to regulation and examination by the Commissioner of Banks of the Commonwealth of Massachusetts (the Commissioner) and the Federal Deposit Insurance Corporation (FDIC). The majority of Rockland s deposit accounts are insured to the maximum extent permitted by law by the Bank Insurance Fund (BIF) which is administered by the FDIC. In 1994, the Bank purchased the deposits of three branches of a failed savings and loan association from the Resolution Trust Corporation. These deposits are insured to the maximum extent permitted by law by the Savings Association Insurance Fund (SAIF).

The Bank Holding Company Act (BHCA) BHCA prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any bank, or increasing such ownership or control of any bank, without prior approval of the Federal Reserve. The BHCA also prohibits the Company from, with certain exceptions, acquiring more than 5% of any class of voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks.

Under the BHCA, the Federal Reserve is authorized to approve the ownership by the Company of shares in any company, the activities of which the Federal Reserve has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. The Federal Reserve has, by regulation, determined that some activities are closely related to banking within the meaning of the BHCA. These activities include, but are not limited to, operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing data processing operations; providing some securities brokerage services; acting as an investment or financial adviser; acting as an insurance agent for types of credit-related insurance; engaging in insurance underwriting under limited circumstances; leasing personal property on a full-payout, non-operating basis; providing tax planning and preparation services; operating a collection agency and a credit bureau; providing consumer financial counseling and courier services. The Federal Reserve also has determined that other activities, including real estate brokerage and syndication, land development, property management and, except under limited circumstances, underwriting of life insurance not related to credit transactions, are not closely related to banking and are not a proper incident thereto.

Interstate Banking Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Interstate Banking Act), bank holding companies may acquire banks in states other than their home state

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without regard to the permissibility of such acquisitions under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, after the proposed acquisition, controls no more than 10 percent of the total amount of deposits of insured depository institutions in the United States and no more than 30 percent or such lesser or greater amount set by state law of such deposits in that state.

Pursuant to Massachusetts law, no approval to acquire a banking institution, acquire additional shares in a banking institution, acquire substantially all the assets of a banking institution, or merge or consolidate with another bank holding company, may be given if the bank being acquired has been in existence for a period less than three years or, as a result, the bank holding company would control, in excess of 30%, of the total deposits of all state and federally chartered banks in Massachusetts, unless waived by the Commissioner. With the prior written approval of the Commissioner, Massachusetts also permits the establishment of de novo branches in Massachusetts to the full extent permitted by the Interstate Banking Act, provided the laws of the home state of such out-of-state bank expressly authorize, under conditions no more restrictive than those of Massachusetts, Massachusetts banks to establish and operate de novo branches in such state.

Capital Requirements The Federal Reserve has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. The Federal Reserve s capital adequacy guidelines which generally require bank holding companies to maintain total capital equal to 8% of total risk-adjusted assets, with at least one-half of that amount consisting of Tier 1, or core capital and up to one-half of that amount consisting of Tier 2, or supplementary capital. Tier 1 capital for bank holding companies generally consists of the sum of common stockholders equity and perpetual preferred stock (subject in the case of the latter to limitations on the kind and amount of such stocks which may be included as Tier 1 capital), less net unrealized gains on available for sale securities and on cash flow hedges, post retirement adjustments recorded in accumulated other comprehensive income (according to an interim decision announced on December 14, 2006), and goodwill and other intangible assets required to be deducted from capital. Tier 2 capital generally consists of perpetual preferred stock which is not eligible to be included as Tier 1 capital; hybrid capital instruments such as perpetual debt and mandatory convertible debt securities, and term subordinated debt and intermediate-term preferred stock; and, subject to limitations, the allowance for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no additional capital) for assets such as cash to 100% for the majority of assets which are typically held by a bank holding company, including commercial real estate loans, commercial loans and consumer loans. Single family residential first mortgage loans which are not 90 days or more past due or nonperforming and which have been made in accordance with prudent underwriting standards are assigned a 50% level in the risk-weighting system, as are certain privately-issued mortgage-backed securities representing indirect ownership of such loans and certain multi-family housing loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics.

In addition to the risk-based capital requirements, the Federal Reserve requires bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital to total assets of 3.0%. Total assets for this purpose do not include goodwill and any other intangible assets or investments that the Federal Reserve determines should be deducted from Tier 1 capital. The Federal Reserve has announced that the 3.0% Tier 1 leverage capital ratio requirement is the minimum for the top-rated bank holding companies without any supervisory, financial or operational weaknesses or deficiencies or those which are not experiencing or anticipating significant growth. Other bank holding companies (including the Company) are expected to maintain Tier 1 leverage capital ratios of at least 4.0% to 5.0% or more, depending on their overall condition.

The Company currently is in compliance with the above-described regulatory capital requirements. At December 31, 2006, the Company had Tier 1 capital and total capital equal to 11.05% and 12.30% of total risk-adjusted assets, respectively, and Tier 1 leverage capital equal to 8.05% of total assets. As of such date, Rockland complied with the applicable bank federal regulatory risked based capital requirements, with Tier 1 capital and total capital equal to 10.42% and 11.67% of total risk-adjusted assets, respectively, and Tier 1 leverage capital equal to 7.60% of total assets.

The FDIC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks, which, like Rockland, are not members of the Federal Reserve System. These requirements are substantially similar to those adopted by the Federal Reserve regarding bank holding companies, as described above. The FDIC s capital regulations establish a minimum 3.0% Tier 1 leverage capital to total assets requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier 1 leverage capital ratio for such banks to 4.0% or 5.0% or more. Under the FDIC s regulations, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and in general which are considered strong banking organizations, rated composite 1 under the Uniform Financial Institutions Rating System.

Each federal banking agency has broad powers to implement a system of prompt corrective action to resolve problems of institutions, that it regulates, which are not adequately capitalized. A bank shall be deemed to be (i) well capitalized if it has a total risk-based capital ratio of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any written capital order or directive; (ii) adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more, a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well capitalized ; (iii) undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, or a Tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio of less than 4.0% (3.0% under certain circumstances); (iv) significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, or a Tier 1 risk-based capital ratio that is less than 3.0%, or a Tier 1 leverage capital ratio that is less than 3.0%; and (v) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. As of December 31, 2006, Rockland was deemed a well-capitalized institution for this purpose.

Commitments to Affiliated Institutions Under Federal Reserve policy, the Company is expected to act as a source of financial strength to Rockland and to commit resources to support Rockland. This support may be required at times when the Company may not be able to provide such support. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC either as a result of default of a banking or thrift subsidiary of a bank/financial holding company such as the Company or related to FDIC assistance provided to a subsidiary in danger of default the other banking subsidiaries of such bank/financial holding company may be assessed for the FDIC s loss, subject to certain exceptions.

Limitations on Acquisitions of Common Stock The federal Change in Bank Control Act (CBCA) prohibits a person or group of persons from acquiring control of a bank holding company or bank unless the appropriate federal bank regulator has been given 60 days prior written notice of such proposed acquisition and within that time period such regulator has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days the period during which such a disapproval may be issued. The acquisition of 25% or more of any class of voting securities constitutes the acquisition of control under the CBCA. In addition, under a rebuttal presumption established under the CBCA regulations, the acquisition of 10% or more of a class of voting stock of a bank holding company or a FDIC insured bank, with a class of securities registered under or subject to the requirements of Section 12 of the Securities Exchange Act of 1934 would, under the circumstances set forth in the presumption, constitute the acquisition of control.

Any company would be required to obtain the approval of the Federal Reserve under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of the outstanding common stock of, or such lesser number of shares as constitute control over, the Company. Such approval would be contingent upon, among other things, the acquirer registering as a bank holding company, divesting all impermissible holdings and ceasing any activities not permissible for a bank holding company. The Company owns no voting stock in any banking institution.

Deposit Insurance Premiums Rockland currently pays deposit insurance premiums to the FDIC based on a single, uniform assessment rate established by the FDIC for all Bank Insurance Fund (BIF) -member institutions. The assessment rates range from 0% to 0.27%. Under the FDIC s risk-based assessment system, institutions are assigned to one of three capital groups which assignment is based solely on the level of an institution s capital well capitalized, adequately capitalized, and undercapitalized which are defined in the same manner as the regulations establishing the prompt corrective action system under the Federal Deposit Insurance Act (FDIA). Rockland is presently well capitalized and as a result, Rockland is currently not subject to any FDIC premium obligation.

Effective January 1, 2007, the FDIC approved new deposit insurance assessment rates that will be determined based upon a combination of financial ratios and supervisory factors. There are four established risk categories under the new assessment rules. The Bank anticipates that it will qualify as a Risk Category I institution with assessment rates ranging from 5 to 7 basis points of the deposit assessment base, as defined by the FDIC. Based upon an analytic tool provided by the FDIC, the Bank anticipates that its projected calculated assessment rate will be at the lower end of that range. The Federal Deposit Insurance Reform Act of 2005 allows eligible insured depository institutions to share in a one-time assessment credit pool of approximately $4.7 billion, effectively reducing the amount these institutions will be required to submit as an overall assessment. As indicated in the final rule regarding this credit published in October 2006, the FDIC provided the Bank with a preliminary Statement of One-Time Credit. The Bank s one-time assessment credit as indicated on that statement is approximately $1.3 million to be received in 2007.

Community Reinvestment Act (CRA) Pursuant to the Community Reinvestment Act (CRA) and similar provisions of Massachusetts law, regulatory authorities review the performance of the Company and Rockland in meeting the credit needs of the communities served by Rockland. The applicable regulatory authorities consider compliance with this law in connection with applications for, among other things, approval of new branches, branch relocations, engaging in certain new financial activities under the Gramm-Leach-Bliley Act of 1999, as discussed below, and acquisitions of banks and bank holding companies. The FDIC and the Massachusetts Division of Banks has assigned the Bank a CRA rating of outstanding as of the latest examinations.

Bank Secrecy Act The Bank Secrecy Act requires financial institutions to keep records and file reports that are determined to have a high degree of usefulness in criminal, tax and regulatory matters, and to implement counter-money laundering programs and compliance procedures.

USA Patriot Act of 2001 In October 2001, the USA Patriot Act of 2001 was enacted in response to the terrorist attacks in New York, Pennsylvania and Washington D.C. which occurred on September 11, 2001. The Patriot Act is intended to strengthen U.S. law enforcement s and the intelligence communities abilities to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Patriot Act on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Financial Services Modernization Legislation In November 1999, the Gramm-Leach-Bliley Act (GLB) of 1999, was enacted. The GLB repeals provisions of the Glass-Steagall Act which restricted the affiliation of Federal Reserve member banks with firms engaged principally in specified securities activities, and which restricted officer, director or employee interlocks between a member bank and any company or person primarily engaged in specified securities activities.

In addition, the GLB also contains provisions that expressly preempt any state law restricting the establishment of financial affiliations, primarily related to insurance. The general effect of the law is to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers, by revising and expanding the Bank Holding Company Act framework to permit a holding company to engage in a full range of financial activities through a new entity known as a financial holding company. Financial activities is broadly defined to include not only banking, insurance and securities activities, but also merchant banking and additional activities that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

The GLB also permits national banks to engage in expanded activities through the formation of financial subsidiaries. A national bank may have a subsidiary engaged in any activity authorized for national banks directly or any financial activity, except for insurance underwriting, insurance investments, real estate investment or development, or merchant banking, which may only be conducted through a subsidiary of a financial holding company. Financial activities include all activities permitted under new sections of the Bank Holding Company Act or permitted by regulation.

To the extent that the GLB permits banks, securities firms and insurance companies to affiliate, the financial services industry may experience further consolidation. The GLB is intended to grant to community banks certain powers as a matter of right that larger institutions have accumulated on an ad hoc basis and which unitary savings and loan holding companies already possess. Nevertheless, the GLB may have the result of increasing the amount of competition that the Company faces from larger institutions and other types of companies offering financial products, many of which may have substantially more financial resources than the Company.

Sarbanes-Oxley Act of 2002 The Sarbanes-Oxley Act (SOA) of 2002 includes very specific disclosure requirements and corporate governance rules, and the Securities and Exchange Commission (SEC) and securities exchanges have adopted extensive disclosure, corporate governance and other related rules, due to the SOA. The Company has incurred additional expenses in complying with the provisions of the SOA and the resulting regulations. As the SEC provides any new requirements under the SOA, management will review those rules, comply as required and may incur more expenses. However, management does not expect that such compliance will have a material impact on our results of operation or financial condition.

Regulation W Transactions between a bank and its affiliates are quantitatively and qualitatively restricted under the Federal Reserve Act. The Federal Deposit Insurance Act applies Sections 23A and 23B to insured nonmember banks in the same manner and to the same extent as if they were members of the Federal Reserve System. The Federal Reserve Board has also recently issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretative guidance with respect to affiliate transactions. Regulation W incorporates the exemption from the affiliate transaction rules, but expands the exemption to cover the purchase of any type of loan or extension of credit from an affiliate. Affiliates of a bank include, among other entities, the bank s holding company and companies that are under common control with the bank. The Company is considered to be an affiliate of the Bank. In general, subject to certain specified exemptions, a bank or its subsidiaries are limited in their ability to engage in covered transactions with affiliates:

- to an amount equal to 10% of the bank s capital and surplus, in the case of covered transactions with any one affiliate; and

- to an amount equal to 20% of the bank s capital and surplus, in the case of covered transactions with all affiliates.

In addition, a bank and its subsidiaries may engage in covered transactions and other specified transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A covered transaction includes:

- a loan or extension of credit to an affiliate;

- a purchase of, or an investment in, securities issued by an affiliate;

- a purchase of assets from an affiliate, with some exceptions;

the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; and

the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, under Regulation W:

a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;

covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and

with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by collateral with a market value ranging from 100% to 130%, depending on the type of collateral, of the amount of the loan or extension of credit.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates.

Employees As of December 31, 2006, the Bank had 708 full time equivalent employees. None of the Company s employees are represented by a labor union and management considers relations with its employees to be good.

Miscellaneous Rockland is subject to certain restrictions on loans to the Company, on investments in the stock or securities thereof, on the taking of such stock or securities as collateral for loans to any borrower, and on the issuance of a guarantee or letter of credit on behalf of the Company. Rockland also is subject to certain restrictions on most types of transactions with the Company, requiring that the terms of such transactions be substantially equivalent to terms of similar transactions with non-affiliated firms. In addition, under state law, there are certain conditions for and restrictions on the distribution of dividends to the Company by Rockland.

The regulatory information referenced briefly summarizes certain material statutes and regulations affecting the Company and the Bank and is qualified in its entirety by reference to the particular statutory and regulatory provisions.

Statistical Disclosure by Bank Holding Companies

The following information, included under Items 6, 7, and 8 of this report are incorporated by reference herein.

Note 8, Borrowings within *Notes to the Consolidated Financial Statements* which includes information regarding short-term borrowings and is included in Item 8 hereof.

For additional information regarding the Company s business and operations, see *Selected Financial Data* in Item 6 hereof, *Management s Discussion and Analysis of Financial Condition and Results of Operations* in Item 7 hereof and the *Consolidated Financial Statements* in Item 8 hereof.

Securities and Exchange Commission Availability of Filings on Company Web Site

Under the Securities Exchange Act of 1934 Sections 13 and 15(d), periodic and current reports must be filed with the SEC. The public may read and copy any materials filed with the SEC at the SEC s Office of Investor Education and Assistance (Public Reference Room) at 100 F Street, NE, Washington, DC 20549-0213. The public may obtain information on the operation of the Office of Investor Education and Assistance (Public Reference Room) by calling the SEC at 1-800-SEC-0330. The Company electronically files the following reports with the SEC: Form 10-K (Annual Report), Form 10-Q (Quarterly Report), Form 11-K (Annual Report for Employees Savings, Profit Sharing and Stock Ownership Plan), Form 8-K (Report of Unscheduled Material Events), Forms S-4, S-3 and 8-A (Registration Statements), and Form DEF 14A (Proxy Statement). The Company may file additional forms. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, at www.sec.gov, in which all forms filed electronically may be accessed. Additionally, our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed with the SEC and additional shareholder information are available free of charge on the Company s website: www.RocklandTrust.com (within the investor relations tab). Information contained on our website and the SEC website is not incorporated by reference into this Form 10-K. We have included our web address and the SEC website address only as inactive textual references and do not intend them to be active links to our website or the SEC website. The Company s Code of Ethics and other Corporate Governance documents are also available on the Company s website in the Investor Relations section of the website.

Item 1A. *Risk Factors*

Changes in interest rates could adversely impact the Company s financial condition and results of operations. The Company s ability to make a profit, like that of most financial institutions, substantially depends upon its net interest income, which is the difference between the interest income earned on interest earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. However, certain assets and liabilities, may react differently to changes in market interest rates. Further, interest rates on some types of assets and liabilities may fluctuate prior to changes in broader market interest rates, while rates on other types of assets may lag behind. Additionally, some assets such as adjustable-rate mortgages, have features, and rate caps, which restrict changes in their interest rates.

Factors such as inflation, recession, unemployment, money supply, global disorder such as that experienced as a result of the terrorist activity on September 11, 2001, instability in domestic and foreign financial markets, and other factors beyond the Company s control, may affect interest rates. Changes in market interest rates will also affect the level of voluntary prepayments on loans and the receipt of payments on mortgage-backed securities, resulting in the receipt of proceeds that may have to be reinvested at a lower rate than the loan or mortgage-backed security being prepaid. Although the Company pursues an asset-liability management strategy designed to control its risk from changes in market interest rates, changes in interest rates can still have a material adverse effect on the Company s profitability.

If the Company has higher loan losses than it has allowed for, its earnings could materially decrease. The Company s loan customers may not repay loans according to their terms, and the collateral securing the payment of loans may be insufficient to assure repayment. The Company may therefore experience significant credit losses which could have a material adverse effect on its operating results. The Company makes various assumptions and judgments about the collectibility of its loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the size of the allowance for loan losses, the Company relies on its experience and its evaluation of economic conditions. If its assumptions prove to be incorrect, its current allowance for loan losses may not be sufficient to cover losses inherent in its loan portfolio and adjustment may be necessary to allow for different economic conditions or adverse developments in its loan portfolio. Consequently, a problem with one or more loans could require the Company to significantly increase the level of its provision for loan losses. In addition, federal and state regulators periodically review the Company s allowance for loan losses and may require it to increase its provision for loan losses or recognize further loan charge-offs. Material additions to the allowance would materially decrease the Company s net income.

A significant amount of the Company s loans are concentrated in Massachusetts, and adverse conditions in this area could negatively impact its operations. Substantially all of the loans the Company originates are secured by properties located in or are made to businesses which operate in Massachusetts. Because of the current concentration of the Company s loan origination activities in Massachusetts, in the event of adverse economic conditions, potential downward pressure on housing prices, political or business developments or natural hazards that may affect Massachusetts and the ability of property owners and businesses in Massachusetts to make payments of principal and interest on the underlying loans, the Company would likely experience higher rates of loss and delinquency on its loans than if its loans were more geographically diversified, which could have an adverse effect on its results of operations or financial condition.

The Company operates in a highly regulated environment and may be adversely impacted by changes in law and regulations. The Company is subject to extensive regulation, supervision and examination. See Regulation in Item 1 hereof, *Business.* Any change in the laws or regulations and failure by the Company to comply with applicable law and regulation, or a change in regulators supervisory policies or examination procedures, whether by the

Massachusetts Commissioner of Banks, the FDIC, the Federal Reserve Board, other state or federal regulators, the United States Congress, or the Massachusetts legislature could have a material adverse effect on the Company s business, financial condition, results of operations, and cash flows.

The Company has strong competition within its market area which may limit the Company s growth and profitability. The Company faces significant competition both in attracting deposits and in the origination of loans. See Market Area and Competition in Item 1 hereof, *Business.* Commercial banks, credit unions, savings banks, savings and loan associations operating in our primary market area have historically provided most of our competition for deposits. Competition for the origination of real estate and other loans come from other commercial banks, thrift institutions, insurance companies, finance companies, other institutional lenders and mortgage companies.

The success of the Company is dependent on hiring and retaining certain key personnel. The Company s performance is largely dependent on the talents and efforts of highly skilled individuals. The Company relies on key personnel to manage and operate its business, including major revenue generating functions such as loan and deposit generation. The loss of key staff may adversely affect the Company s ability to maintain and manage these functions effectively, which could negatively affect the Company s revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in the Company s net income. The Company s continued ability to compete effectively depends on its ability to attract new employees and to retain and motivate its existing employees.

Item 1B. *Unresolved Staff Comments*

None

Item 2. *Properties*

At December 31, 2006, the Bank conducted its business from its headquarters and main office located at 288 Union Street, Rockland, Massachusetts and fifty-one banking offices located within Barnstable, Bristol, Norfolk and Plymouth Counties in Southeastern Massachusetts and Cape Cod. In addition to its main office, the Bank owned twenty-one of its branches and leased the remaining thirty branches. All of the Bank s properties are considered to be in good condition and adequate for the purpose for which they are used. In addition to these branch locations, the Bank had three remote ATM locations all of which were leased.

County	Banking Offices	ATM	Deposits (Dollars in thousands)
Barnstable	15		$ 541,327
Bristol	3		78,381
Norfolk	5		175,098
Plymouth	29	3	1,295,538
Total	52	3	$ 2,090,344

The Bank conducted business in nine additional administrative locations. These locations housed executive, administrative, investment management, mortgage lending, consumer lending, commercial lending and back office support staff and warehouse space. The bank owned three of its administrative offices and leased the remaining six offices.

County	Administrative Offices

Barnstable	1
Bristol	2
Norfolk	1
Plymouth	5
Total	9

For additional information regarding our premises and equipment and lease obligations, see Notes 6 and 16, respectively, to the *Consolidated Financial Statements* included in Item 8 hereof.

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Item 3. ***Legal Proceedings***

The Company expects that the federal judge presiding over the pending case 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, will issue a final trial court decision, in the form of Findings Of Fact and Conclusions Of Law, sometime soon. The case arises from a 1991 License Agreement (the Agreement) between the Bank and Computer Associates International, Inc. (CA) for an integrated system of banking software products.

In July 1995 the Bank filed a Complaint against CA in federal court in Boston which asserted claims for breach of the Agreement, breach of express warranty, breach of the implied covenant of good faith and fair dealing, fraud, and for unfair and deceptive practices in violation of section 11 of Chapter 93A of the Massachusetts General Laws (the 93A Claim). The Bank is seeking damages of at least $1.23 million from CA. If the Bank prevails on the 93A Claim, it shall be entitled to recover its attorney fees and costs and may also recover double or triple damages. CA asserted a Counterclaim against the Bank for breach of the Agreement. CA seeks to recover damages of at least $1.1 million from the Bank.

The non-jury trial of the case was conducted in January 2001. The trial concluded with post-trial submissions to and argument before the court in February 2001. The court has not yet rendered a decision.

The Company has considered the potential impact of this case, and all cases pending in the normal course of business, when preparing its financial statements. While the trial court decision may affect the Company s operating results for the quarter in which the decision is rendered in either a favorable or unfavorable manner, the final outcome of this case will not likely have any material, long-term impact on the Company s financial condition.

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 4. ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of our security holders in the fourth quarter of 2006.

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PART II

Item 5. ***Market for Independent Bank Corp. s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

(a.) Independent Bank Corp. s common stock trades on the National Association of Securities Dealers Automated Quotation System (NASDAQ) under the symbol INDB. The Company declared cash dividends of $0.64 per share in 2006 and $0.60 per share in 2005. The ratio of dividends paid to earnings in 2006 and 2005 was 29.1% and 27.8%, respectively.

Payment of dividends by the Company on its common stock is subject to various regulatory restrictions and guidelines. Since substantially all of the funds available for the payment of dividends are derived from the Bank, future dividends will depend on the earnings of the Bank, its financial condition, its need for funds, applicable governmental policies and regulations, and other such matters as the Board of Directors deem appropriate. Management believes that the Bank will continue to generate adequate earnings to continue to pay dividends on a quarterly basis.

The following schedule summarizes the closing price range of common stock and the cash dividends paid for the fiscal years 2006 and 2005.

Table 1 Price Range of Common Stock

2006	**High**	**Low**	**Dividend**
4th Quarter	$ 36.91	$ 31.60	$ 0.16
3rd Quarter	34.59	31.34	0.16
2nd Quarter	32.98	29.91	0.16
1st Quarter	32.33	28.52	0.16

2005	**High**	**Low**	**Dividend**
4th Quarter	$ 30.20	$ 26.98	$ 0.15
3rd Quarter	31.53	28.20	0.15
2nd Quarter	29.52	25.31	0.15
1st Quarter	33.20	28.34	0.15

As of December 31, 2006 there were 14,686,481 shares of common stock outstanding which were held by approximately 1,268 holders of record. The closing price of the Company s stock on December 29, 2006 (the last trading day of calendar year 2006) was $36.03. The number of record holders may not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms and other nominees.

The information required by S-K Item 201 (d) is incorporated by reference from Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* hereof.

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Comparative Stock Performance Graph

The stock performance graph below and associated table compare the cumulative total shareholder return of the Company s common stock from December 31, 2001 to December 31, 2006 with the cumulative total return of the NASDAQ Market Index (U.S. Companies) and the NASDAQ Bank Stock Index. The lines in the graph and the numbers in the table below represent monthly index levels derived from compounded daily returns that include reinvestment or retention of all dividends. If the monthly interval, based on the fiscal year end was not a trading day, the preceding trading day was used. The index value for all of the series was set to 100.00 on December 31, 2001 (which assumes that $100.00 was invested in each of the series on December 31, 2001).

Independent Bank Corp.

Total Return Performance

	Period Ending					
Index	**12/31/01**	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**
Independent Bank Corp.	100.00	108.33	137.35	166.87	144.07	185.57
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.58
SNL NASDAQ Bank Index	100.00	102.85	132.76	152.16	147.52	165.62

Source: SNL Financial LC, Charlottesville, VA

On January 19, 2006 the Company s Board of Directors approved a common stock repurchase program. Under the program, which was effective immediately, 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. Additional information about the repurchase program is set forth in Part II, Item 5(c.) hereof.

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

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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.

(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 Securities Exchange Act of 1934, of shares of Independent Bank Corp. common stock during the indicated periods:

Table 2 Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs(1)
January 1st 31st, 2006	43,700	$ 29.56	43,700	756,300
February 1st 28th, 2006	81,500	$ 29.42	81,500	674,800
March 1st 31st, 2006	68,100	$ 30.67	68,100	606,700
April 1st 30th, 2006	196,450	$ 31.30	196,450	410,250
May 1st May 31st, 2006	160,286	$ 31.63	160,286	249,964
June 1st June 30th, 2006	161,800	$ 31.07	161,800	88,164
July 1st July 31st, 2006	75,000	$ 31.62	75,000	13,164
August 1st August 31st, 2006	13,164	$ 33.09	13,164	
September 1st September 30th, 2006				
October 1st October 31st, 2006				
November 1st November 30th, 2006				
December 1st December 31st, 2006				1,000,000
Total	800,000	$ 31.04	800,000	1,000,000

(1) On January 19, 2006, the Company announced a common stock repurchase program to repurchase up to 800,000 shares. On December 14, 2006, the Company announced another common stock repurchase program to repurchase up to 1,000,000 shares. The Company placed no deadline on the repurchase programs. There were no shares purchased other than through a publicly announced plan or program.

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Item 6. *Selected Financial Data*

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

	As of or For the Years Ended December 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands, except per share data)				
FINANCIAL CONDITION DATA:					
Securities available for sale	$ 417,088	$ 581,516	$ 680,286	$ 527,507	$ 501,828
Securities held to maturity	76,747	104,268	107,967	121,894	149,071
Loans	2,024,909	2,040,808	1,916,358	1,581,135	1,431,602
Allowance for loan losses	26,815	26,639	25,197	23,163	21,387
Total assets	2,828,919	3,041,685	2,943,926	2,436,755	2,285,372
Total deposits	2,090,344	2,205,494	2,060,235	1,783,338	1,688,732
Total borrowings(1)	493,649	587,810	655,161	415,369	362,155
Corporation-obligated manditorily redeemable Trust Preferred Securities(1)				47,857	47,774
Stockholders equity	229,783	228,152	210,743	171,847	161,242
Non-performing loans	6,979	3,339	2,702	3,514	3,077
Non-performing assets	7,169	3,339	2,702	3,514	3,077
OPERATING DATA:					
Interest income	$ 167,693	$ 155,661	$ 134,613	$ 128,306	$ 140,825
Interest expense(1)	65,038	49,818	36,797	32,533	40,794
Net interest income	102,655	105,843	97,816	95,773	100,031
Provision for loan losses	2,335	4,175	3,018	3,420	4,650
Non-interest income	26,644	27,273	28,355	27,794	22,644
Non-interest expenses	79,354	80,615	77,691	73,827	75,625
Minority interest expense(1)			1,072	4,353	5,041
Net income	32,851	33,205	30,767	26,431	25,066
Net income available to common shareholders	32,851	33,205	30,767	26,431	23,561
PER SHARE DATA:					
Net income Basic	$ 2.20	$ 2.16	$ 2.06	$ 1.82	$ 1.63
Net income Diluted	2.17	2.14	2.03	1.79	1.61
Cash dividends declared	0.64	0.60	0.56	0.52	0.48
Book value(2)	15.65	14.81	13.75	11.75	11.15
Tangible book value per share(3)	11.80	11.12	10.01	9.27	8.64
OPERATING RATIOS:					
Return on average assets(4)	1.12%	1.11%	1.13%	1.11%	1.12%
Return on average equity(4)	14.60%	15.10%	16.27%	15.89%	17.26%

Net interest margin (on a fully tax equivalent basis)	3.85%	3.88%	3.95%	4.40%	4.88%
Equity to assets	8.12%	7.50%	7.16%	7.05%	7.06%
Dividend payout ratio	29.10%	27.79%	27.23%	28.64%	27.67%

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	As of or For the Years Ended December 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands, except per share data)				
ASSET QUALITY RATIOS:					
Non-performing loans as a percent of gross loans	0.34%	0.16%	0.14%	0.22%	0.21%
Non-performing assets as a percent of total assets	0.25%	0.11%	0.09%	0.14%	0.13%
Allowance for loan losses as a percent of total loans	1.32%	1.31%	1.31%	1.46%	1.49%
Allowance for loan losses as a percent of non-performing loans	384.22%	797.81%	932.53%	659.16%	695.06%
Total allowance for loan losses as a percent of total loans(5)	1.32%	1.31%	1.31%	1.46%	1.53%
Total allowance for loan losses as a percent of non-performing loans(5)	384.22%	797.81%	932.53%	659.16%	711.89%
CAPITAL RATIOS:					
Tier 1 leverage capital ratio	8.05%	7.71%	7.06%	7.60%	7.10%
Tier 1 risk-based capital ratio	11.05%	10.74%	10.19%	11.00%	10.37%
Total risk-based capital ratio	12.30%	11.99%	11.44%	12.25%	11.68%

(1) Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 Revised, Consolidation of Variable Interest Entities an Interpretation of Accounting Research Bulletin No. 51 (FIN 46R) required the Company to deconsolidate its two subsidiary trusts (Independent Capital Trust III and Independent Capital Trust IV) on March 31, 2004. The result of deconsolidating these subsidiary trusts is that trust preferred securities of the trusts, which were classified between liabilities and equity on the balance sheet (mezzanine section), no longer appear on the consolidated balance sheet of the Company. The related minority interest expense also is no longer included in the consolidated statement of income. Due to FIN 46R, the junior subordinated debentures of the parent company that were previously eliminated in consolidation are now included on the consolidated balance sheet within total borrowings. The interest expense on the junior subordinated debentures is included in the calculation of net interest margin of the consolidated company, negatively impacting the net interest margin by approximately 0.13% for the twelve months ending December 31, 2004 on an annualized basis and 0.16% for the fiscal years to follow. There is no impact on net income as the amount of interest previously recognized as minority interest is equal to the amount of interest expense that is recognized currently in the net interest margin offset by the dividend income on the subsidiary trusts common stock recognized in other non-interest income.

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

(3) Calculated by dividing stockholders equity less goodwill and core deposit intangible by the net outstanding shares as of the end of each period.

(4) Calculated using net income which excludes the after-tax write-off of trust preferred issuance costs in 2002.

(5) Including credit quality discount for the year 2002.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

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. During 2006 the Company was also the sponsor of Delaware statutory trusts named Independent Capital Trust III (Trust III), Independent Capital Trust IV (Trust IV), and Independent Capital Trust V (Trust V), which were each formed to issue trust preferred securities. Trust III was dissolved on December 31, 2006 and the Company intends to

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dissolve Trust IV on April 30, 2007 upon the redemption of all of the outstanding trust preferred securities of Trust IV on that date. Trust III, Trust IV, and Trust V are not included in the Company s consolidated financial statements (see Note 8, *Borrowings* within *Notes to the Consolidated Financial Statements hereof*).

As of December 31, 2006 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, loans, industrial development bonds and other qualifying assets, and;

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.

During 2006 the Bank also had wholly-owned subsidiaries named RTC Securities Corp., RTC Securities Corp. X, and Taunton Avenue Inc. that were dissolved prior to the end of 2006.

All material intercompany balances and transactions have been eliminated in consolidation. When necessary, certain amounts in prior year financial statements have been reclassified to conform to the current year s presentation. The following should be read in conjunction with the Consolidated Financial Statements and related notes thereto.

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 fee income derived from loans, deposits, mortgage banking, and investment 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 earnings of $32.9 million for 2006 representing a decrease of $354,000, or 1.1%, from 2005. Net interest income in 2006 decreased from 2005 by $3.2 million, and included a $995,000 charge associated with the write-off of unamortized debt issuance costs from the refinancing of trust preferred securities. Growth in fee income arising from deposit service charges and investment management along with a reduction in the provision for loan losses served to largely offset the decrease in net interest income and modest growth in non-interest expense categories.

2006 represented a continuation and acceleration of management s strategy to alter the overall composition of the Company s earning assets. Since mid 2004 the Company has focused on commercial and home equity lending, while de-emphasizing securities purchases, residential real estate portfolio lending, and indirect auto lending. This asset focus, combined with prudent decision-making in the prevailing interest rate environment, has led the Company to shrink its balance sheet, while changing the overall structure of the Company s assets and liabilities. Over the last two years the Company s securities portfolio has aggressively decreased by $300.9 million (now 19.8% of earning assets, whereas at December 31, 2004 they were 29.9%), consumer auto loans have decreased by $77.1 million (10.2% of loans now, whereas at December 31, 2004 they were 14.8%) and residential real estate loans have decreased by $48.3 million. The decreases in these three asset categories represent an overall decrease of $426.3 million in earning assets over the last two years, most of which was in 2006, a decrease which has been partially offset by growth in the commercial and home equity loan categories.

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The following graph depicts the historical U.S. Treasury yield curve as of December 31, for the years 2004   2006.

Historical U.S. Treasury Yield Curve

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]

The following pie charts depict the continuing shift in the composition of earning assets by type as a percent of total earning assets for the time periods indicated below:

Earning Asset Profile

Deposits decreased in 2006 by $115.2 million, or 5.2%, particularly in the more expensive deposit categories. Management remains committed to generating core deposits with careful management of deposit pricing and

[1] The Free Dictionary.com
[2] Investopedia.com

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selective deposit promotion in an effort to control the Company s cost of funds. Competition for deposit generation in the Company s geographic footprint, however, is expected to remain strong.

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 level of the Company s earnings, management strives to mitigate volatility in net interest income resulting from changes in benchmark interest rates by 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 section and Market Risk section and Table 19 Interest Rate Sensitivity within the Market Risk section of the *Management Discussion and Analysis of Financial Condition and Results of Operations*). The following table shows the Company s net interest margin stability during a period of increasing rates since mid 2004. Management is focused on maintaining this net interest margin performance and expects a range of 3.80% to 3.90% in 2007.

Net Interest Margin (FTE) December 2006

Non-performing assets increased at December 31, 2006 to $7.2 million, or 0.25%, of total assets, as compared to $3.3 million, or 0.11%, of total assets at December 31, 2005. While non-performing assets increased from historically low levels, the Company considers non-performing assets balances well within acceptable parameters. The Company s allowance for loan losses has increased to 132 basis points at December 31, 2006 from 131 basis points at December 31, 2005 and 2004. Net charge-offs remained low at 11 basis points of average loans, as compared to 14 basis points in 2005.

The following graph depicts the Company s non-performing assets and the ratio of non-performing assets as a percentage of assets at the periods indicated:

Non-Performance Assets
(Dollars in Millions)

The Company s significant accomplishments during 2006 included:

Being honored by the United States Treasury, for the second time, with an award of tax credit allocation authority under the federal New Markets Tax Credit program. The Company s community development subsidiary was the only Massachusetts-based bank subsidiary to receive a New Markets Tax Credit award in 2006, a year in which only fourteen bank subsidiaries nationwide were so honored. The $45 million award enables the Company s community development subsidiary to offer loans on preferential terms and conditions to qualified businesses in low income communities in Southeastern Massachusetts and Rhode Island and the Company to begin recognizing the associated $17.6 million in tax credits over a 7 year period;

Opening a new commercial banking office in New Bedford, Massachusetts, staffed by two new seasoned bankers from that market;

Enhancing fee income generation and deposit-gathering capabilities by signing an agreement to acquire the assets of Compass Exchange Advisors LLC. At the January 2, 2007 closing of that transaction the Company established a wholly-owned subsidiary to offer qualified intermediary, like-kind exchange services pursuant to Internal Revenue Code §1031 to corporate, institutional, and individual property owners;

Strengthening sales capabilities by adding six net new experienced commercial bankers across the Bank;

Introducing Savings Bank Life Insurance products;

Increasing assets under management in our Investment Management Group to over $815 million a 20% increase from the end of 2005 and increasing revenues.

During 2006 the Company also continued to manage capital in a disciplined and prudent manner, as evidenced by:

Completing a common stock repurchase program with the buy-back of 800,000 common shares of stock at a weighted average share price of $31.04;

Beginning another common stock repurchase program for the repurchase of up to 1.0 million common shares of stock;

Refinancing the Company s Trust Preferred Securities commencing late in the fourth quarter of 2006 and to be completed in the second quarter of 2007, saving approximately $1.0 million in interest expense, on an annualized basis, beginning in 2007; and,

Increasing the annual dividend to $0.64 per share, a 6.7% increase.

Management s balance sheet strategy in 2007 will again emphasize commercial and home equity lending while continuing the themes of 2005 and 2006 prudent earning asset and liability management and disciplined use of shareholder capital. Management is focused on the long-term and in maintaining our strong profitability performance as measured by return on average assets (ROA) and return on average equity (ROE). The Company reported ROA and ROE in 2006 of 1.12% and 14.6%, respectively. Management expects ROA and ROE performance in 2007 to be approximately 1.10% and 13-14%, respectively.

The Company is well positioned as 2007 begins. Management anticipates, however, that the interest rate environment will make 2007 another challenging year for the entire banking industry.

Critical Accounting Policies

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

Allowance for Loan Losses: The Company s allowance for loan losses provides for probable losses based upon evaluations of known and inherent risks in the loan portfolio. Arriving at an appropriate amount of allowance for loan losses involves a high degree of judgment.

The Company makes use of two types of allowances for loan losses: specific and general. A specific allowance may be assigned to a loan that is considered to be impaired. Loan impairment is determined based upon management s identification and evaluation of problem loans and is recognized when the Company deems that the timely collection of all principal and/or interest payments that are contractually due is no longer assured. Judgment is required as to the timing of designating a loan as impaired and the amount of the required specific allowance. Management s judgment is based upon its assessment of probability of default, loss given default and exposure at default. Changes in these estimates could be due to a number of circumstances which may have a direct impact on the provision for loan losses and may result in changes to the amount of allowance.

The general allowance is determined based upon management s judgment and its amount is dependent upon the prevailing business environment; as it is affected by changing economic conditions and various external factors, which may impact the portfolio in ways currently unforeseen, as well as historical and expected loss information, loan portfolio composition and other relevant indicators. The allowance is increased by provisions for loan losses and by recoveries of loans previously charged-off and is reduced by loans charged-off. For a full discussion of the Company s methodology of assessing the adequacy of the allowance for loan losses, see the *Allowance for Loan Losses and Provision for Loan Losses* sections within the Management s Discussion and Analysis of Financial Condition and Results of Operations to follow.

Income Taxes: The Company estimates income tax expense based on the amount it expects to owe various tax authorities. Taxes are discussed in more detail in Note 11, Income Taxes within *Notes to the Consolidated Financial Statements* included in Item 8 hereof. Accrued taxes represent the net estimated amount due to or to be received from taxing authorities in the current year. In estimating accrued taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance in the context of our tax position. Deferred tax assets/liabilities represent differences between when a tax benefit or expense is recognized for book purposes and on the Company s tax return. Future tax assets are assessed for recoverability. The Company would record a valuation allowance if it believes based on available evidence, that it is more likely than not that the future tax assets recognized will not be realized before their expiration. The amount of the future income tax asset recognized and considered realizable could be reduced if projected income is not achieved due to various factors such as unfavorable business conditions. If projected income is not expected to be achieved, the Company would record a valuation allowance to reduce its future tax assets to the amount that it believes can be realized in its future tax returns. The Company has no recorded tax valuation allowance as of December 31, 2006. Additionally, deferred tax assets/liabilities are calculated based on tax rates expected to be in effect in future periods. Previously recorded tax assets and liabilities need to be adjusted when the expected date of the future event is revised based upon current information.

Valuation of Goodwill/Intangible Assets and Analysis for Impairment: Independent Bank Corp. in part has increased its market share through the acquisition of entire financial institutions accounted for under the purchase method of accounting, as well as from the acquisition of branches (not the entire institution) and other non-banking entities. For acquisitions accounted for under the purchase method and the acquisition of branches, the Company is required to record assets acquired and liabilities assumed at their fair value which is an estimate determined by the use of internal or other valuation techniques. These valuation estimates result in goodwill and other intangible assets. Goodwill is subject to ongoing periodic impairment tests and is evaluated using various fair value techniques including multiples of price/equity and price/earnings ratios. As a result of such impairment testing conducted in 2006 the Company determined goodwill was not impaired.

Financial Position

The Company s total assets decreased by $212.8 million, or 7.0%, from $3.0 billion at December 31, 2005 to $2.8 billion at December 31, 2006. Total average assets were $2.9 billion and $3.0 billion in 2006 and 2005, respectively. These decreases are due to intentional decreases in the Company s securities portfolio and certain loan categories due to a combination of the flat yield curve environment and the profitability characteristics of these asset classes. Total securities of $517.3 million, at December 31, 2006, decreased $199.3 million compared to the $716.6 million reported on December 31, 2005 due to the yield curve environment that persisted throughout 2006. Total loans of $2.0 billion, at December 31, 2006 decreased $15.9 million compared to the prior year ended December 31, 2005. Total deposits decreased by $115.2 million, or 5.2%, due to certain expensive deposit categories, such as money market, which were intentionally decreased in accordance with the funding needs of a smaller balance sheet. Total borrowings decreased by $94.2 million, or 16.0%, as excess cash flow from the securities portfolio and certain loan categories were used to decrease wholesale borrowings. Stockholders equity increased by $1.6 million in 2006. The increase was due to net income of $32.9 million, proceeds from stock option exercises of $1.3 million, a net decrease in unrealized losses on securities of $2.6 million, offset by stock repurchases of $24.8 million, dividends declared of $9.5 million, and the net decrease in the fair value of derivatives of $909,000. During 2004, the Company completed the acquisition of Falmouth Bancorp, Inc., parent of Falmouth Co-Operative Bank (Falmouth) resulting in total assets acquired of $158.4 million, total liabilities assumed of $141.6 million, or $16.8 million of net assets.

Loan Portfolio Management continues to focus on changing the overall composition of the balance sheet by emphasizing the commercial and home equity lending categories while placing less emphasis on indirect auto lending, portfolio residential lending, and the securities portfolio. While changing the overall structure of the Company s assets and liabilities has led to a smaller balance sheet and has slowed earnings growth, management believes it is prudent in the current interest rate environment. At December 31, 2006, the Bank s loan portfolio amounted to $2.0 billion, a decrease of $15.9 million, or 0.8%, from year-end 2005. This decrease was primarily in the categories of consumer auto, which decreased $56.3 million, or 21.4%, and residential real estate which decreased in total by $44.2 million, or 10.0%. These intentional decreases were offset by growth mainly in the emphasized lending segments of commercial real estate loans which increased $57.3 million, or 8.4%, and consumer home equity loans which increased $25.2 million, or 10.0%. Commercial and industrial loans and business banking loans also experienced growth of $19.3 million, or 12.4%, and $8.5 million, or 16.6%, respectively, while the consumer other lending category decreased $4.7 million, or 8.7%, and commercial construction loans decreased $21.0 million, or 14.9%.

In accordance with governing banking statutes, Rockland is permitted, with certain exceptions, to make loans and commitments to any one borrower, including related entities, in the aggregate amount of not more than 20% of the Bank s stockholders equity, which is the Bank s legal lending limit or $53.3 million at December 31, 2006. Notwithstanding the foregoing, the Bank has established a more restrictive limit of not more than 75% of the Bank s legal lending limit, or $40.0 million at December 31, 2006, which may only be exceeded with the approval of the Board of Directors. There were no borrowers whose total indebtedness in aggregate exceeded $40.0 million as of

December 31, 2006.

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The following table sets forth information concerning the composition of the Bank s loan portfolio by loan type at the dates indicated.

Table 3 Loan Portfolio Composition

	At December 31,								
	2006		2005		2004		2003		2
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amoun
	(Dollars in thousands)								
Industrial	$ 174,356	8.6%	$ 155,081	7.6%	$ 156,260	8.2%	$ 161,675	10.2%	$ 143,0
l Estate	740,517	36.5%	683,240	33.5%	613,300	32.0%	564,890	35.7%	511,1
nstruction	119,685	5.9%	140,643	6.9%	126,632	6.6%	75,380	4.8%	49,1
g	59,910	3.0%	51,373	2.5%	43,673	2.3%	27,807	1.8%	22,7
Estate	378,368	18.7%	428,343	21.0%	427,556	22.3%	324,052	20.5%	281,4
struction	7,277	0.4%	8,316	0.4%	7,316	0.4%	9,633	0.6%	10,2
s Held for	11,859	0.6%	5,021	0.2%	10,933	0.6%	1,471	0.1%	
me Equity	277,015	13.7%	251,852	12.4%	194,647	10.2%	132,629	8.4%	109,1
o	206,845	10.2%	263,179	12.9%	283,964	14.8%	240,504	15.2%	265,6
er	49,077	2.4%	53,760	2.6%	52,077	2.7%	43,094	2.7%	39,0
	2,024,909	100.0%	2,040,808	100.0%	1,916,358	100.0%	1,581,135	100.0%	1,431,6
oan	26,815		26,639		25,197		23,163		21,3
	$ 1,998,094		$ 2,014,169		$ 1,891,161		$ 1,557,972		$ 1,410,2

(1) 2002 Residential Loans Held for Sale are classified within Residential Real Estate.

At December 31, 2006, $174.4 million, or 8.6%, of the Bank s gross loan portfolio consisted of commercial and industrial loans, compared to $155.1 million, or 7.6%, at December 31, 2005. The Bank s commercial revolving lines of credit generally are for the purpose of providing working capital to borrowers and may be secured or unsecured. At December 31, 2006, the Bank had $94.6 million outstanding under commercial revolving lines of credit compared to $81.9 million at December 31, 2005, and $151.6 million of unused commitments under such lines at December 31, 2006 compared to $160.2 million in the prior year. As of December 31, 2006, the Bank had $8.3 million in outstanding commitments pursuant to commercial and standby letters of credit compared to $8.9 million at December 31, 2005. Floor plan loans, which are included in commercial and industrial loans, and are secured by the automobiles, boats, or other vehicles constituting the dealer s inventory, amounted to $14.1 million as of December 31, 2006 compared to $14.2 million at the prior year-end.

The Company s business banking initiative caters to the banking needs of businesses with commercial credit needs of less than $250,000 and revenues of less than $2.5 million. Business banking loans totaled $59.9 million, representing 3.0%, of the total loan portfolio during the year ended December 31, 2006, compared to $51.4 million, or 2.5% at December 31, 2005. The Bank had unused business lines of credit of $36.1 million at December 31, 2006 compared to $35.3 million at December 31, 2005.

Total real estate loans of $1.3 billion comprised 62.1% of gross loans at December 31, 2006, which is consistent with the $1.3 billion, or 62.0%, of gross loans at December 31, 2005, however the composition of real estate loans has changed. The Bank s real estate loan portfolio included $740.5 million in commercial real estate loans at December 31, 2006. This category reflected increases over last year of $57.3 million, or 8.4%. Commercial construction loans of $119.7 million decreased by $21.0 million, or 14.9%, compared to year-end 2005. Residential real estate loans, including residential construction and residential loans held for sale, which were $7.3 million and $11.9 million, respectively, at year-end 2006, decreased $44.2 million, or 10.0%, in 2006.

Consumer loans primarily consist of automobile, home equity, and other consumer loans. As of December 31, 2006, $532.9 million, or 26.3%, of the Bank s gross loan portfolio, consisted of consumer loans compared to $568.8 million, or 27.9%, of the Bank s gross loans at December 31, 2005. Home equity loans may be made as a term loan or under a revolving line of credit secured by a first or second mortgage on the borrower s residence. Consumer home equity loans were $277.0 million, at December 31, 2006, an increase of $25.2 million, or 10.0%,

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since December 31, 2005 and represented 52.0% of the total consumer loan portfolio. As of December 31, 2006, there were $213.7 million in unused commitments under revolving home equity lines of credit compared to $199.3 million at December 31, 2005. As of December 31, 2006 and 2005, automobile loans were $206.8 million, representing 38.8%, and $263.2 million, representing 46.3%, respectively, of the Bank s consumer loan portfolio. As of December 31, 2006, other consumer loans amounted to $49.1 million compared to $53.8 million as of December 31, 2005. These loans largely consisted of loans secured by recreational vehicles, motor homes, boats, mobile homes, and motorcycles and cash reserve loans. Cash reserve loans are designed to afford the Bank s customers overdraft protection. Cash reserve loans are made pursuant to previously approved unsecured cash reserve lines of credit and the rate on these loans is subject to change due to market conditions. As of December 31, 2006 and 2005, $19.0 million and $19.5 million, respectively, had been committed but was unused under cash reserve lines of credit.

The following table sets forth the scheduled contractual amortization of the Bank s loan portfolio at December 31, 2006. Loans having no schedule of repayments or no stated maturity are reported as due in one year or less. Adjustable rate mortgages are included in the adjustable rate category. The following table also sets forth the rate structure of loans scheduled to mature after one year.

Table 4 Scheduled Contractual Loan Amortization At December 31, 2006

Commercial	Commercial Real Estate	Commercial Construction	Business Banking	Residential Real Estate	Residential Construction	Residential Held for Sale	Consumer Home Equity	Consumer Auto	Consumer Other
				(Dollars in thousands)					
$ 122,365	$ 114,093	$ 67,610	$ 40,332	$ 14,812	$ 7,277	$ 11,859	$ 6,017	$ 64,335	$ 14,939
47,164	471,588	47,373	18,534	64,551			24,782	139,495	18,071
4,827	154,836	4,702	1,044	299,005			246,216	3,015	16,067
$ 174,356	$ 740,517	$ 119,685	$ 59,910	$ 378,368	$ 7,277	$ 11,859	$ 277,015	$ 206,845	$ 49,077
$ 35,773	$ 563,536	$ 21,477	$ 19,578	$ 123,114	$	$	$ 74,971	$ 142,510	$ 34,138
16,218	62,888	30,598		240,442			196,027		

As of December 31, 2006, $204,000 of loans scheduled to mature within one year were nonperforming.

Generally, the actual maturity of loans is substantially shorter than their contractual maturity due to prepayments and, in the case of real estate loans, due-on-sale clauses, which generally gives the Bank the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells the property subject to the mortgage and the loan is not repaid. The average life of real estate loans tends to increase when current real estate loan rates are higher than rates on mortgages in the portfolio and, conversely, tends to decrease when rates on mortgages in the portfolio are higher than current real estate loan rates. Under the latter scenario, the weighted average yield on the portfolio tends to decrease as higher yielding loans are repaid or refinanced at lower rates. Due to the fact that the Bank may, consistent with industry practice, roll over a significant portion of commercial and commercial real estate loans at or immediately prior to their maturity by renewing the loans on substantially similar or revised terms, the principal repayments actually received by the Bank are anticipated to be significantly less than the amounts contractually due in any particular period. In addition, a loan, or a portion of a loan, may not be repaid due to the borrower s inability to satisfy the contractual obligations of the loan.

Residential mortgage loans originated for sale are classified as held for sale. These loans are specifically identified and carried at the lower of aggregate cost or estimated market value. Forward commitments to sell residential real estate mortgages are contracts that the Bank enters into for the purpose of reducing the market risk associated with originating loans for sale should interest rates change. Forward commitments to sell as well as commitments to originate rate-locked loans intended for sale are recorded at fair value.

During 2006 and 2005, the Bank originated residential loans with the intention of selling these loans in the secondary market. Loans are sold both with servicing rights released and servicing rights retained. Loans originated

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and sold with servicing rights released were $160.9 million and $171.3 million in 2006 and 2005, respectively. Loans originated and sold with servicing rights retained were $8.0 million and $20.1 million in 2006 and 2005, respectively.

The principal balance of loans serviced by the Bank on behalf of investors amounted to $292.9 million at December 31, 2006 and $336.5 million at December 31, 2005. The fair value of the servicing rights associated with these loans was $2.4 million and $2.9 million as of December 31, 2006 and 2005, respectively.

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 frame. Generally, the Bank requires that a delinquency notice be mailed to a borrower upon expiration of a grace period (typically no longer than 15 days beyond the due date). Reminder notices and telephone calls may be issued prior to the expiration of the grace period. If the delinquent status is not resolved within a reasonable time frame following the mailing of a delinquency notice, the Bank s personnel charged with managing its loan portfolios, contacts the borrower to ascertain the reasons for delinquency and the prospects for payment. Any subsequent actions taken to resolve the delinquency will depend upon the nature of the loan and the length of time that the loan has been delinquent. The borrower s needs are considered as much as reasonably possible without jeopardizing the Bank s position. A late charge is usually assessed on loans upon expiration of the grace period.

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 counsel whereupon counsel initiates 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 5 Summary of Delinquency Information

	At December 31, 2006				At December 31, 2005			
	60-89 days		90 days or more		60-89 days		90 days or more	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
	(Dollars in thousands)							
Commercial and Industrial	6	$ 1,173	6	$ 528	2	$ 24	4	$ 209
Commercial Real Estate	1	104	3	538	3	2,892	2	288
Commercial Construction								
Business Banking	3	86	6	74	5	97	3	47
Residential Real Estate	4	621	3	1,409	4	1,337	2	373
Residential Construction								
Consumer Home Equity	1	16	7	345				

Consumer	Auto	68		553	62		676	65		597	61		572
Consumer	Other	11		67	23		199	18		112	17		110
Total		94	$	2,620	110	$	3,769	97	$	5,059	89	$	1,599

Delinquencies have increased in the 90 day category year over year mainly due to residential real estate and consumer home equity loans, all of which the Company believes to be well collateralized.

Nonaccrual Loans As permitted by banking regulations, consumer loans and home equity loans past due 90 days or more continue to accrue interest. In addition, certain commercial and real estate loans that are more than 90 days past due may be kept on an accruing status if the loan is well secured and in the process of collection. As a general rule, a commercial or real estate loan more than 90 days past due with respect to principal or interest is classified as a nonaccrual loan. Income accruals are suspended on all nonaccrual loans and all previously accrued and uncollected interest is reversed against current income. A loan remains on nonaccrual status until it becomes current with respect to principal and interest (and in certain instances remains current for up to three months), when the loan is liquidated, or when the loan is determined to be uncollectible 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 December 31, 2006, nonperforming assets totaled $7.2 million, an increase of $3.8 million from the prior year-end. The overall increase in nonperforming assets is attributable mainly to increases in nonperforming loans shown in the commercial mortgage loan category and, to a lesser extent, in the term loan, residential mortgage and home equity loan categories. Nonperforming assets represented 0.25% of total assets for the year ending December 31, 2006 and 0.11% for the year ending December 31, 2005. The Bank had one property held as OREO for both periods ending December 31, 2006 and December 31, 2005.

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 disposal of it by the Bank. Repossessed automobile loan balances amounted to $451,000 and $509,000 for the periods ending December 31, 2006, and December 31, 2005, respectively.

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

Table 6 Nonperforming Assets

	At December 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Loans past due 90 days or more but still accruing					
Consumer Home Equity	$	$	$	$	$
Consumer Auto	252	165	72	128	220
Consumer Other	137	62	173	28	41
Total	$ 389	$ 227	$ 245	$ 156	$ 261
Loans accounted for on a nonaccrual basis(1)					
Commercial and Industrial	$ 872	$ 245	$ 334	$ 971	$ 300
Business Banking(2)	74	47	N/A	N/A	N/A
Commercial Real Estate	2,346	313	227	691	1,320
Residential Real Estate	2,318	1,876	1,193	926	533
Consumer Home Equity	358				
Consumer Auto	451	509	594	714	656
Consumer Other	171	122	109	56	7
Total	$ 6,590	$ 3,112	$ 2,457	$ 3,358	$ 2,816
Total nonperforming loans	$ 6,979	$ 3,339	$ 2,702	$ 3,514	$ 3,077
Other real estate owned	190				
Total nonperforming assets	$ 7,169	$ 3,339	$ 2,702	$ 3,514	$ 3,077
Restructured loans	$	$ 377	$ 416	$ 453	$ 497
Nonperforming loans as a percent of gross loans	0.34%	0.16%	0.14%	0.22%	0.21%
Nonperforming assets as a percent of total assets	0.25%	0.11%	0.09%	0.14%	0.13%

(1) There were no restructured, nonaccruing loans at December 31, 2006, 2005, 2004, 2003 and 2002.

(2) For the periods prior to December 31, 2005, Business Banking loans are included in Commercial and Industrial and Consumer Other.

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 its return to accrual status. At December 31, 2006 the Bank had no restructured loans and at December 31, 2005 the Bank had $377,000 of restructured loans.

Potential problem loans are any loans, which are not included in non-accrual 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 December 31, 2006 and 2005, the Bank had fifteen and nine potential problem loan relationships, respectively, which are not included in nonperforming loans with an outstanding balance of $21.8 million and $30.3 million, respectively. At December 31, 2006, these potential problem loans continued to perform and are generally well-collateralized. The Company s management actively monitors these loans and strives to minimize any possible adverse impact to the Bank.

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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 the years ended December 31, 2006, 2005 and 2004, if nonperforming loans at the respective dates had been performing in accordance with their original terms approximated $146,000, $282,000, and $312,000, respectively. The actual amount of interest that was collected on these nonaccrual and restructured loans during each of those periods and included in interest income was approximately $225,000, $103,000, and $140,000, 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 loans, 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 December 31, 2006, impaired loans include all commercial real estate loans and commercial and industrial loans on nonaccrual status and certain potential problem loans. Total impaired loans at December 31, 2006 and 2005 were $3.6 million and $935,000, respectively.