INDEPENDENT BANK CORP
Form 10-Q
November 04, 2005

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2005
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, including zip code)
(781) 878-6100
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Yes þ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes þ No

As of November 1, 2005, there were 15,400,166 shares of the issuer s common stock outstanding, par value $0.01 per share.

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

INDEPENDENT BANK CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited Dollars in Thousands, Except Share and Per Share Amounts)

	September 30, 2005	December 31, 2004
ASSETS		
CASH AND DUE FROM BANKS	$ 71,487	$ 62,961
FEDERAL FUNDS SOLD AND ASSETS PURCHASED UNDER RESALE AGREEMENT & SHORT TERM INVESTMENTS		
SECURITIES	1,203	2,735
Trading Assets	1,556	1,572
Securities Available for Sale	604,878	680,286
Securities Held to Maturity (fair value $108,067 and $112,159)	104,831	107,967
Federal Home Loan Bank Stock	29,287	28,413
TOTAL SECURITIES	740,552	818,238
LOANS		
Commercial and Industrial	163,276	156,260
Commercial Real Estate	662,383	613,300
Commercial Construction	127,936	126,632
Business Banking	50,080	43,673
Residential Real Estate	419,713	427,556
Residential Construction	11,392	7,316
Residential Loans Held for Sale	7,216	10,933
Consumer Home Equity	245,293	194,647
Consumer Auto	275,776	283,964
Consumer Other	56,055	52,077
TOTAL LOANS	2,019,120	1,916,358
LESS: ALLOWANCE FOR LOAN LOSSES	(26,455)	(25,197)
NET LOANS	1,992,665	1,891,161
BANK PREMISES AND EQUIPMENT, Net	36,670	36,449
GOODWILL	55,078	55,185
CORE DEPOSIT INTANGIBLE	1,861	2,103
MORTGAGE SERVICING RIGHTS	2,966	3,291
BANK OWNED LIFE INSURANCE	44,242	42,664
OTHER ASSETS	36,899	29,139
TOTAL ASSETS	$2,983,623	$2,943,926

LIABILITIES

DEPOSITS		
Demand Deposits	$ 529,820	$ 495,500
Savings and Interest Checking Accounts	617,437	614,481
Money Market	504,038	501,065
Time Certificates of Deposit over $100,000	165,357	117,258
Other Time Certificates of Deposits	355,838	331,931
TOTAL DEPOSITS	2,172,490	2,060,235
FEDERAL HOME LOAN BANK BORROWINGS	423,505	537,919
FEDERAL FUNDS PURCHASED AND ASSETS SOLD UNDER REPURCHASE AGREEMENTS	90,349	61,533
JUNIOR SUBORDINATED DEBENTURES	51,546	51,546
TREASURY TAX AND LOAN NOTES	1,443	4,163
TOTAL BORROWINGS	566,843	655,161
OTHER LIABILITIES	20,985	17,787
TOTAL LIABILITIES	$2,760,318	$2,733,183
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
PREFERRED STOCK, $0.01 par value. Authorized: 1,000,000 Shares Outstanding: None		
COMMON STOCK, $0.01 par value. Authorized: 30,000,000 Issued: 15,450,724 Shares at September 30, 2005 and at December 31, 2004.	155	155
TREASURY STOCK: 54,137 Shares at September 30, 2005 and 124,488 Shares at December 31, 2004.	(846)	(1,946)
TREASURY STOCK SHARES HELD IN RABBI TRUST AT COST	(1,538)	(1,428)
DEFERRED COMPENSATION OBLIGATION	1,538	1,428
ADDITIONAL PAID IN CAPITAL	59,648	59,470
RETAINED EARNINGS	169,850	152,130
ACCUMULATED OTHER COMPREHENSIVE(LOSS)/ INCOME, NET OF TAX	(5,502)	934
TOTAL STOCKHOLDERS EQUITY	223,305	210,743
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$2,983,623	$2,943,926

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

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

	THREE MONTHS ENDED SEPTEMBER 30, 2005	THREE MONTHS ENDED SEPTEMBER 30, 2004	NINE MONTHS ENDED SEPTEMBER 30, 2005	NINE MONTHS ENDED SEPTEMBER 30, 2004
INTEREST INCOME				
Interest on Loans	$ 30,994	$ 25,931	$ 88,891	$ 72,750
Taxable Interest and Dividends on Securities	7,492	8,336	23,792	23,293
Non-taxable Interest and Dividends on Securities	668	665	2,007	2,106
Interest on Federal Funds Sold and Short-Term Investments	71	9	137	9
Total Interest Income	39,225	34,941	114,827	98,158
INTEREST EXPENSE				
Interest on Deposits	6,616	5,207	17,949	14,092
Interest on Borrowings	5,890	4,704	17,946	12,631
Total Interest Expense	12,506	9,911	35,895	26,723
Net Interest Income	26,719	25,030	78,932	71,435
PROVISION FOR LOAN LOSSES	1,070	761	3,105	2,249
Net Interest Income After Provision For Loan Losses	25,649	24,269	75,827	69,186
NON-INTEREST INCOME				
Service Charges on Deposit Accounts	3,462	3,179	9,611	9,141
Investment Management Services Income	1,348	1,206	3,999	3,535
Mortgage Banking Income	1,068	708	2,580	2,300
BOLI Income	462	419	1,360	1,389
Net Gain on Sales of Securities		461	616	1,458
Other Non-Interest Income	764	721	2,233	2,583
Total Non-Interest Income	7,104	6,694	20,399	20,406
NON-INTEREST EXPENSE				
Salaries and Employee Benefits	11,804	11,214	35,758	32,156
Occupancy and Equipment Expenses	2,273	2,094	7,465	6,592
Data Processing and Facilities Management	1,070	1,180	3,023	3,390
Merger & Acquisition Expense		463		684

Other Non-Interest Expense		5,062		4,071		14,089		14,057
Total Non-Interest Expense		20,209		19,022		60,335		56,879
Minority Interest Expense								1,072
INCOME BEFORE INCOME TAXES		12,544		11,941		35,891		31,641
PROVISION FOR INCOME TAXES		3,857		3,679		11,249		10,058
NET INCOME	$	8,687	$	8,262	$	24,642	$	21,583
BASIC EARNINGS PER SHARE	$	0.56	$	0.55	$	1.60	$	1.45
DILUTED EARNINGS PER SHARE	$	0.56	$	0.54	$	1.59	$	1.44
Weighted average common shares (Basic)		15,391,937		15,142,272		15,370,226		14,856,722
Common stock equivalents		145,684		178,821		147,813		183,034
Weighted average common shares (Diluted)		15,537,621		15,321,093		15,518,039		15,039,756

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

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

	COMMON STOCK	TREASURY STOCK	TREASURY STOCK HELD IN RABBI TRUST	DEFERRED COMPENSATION OBLIGATION	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
BALANCE DECEMBER 31, 2003	$ 149	($3,685)	($1,281)	$ 1,281	$ 42,292	$ 129,760	$ 3,331	$ 171,847
Net Income						30,767		30,767
Cash Dividends Declared ($0.56 per share)						(8,397)		(8,397)
Proceeds From Exercise of Stock Options		1,739			69			1,808
Tax Benefit on Stock Option Exercise					247			247
Common Stock Issued for Acquisition	6				16,862			16,868
Change in Fair Value of Derivatives During Period, Net of Tax, and Realized Gains							(135)	(135)
Deferred Compensation Obligation			(147)	147				
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains							(2,262)	(2,262)
BALANCE DECEMBER 31, 2004	$ 155	($1,946)	($1,428)	$ 1,428	$ 59,470	$ 152,130	$ 934	$ 210,743
Net Income						24,642		24,642
Cash Dividends Declared ($0.45 per share)						(6,922)		(6,922)
Proceeds From Exercise of Stock Options		1,100			(28)			1,072
Tax Benefit on Stock Option Exercise					206			206
Change in Fair Value of Derivatives During Period, Net of Tax, and Realized Gains							696	696
Deferred Compensation Obligation			(110)	110				
Change in Unrealized Gain on Securities Available For Sale, Net of Tax and Realized Gains							(7,132)	(7,132)
BALANCE SEPTEMBER 30, 2005	$ 155	($846)	($1,538)	$ 1,538	$ 59,648	$ 169,850	($5,502)	$ 223,305

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

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

	NINE MONTHS ENDED SEPTEMBER 30, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 24,642	$ 21,583
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:		
Depreciation and amortization	4,517	4,264
Provision for loan losses	3,105	2,249
Deferred income tax (expense) benefit	(5,079)	33
Loans originated for resale	(149,935)	(102,556)
Proceeds from mortgage loan sales	154,844	98,131
Gain on sale of mortgages	(1,192)	(510)
Gain on sale of investments	(616)	(1,458)
Gain recorded from mortgage servicing rights, net of amortization	325	268
Changes in assets and liabilities:		
Decrease (Increase) in other assets	972	(3,111)
Increase (decrease) in other liabilities	3,035	(2,386)
TOTAL ADJUSTMENTS	9,976	(5,076)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	34,618	16,507
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Proceeds from maturities and principal repayments of Securities Held to Maturity	3,023	13,618
Proceeds from maturities and principal repayments and sales of Securities Available For Sale	185,260	160,521
Purchase of Securities Held to Maturity		(1,000)
Purchase of Securities Available For Sale	(121,418)	(309,370)
Purchase of Federal Home Loan Bank Stock	(874)	(2,442)
Net increase in Loans	(108,326)	(194,738)
Investment in Bank Premises and Equipment	(3,541)	(4,107)
Cash used for Merger and Acquisition, net of cash acquired		32,006
NET CASH USED IN INVESTING ACTIVITIES	(45,876)	(305,512)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in Time Deposits	72,006	(12,659)
Net increase in Other Deposits	40,249	223,674
Net increase in Federal Funds Purchased and Assets Sold Under Repurchase Agreements	28,816	20,428
Net (decrease) increase in Federal Home Loan Bank Borrowings	(114,414)	57,001
Net decrease in Treasury Tax and Loan Notes	(2,720)	(781)
Proceeds from exercise of stock options	1,072	1,204

Dividends paid	(6,757)	(6,013)
NET CASH PROVIDED FROM FINANCING ACTIVITIES	18,252	282,854
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	6,994	(6,151)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	65,696	75,495
CASH AND CASH EQUIVALENTS AS OF SEPTEMBER 30,	$ 72,690	$ 69,344
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the nine months for:		
Interest on deposits and borrowings	$ 33,919	$ 24,905
Interest on shares subject to mandatory redemption		3,188
Income taxes	(10,245)	11,289
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in fair value of cash flow derivatives, net of tax and realized gains	696	(218)
Change in fair value of securities available for sale, net of tax and realized gains	(7,132)	(1,528)
Issuance of shares from Treasury Stock for the exercise of stock options	1,100	1,178
In conjunction with the purchase acquisition of Falmouth Bancorp, Inc. on July 16, 2004 assets were acquired and liabilities were assumed as follows:		
Fair value of assets acquired		158,331
Fair value of liabilities assumed		141,463

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

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

Independent Bank Corp. (the Company) is a state chartered, federally registered bank holding company headquartered in Rockland, Massachusetts incorporated in 1986. The Company is the sole stockholder of Rockland Trust Company (Rockland or the Bank), a Massachusetts trust company chartered in 1907. The Company also owns 100% of the common stock of Independent Capital Trust III (Trust III) and Independent Capital Trust IV (Trust IV), each of which have issued trust preferred securities to the public. As of March 31, 2004, Trust III and Trust IV are no longer included in the Company s consolidated financial statements (see *FIN No. 46* discussion within *Recent Accounting Pronouncements Note 3* below). The Bank s subsidiaries consist of: three Massachusetts securities corporations, RTC Securities Corp. I, RTC Securities Corp. X, and Taunton Avenue Securities Corp.; Taunton Avenue Inc.; Rockland Trust Community Development LLC (RTC CDE I) and Rockland Trust Community Development Corporation II (RTC CDE II). Taunton Avenue Inc. was formed in May 2003 to hold loans, industrial development bonds and other assets. RTC CDE I and RTC CDE II were formed in August 2003 and August 2005, respectively, to make loans and to provide financial assistance to qualified businesses and individuals in low-income communities in accordance with the U.S. Treasury s New Markets Tax Credit Program criteria. 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 accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. Operating results for the quarter and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005 or any other interim period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission.

NOTE 2 STOCK BASED COMPENSATION

The Company measures compensation cost for stock-based compensation plans as the excess, if any, of the fair market value of the Company s stock at the date of grant over the exercise price of options granted. The Company discloses pro forma net income and earnings per share in the notes to its consolidated financial statements as if compensation was measured at the date of grant based on the fair value of the award and recognized over the service period. Beginning January 1, 2006, the Company will adopt Statement of Financial Accounting Standard (SFAS) No. 123 (revised 2004) (SFAS 123R), Share-Based Payment (See discussion which follows in recent accounting pronouncements), which will require the Company to record compensation measured at the date of grant based on the fair value of the awards and recognized over its requisite service period.

The Company has four stock option plans: the Amended and Restated 1987 Incentive Stock Option Plan (The 1987 Plan), the 1996 Non-employee Directors Stock Option Plan (The 1996 Plan), the 1997 Employee Stock Option Plan (The 1997 Plan), and the 2005 Employee Stock Option Plan (The 2005 Plan). All four plans were approved by the Company s Board of Directors and shareholders. The 2005 Plan was approved by the Company s Board of Directors on February 10, 2005 and ratified by the Company s shareholders on April 21, 2005. The 2005 Plan was approved to allow issuance of either stock options or restricted stock awards for up to 800,000 shares of common stock. No awards have been granted from the 2005 Plan to date.

Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation encourages, but does not require, adoption of a fair-value based method of accounting for employee stock-based compensation plans, where compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period. An entity may continue to apply Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees , and related interpretations, whereby compensation cost is the excess, if any, of the fair market value of the Company s stock at the date of grant over the exercise price of options granted, provided the entity discloses the pro forma net income and earnings per share as if the fair-value method had been applied. The Company measures compensation cost for stock-based compensation plans as the excess, if any, of the fair market value of the Company s stock at the date of grant over the exercise price of options granted. Compensation cost is not recognized as the exercise price has historically equaled the grant date fair value of the underlying stock. Had the Company recognized compensation cost for these plans determined as the fair market value of the Company s stock at the grant date and recognized over the service period, as determined using the Black-Scholes option-pricing model, the Company s net income and earnings per share would have been reduced to the following pro forma amounts:

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Three Months Ended September 30,		2005	2004
Net Income:	As Reported (000 s)	$ 8,687	$ 8,262
	Pro Forma (000 s)	$ 8,454	$ 8,120
Basic EPS:	As Reported	$ 0.56	$ 0.55
	Pro Forma	$ 0.55	$ 0.54
Diluted EPS:	As Reported	$ 0.56	$ 0.54
	Pro Forma	$ 0.54	$ 0.53

Nine Months Ended September 30,		2005	2004
Net Income:	As Reported (000 s)	$ 24,642	$ 21,583
	Pro Forma (000 s)	$ 23,968	$ 21,143
Basic EPS:	As Reported	$ 1.60	$ 1.45
	Pro Forma	$ 1.56	$ 1.42
Diluted EPS:	As Reported	$ 1.59	$ 1.44
	Pro Forma	$ 1.54	$ 1.41

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants under the 1997 Plan and the 1996 Plan:

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	1997 Plan	1996 Plan
Risk Free Interest Rate		
September 30, 2005	3.53%-3.80%(1)	3.93%(2)
Fiscal Year 2004	3.35%(3)	
	2.64%-3.49%(4)	3.19%(5)
Expected Dividend Yield		
September 30, 2005	1.91%-1.95%(1)	2.21%(2)
	1.91%(1)	
Fiscal Year 2004	1.64%(3)	
	1.71%-2.09%(4)	2.02%(5)
Expected Life		
September 30, 2005	3.5 - 4 years(1)	4.5 years(2)
Fiscal Year 2004	4 years(3)	
	3.5 years(4)	4 years(5)
Expected Volatility		
September 30, 2005	26%(1)	27%(2)
Fiscal Year 2004	28%(3)	
	28-30%(4)	28%(5)

(1) On January 13, 2005, 34,500 options were granted from the 1997 Plan to certain First Vice Presidents and Vice Presidents of the Company. Also on January 13, 2005, 5,000 options were granted to the Senior Vice President and Director of Marketing, Strategy and Analysis. The risk free rate, expected dividend yield, expected life and expected volatility for these grants were determined on January 13, 2005. On September 1, 2005, another 500 options were granted to a Vice President of the Company. The risk free rate, expected dividend yield, expected life and expected volatility for these grants were determined on September 1, 2005.
(2) On April 26, 2005, 11,000 options were granted from the 1996 Plan to the Company s Board of Directors. The risk free rate, expected dividend yield, expected life and expected volatility for this grant were determined on April 26, 2005.
(3) On December 9, 2004, 175,500 options were granted from the 1997 Plan to the Company s members of Senior Management. The risk free rate, expected dividend yield, expected life and expected volatility for this grant were determined on December 9, 2004.
(4) On both January 8, 2004 and June 10, 2004, 5,000 options were granted from the 1997 Plan to the Company s Managing Director of Business Banking. The risk free rate, expected dividend yield, expected life and expected volatility for these grants were determined on the respective grant dates. On both July 19, 2004 and October 20, 2004, 10,000 options were granted from the 1997 Plan to the Company s Executive Vice President of Retail Banking and Corporate Marketing. The risk free rate, expected dividend yield, expected life and expected volatility for these grants were determined on the respective grant dates.
(5) On April 27, 2004, 11,000 options were granted from the 1996 Plan to the Company s Board of Directors. The risk free rate, expected dividend yield, expected life and expected volatility for this grant were determined on April 27, 2004.

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NOTE 3 RECENT ACCOUNTING DEVELOPMENTS

SFAS No. 123 (revised 2004) (SFAS 123R) , Share-Based Payment In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004). SFAS No. 123R replaces SFAS No. 123 Accounting for Stock-Based Compensation and supersedes Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees . SFAS No. 123R will require that the compensation cost relating to share-based payment transactions be recognized in the Company s financial statements, eliminating pro forma disclosure as an alternative. That cost will be measured based on the grant-date fair value of the equity or liability instruments issued. On April 14, 2005, the SEC issued a press release deferring the compliance date of SFAS 123R, which had an original effective date of the first interim or annual period beginning after June 15, 2005, until the beginning of a company s next fiscal year for calendar-year companies. For the Company, implementation would therefore be required beginning January 1, 2006. The impact of the Company adopting such accounting can be seen in Note 2, Stock-Based Compensation of the *Notes to Consolidated Financial Statements* included in Item 1 hereof. The Company estimates the 2006 compensation expense related to share-based payment transactions to be recognized will be approximately $800,000 before tax for the year ending December 31, 2006 for options granted to date upon adoption of SFAS 123R using the Black-Scholes valuation method. Management has not yet decided the transition method or valuation method it will use upon adoption of SFAS 123R nor has it decided the amount or type of share-based compensation to be issued for the remainder of 2005 and beyond.

FIN No. 46 Consolidation of Variable Interest Entities an Interpretation of Accounting Research Bulletin No. 51 In January 2003, the FASB issued FIN No. 46. FIN 46 established accounting guidance for consolidation of variable interest entities (VIE) that function to support the activities of the primary beneficiary. The primary beneficiary of a VIE is the entity that absorbs a majority of the VIE s expected losses, receives a majority of the VIE s expected residual returns, or both, as a result of ownership, controlling interest, contractual relationship or other business relationship with a VIE. Prior to the implementation of FIN 46, VIEs were generally consolidated by an enterprise when the enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. The Company adopted FIN No. 46 as of February 1, 2003 for all arrangements entered into after January 31, 2003.

In December 2003, the FASB issued a revised FIN No. 46 (FIN 46R), which, in part, addressed limited purpose trusts formed to issue trust preferred securities. 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 trusts was 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 no longer is 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 net interest margin of the consolidated company, negatively impacting the net interest margin by approximately 0.19% on an annualized basis. There is no impact to 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 borrowings expense offset by the dividend income on the subsidiary trusts common stock that is recognized in other non-interest income. Prior periods were not restated to reflect the changes made by FIN 46R.

On March 1, 2005, the Board of Governors of the Federal Reserve issued a final ruling amending its risk-based capital standards for bank holding companies to allow continued inclusion of outstanding and prospective issuances of trust preferred securities in Tier 1 capital for regulatory capital purposes subject to quantitative limits applied in the aggregate amount of trust preferred securities and certain other capital elements and qualitative standards. After a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25 percent of Tier 1 capital elements, net of goodwill less any associated deferred tax liability. The amount of trust preferred securities and certain other elements in excess of the core capital limit generally will be includable in Tier 2 capital.

For all other arrangements entered into subsequent to January 31, 2003, the Company adopted FIN 46R as of December 31, 2003. There was no material impact on the Company s financial position or results of operations.

Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 105 Application of Accounting Principles to Loan Commitments In March 2004, the SEC issued SAB No. 105. SAB No. 105 summarizes the views of the SEC regarding the application of Generally Accepted Accounting Principles (GAAP) to loan commitments for mortgage loans that will be held for sale accounted for as derivatives. The guidance requires the measurement at fair value of such loan commitments include only the differences between the guaranteed interest rate in the loan commitment and a market interest rate; future cash flows related to servicing the loan or the customer relationship should not be recorded as a part of the loan commitment derivative. SAB No. 105 is effective for said loan commitments accounted for as derivatives entered into beginning April 1, 2004. The Company adopted this SAB on April 1, 2004. The adoption of SAB No. 105 did not have a material impact on the Company as the Company was valuing loan commitments to be accounted for as derivatives consistent with this guidance.

FASB Staff Position (FSP) 106-2: Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 In May 2004, the FASB issued FSP 106-2. FSP 106-2 provides guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug benefits that are actuarially equivalent to Medicare Part D. It also requires certain disclosures regarding the effect of the Federal subsidy provided by the Act. FSP 106-2 is effective for interim or annual periods beginning after June 15, 2004. The Company does not believe that the benefits provided by Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) apply to the Company s post retirement benefit plans and therefore have no impact to the Company s financial statements.

FASB Emerging Issues Task Force (EITF) Issue 03-1: The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments In November 2003 and March 2004, the FASB s EITF issued a consensus on EITF Issue 03-1. EITF 03-1 contains new guidance on other-than-temporary impairments of investment securities. The guidance dictates when impairment is deemed to exist, provides guidance on determining if impairment is other than temporary, and directs how to calculate impairment loss. Issue 03-1 also details expanded annual disclosure rules. In September 2004, the FASB issued FSP EITF

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Issue No. 03-1-1 Effective Date of Paragraphs 10-20 of EITF Issue 03-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* , which delays the effective date for the measurement and recognition guidance contained in paragraphs 10-20 of EITF 03-1 to be concurrent with the final issuance of FSP EITF 03-1-a Implementation Guidance for the Application of Paragraph 16 of EITF 03-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* .

On June 29, 2005, the FASB met and decided not to provide additional guidance on the meaning of other-than-temporary impairment. The FASB will issue the proposed FSP EITF 03-1-a as final and the final FSP will supersede EITF Issue No. 03-1 and EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value, and will replace guidance set forth in paragraphs 10-18 of EITF Issue No. 03-1 with references to existing other-than-temporary impairment guidance. When issued, the final FSP will be titled, FSP FAS 115-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The new FSP will be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. The adoption of the original EITF 03-1 (excluding paragraphs 10-20) did not have a material impact on the Company s financial position or results of operations nor does the Company believe that the adoption of FSP FAS 115-1 will have a material impact on the Company s financial position.

Statement of Position 03-3 (SOP 03-3): Accounting for Certain Loans or Debt Securities Acquired in a Transfer

In December 2003, the American Institute of Certified Public Accountants (AICPA) issued SOP 03-3. SOP 03-3 requires loans acquired through a transfer, such as a business combination, where there are differences in expected cash flows and contractual cash flows due in part to credit quality be recognized at their fair value. The yield that may be accreted is limited to the excess of the investor s estimate of undiscounted expected principal, interest, and other cash flows over the investor s initial investment in the loan. The excess of contractual cash flows over expected cash flows is not to be recognized as an adjustment of yield, loss accrual, or valuation allowance. Any future excess of cash flows over the original expected cash flows is to be recognized as an adjustment of future yield. Future decreases in actual cash flow compared to the original expected cash flow are recognized as a valuation allowance and expensed immediately. Valuation allowances can not be created nor carried over in the initial accounting for loans acquired in a transfer of loans with evidence of deterioration of credit quality since origination. However, valuation allowances for non-impaired loans acquired in a business combination can be carried over. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004, with early adoption encouraged. The Company does not believe the adoption of SOP 03-3 will have a material impact on the Company s financial position or results of operations.

NOTE 4 EARNINGS PER SHARE

Basic earnings per share (EPS) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that share in the earnings of the entity.

Earnings per share consisted of the following components for the three and nine months ended September 30, 2005 and 2004:

For the Three Months Ended September 30,	Net Income 2005	Net Income 2004
	(Dollars in Thousands)	
Net Income	$ 8,687	$ 8,262

	Weighted Average Shares 2005	Weighted Average Shares 2004
Basic EPS	15,391,937	15,142,272
Effect of dilutive securities	145,684	178,821
Diluted EPS	15,537,621	15,321,093

	Net Income Per Share 2005	Net Income Per Share 2004
Basic EPS	$ 0.56	$ 0.55
Effect of dilutive securities	$ 0.00	$ 0.01
Diluted EPS	$ 0.56	$ 0.54

For the Nine Months Ended September 30,	Net Income 2005	Net Income 2004
	(Dollars in Thousands)	
Net Income	$ 24,642	$ 21,583

	Weighted Average Shares 2005	Weighted Average Shares 2004
Basic EPS	15,370,226	14,856,722
Effect of dilutive securities	147,813	183,034
Diluted EPS	15,518,039	15,039,756

	Net Income Per Share 2005	Net Income Per Share 2004
Basic EPS	$ 1.60	$ 1.45
Effect of dilutive securities	$ 0.01	$ 0.01
Diluted EPS	$ 1.59	$ 1.44

Options to purchase common stock with an exercise price greater than the average market price of common shares for the period are excluded from the calculation of diluted earnings per share, as their effect on earnings per share would be anti-dilutive. For the three and nine months ended September 30, 2005 there were 328,295 and 329,927 shares, respectively, excluded from the calculation of diluted earnings per share. For the three and nine months ended September 30, 2004 there were 117,800 and 127,517, respectively, of shares excluded from the calculation of diluted earnings per share.

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NOTE 5- EMPLOYEE BENEFITS
POST RETIREMENT BENEFITS AND SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

The following table illustrates the status of the post-retirement benefit plan and supplemental executive retirement plans (SERPs) as of September 30, for the periods presented:

Components of Net Periodic Benefit Cost

	Post Retirement Benefits		SERPs	
	Three months ended September 30,			
	2005	2004	2005	2004
	(Unaudited Dollars in Thousands)			
Service cost	$ 23	$ 20	$ 44	$ 35
Interest cost	18	18	32	31
Amortization of transition obligation	8	9		
Amortization of prior service cost	3	3	11	39
Net periodic benefit cost	$ 52	$ 50	$ 87	$ 105

Components of Net Periodic Benefit Cost

	Post Retirement Benefits		SERPs	
	Nine months ended September 30,			
	2005	2004	2005	2004
	(Unaudited Dollars in Thousands)			
Service cost	$ 69	$ 60	$ 132	$ 104
Interest cost	54	52	96	92
Amortization of transition obligation	26	27		
Amortization of prior service cost	9	9	34	118
Net periodic benefit cost	$ 158	$ 148	$ 262	$ 314

The Company previously disclosed in its financial statements for the fiscal year ended December 31, 2004 that it expected to contribute $65,000 to its post retirement benefit plan and $124,000 to its SERPs in 2005 and presently anticipates making these contributions. For the three months ended September 30, 2005, $12,000 and $28,000 of contributions have been made to the post retirement benefit plan and the SERPs, respectively, and for the nine months ended September 30, 2005, $56,000 and $85,000 of contributions have been made to the post retirement benefit plan and the SERPs, respectively.

Not included in the above summary are the components of net periodic benefit cost for the noncontributory defined benefit pension plan administered by Pentegra (the Fund). The Fund does not segregate the assets or liabilities of all participating employers and, accordingly, disclosure of accumulated vested and non-vested benefits is not possible. The pension plan year is July 1st through June 30th. The Company anticipates that contributions paid in 2005 to the defined benefit pension plan related to the 2005-2006 plan year will be $3.0 million, of which $513,000 was paid in third quarter of 2005 and the remaining $2.5 million is expected to be paid in the fourth quarter of 2005. Contributions for the 2004-2005 plan years were all paid in 2004. Pension expense was $1.8 million for the year 2004 and is expected to be $2.5

million for the full year 2005 of which $513,000 has been recognized and paid during the three months ended September 30, 2005 and $1.6 million has been recognized year to date.

NOTE 6 REPURCHASE AGREEMENTS

Both wholesale and retail repurchase agreements are collateralized by mortgage-backed securities and U.S. Government obligations. At September 30, 2005, the Company had $25.0 million securities of repurchase agreements outstanding with third party brokers and $65.3 million of customer repurchase agreements outstanding. The related securities are included in the securities available for sale.

NOTE 7 COMPREHENSIVE INCOME (LOSS)

Information on the Company s comprehensive income (loss), presented net of taxes, is set forth below for the three and nine months ended September 30, 2005 .

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2005	**2004**	**2005**	**2004**
Net Income	$ 8,687	$ 8,262	$ 24,642	$ 21,583
Other Comprehensive (Loss) Income, Net of Tax:				
(Decrease)/Increase in unrealized gains on securities available for sale, net of tax of $2,878 and $3,392 for the three months ended September 30, 2005 and 2004, respectively, and $4,045 and $572 for the nine months ending September 30, 2005 and 2004, respectively.	(4,827)	5,740	(6,746)	(873)
Less: reclassification adjustment for realized gains included in net earnings, net of tax of $0 for the three months ending both September 30, 2005 and 2004, and $230 and $370 for the nine months ending September 30, 2005 and 2004.			(386)	(655)
Net change in unrealized gains/(losses) on securities available for sale, net of tax of $2,878 and $3,392 for the three months ending September 30, 2005 and 2004, respectively, and $4,275 and $942 for the nine months ending September 30, 2005 and 2004, respectively.	(4,827)	5,740	(7,132)	(1,528)
Increase/(Decrease) in fair value of derivatives, net of tax of $854 and $233 for the three months ending September 30, 2005 and 2004, respectively, and $994 and $341 for the nine months ending September 30, 2005 and 2004,				

respectively.	1,174	(322)	1,229	744
Less: reclassification of realized gains on derivatives, net of tax of $189 and $222 for the three months ending September 30, 2005 and 2004, respectively, and $387 and $697, for the nine months ending September 30, 2005 and 2004, respectively.	(261)	(306)	(533)	(962)
Net change in fair value of derivatives, net of tax of $665 and $455 for the three months ending September 30, 2005 and 2004, respectively, and $607 and $356, for the nine months ending September 30, 2005 and 2004, respectively.	913	(628)	696	(218)
Other Comprehensive (Loss) Income, Net of Tax:	(3,914)	5,112	(6,436)	(1,746)
Comprehensive Income	$ 4,773	$ 13,374	$ 18,206	$ 19,837

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission.

Cautionary Statement Regarding Forward-Looking Statements

A number of the presentations and disclosures in this Form 10-Q, including, without limitation, statements regarding the level of allowance for loan losses, the rate of delinquencies and amounts of charge-offs, and the rates of loan growth, and any statements preceded by, followed by, or which include the words may, could, should, will, would, hope, might, believe, expect, anticipate, estimate, intend, plan, assume or similar expressi forward-looking statements.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to the Company s beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business, including the Company s expectations and estimates with respect to the Company s revenues, expenses, earnings, return on equity, return on assets, efficiency ratio, asset quality and other financial data and capital and performance ratios.

Although the Company believes that the expectations reflected in the Company s forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors (some of which are beyond the Company s control). The following factors, among others, could cause the Company s financial performance to differ materially from the Company s goals, plans, objectives, intentions, expectations and other forward-looking statements:

a weakening in the strength of the United States economy in general and the strength of the regional and local economies within the New England region and Massachusetts which could result in a deterioration of credit quality, a change in the allowance for loan losses or a reduced demand for the Company s credit or fee-based products and services;

adverse changes in the local real estate market, 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;

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

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

competitive pressures could intensify and affect the Company s profitability, including as a result of continued industry consolidation, the increased financial services from 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-Q. Therefore, the Company cautions you not to place undue reliance on the Company s forward-looking information and statements.

The Company does not intend to update the Company s forward-looking information and statements, whether written or oral, to reflect change. All forward-looking statements attributable to the Company are expressly qualified by these cautionary statements.

EXECUTIVE LEVEL OVERVIEW

The Company s results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings. The results of operations are also affected by the level of income/fees from loans, deposits, mortgage banking, and 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 $8.7 million, representing growth of 5.1%, for the quarter ended September 30, 2005 from the same period last year. Earnings growth from the comparable quarter was primarily the result of net interest margin expansion, targeted earning assets growth, increases in demand deposits and deposit service charges as well as improved mortgage banking revenue. Partially offsetting these items was an increase in salaries and benefits driven by strategic additions to staff, performance based incentive compensation, annual merit increases and increased medical and post retirement benefits. Also detracting

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from the current quarters results were costs related to the conversion of the Company s ATM system service provider.

Management continues to focus balance sheet growth on the commercial and home equity lending categories. Emphasis on the securities portfolio has decreased on both a relative basis (as a percent of earning assets) as well as on an actual basis reflecting good loan growth and the current flat yield curve environment. Loan growth has focused primarily on commercial and variable rate home equity lending, while indirect auto loan origination and portfolio residential lending has been somewhat de-emphasized.

The following pie charts present earning assets by type as a percent of total earning assets for the time period indicated below:

There was good deposit growth of $112.3 million, or 5.5%, during 2005 despite the strong competitive pricing in the Company s market area. The majority of the growth was experienced in time deposits of $72.0 million, or 16.0%, and demand deposits of $34.3 million, or 6.9%. The company remains committed to deposit generation, with careful management of deposit pricing and selective deposit promotion in an effort to control the Company s cost of funds.

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While changes in the prevailing interest rate environment (Historical Treasury Yield Curve graph below) 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 see Table 8 Interest Rate Sensitivity and the discussion to follow within the Market Risk section of the management discussion and analysis.)

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Looking ahead to the last quarter of 2005, the Company expects the quarterly net interest margin to be maintained in the 3.90% range, with deposit pricing being a key determinant. Competition for deposit generation in the Company s footprint remains strong.

Asset quality continues to be a highlight for the Company and is not anticipated to change significantly in the near term.

Management plans to continue to grow earnings through prudent asset growth, increasing deposit originations, generating growth in non-interest income, and non-interest expense control. As previously reported, there are a number of initiatives that are expected to continue to contribute to the remainder of 2005 and beyond. The Company s continued future success will be predicated upon the disciplined execution and the careful monitoring of the Strategic Plan.

A number of the strategic objectives are:

- o Significantly improve and expand our business development across all business units and channels.
- o Improve the customer experience through:
  - o The development, measurement and continuous improvement upon service standards
  - o Improved product offerings
  - o Improving the appearance of the branch network
- o Enhance our colleague capital through training and development.
- o Build and leverage an enhanced information infrastructure and analysis capability designed to better understand:
  - o Customer and product contribution

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- o The effectiveness of direct mail campaigns
- o Consumer credit losses

o Improve the efficiency and effectiveness with which we operate by leveraging the additional functionality of our core system provider and examining the efficiency of our branch network.

o Continued focus on compliance and risk management.

Management believes that its commitment and execution of the objectives outlined above will be critical to continuing to deliver strong financial performance.

FINANCIAL POSITION

Loan Portfolio Total loans increased by $102.8 million, or 5.4%, during the nine months ended September 30, 2005. The increases were mainly in commercial loans which increased $57.4 million, or 6.4%, in total with commercial real estate representing the largest growth of $49.1 million, or 8.0%. Commercial and industrial loans increased by $7.0 million, or 4.5%, and commercial construction loans increased $1.3 million, or 1.0%. Consumer loans increased $46.4 million, or 8.8%, primarily due to growth in variable home equity lending. The consumer-auto loan portfolio decreased by $8.2 million, or 2.9%, during the nine months ended September 30, 2005 as this segment of the loan portfolio has been de-emphasized due to narrowing spreads. Business banking loans totaled $50.1 million, representing growth of 14.7% during the nine months ending September 30, 2005. Residential loans decreased $7.5 million, or 1.7% during the first nine months.

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 determine the reasons for delinquency and the prospects for payment. Any subsequent actions taken to resolve the delinquency will depend upon the nature of the loan and the length of time that the loan has been delinquent. The borrower s needs are considered as much as reasonably possible without jeopardizing the Bank s position. A late charge is usually assessed on loans upon expiration of the grace period.

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

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counsel to initiate foreclosure proceedings. At any time prior to a sale of the property at foreclosure, the Bank may and will terminate foreclosure proceedings if the borrower is able to work out a satisfactory payment plan. On loans secured by commercial real estate or other business assets, the Bank similarly seeks to reach a satisfactory payment plan so as to avoid foreclosure or liquidation.

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

Table 1 Summary of Delinquency Information

	At September 30, 2005				At December 31, 2004			
	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
	(Unaudited Dollars in Thousands)							
Real Estate Loans:								
Residential	1	$ 334	2	$ 677	3	$ 764	4	$ 173
Residential Construction								
Commercial	2	103	2	252	1	188	2	227
Commercial Construction								
Commercial and Industrial Loans	1	96	1	1	1	130	4	207
Business Banking			1	8	1	11	4	167
Consumer Home Equity			1	49				
Consumer Auto (1)	72	514	59	512	N/A	N/A	N/A	N/A
Consumer Other	16	191	18	130	76	626	95	459
Total	92	$ 1,238	84	$ 1,629	82	$ 1,719	109	$ 1,233

(1) For periods prior to September 30, 2005, Consumer-Auto loans are included in Consumer-Other.

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 in certain instances remains current for up to three months) and interest, when the loan is liquidated, or when the loan is determined to be uncollectible and 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 nonaccrual loans and loans that are more than 90 days past due but still accruing interest. OREO includes properties held by the Bank as a result of foreclosure or by acceptance of a deed in lieu of foreclosure. Nonperforming assets totaled $2.5 million at September 30, 2005 (0.08% of total assets), as compared to the $2.7 million (0.09% of total assets) reported at December 31, 2004. The Company s allowance for loan losses as a percent of nonperforming loans is 1,074.53% as compared to 932.53% at December 31, 2004 and the Company maintained an allowance to loan ratio of 1.31% at both September 30, 2005 and December 31, 2004. The Bank held one OREO property on September 30, 2005 amounting to $5,000 and none on December 31, 2004 and all securities were performing for both periods.

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 $644,000,

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$703,000 and $679,000 for the periods ending September 30, 2005, December 31, 2004, and September 30, 2004, respectively.

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

Table 2 Nonperforming Assets / Loans

(Unaudited Dollars in Thousands)

	As of September 30, 2005	As of December 31, 2004	As of September 30, 2004
Loans past due 90 days or more but still accruing			
Home Equity	$ 49	$	$ 73
Consumer Auto (2)	88		
Consumer Other	95	245	306
Total	$ 232	$ 245	$ 379
Loans accounted for on a nonaccrual basis (1)			
Commercial and Industrial	$ 1	$ 334	$ 1,401
Business Banking (3)	8	N/A	N/A
Real Estate Commercial Mortgage	252	227	564
Real Estate Residential Mortgage	1,238	1,193	1,001
Consumer Auto (2)	644	703	
Consumer Other	87		679
Total	$ 2,230	$ 2,457	$ 3,645
Total nonperforming loans	$ 2,462	$ 2,702	$ 4,024
Other real estate owned	$ 5	$	$
Total nonperforming assets	$ 2,467	$ 2,702	$ 4,024
Restructured loans	$ 388	$ 416	$ 426
Nonperforming loans as a percent of gross loans	0.12%	0.14%	0.21%
Nonperforming assets as a percent of total assets	0.08%	0.09%	0.14%

(1) There were no restructured

nonaccruing loans at September 30, 2005, December 31, 2004 and September 30, 2004.

(2) For periods prior to September 30, 2005, Consumer-Auto loans due 90 days or more but still accruing are included in Consumer-Other.

(3) For periods prior to September 30, 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 the current financial status. It is the Bank s policy to maintain restructured loans on nonaccrual status for approximately six months before management considers a return to accrual status. At September 30, 2005 and December 31, 2005 the Bank had $388,000 and $416,000, respectively, of restructured loans. At September 30, 2005 and December 31, 2004, the Bank also had 38 and 15 potential problem loans, respectively, which were not included in nonperforming loans with an outstanding balance of $21.4 million and $10.7 million, respectively. Potential problem loans are any loans, which are not included in nonaccrual or non-performing loans and which are not considered troubled debt restructures, where known information about possible credit problems of the borrowers causes management to have concerns as to the ability of such borrowers to comply with present loan repayment terms. At September 30, 2005, problem loans continued to perform and the Company's management actively monitors these loans 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 three months ended September 30, 2005 and September 30, 2004, if nonperforming loans at the respective dates had been performing in accordance with their original terms, approximated $70,000 and $82,000, respectively. Interest income that would have been recognized for the nine months ended September 30, 2005 and September 30, 2004, if nonperforming loans at the respective dates had been performing in accordance with their original terms, approximated $193,000 and $240,000, respectively. The actual amount of interest that was collected on nonaccrual and restructured loans during the three months ended September 30, 2005 and September 30, 2004 and included in interest income was $16,000 and $36,000, respectively. The actual amount of interest that was collected on nonaccrual and restructured loans during the nine months ended September 30, 2005 and September 30, 2004 and included in interest income was $70,000 and $155,000, 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 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 smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer or residential loans for impairment disclosures. At September 30, 2005, impaired loans include all commercial real estate loans and commercial and industrial loans on nonaccrual status, restructured loans and certain potential problem loans for which a collateral deficit exists and a specific allocation of allowance for loan loss has been assigned. Total impaired loans at September 30, 2005 and December 31, 2004 were $1.6 million and $2.6 million, respectively.

Allowance For Loan Losses While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on increases in non-performing loans, changes in economic conditions, or for other reasons. Various regulatory agencies, as an integral part of their examination processes, periodically review the Company s allowance for loan losses. Federal Deposit Insurance Corporation (FDIC) regulators examined the Company during the first quarter of 2005.

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The allowance for loan losses is maintained at a level that management considers adequate to provide for probable loan losses based upon evaluation of known and inherent risks in the loan portfolio. The allowance is increased by provisions for loan losses and by recoveries of loans previously charged-off and is reduced by loans charged-off. Additionally, in 2004 the Bank s allowance increased by $869,000 upon acquisition of Falmouth Bancorp, Inc. This increase represents management s estimate of potential inherent losses in the acquired portfolio.

As of September 30, 2005, the allowance for loan losses totaled $26.5 million, or 1.31%, of total loans as compared to $25.2 million, or 1.31%, of total loans at December 31, 2004. Based on the analyses described herein, management believes that the level of the allowance for loan losses at September 30, 2005 is adequate.

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

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Table 3 Summary of Changes in the Allowance for Loan Losses

	Quarter to Date				
	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004
	(Unaudited Dollars in Thousands)				
Average loans	$ 2,004,389	$ 1,958,097	$ 1,932,768	$ 1,898,874	$ 1,814,143
Allowance for loan losses, beginning of period	$ 26,050	$ 25,505	$ 25,197	$ 25,253	$ 23,931
Charged-off loans:					
Commercial and Industrial	120			153	
Business Banking (1)	196	48	151	78	
Real Estate Commercial					
Real Estate Residential					
Real Estate Construction					
Home Equity					
Consumer Auto (2)	333	421	426		
Consumer Other	285	283	181	720	498
Total charged-off loans	934	752	758	951	498
Recoveries on loans previously charged-off:					
Commercial and Industrial	15	51	6	11	52
Business Banking (1)	2	9	2	78	
Real Estate Commercial	127				1
Real Estate Residential					30
Real Estate Construction					
Home Equity			20		
Consumer Auto (2)	91	105	65		
Consumer Other	34	27	43	36	107
Total recoveries	269	192	136	125	190
Net loans charged-off	665	560	622	826	308
Addition due to acquisition					870
Provision for loan losses	1,070	1,105	930	770	760
Total allowance for loan losses, end of period	$ 26,455	$ 26,050	$ 25,505	$ 25,197	$ 25,253
Net loans charged-off as a percent of average total loans	0.03%	0.03%	0.03%	0.04%	0.02%
Total allowance for loan losses as a percent of total	1.31%	1.30%	1.31%	1.31%	1.35%

loans					
Total allowance for loan losses as a percent of nonperforming loans	1,074.53%	1,241.07%	917.12%	932.53%	627.56%
Net loans charged-off as a percent of allowance for loan losses	2.51%	2.15%	2.44%	3.28%	1.22%
Recoveries as a percent of charge-offs	28.80%	25.53%	17.94%	13.14%	38.15%

(1) For periods prior to December 31, 2004, Business Banking loans are included in Commercial and Industrial and Consumer-Other.

(2) For periods prior to March 31, 2005, Consumer-Auto loans are included in Consumer-Other.

The allowance for loan losses is allocated to various loan categories as part of the Bank s process of evaluating its adequacy. The amount of allowance allocated to these loan categories was $22.8 million at September 30, 2005, compared to $22.4 million at December 31, 2004. The distribution of allowances allocated among the various loan categories as of September 30, 2005 was categorically similar to the distribution as of December 31, 2004. Increases or decreases in the amounts allocated to each category, as compared to those shown as of December 31, 2004, generally, reflect changes in portfolio balances outstanding due to new loan originations, loans paid off, changes in levels of credit line usage and the results of ongoing credit risk assessments of the loan portfolio.

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The following table summarizes the allocation of the allowance for loan losses for the dates indicated:

Table 4 Summary of Allocation of the Allowance for Loan Losses

(Unaudited Dollars In Thousands)

	AT SEPTEMBER 30, 2005		AT DECEMBER 31, 2004	
	Allowance Amount	Percent of Loans In Category To Total Loans	Allowance Amount	Percent of Loans In Category To Total Loans
Allocated Allowances:				
Commercial and Industrial	$ 3,208	8.1%	$ 3,387	8.2%
Business Banking	1,161	2.5%	1,022	2.3%
Commercial Real Estate	11,211	32.8%	10,346	32.0%
Real Estate Construction	2,231	6.9%	2,905	7.0%
Real Estate Residential	642	21.1%	659	22.9%
Consumer Home Equity	735	12.1%	583	10.1%
Consumer Auto	2,755	13.7%	2,839	14.8%
Consumer Other	807	2.8%	667	2.7%
Imprecision Allowance	3,705	NA	2,789	NA
Total Allowance for Loan Losses	$ 26,455	100.0%	$ 25,197	100.0%

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

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

During the quarter-ended March 31, 2005, enhancements to the Bank s internal risk-rating framework were implemented. These enhancements refine the definitional detail of the risk attributes and characteristics that compose each risk grouping and add granularity to the assessment of credit risk across those defined risk groupings.

A similar formula-based approach, using a point-in-time credit grade distribution, was developed to evaluate the consumer installment segments of the loan portfolio. This method was developed in response both to the significance of the balance and the seasoning of this segment of the portfolio which has allowed for a more analytical overview of its inherent risk characteristics. This method has been combined with subjective factors, which reflect changing environmental conditions in the consumer installment loan market.

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

The other method used to allocate allowances for loan losses entails the assignment of allowance amounts to individual loans on the basis of loan impairment. Certain loans are evaluated individually and are judged to be impaired when management believes it is probable that the Bank will not collect all of the contractual interest and principal payments as scheduled in the loan agreement. Under this method, loans are selected for evaluation based upon a change in internal risk rating, occurrence of delinquency, loan classification or nonaccrual status. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of a probable loss is able to be estimated on the basis: (a) of the present value of anticipated future cash flows or on the loan s observable fair market value or (b) the fair value of collateral if the loan is collateral dependent. Loans with a specific allowance and the amount of such allowance totaled $1.2 million and $211,000, respectively at September 30, 2005 and $1.1 million and $400,000, respectively, at December 31, 2004.

A portion of the allowance for loan loss is not allocated to any specific segment of the loan portfolio. This non-specific allowance is maintained for two primary reasons: (a) there exists an inherent subjectivity and imprecision to the analytical processes employed and (b) the prevailing business environment, as it is affected by changing economic conditions and various external factors, may impact the portfolio in ways currently unforeseen. Moreover, management has identified certain risk factors, which could impact the degree of loss sustained within the portfolio. These include: (a) market risk factors, such as the effects of economic variability on the entire portfolio, and (b) unique portfolio risk factors that are inherent characteristics of the Bank s loan portfolio. Market risk factors may consist of changes to general economic and business conditions that may impact the Bank s loan portfolio customer base in terms of ability to repay and that may result in changes in value of underlying collateral. Unique portfolio risk factors may include industry concentration or covariant industry concentrations, geographic concentrations or trends that may exacerbate losses resulting from economic events which the Bank may not be able to fully diversify out of its portfolio.

Due to the imprecise nature of the loan loss estimation process and ever changing conditions, these risk attributes may not be adequately captured in data related to the formula-based loan loss components used to determine allocations in the Bank s analysis of the adequacy of the allowance for loan losses. Management, therefore, has established and maintains an imprecision allowance for loan losses. The amount of this measurement imprecision allocation was $3.7 million at September 30, 2005, compared to $2.8 million at December 31, 2004.

Management has increased the measurement imprecision allocation based upon its prospective judgment concerning the possible effects of changing business and economic conditions on borrowers in the loan portfolio, including, but not limited to, the effects of: (a) inflationary pressure on energy and commodity prices, spurred by unprecedented world demand and recent natural disasters, (b) rising interest rates and the continued flattening of the yield curve, (c) volatility within local and regional real estate markets, (d) increasing consumer debt and historically high levels of non-business bankruptcies, (e) the continued

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uncertainty of geopolitical dynamics, and (f) the potential for deceleration in local, regional and/or national economic growth resulting from the aforementioned factors. Business and economic conditions notwithstanding, the credit quality of the Bank s loan portfolio has remained stable and the incidence of default within the portfolio has not increased during the quarter-ended September 30, 2005.

As of September 30, 2005, the allowance for loan losses totaled $26.5 million as compared to $25.2 million at December 31, 2004. Based on the processes described above, management believes that the level of the allowance for loan losses at September 30, 2005 is adequate.

Goodwill and Core Deposit Intangible Goodwill and Core Deposit Intangible decreased $349,000, or 0.6%, to $56.9 million at September 30, 2005 from December 31, 2004 resulting from the amortization of the core deposit intangible of $242,000 and an adjustment to goodwill of $107,000.

Securities Securities decreased by $77.7 million, or 9.5%, during the nine months ended September 30, 2005. This resulted mainly from the sale of $62.9 million in longer duration securities for the nine months ended September 30, 2005, of which $53.3 million was sold in the second quarter of 2005 and $9.6 was sold in the first quarter of 2005. The ratio of securities to total assets as of September 30, 2005 is 24.8%.

Deposits Total deposits of $2.2 billion at September 30, 2005 increased $112.3 million, or 5.5%, compared to December 31, 2004. The Company experienced growth in core deposits of $40.2 million, or 2.5%. Time deposits increased by $72.0 million, or 16.0% due to promotional certificate offerings.

Borrowings Total borrowings decreased $88.3 million, or 13.5%, to $566.8 million at September 30, 2005 from December 31, 2004. The borrowings reduction is due to increases in deposits exceeding increases in total assets.

Stockholders Equity Stockholders equity as of September 30, 2005 totaled $223.3 million, as compared to $210.7 million at December 31, 2004 resulting from net income of $24.6 million offset mainly by dividends paid of $6.9 million and an increase in unrealized losses on securities of $7.1 million.

Equity to Assets Ratio The ratio of equity to assets was 7.5% at September 30, 2005 and 7.2% at December 31, 2004.

RESULTS OF OPERATIONS

Summary of Results of Operations The Company reported net income of $8.7 million for the third quarter of 2005 as compared with net income of $8.3 million for the third quarter of 2004. Diluted earnings per share were $0.56 for the three months ended September 30, 2005, compared to $0.54 per share for the same quarter in the prior year. Net income for the nine months ended September 30, 2005 was $24.6 million compared to $21.6 million for the same period last year. Diluted earnings per share were $1.59 and $1.44 for the nine months ended September 30, 2005 and 2004, respectively.

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Net Interest Income The amount of net interest income is affected by changes in interest rates and by the volume and mix of interest earning assets and interest bearing liabilities.

On a fully tax equivalent basis, net interest income for the third quarter of 2005 increased $1.7 million, or 6.7%, to $27.2 million, as compared to the third quarter of 2004. The Company s net interest margin was 3.93% for quarter ended September 30, 2005 compared to 3.88% for the quarter ended September 30, 2004. The Company s interest rate spread (the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities) decreased to 3.47% during the third quarter of 2005, 5 basis points less than the comparable period in the prior year. The net interest margin for the nine months ending September 30, 2005 was 3.87% as compared to 3.95% for the comparable period in 2004. The interest rate spread was 3.45% and 3.58% for the nine months ending September 30, 2005 and 2004, respectively.

The following tables present the Company s average balances, net interest income, interest rate spread, and net interest margin for the three and nine months ending September 30, 2005 and September 30, 2004. For purposes of the tables and the following discussion, income from interest-earning assets and net interest income are presented on a fully-taxable equivalent basis by adjusting income and yields earned on tax-exempt interest received on loans to qualifying borrowers and on certain of the Company s securities to make them equivalent to income and yields on fully-taxable investments, assuming a federal income tax rate of 35%.

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

FOR THE THREE MONTHS ENDED SEPTEMBER 30,	AVERAGE BALANCE 2005	INTEREST EARNED/ PAID 2005	AVERAGE YIELD 2005	AVERAGE BALANCE 2004	INTEREST EARNED/ PAID 2004	AVERAGE YIELD 2004
Interest-earning Assets:						
Federal Funds Sold and Assets Purchased Under Resale Agreement	$ 8,437	$ 71	3.37%	$ 1,319	$ 9	2.73%
Securities:						
Trading Assets	1,539	11	2.86%	1,500	14	3.73%
Taxable Investment Securities	688,230	7,481	4.35%	745,241	8,323	4.47%
Non-taxable Investment Securities (1)	61,924	1,028	6.64%	62,920	1,022	6.50%
Total Securities:	751,693	8,520	4.53%	809,661	9,359	4.62%
Loans (1)	2,004,389	31,086	6.20%	1,814,143	26,014	5.74%
Total Interest-Earning Assets	$ 2,764,519	$ 39,677	5.74%	$ 2,625,123	$ 35,382	5.39%
Cash and Due from Banks	68,481			68,832		
Other Assets	143,538			132,986		
Total Assets	$ 2,976,538			$ 2,826,941		
Interest-bearing Liabilities:						
Deposits:						
Savings and Interest Checking Accounts	$ 593,464	$ 712	0.48%	$ 607,646	$ 774	0.51%
Money Market and Super Interest Checking Accounts	513,681	2,432	1.89%	505,307	1,680	1.33%
Time Deposits	512,092	3,472	2.71%	505,032	2,753	2.18%
Total interest-bearing deposits:	1,619,237	6,616	1.63%	1,617,985	5,207	1.29%
Borrowings:						
Federal Home Loan Bank Borrowings	$ 445,716	$ 4,362	3.91%	$ 389,583	$ 3,460	3.55%
Federal Funds Purchased and Assets Sold Under Repurchase Agreement	86,750	399	1.84%	56,209	125	0.89%
Junior Subordinated Debentures	51,546	1,117	8.67%	51,546	1,117	8.67%
Treasury Tax and Loan Notes	1,452	12	3.31%	2,032	2	0.39%
Total borrowings:	585,464	5,890	4.02%	499,370	4,704	3.77%
Total Interest-Bearing Liabilities	$ 2,204,701	$ 12,506	2.27%	$ 2,117,355	$ 9,911	1.87%
Demand Deposits	530,115			501,318		
Other Liabilities	17,369			12,931		
Total Liabilities	2,752,185			2,631,604		

Stockholders Equity	224,353			195,337		
Total Liabilities and Stockholders Equity	$ 2,976,538			$ 2,826,941		
Net Interest Income		$ 27,171			$ 25,471	
Interest Rate Spread (2)			3.47%			3.52%
Net Interest Margin (2)			3.93%			3.88%
Supplemental Information:						
Total Deposits, including Demand Deposits	$ 2,149,352	$ 6,616		$ 2,119,303	$ 5,207	
Cost of Total Deposits			1.23%			0.98%
Total Funding Liabilities, including Demand Deposits	$ 2,734,816	$ 12,506		$ 2,618,673	$ 9,911	
Cost of Total Funding Liabilities			1.83%			1.51%

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $452 and $441 for the three months ended September 30, 2005 and 2004, respectively. Also, non-accrual loans have been included in the average loan category; however, unpaid interest on non-accrual loans has not been included for purposes of determining interest income.

(2) Interest rate spread

represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. Net interest margin represents annualized net interest income as a percent of average interest-earning assets.

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30,	AVERAGE BALANCE 2005	INTEREST EARNED/ PAID 2005	AVERAGE YIELD 2005	AVERAGE BALANCE 2004	INTEREST EARNED/ PAID 2004	AVERAGE YIELD 2004
Interest-earning Assets:						
Federal Funds Sold and Assets Purchased Under Resale Agreement	$ 6,130	$ 137	2.98%	$ 455	$ 9	2.64%
Securities:						
Trading Assets	1,546	27	2.33%	1,512	32	2.82%
Taxable Investment Securities	723,031	23,765	4.38%	700,739	23,260	4.43%
Non-taxable Investment Securities (1)	62,339	3,088	6.60%	64,695	3,240	6.68%
Total Securities:	786,916	26,880	4.55%	766,946	26,532	4.61%
Loans (1)	1,973,697	89,156	6.02%	1,691,790	72,994	5.75%
Total Interest-Earning Assets	$ 2,766,743	$ 116,173	5.60%	$ 2,459,191	$ 99,535	5.40%
Cash and Due from Banks	65,145			67,125		
Other Assets	142,989			115,009		
Total Assets	$ 2,974,877			$ 2,641,325		
Interest-bearing Liabilities:						
Deposits:						
Savings and Interest Checking Accounts	$ 596,458	$ 2,032	0.45%	$ 557,087	$ 2,109	0.50%
Money Market and Super Interest Checking Accounts	515,623	6,596	1.71%	434,974	4,110	1.26%
Time Deposits	504,108	9,321	2.47%	482,146	7,873	2.18%
Total interest-bearing deposits:	1,616,189	17,949	1.48%	1,474,207	14,092	1.27%
Borrowings:						
Federal Home Loan Bank Borrowings	$ 485,418	$ 13,704	3.76%	$ 390,833	$ 9,972	3.40%
Federal Funds Purchased and Assets Sold Under Repurchase Agreement	73,902	862	1.56%	58,529	402	0.92%
Junior Subordinated Debentures	51,546	3,352	8.67%	34,615	2,247	8.66%
Treasury Tax and Loan Notes	1,714	28	2.18%	3,128	10	0.43%
Total borrowings:	612,580	17,946	3.91%	487,105	12,631	3.46%
Total Interest-Bearing Liabilities	$ 2,228,769	$ 35,895	2.15%	$ 1,961,312	$ 26,723	1.82%
Demand Deposits	510,839			465,944		
Corporation Obligated Mandatorily Redeemable Trust Preferred Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of the Corporation				15,721		

Other Liabilities	17,267			15,415		
Total Liabilities	2,756,875			2,458,392		
Stockholders Equity	218,002			182,933		
Total Liabilities and Stockholders Equity	$ 2,974,877			$ 2,641,325		
Net Interest Income		$ 80,278			$ 72,812	
Interest Rate Spread (2)			3.45%			3.58%
Net Interest Margin (2)			3.87%			3.95%
Supplemental Information:						
Total Deposits, including Demand Deposits	$ 2,127,028	$ 17,949		$ 1,940,151	$ 14,092	
Cost of Total Deposits			1.13%			0.97%
Total Funding Liabilities, including Demand Deposits	$ 2,739,608	$ 35,895		$ 2,427,256	$ 26,723	
Cost of Total Funding Liabilities			1.75%			1.47%

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $1,346 and $1,377 for the nine months ended September 30, 2005 and 2004, respectively. Also, non-accrual loans have been included in the average loan category; however, unpaid interest on non-accrual loans has not been included for purposes of determining interest income.

(2) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. Net interest margin represents annualized net interest income as a percent of average interest-earning assets.

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The increase in net interest income for the third quarter of 2005 was mainly due to an increase in income from interest-earning assets, specifically increases in interest income from loans which increased by $5.1 million, or 19.5%.

Average loan balances for the three months ending September 30, 2005 have grown by $190.2 million from the comparative period with the yield on loans also increasing by 46 basis points from 5.74% to 6.20% reflecting increases related to the upward pricing of variable rate loans and the Company s emphasis on commercial and home equity lending. Partially offsetting the increase in interest income was an increase in interest expense of $2.6 million driven by increased funding needs to support loan growth and an increase in the total cost of funds of 32 basis points from 1.51% to 1.83%, driven by the lengthening of the duration of borrowings and the competitive pricing environment for deposits.

Average loan balances for the nine months ending September 30, 2005 have grown by $281.9 million from the comparative period with the yield on loans also increasing by 27 basis points from 5.75% to 6.02%. Contributing to the increase experienced in loans as well as deposits was the acquisition of Falmouth Bancorp, Inc. On July 16, 2004 the Company acquired $96.9 million of loans and $136.7 million of deposits associated with this acquisition. On an average basis securities have increased modestly to $786.9 million at September 30, 2005 from $766.9 million at September 30, 2004 while the yield on securities decreased 6 basis points from 4.61% to 4.55%. Interest expense increased by $9.2 million and the total cost of funds increased by 28 basis points from 1.47% to 1.75%.

The following table presents certain information on a fully tax-equivalent basis regarding changes in the Company s interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to: (1) changes in rate (change in rate multiplied by old volume), (2) changes in volume (change in volume multiplied by old rate), and (3) changes in volume/rate (change in volume multiplied by change in rate).

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Table 7 Volume Rate Analysis

	Three Months Ended September 30, 2005 Compared to 2004				Nine Months Ended September 30, 2005 Compared to 2004			
	Change Due to Rate	Change Due to Volume	Change Due to Volume/ Rate	Total Change	Change Due to Rate	Change Due to Volume	Change Due to Volume/ Rate	Total Change
	(Unaudited Dollars in Thousands)				*(Unaudited Dollars in Thousands)*			
Income on interest-earning assets:								
Federal funds sold	$ 2	$ 49	$ 11	$ 62	$ 1	$ 112	$ 15	$ 128
Securities:								
Taxable securities	(222)	(637)	17	(842)	(228)	740	(7)	505
Non-taxable securities (1)	23	(16)	(1)	6	(36)	(118)	2	(152)
Trading assets	(4)	1		(3)	(6)	1		(5)
Total Securities:	(203)	(652)	16	(839)	(270)	623	(5)	348
Loans (1) (2)	2,122	2,728	222	5,072	3,428	12,163	571	16,162
Total	$ 1,921	$ 2,125	$ 249	$ 4,295	$ 3,159	$ 12,898	$ 581	$ 16,638
Expense of interest-bearing liabilities:								
Deposits:								
Savings and Interest Checking accounts	$ (45)	$ (18)	$ 1	$ (62)	$ (211)	$ 149	$ (15)	$ (77)
Money Market	712	28	12	752	1,454	762	270	2,486
Time deposits	672	38	9	719	1,042	359	47	1,448
Total interest-bearing deposits:	1,339	48	22	1,409	2,285	1,270	302	3,857
Borrowings:								
Federal Home Loan Bank borrowings	$ 353	$ 499	$ 50	$ 902	$ 1,062	$ 2,413	$ 257	$ 3,732
Federal funds purchased and assets sold under repurchase agreements	133	68	73	274	280	106	74	460
Junior Subordinated Debentures					4	1,099	2	1,105
Treasury tax and loan notes	15	(1)	(4)	10	41	(5)	(18)	18

Total borrowings:	501	566	119	1,186	1,387	3,613	315	5,315
Total	$ 1,840	$ 614	$ 141	$ 2,595	$ 3,672	$ 4,883	$ 617	$ 9,172
Change in net interest income	$ 81	$ 1,511	$ 108	$ 1,700	$ (513)	$ 8,015	$ (36)	$ 7,466

(1) The total amount of adjustment to present income and yield on a fully tax-equivalent basis is $452 and $441 for the three months ended September 30, 2005 and 2004, respectively, and $1,346 and $1,377 for the nine months ended September 30, 2005 and 2004, respectively.

(2) Loans include portfolio loans, loans held for sale and nonperforming loans; however unpaid interest on nonaccrual loans has not been included for purposes of determining interest income.

Provision For Loan Losses The provision for loan losses represents the charge to expense that is required to maintain an adequate level of allowance for loan losses. Management s periodic evaluation of the adequacy of the allowance considers past loan loss experience, known and inherent risks in the loan portfolio, adverse situations which may affect borrowers ability to repay, the estimated value of the underlying collateral, if any, and current and prospective economic conditions. Substantial portions of the Bank s loans are secured by real estate in Massachusetts. Accordingly, the ultimate collectibility of a substantial portion of the Bank s loan portfolio is susceptible to changes in property values within the state.

The provision for loan losses increased to $1.1 million and $3.1 million for the three and nine months ended September 30, 2005, respectively, compared with $761,000 and $2.2 million for the three and nine months ended September 30, 2004, respectively. The Company increased the provision for loan losses commensurate with loan growth. Asset quality remains sound with nonperforming assets of $2.5 million at September 30, 2005. At September 30, 2005 the allowance for loan loss covered nonperforming loans 10.7 times. Nonperforming assets at December 31, 2004 were $2.7 million, with the allowance covering nonperforming loans 9.3 times. The Company maintained a reserve to loan ratio of 1.31% at September 30, 2005.

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

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reviewed periodically by a third-party loan review consultant. As necessary, adjustments to the level of allowance for loan losses are reported in the earnings of the period in which they become known.

Non-Interest Income Non-interest income increased by $410,000, or 6.1%, and decreased by $7,000, or 0.03%, during the three and nine months ended September 30, 2005, respectively, as compared to the same periods in the prior year.

Service charges on deposit accounts increased by $283,000, or 8.9%, and by $470,000, or 5.1%, respectively, for the three and nine months ended September 30, 2005, as compared to the same periods in 2004, reflecting growth in core deposits. Investment management services income increased by $142,000, or 11.8%, and $464,000, or 13.1%, for the three and nine months ended September 30, 2005, respectively, compared to the same periods last year due to growth in managed assets. Assets under administration increased by $135.2 million, or 26.2%, from the same period last year to $651.9 million.

Mortgage banking income increased by $360,000, or 50.9%, and by $280,000, or 12.2%, for the three and nine months ended September 30, 2005, respectively, as compared to the same periods in 2004 as a result of selling a higher percentage of loan production and changes in market rates favorably impacting servicing asset amortization. The balance of the mortgage servicing asset is $3.0 million and loans serviced amounted to $349.1 million as of September 30, 2005.

Bank owned life insurance income increased $43,000, or 10.3%, and decreased $29,000, or 2.1%, for the three and nine months ended September 30, 2005, respectively, as compared to the same periods ended September 30, 2004. The year to date variance is driven by a lower market yield on these assets and increased death benefit expenses due to the aging of the insured pool. Other non-interest income increased by $43,000, or 6.0%, and decreased by $350,000, or 13.6%, for the three and nine months ended September 30, 2005, respectively, as compared to the same periods in 2004. The decrease in the nine month comparison is primarily due to decreases in commercial loan prepayment fees.

There were no gains on sale of securities in the third quarter of 2005. The gain realized on sale of securities in the third quarter of 2004 was $461,000. For the nine months ended September 30, 2005 the gain on sale of securities totaled $616,000 a decrease of $842,000, or 57.8%, from the $1.5 million recorded in the nine months ended September 30, 2004.

Non-Interest Expense Non-interest expense increased by $1.2 million, or 6.2%, and by $3.5 million, or 6.1% for the three and nine months ended September 30, 2005, respectively, as compared to the same periods in the prior year.

Salaries and employee benefits increased by $590,000, or 5.3%, and by $3.6 million, or 11.2%, for the three and nine months ended September 30, 2005, respectively, as compared to the same periods in the prior year. Salaries increased by $155,000 or 1.9%, and by $1.5 million, or 6.1%, respectively, for the three and nine months ended September 30, 2005, compared to the same periods in 2004 as a result of annual merit increases for employees and select additions to staff to support strategic initiatives. Accruals for incentive compensation increased by $205,000 and $1.4 million for the three months and nine months ended September 30, 2005, respectively, as compared to the same periods last year due to improved operating performance.

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Occupancy and equipment related expense increased by $179,000, or 8.6%, and by $873,000, or 13.2%, respectively, for the three and nine months ended September 30, 2005 as compared to the same periods in the prior year. The increase in this expense is primarily driven by facility s rent associated with the Falmouth Bancorp, Inc. acquisition which closed in mid 2004, lease buyout expense associated with branch closings, two de novo branches, and increased depreciation expense related to a new phone system installed in 2004. Snow removal cost also increased by $195,000 on a year over year basis due to the inclement weather experienced in the early part of 2005.

Data processing and facilities management expense has decreased $110,000, or 9.3%, and $367,000, or 10.8%, for the three and nine months ended September 30, 2005 compared to the same period in 2004, respectively, as a result of a new data processing contract finalized in the latter part of 2004.

Other non-interest expenses increased by $991,000, or 24.3%, and by $32,000, or 0.2%, respectively, for the three and nine months ended September 30, 2005, as compared to the same periods in the prior year. The increase in other non-interest expenses for the three month period is primarily attributable to an increase in ATM and debit card service fees of $243,000 mainly due to ATM service provider conversion charges. Also contributing to the increase were increases in audit and examination fees of $102,000, and legal fees of $206,000. The increase in legal fees is a result of large recoveries recognized in the prior period offsetting that periods legal expenses.

Income Taxes For the quarters ending September 30, 2005 and September 30, 2004, the Company recorded combined federal and state income tax provisions of $3.9 million and $3.7 million, respectively. These provisions reflect effective income tax rates of 30.7% and 30.8% for the quarters ending September 30, 2005 and September 30, 2004, respectively. During the second quarter of 2004, the Company announced that one of its subsidiaries (a Community Development Entity, or CDE) had been awarded $30.0 million in tax credit allocation authority under the New Markets Tax Credit (NMTC) Program of the United States Department of Treasury. During the third quarter of 2004, the Bank invested $5.0 million in the CDE providing it with the capital necessary to begin assisting qualified businesses in low-income communities throughout its market area. During the fourth quarter of 2004 the Bank invested an additional $10.0 million in the CDE. Based upon the Bank s $15.0 million investment, it will be eligible to receive tax credits over a seven year period totaling 39% of its investment, or $5.85 million. The Company began recognizing the benefit of these tax credits in 2004. During 2005, the Company will recognize a total of $750,000 related to the $15.0 million of investments made in 2004. During the second quarter of 2005, the Company determined that it was more than likely that it would make an additional $15.0 million investment into the CDE and began recognizing the associated credits. Through September 2005, $5.0 million of that amount has been invested into the CDE. The Company will also receive tax credits on these 2005 investments into its CDE. The Company recognized $438,000 of NMTC credits in the third quarter of 2005 for a total tax credit recognition of $1.5 million projected for 2005.

Minority Interest Minority interest expense was zero for the quarters ending September 30, 2005 and September 30, 2004, respectively, and zero and $1.1 million for the nine months ended September 30, 2005 and 2004, respectively. (See Note 3 to the *Condensed Notes to Unaudited Consolidated Financial Statements* within Item 1 hereof).

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Return on Average Assets and Equity The annualized consolidated returns on average equity and average assets for the three months ended September 30, 2005 were 15.49% and 1.17%, respectively, compared to 16.92% and 1.17% reported for the same period last year, respectively. For the nine months ended September 30, 2005, annualized consolidated returns on average equity and average assets were 15.07% and 1.10%, respectively, compared to 15.73% and 1.09%, for the nine months ended September 30, 2004.

Asset/Liability Management

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

The Asset/Liability Management Committee (ALCO Committee), whose members are comprised of the Bank s senior management, develops procedures consistent with policies established by the board of directors, which monitor and coordinate the Bank s interest rate sensitivity and the sources, uses, and pricing of funds. Interest rate sensitivity refers to the Bank s exposure to fluctuations in interest rates and its effect on earnings. If assets and liabilities do not re-price simultaneously and in equal volume, the potential for interest rate exposure exists. It is management s objective to maintain stability in the growth of net interest income through the maintenance of an appropriate mix of interest-earning assets and interest-bearing liabilities and, when necessary, within prudent limits, through the use of off-balance sheet hedging instruments such as interest rate swaps, floors and caps. The ALCO Committee employs simulation analyses in an attempt to quantify, evaluate, and manage the impact of changes in interest rates on the Bank s net interest income. In addition, the Bank engages an independent consultant to render advice with respect to asset and liability management strategy.

The Bank is careful to increase deposits without adversely impacting the weighted average cost of those funds. Accordingly, management has implemented funding strategies that include Federal Home Loan Bank (FHLB) advances, brokered certificates of deposits, and repurchase agreement lines. These non-deposit funds are also viewed as a contingent source of liquidity and, when profitable lending and investment opportunities exist, access to such funds provides a means to leverage the balance sheet.

From time to time, the Bank has utilized interest rate swap agreements and interest rates caps and floors as hedging instruments against interest rate risk. An interest rate swap is an agreement whereby one party agrees to pay a floating rate of interest on a notional principal amount in exchange for receiving a fixed rate of interest on the same notional amount for a predetermined period of time from a second party. Interest rate caps and floors are agreements whereby one party agrees to pay a floating rate of interest on a notional principal amount for a predetermined period of time to a second party up to or down to a specified rate of interest. The assets relating to the notional principal amount are not actually exchanged.

At September 30, 2005 the Company had swaps, designated as cash flow hedges, with total notional values of $110.0 million. The purpose of these swaps is to hedge the variability in the cash outflows of LIBOR based borrowings attributable to changes in interest

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rates. Under these swap agreements the Company pays a fixed rate of interest of 3.65% on $50 million notional value through November 2006, 2.49% on $25 million notional value through January 2007, and 4.06% on $35 million of the notional value through January 2010, and all receive a 3 month LIBOR rate of interest. These swaps had a positive fair value of $1.7 million at September 30, 2005. The Company also has a $100 million, 4.00%, 3-month LIBOR interest rate cap with an effective date of January 31, 2005 and a maturity date of January 31, 2008. The interest rate cap will pay the Company should 3-month LIBOR exceed 4.00% on a rate reset date during the effective period of the cap. At September 30, 2005 the interest rate cap had a fair value of $1.4 million. At December 31, 2004 the Company had swaps with a total notional value of $75.0 million. These swaps had a positive fair value of $142,000 at December 31, 2004. All changes in the fair value of the interest rate swaps and caps are recorded, net of tax, through equity as other comprehensive income.

During the third quarter ending September 30, 2005, the Company sold an interest rate swap that was hedging $25.0 million of 3-month LIBOR revolving FHLB borrowings in connection with the Company s decision not to re-enter into these borrowings. The gain of $215,000 on the sale of this swap was recognized currently in earnings against the interest expense on FHLB borrowings.

To improve the Company s asset sensitivity, the Company sold interest rate swaps hedged against loans during the year ending December 31, 2002 resulting in total deferred gains of $7.1 million. The deferred gain is classified in other comprehensive income, net of tax, as a component of equity. The interest rate swaps sold had total notional amounts of $225.0 million. These swaps were accounted for as cash flow hedges, and therefore, the deferred gains are amortized into interest income over the remaining life of the hedged item, which range between two and five years. At September 30, 2005, there are $1.2 million gross, or $695,000 net of tax, of such deferred gains included in other comprehensive income.

Additionally, the Company enters into commitments to fund residential mortgage loans with the intention of selling them in the secondary markets. The Company also enters into forward sales agreements for certain funded loans and loan commitments to protect against changes in interest rates. The Company records unfunded commitments and forward sales agreements at fair value with changes in fair value as a component of mortgage banking income. At September 30, 2005 the Company had residential mortgage loan commitments with a fair value of $162,000 and forward sales agreements with a fair value of $96,000. At December 31, 2004 the Company had residential mortgage loan commitments with a fair value of $148,000 and forward sales agreements with a fair value of ($47,000). Changes in these fair values of ($14,760), and $164,000 for the quarters ending September 30, 2005, and September 30, 2004, respectively, are recorded as a component of mortgage banking income.

Market Risk Market risk is the sensitivity of income to changes in interest rates, foreign exchange rates, commodity prices and other market-driven rates or prices. The Company has no trading operations and thus is only exposed to non-trading market risk.

Interest-rate risk is the most significant non-credit risk to which the Company is exposed. Interest-rate risk is the sensitivity of income to changes in interest rates. Changes in interest rates, as well as fluctuations in the level and duration of assets and liabilities, affect net interest income, the Company s primary source of revenue. Interest-rate risk arises directly from the Company s core banking activities. In addition to directly impacting net interest income, changes in the level of interest rates can also affect the amount of loans originated,

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

The primary goal of interest-rate risk management is to control this risk within limits approved by the Board. These limits reflect the Company s tolerance for interest-rate risk over both short-term and long-term horizons. The Company attempts to control interest-rate risk by identifying, quantifying and, where appropriate, hedging its exposure. The Company manages its interest-rate exposure using a combination of on and off-balance sheet instruments, primarily fixed rate portfolio securities, and interest rate swaps.

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

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

The Company manages the interest-rate risk inherent in its mortgage banking operations by entering into forward sales contracts. An increase in market interest rates between the time the Company commits to terms on a loan and the time the Company ultimately sells the loan in the secondary market will have the effect of reducing the gain (or increasing the loss) the Company records on the sale. The Company attempts to mitigate this risk by entering into forward sales commitments in amounts sufficient to cover all closed loans and a majority of rate-locked loan commitments.

The Company s policy on interest-rate risk simulation specifies that if interest rates were to shift gradually up or down 200 basis points, estimated net interest income for the subsequent 12 months should decline by less than 6%.

The following table sets forth the estimated effects on the Company s net interest income over a 12-month period following the indicated dates in the event of the indicated increases or decreases in market interest rates:

Table 8 Interest Rate Sensitivity

	200 Basis Point Rate Increase	200 Basis Point Rate Decrease
September 30, 2005	-1.23%	-1.14%
September 30, 2004	-2.69%	+0.70%(1)

(1) Due to the low interest rate environment prevailing in the third quarter of 2004 the Company assumed a 100 basis point decrease in rates.

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The results implied in the above table indicate estimated changes in simulated net interest income for the subsequent 12 months assuming a gradual shift up or down in market rates of 200 basis points across the entire yield curve. It should be emphasized, however, that the results are dependent on material assumptions such as those discussed above. For instance, asymmetrical rate behavior can have a material impact on the simulation results. If competition for deposits forced the Company to raise rates on those liabilities quicker than is assumed in the simulation analysis without a corresponding increase in asset yields net interest income may be negatively impacted. Alternatively, if the Company is able to lag increases in deposit rates as loans re-price upward net interest income would be positively impacted.

The most significant factors affecting market risk exposure of the Company s net interest income during the first nine months of 2005 were (i) changes in the composition and prepayment speeds of mortgage assets and loans (ii) the shape of the U.S. Government securities and interest rate swap yield curve (iii) the level of changes in U.S. benchmark interest rates and (iv) the level of rates paid on deposit accounts.

Liquidity Liquidity, as it pertains to the Company, is the ability to generate adequate amounts of cash in the most economical way for the institution to meet its ongoing obligations to pay deposit withdrawals and to fund loan commitments. The Company s primary sources of funds are deposits, borrowings, and the amortization, prepayment and maturities of loans and securities.

The Bank utilizes its extensive branch network to access retail customers who provide a stable base of in-market core deposits. These funds are principally comprised of demand deposits, interest checking accounts, savings accounts, money market accounts and certificates of deposit. Deposit levels are greatly influenced by interest rates, economic conditions, and competitive factors. For an alternative source of funding to borrowings the Bank will occasionally purchase brokered certificates of deposits. At September 30, 2005, the Bank had no brokered certificates of deposits outstanding. The Bank has also established repurchase agreement lines, with major brokerage firms as potential sources of liquidity. At September 30, 2005 the Company had $25.0 million outstanding under these lines. In addition to agreements with brokers, the Bank also had customer repurchase agreements outstanding amounting to $65.3 million at September 30, 2005. As a member of the Federal Home Loan Bank, the Bank has access to approximately $797.2 million of borrowing capacity. On September 30, 2005 the Bank had $423.5 million outstanding in FHLB borrowings.

The Company, as a separately incorporated bank holding company, has no significant operations other than serving as the sole stockholder of the Bank. It s commitments and debt service requirement, at September 30, 2005 consist of junior subordinated debentures, including accrued interest, issued to two unconsolidated subsidiaries, $25.8 million to Independent Capital Trust III and $25.8 million to Independent Capital Trust IV, in connection with the issuance of 8.625% Capital Securities due in 2031 and 8.375% Capital Securities due in 2032, respectively. The Parent only obligations relate to its reporting obligations under the Securities and Exchange Act of 1934, as amended and related expenses as a publicly traded company. The Company is directly reimbursed by the Bank for virtually all such expenses.

The Company actively manages its liquidity position under the direction of the ALCO. Periodic review under prescribed policies and procedures is intended to ensure that the Company will maintain adequate levels of available funds. At September 30, 2005, the

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Company s liquidity position was within policy guidelines. Management believes that the Bank has adequate liquidity available to respond to current and anticipated liquidity demands.

Capital Resources and Dividends The Federal Reserve Board, the Federal Deposit Insurance Corporation, and other regulatory agencies have established capital guidelines for banks and bank holding companies. Risk-based capital guidelines issued by the federal regulatory agencies require banks to meet a minimum Tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0%. At September 30, 2005 the Company had a Tier 1 risk-based capital ratio of 10.57% and total risk-based capital ratio 11.82%. The Bank had a Tier 1 risk-based capital ratio of 10.18% and a total risk-based capital ratio of 11.43% as of the same date.

A minimum requirement of 4.0% Tier 1 leverage capital is also mandated. On September 30, 2005, the Company and the Bank had Tier 1 leverage capital ratios of 7.59% and 7.31%, respectively.

In September, the Company s Board of Directors declared a cash dividend of $0.15 per share, a 7.1% increase from September 30, 2004, to stockholders of record as of the close of business on September 26, 2005. This dividend was paid on October 7, 2005. On an annualized basis, the dividend payout ratio amounted to 27.31% of the trailing four quarters earnings.

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Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Financial Instruments The Company has entered into contractual obligations and commitments and off-balance sheet financial instruments. The following tables summarize the Company s contractual cash obligation and other commitment and off-balance sheet financial instruments at September 30, 2005:

Table 9 Contractual Obligations, Commitments and Off-Balance Sheet Financial Instruments by Maturity

(Unaudited Dollars in Thousands)

		Payments Due By Period			
Contractual Obligations	**Total**	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**After Five Years**
FHLB advances (2)	$423,505	$216,000	$ 35,374	$	$ 172,131
Junior subordinated debentures	51,546				51,546
Lease obligations	13,381	2,524	3,612	2,653	4,592
Data processing and Core systems	18,899	5,711	9,264	3,924	
Other vendor contracts	2,400	1,377	1,023		
Retirement benefit obligations (1)	27,513	786	1,597	642	24,488
Other					
Treasury tax & loan notes	1,443	1,443			
Securities sold under repurchase agreements	25,000			25,000	
Customer repurchase agreements	65,349	65,349			
Total Contractual Cash Obligations	$629,036	$293,190	$ 50,870	$ 32,219	$ 252,757

(1) Retirement benefit obligations include expected contributions to the Company s pension plan, post retirement benefit plan, and supplemental executive retirement plans. Expected contributions for the pension plan have been included only through plan year July 1, 2005 - June 30, 2006. Contributions

beyond this plan year can not be quantified as they will be determined based upon the return on the investments in the plan. Expected contributions for the post retirement plan and supplemental executive plans include obligations that are payable over the life of the participants.

		Amount of Commitment Expiring By Period			
Off-Balance Sheet Financial Instruments	**Total**	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**After Five Years**
Lines of credit	$ 272,015	$ 32,630	$	$	$ 239,385
Standby letters of credit	8,922	8,922			
Other loan commitments	254,170	224,718	21,899	6,478	1,075
Forward commitments to sell loans	26,467	26,467			
Interest rate swaps notional value (2) (3)	110,000		75,000	35,000	
Interest rate caps notional value	100,000		100,000		
Total Commitments	$ 771,574	$ 292,737	$ 196,899	$ 41,478	$ 240,460

(2) The Company has hedged short term borrowings.

(3) Interest rate swaps on borrowings (Rockland Trust Company pays variable, receives fixed).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information required by this Item 3 is included in Item 2 of Part I of this Form 10-Q, entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer along with the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the Company s Chief Executive Officer along with the Company s Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

Changes in Internal Controls over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the third quarter that have materially affected or are reasonably likely to materially affect the Company s internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Bank is the plaintiff in the pending federal court 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. 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 the 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 party which prevails in the case may also recover some amount of interest on the amount which the court awards to it.

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. In September 2002 the court, in response to a joint inquiry from counsel for the Bank and counsel for CA, indicated that the judge is actively working on the case and anticipated, at that time, rendering a decision sometime in the fall of 2002. The court, however, 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 the Company to be immaterial to the Company s financial condition and results of operations.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds None
Item 3. Defaults Upon Senior Securities None
Item 4. Submission of Matters to a Vote of Security Holders None
Item 5. Other Information None
Item 6. Exhibits

Exhibits No.	Exhibit
3.(i)	Restated Articles of Organization, as amended as of February 10, 2005, incorporated by reference to the Company s Form 8-K filed on May 18, 2005.
3.(ii)	Amended and Restated Bylaws of the Company, as amended as of February 10, 2005, incorporated by reference to the Company s Form 8-K filed on May 18, 2005.
4.1	Specimen Common Stock Certificate, incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 1992.
4.2	Specimen preferred Stock Purchase Rights Certificate, incorporated by reference to the Company s Form 8-A Registration Statement filed by the Company on November 5, 2001.
4.3	Indenture of Registrant relating to the 8.625% Junior Subordinated Debentures issued Independent Capital Trust III, incorporated by reference to the Form 8-K filed by the Company on April 18, 2002.
4.4	Form of Certificate of 8.625% Junior Subordinated Debenture (included as Exhibit A to Exhibit 4.3).
4.5	Amended and Restated Declaration of Trust for Independent Capital Trust III, incorporated by reference to the Form 8-K filed b the Company on April 18, 2002.
4.6	Form of Preferred Security Certificate for Independent Capital Trust III (included as Exhibit D to exhibit 4.5).
4.7	Preferred Securities Guarantee Agreement of Independent Capital Trust III, incorporated by reference to the Form 8-K filed by the Company on April 18, 2002.
4.8	Indenture of Registrant relating to the 8.375% Junior Subordinated Debentures issued to Independent Capital Trust IV, incorporated by reference to the Form 8-K filed by the Company on April 18, 2002.
4.9	Form of Certificate of 8.375% Junior Subordinated Debenture (included as Exhibit A to Exhibit 4.8).
4.10	Amended and Restated Declaration of Trust for Independent Capital Trust IV,

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Exhibits No.	Exhibit
	incorporated by reference to the Form 8-K filed by the Company on April 18, 2002.
4.11	Form of Preferred Security Certificate for Independent Capital Trust IV (included as Exhibit D to Exhibit 4.10).
4.12	Preferred Securities Guarantee Agreement of Independent Capital Trust IV, incorporated by reference to the Form 8-K filed by the Company on April 18, 2002.
10.1	Amended and Restated Independent Bank Corp. 1987 Incentive Stock Option Plan (Stock Option Plan) (Management contract under Item 601 (10)(iii)(A)). Incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 1994.
10.2	Independent Bank Corp. 1996 Non-Employee Directors Stock Option Plan (Management contract under Item 601 (10)(iii)(A)). Incorporated by reference to the Company s Definitive Proxy Statement for the 1996 Annual Meeting of Stockholders filed with the Commission on March 19, 1996.
10.3	Independent Bank Corp. 1997 Employee Stock Option Plan (Management contract under Item 601 (10)(iii)(A)). Incorporated by reference to the Company s Definitive Proxy Statement for the 1997 Annual Meeting of Stockholders filed with the Commission on March 20, 1997.
10.4	Independent Bank Corp. 2005 Employee Stock Plan incorporated by reference to Form S-8 filed by the Company on July 28, 2005.
10.5	Renewal Rights Agreement noted as of September 14, 2000 by and between the Company and Rockland, as Rights Agent (Exhibit to Form 8-K filed on October 23, 2000).
10.6	Independent Bank Corp. Deferred Compensation Program for Directors (restated as amended as of December 1, 2000). Incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 2000.
10.7	Master Securities Repurchase Agreement, incorporated by reference to Form S-1 Registration Statement filed by the Company on September 18, 1992.
10.8	First Amended and Restated Employment Agreement between Christopher Oddleifson and the Company and Rockland Trust dated April 14, 2005 is filed as an exhibit under the Form 8-K filed on April 14, 2005.
10.9	Revised employment agreement between Raymond Fuerschbach, Edward F. Jankowski, Ferdinand T. Kelley, Jane Lundquist, Edward Seksay and Denis Sheahan and the Company and Rockland Trust (Management Contracts under Item 601 (10)(iii)(A)) dated December 6, 2004 are filed as an exhibit under the Form 8-K filed on December 9, 2004.
10.10	Revised Change of Control Agreements between Amy A. Geogan and Anthony A. Paciulli and the Company and Rockland dated December 6, 2004 are filed as an exhibit under the Form 8-K filed on December 9, 2004.

10.11 Options to acquire shares of the Company s Common Stock pursuant to the Independent Bank Corp. 1997 Employee Stock Option Plan were awarded to Christopher Oddleifson, Raymond G. Fuerschbach, Amy A. Geogan, Edward

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Exhibits No.	Exhibit
	F. Jankowski, Ferdinand T. Kelley, Jane L. Lundquist, Anthony A. Paculli, Edward H. Seksay and Denis K. Sheahan pursuant to option agreements dated December 9, 2004. The form of these option agreements was filed as an exhibit under the Form 8-K filed on December 15, 2004.
10.12	On-Site Outsourcing Agreement by and between Fidelity Information Services, Inc. and Independent Bank Corp., effective as of November 1, 2004. Incorporated by reference to the Company s annual report on Form 10-K for the year ended December 31, 2004 filed on March 4, 2005. (PLEASE NOTE: Portions of this contract, and its exhibits and attachments, have been omitted pursuant to a request for confidential treatment sent on March 4, 2005 to the Securities and Exchange Commission. The locations where material has been omitted are indicated by the following notation: {****} . The entire contract, in unredacted form, has been filed separately with the Commission with the request for confidential treatment.)
10.13	Independent Bank Corp and Rockland Trust Company Executive Officer Performance Incentive Plan (Management contract under Item 601 (10)(iii)(A)). Incorporated by reference to the Company s Form 10-Q for the quarter ended March 31, 2005, filed on May 3, 2005. (PLEASE NOTE: Portions of this Plan, and its schedules, have been omitted pursuant to a request for confidential treatment sent on May 3, 2005 to the Securities and Exchange Commission. The locations where material has been omitted are indicated by the following notation: {****} . The entire Plan, in unredacted form, has been filed separately with the Commission with the request for confidential treatment.)
10.14	New Markets Tax Credit program Allocation Agreement between the Community Development Financial Institutions Fund of the United States Department of the Treasury and Rockland Community Development with an Allocation Effective Date of September 22, 2004 is filed as an exhibit under the Form 8-K filed on October 14, 2004.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.*
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.*
32.1	Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.+
32.2	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.+

*Filed herewith
+Furnished herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INDEPENDENT BANK CORP.
(registrant)

Date: October 26, 2005 /s/ Christopher Oddleifson

Christopher Oddleifson
President and
Chief Executive Officer

Date: October 26, 2005 /s/ Denis K. Sheahan

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

INDEPENDENT BANK CORP.
(registrant)

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