

United Financial Bancorp, Inc.

Form 10-Q

November 08, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2013**

OR

☐ **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____**

Commission File Number 000-52947

United Financial Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

74-3242562
(I.R.S. Employer
Identification Number)

95 Elm Street, West Springfield, Massachusetts
(Address of principal executive offices)

01089
Zip Code

Registrant's telephone number, including area code: (413) 787-1700

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, \$0.01 par value

19,678,034 shares outstanding as of October 30, 2013

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CONDITION (unaudited)**

(Dollars in thousands, except per share amounts)

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$ 35,257	\$ 28,972
Interest-bearing deposits	23,703	1,707
Total cash and cash equivalents	58,960	30,679
Securities available for sale, at fair value	264,423	294,322
Securities held to maturity, at amortized cost (fair value of \$99,393 at September 30, 2013 and \$85,674 at December 31, 2012)	97,991	82,986
Loans held for sale		632
Loans, net of allowance for loan losses of \$13,642 at September 30, 2013 and \$12,089 at December 31, 2012	1,882,508	1,807,401
Other real estate owned	2,206	2,578
Accrued interest receivable	6,355	6,790
Deferred tax asset, net	21,226	20,178
Stock in the Federal Home Loan Bank of Boston	17,334	18,554
Banking premises and equipment, net	25,474	25,064
Bank-owned life insurance	54,157	52,876
Goodwill	40,992	39,852
Other assets	19,111	20,391
TOTAL ASSETS	\$ 2,490,737	\$ 2,402,303
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Interest-bearing	\$ 1,613,192	\$ 1,540,873
Non-interest-bearing	333,206	307,302
Total deposits	1,946,398	1,848,175
Short-term borrowings	60,446	79,229
Long-term debt	153,662	133,969
Subordinated debentures	5,933	9,630
Escrow funds held for borrowers	3,375	4,315
Capitalized lease obligations	4,583	4,711

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Accrued expenses and other liabilities	13,582	15,085
Total liabilities	2,187,979	2,095,114
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, authorized 50,000,000 shares; none issued		
Common stock, par value \$0.01 per share, authorized 100,000,000 shares; 24,266,428 shares issued at September 30, 2013 and December 31, 2012	243	243
Paid-in capital	273,121	272,822
Retained earnings	94,219	87,153
Treasury stock, at cost (4,588,394 shares at September 30, 2013 and 4,114,310 shares at December 31, 2012)	(65,506)	(58,430)
Accumulated other comprehensive income, net of taxes	681	5,401
Total stockholders' equity	302,758	307,189
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,490,737	\$ 2,402,303

See notes to unaudited consolidated financial statements

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UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF NET INCOME (unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest and dividend income:				
Loans	\$ 20,974	\$ 14,494	\$ 64,307	\$ 42,750
Investments	2,226	2,549	6,787	8,171
Other interest-earning assets	26	27	68	119
Total interest and dividend income	23,226	17,070	71,162	51,040
Interest expense:				
Deposits	2,898	2,444	8,552	7,795
Short-term borrowings	23	12	72	46
Long-term debt	959	1,064	3,000	3,255
Total interest expense	3,880	3,520	11,624	11,096
Net interest income before provision for loan losses	19,346	13,550	59,538	39,944
Provision for loan losses	1,125	1,050	2,967	2,450
Net interest income after provision for loan losses	18,221	12,500	56,571	37,494
Non-interest income:				
Fee income on depositors' accounts	1,633	1,452	4,729	4,389
Wealth management income	269	279	727	795
Income from bank-owned life insurance	518	448	1,541	1,324
Net gain on sales of loans		188	213	458
Net gain (loss) on sales of securities		27	(50)	27
Impairment charges on securities		(202)		(202)
Other income	556	319	1,629	863
Total non-interest income	2,976	2,511	8,789	7,654
Non-interest expense:				
Salaries and benefits	8,109	6,375	24,733	19,103
Occupancy expenses	1,362	823	4,317	2,567
Marketing expenses	426	316	1,657	1,257
Data processing expenses	1,428	1,109	4,243	3,140
Professional fees	587	372	1,914	1,282
Acquisition related expenses		366	281	958

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Branch closing expenses			987	
FDIC insurance assessments	408	264	1,231	800
Tax credit funds	390		930	243
Other expenses	2,126	1,567	6,662	4,585
Total non-interest expense	14,836	11,192	46,955	33,935
Income before income taxes	6,361	3,819	18,405	11,213
Income tax expense	1,714	890	5,008	2,853
Net income	\$ 4,647	\$ 2,929	\$ 13,397	\$ 8,360
Earnings per share:				
Basic	\$ 0.24	\$ 0.20	\$ 0.68	\$ 0.57
Diluted	\$ 0.23	\$ 0.20	\$ 0.67	\$ 0.56
Weighted average shares outstanding:				
Basic	19,652,925	14,522,324	19,800,557	14,578,253
Diluted	19,972,802	14,708,373	20,078,865	14,827,428
Dividends paid per share	\$ 0.11	\$ 0.10	\$ 0.32	\$ 0.28

See notes to unaudited consolidated financial statements.

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(In thousands)

The components of comprehensive income and related tax effects are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Income	\$ 4,647	\$ 2,929	\$ 13,397	\$ 8,360
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) on available-for-sale securities	51	1,050	(7,694)	1,089
Reclassification adjustment for losses realized in income ⁽¹⁾		138	50	138
Net change in unrealized gains	51	1,188	(7,644)	1,227
Tax effect	(13)	(449)	2,924	(465)
Net of tax amount	38	739	(4,720)	762
Comprehensive income	\$ 4,685	\$ 3,668	\$ 8,677	\$ 9,122

- ⁽¹⁾ Amounts are included in net gains (loss) on sales of securities in non-interest income on the consolidated statements of net income. Income tax benefit associated with their reclassification adjustments was \$0 and \$52 for the three months ended September 30, 2013 and 2012, respectively, and \$19 and \$52 for the nine months ended September 30, 2013 and 2012, respectively.

See notes to unaudited consolidated financial statements.

Table of Contents**UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (unaudited)**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 and 2012

(Dollars in thousands, except per share amounts)

	Common Shares Outstanding	Common Stock	Paid-In Capital	Retained Earnings	Unearned Compensation	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2011	15,712,897	\$ 187	\$ 182,433	\$ 89,019	\$ (10,047)	\$ (40,983)	\$ 6,752	\$ 227,361
Net income				8,360				8,360
Other comprehensive income							762	762
Cash dividends paid (\$0.28 per share)				(4,077)				(4,077)
Treasury stock purchases	(260,914)					(4,045)		(4,045)
Shares repurchased in connection with restricted stock forfeited for tax purposes	(11,013)					(151)		(151)
Restricted shares forfeited	(11,000)		151			(151)		
Excess tax benefit on stock compensation plans			29					29
Cancellation of shares for tax withholdings on options exercised			(92)					(92)
Reissuance of treasury shares in connection with stock options exercised	20,351		(172)	(10)		280		98
Reissuance of treasury shares in connection with restricted stock	17,500		(267)	25		242		

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grants								
Stock-based compensation			1,103					1,103
ESOP shares committed to be released			291		524			815

Balances at
September 30, 2012 15,467,821 \$ 187 \$ 183,476 \$ 93,317 \$ (9,523) \$ (44,808) \$ 7,514 \$ 230,163

Balances at December 31, 2012	20,152,118	\$ 243	\$ 272,822	\$ 87,153	\$	\$ (58,430)	\$ 5,401	\$ 307,189
Net income				13,397				13,397
Other comprehensive loss							(4,720)	(4,720)
Cash dividends paid (\$0.32 per share)				(6,331)				(6,331)
Treasury stock purchases	(489,351)					(7,280)		(7,280)
Shares repurchased in connection with restricted stock forfeited for tax purposes	(12,669)					(191)		(191)
Restricted shares forfeited	(5,000)		75			(75)		
Excess tax benefit on stock compensation plans			64					64
Cancellation of shares for tax withholdings on options exercised			(249)					(249)
Reissuance of treasury shares in connection with stock options exercised	32,936		(470)			470		
Stock-based compensation			879					879

Balances at
September 30, 2013 19,678,034 \$ 243 \$ 273,121 \$ 94,219 \$ (65,506) \$ 681 \$ 302,758

See notes to unaudited consolidated financial statements.

Table of Contents**UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 and 2012**

(Dollars in thousands)

	2013	2012
Cash flows from operating activities:		
Net income	\$ 13,397	\$ 8,360
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,967	2,450
ESOP expense		815
Stock-based compensation	879	1,103
Excess tax benefits on stock compensation plan	(64)	(29)
Amortization of premiums and discounts	2,152	1,508
Depreciation and amortization	2,229	1,260
Amortization of intangible assets	578	70
Net (loss) gain on sale and writedown of other real estate owned	(12)	362
Impairment charges on securities		202
Net loss (gain) on sale of available for sale securities	50	(27)
Loans originated for sale	(7,498)	(13,392)
Proceeds from sales of loans held for sale	8,343	13,903
Net gain on sale of loans	(213)	(458)
Deferred tax (benefit) provision	(1,048)	235
Net increase in cash surrender value of bank-owned life insurance	(1,281)	(1,181)
Decrease in accrued interest receivable	435	76
Decrease (increase) in other assets	2,486	(5,208)
(Decrease) increase in accrued expenses and other liabilities	(1,263)	1,675
Net cash provided by operating activities	22,137	11,724
Cash flows from investing activities:		
Purchases of securities available for sale	(43,887)	(65,976)
Proceeds from sales of securities available for sale	2,563	2,517
Proceeds from maturities, calls and principal repayments of securities available for sale	62,029	46,957
Purchases of securities held to maturity	(33,746)	(1,455)
Proceeds from maturities, calls and principal repayments of securities held to maturity	18,089	24,937
Redemption of Federal Home Loan Bank of Boston stock	1,220	911
Proceeds from sales of other real estate owned	2,650	1,851
Net loan originations, purchases and principal repayments	(80,340)	(98,919)
Purchases of property and equipment	(2,625)	(2,957)
Net cash used in investing activities	(74,047)	(92,134)

(Continued)

Table of Contents**UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 and 2012 (Concluded)

(Dollars in thousands)

	2013	2012
Cash flows from financing activities:		
Net increase in deposits	\$ 98,223	\$ 45,185
Net change in short-term borrowings	(18,783)	(2,681)
Proceeds from issuance of long-term debt	51,492	26,627
Repayment of long-term debt, net of amortization of discount	(31,496)	(13,128)
Redemption of trust preferred securities	(4,000)	
Net decrease in escrow funds held for borrowers	(940)	(211)
Payments on capitalized lease obligations	(318)	(318)
Excess tax benefits on stock compensation plan	64	29
Cancellation of shares for tax withholdings on options exercised	(249)	(92)
Reissuance of treasury shares in connection with stock options exercised		98
Treasury stock purchases	(7,471)	(4,196)
Cash dividends paid	(6,331)	(4,077)
Net cash provided by financing activities	80,191	47,236
Increase (decrease) in cash and cash equivalents	28,281	(33,174)
Cash and cash equivalents at beginning of period	30,679	61,518
Cash and cash equivalents at end of period	\$ 58,960	\$ 28,344
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period:		
Interest on deposits, borrowings and other interest bearing liabilities	\$ 14,290	\$ 11,512
Income taxes net	5,820	5,409
Non-cash items:		
Transfer of loans to other real estate owned	2,266	1,508

See notes to unaudited consolidated financial statements.

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UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

Dollars in Thousands (except per share amounts)

NOTE A BASIS OF PRESENTATION

The consolidated financial statements include the accounts of United Financial Bancorp, Inc. ("United Financial"), its wholly-owned subsidiary, United Bank (the "Bank"), and the Bank's wholly-owned subsidiaries, UCB Securities, Inc. and UCB Securities, Inc. II, which are engaged in buying, selling and holding investment securities, and UB Properties, LLC and VB REO, LLC, which were formed to hold real estate assets acquired through foreclosure. All significant intercompany accounts and transactions have been eliminated in consolidation. These entities are collectively referred to herein as the "Company" .

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with general practices within the banking industry. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, which are necessary for the fair presentation of the Company's financial condition as of September 30, 2013 and the results of operations for the three and nine months ended September 30, 2013 and 2012. The interim results of operations presented herein are not necessarily indicative of the results to be expected for the entire year or any other period. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2012 included in the Company's Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 15, 2013.

NOTE B RECENT ACCOUNTING PRONOUNCEMENTS

In October 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-04, *Technical Amendments and Corrections to SEC Sections 2011-08*. This ASU is intended to clarify the *FASB Accounting Standards Codification* ("Codification"), correct unintended application of guidance and includes amendments identifying when the use of fair value should be linked to the definition of fair value in Topic 820, *Fair Value Measurement*. Amendments to the Codification without transition guidance are effective upon issuance for both public and non-public entities. This ASU was adopted in the first quarter of 2013 and did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This Update requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line item of net income. The Company adopted this ASU in the first quarter of 2013 and there was no impact on the Company's consolidated financial results as the amendments relate only to disclosures in the consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a*

consensus of the FASB Emerging Issues Task Force). This Update provides that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect that the adoption of this ASU will have an impact on the Company's consolidated financial statements.

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NOTE C CRITICAL ACCOUNTING POLICIES

The SEC defines critical accounting policies as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Management believes that the following policies would be considered critical under the SEC's definition:

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in adjustments to the amount of the recorded allowance for loan losses.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, prior loss experience, current economic conditions, trends in non-performing, classified and impaired loans, charge-offs and delinquency rates, the adequacy of the underlying collateral, the size and composition of the loan portfolio, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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.

The Company periodically may agree to modify the contractual terms of loans. A loan is classified as a troubled debt restructuring (TDR) if the Company grants a concession to a borrower that is experiencing financial difficulties. This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest, extending the maturity date or a partial forgiveness of debt. A TDR loan is returned to accrual status after the borrower demonstrates the ability to pay under the restructured terms through a sustained period of repayment performance, which is generally six months. All TDRs are classified as impaired.

The allowance consists of a specific, general, and unallocated component, as further described below.

Specific component. The specific component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for the commercial segments (commercial and industrial, commercial real estate and construction) by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. A specific allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of the loan. Groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual loans in the consumer segments (residential real estate, home equity and consumer loans) for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

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The Company has established a Business Banking unit within its Commercial Lending Department. The portfolio is made up of both commercial and industrial loans less than \$250 and commercial real estate loans less than \$500 which are managed by exception. This grouping of loans is considered a homogenous pool of loans and collectively evaluated for impairment. Accordingly, the Company does not separately identify individual loans within this unit for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

General component. The general component is based on historical loss experience adjusted for qualitative factors stratified by each of the loan segments: commercial and industrial, commercial real estate, construction, business banking commercial and industrial, business banking commercial real estate, residential real estate, home equity and consumer. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each loan class. This historical loss factor for each loan class is adjusted for the following qualitative factors: the levels/trends in delinquencies, classified and non-accruals; levels and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience, ability and depth of lending management and staff; national and local economic trends and industry conditions; and effects of changes in credit concentrations. This analysis establishes factors that are applied to each loan segment to determine the amount of the general component of the allowance for loan losses. In the second quarter of 2012, management made refinements to its allowance for loan loss methodology to create loss factors in connection with the establishment of the Business Banking unit. This refinement did not have a material effect on the loan loss provision or the total allowance for loan loss.

Unallocated component. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Reserve for unfunded commitments. The Company also maintains a reserve for unfunded credit commitments to provide for the risk of loss inherent in these arrangements. The reserve is determined using a methodology similar to the analysis of the allowance for loan losses, taking into consideration probabilities of future funding requirements. The reserve for unfunded commitments is included in other liabilities and was \$213 and \$89 at September 30, 2013 and 2012, respectively.

Evaluation of the Investment Portfolio for Other-Than-Temporary Impairment. The evaluation of the investment portfolio for other-than-temporary impairment is also a critical accounting estimate. On a quarterly basis, management reviews securities with a decline in fair value below the amortized cost of the investment to determine whether the decline in fair value is temporary or other-than-temporary. Declines in the fair value of marketable equity securities below their cost that are deemed to be other-than-temporary based on the severity and duration of the impairment are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses for securities, impairment is required to be recognized if (1) we intend to sell the security; (2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired securities that management intends to sell, or more likely than not will be required to sell, the full amount of the other-than-temporary impairment is recognized through earnings. For all other impaired securities, credit-related other-than-temporary impairment is recognized through earnings, while non-credit related other-than-temporary impairment is recognized in other comprehensive income, net of applicable taxes.

Income Taxes. The Company uses the asset and liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of the Company's asset and liabilities. The realization of the net deferred tax asset generally depends upon future

levels of taxable income and the existence of prior years' taxable income, to which carry back refund claims could be made. A valuation allowance is maintained for deferred tax assets that management estimates are more likely than not to be unrealizable based on available evidence at the time the estimate is made. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. In determining whether to establish a valuation allowance, the Company uses historical and forecasted future operating results, based upon approved business plans, including a review of the eligible carryforward periods, tax planning opportunities and other relevant considerations. These underlying assumptions can change from period to period. For example, tax law changes or variances in future projected operating performance could result in the establishment of or a change in the valuation allowance. Should actual factors and conditions differ materially from those considered by management, the actual realization of the net deferred tax asset could differ materially from the amounts recorded in the financial statements. If the Company is not able to realize all or part of its net deferred tax asset in the future, the establishment of or an adjustment to the deferred tax asset valuation allowance would be charged to income tax expense in the period such determination was made.

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Goodwill and Identifiable Intangible Assets. Goodwill and identifiable intangible assets are recorded as a result of business acquisitions and combinations. These assets are evaluated for impairment annually or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. If the carrying amount exceeds fair value, an impairment charge is recorded to income. The fair value is based on observable market prices, when practicable. Other valuation techniques may be used when market prices are unavailable, including estimated discounted cash flows and market multiples analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. In the event of future changes in fair value, the Company may be exposed to an impairment charge that could be material.

Valuation of Financial Instruments. The Company uses fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a non-recurring basis, or to establish a loss allowance or write-down based on the fair value of impaired assets. Further, the notes to the financial statements include information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. Additionally, for financial instruments not recorded at fair value, the notes to the financial statements disclose the estimate of their fair value. Due to the judgments and uncertainties involved in the estimation process, the estimates could result in materially different results under different assumptions and conditions.

NOTE D EARNINGS PER SHARE

Earnings per share (EPS) has been computed by dividing net income by weighted average shares outstanding before any dilution and excluding the weighted average number of unallocated shares held by the Bank's employee stock ownership plan (the ESOP). Diluted earnings per share has been calculated by dividing net income by weighted average shares outstanding after giving effect to the potential dilution that could occur if potential common shares were converted into common stock using the treasury stock method.

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The calculation of basic and diluted earnings per common share for the periods indicated is presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 4,647	\$ 2,929	\$ 13,397	\$ 8,360
Weighted average common shares applicable to basic EPS (1)	19,652,925	14,522,324	19,800,557	14,578,253
Effect of dilutive potential common shares (2) (3)	319,877	186,049	278,308	249,175
Weighted average common shares applicable to diluted EPS	19,972,802	14,708,373	20,078,865	14,827,428
Earnings per share:				
Basic	\$ 0.24	\$ 0.20	\$ 0.68	\$ 0.57
Diluted	\$ 0.23	\$ 0.20	\$ 0.67	\$ 0.56

- (1) Share-based compensation awards that qualify as participating securities (entitled to receive non-forfeitable dividends) are included in basic EPS.
- (2) Options to purchase 163,229 and 277,550 shares for the three months ended September 30, 2013 and 2012, respectively, and 197,628 and 197,300 shares for the nine months ended September 30, 2013 and 2012, respectively, were outstanding but not included in the computation of earnings per share because they were anti-dilutive.
- (3) Includes incremental shares related to dilutive stock options.

NOTE E ACCUMULATED OTHER COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the equity section of the statement of condition, such items are components of accumulated other comprehensive income.

The components of accumulated other comprehensive income and related tax effects are as follows:

	September 30, 2013	December 31, 2012
Net unrealized gain on securities available for sale	\$ 2,503	\$ 10,147
Tax effect	(923)	(3,847)
Net-of-tax amount	1,580	6,300

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Pension liability	(1,432)	(1,432)
Tax effect	533	533
Net-of-tax amount	(899)	(899)
Accumulated other comprehensive income	\$ 681	\$ 5,401

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The amortized cost and fair value of securities classified as available for sale and held to maturity are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>Securities Available for Sale</u>				
September 30, 2013:				
Debt Securities:				
Government-sponsored enterprises	\$ 2,099	\$	\$ (188)	\$ 1,911
Government-sponsored and government-guaranteed mortgage-backed securities	232,372	5,589	(2,567)	235,394
Private label mortgage-backed securities	8			8
Municipal bonds	26,149	284	(1,203)	25,230
Corporate bonds	1,292	588		1,880
Total	\$ 261,920	\$ 6,461	\$ (3,958)	\$ 264,423

December 31, 2012:

Debt Securities:				
Government-sponsored enterprises	\$ 3,234	\$ 2	\$ (3)	\$ 3,233
Government-sponsored and government-guaranteed mortgage-backed securities	248,370	9,836	(444)	257,762
Private label mortgage-backed securities	2,568	54	(56)	2,566
Municipal bonds	28,713	595	(481)	28,827
Corporate bonds	1,290	644		1,934
Total	\$ 284,175	\$ 11,131	\$ (984)	\$ 294,322

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>Securities Held to Maturity</u>				
September 30, 2013:				
Government-sponsored and government-guaranteed mortgage-backed securities	\$ 73,432	\$ 1,535	\$ (332)	\$ 74,635
Private label mortgage-backed securities	58	2		60
Industrial revenue bonds	18,410			18,410
State of Israel bonds	175			175
Municipal bonds	5,916	197		6,113
Total	\$ 97,991	\$ 1,734	\$ (332)	\$ 99,393

December 31, 2012:

	\$ 57,986	\$ 2,214	\$	\$ 60,200
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Government-sponsored and government-guaranteed
mortgage-backed securities

Private label mortgage-backed securities	79	2	81
Industrial revenue bonds	18,847		18,847
State of Israel bonds	150		150
Municipal bonds	5,924	472	6,396
Total	\$ 82,986	\$ 2,688	\$ 85,674

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The scheduled maturities of debt securities available for sale and held to maturity at September 30, 2013 are shown below. Actual maturities will differ from contractual maturities because issuers generally have the right to call or prepay obligations with or without call or prepayment penalties.

	At September 30, 2013			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$	\$	\$ 125	\$ 125
Due from one year to five years	2,278	2,338	810	845
Due from five years to ten years	15,112	14,707	1,536	1,592
Due after ten years	12,150	11,976	22,030	22,136
	29,540	29,021	24,501	24,698
Mortgage-backed securities	232,380	235,402	73,490	74,695
	\$ 261,920	\$ 264,423	\$ 97,991	\$ 99,393

Maturities are based on the final contractual payment dates, and do not reflect the impact of potential prepayments or early redemptions.

The Company's portfolio of mortgage-backed securities, which represent interests in pools of residential mortgage loans, consists primarily of securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), and the Government National Mortgage Association (Ginnie Mae), all of which are federal government owned or sponsored enterprises.

Gross unrealized losses and fair values at September 30, 2013 and December 31, 2012 aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position follow:

	Less than 12 months		12 months or longer		Number of Securities	Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		Fair Value	Unrealized Losses
At September 30, 2013:							
Securities Available for Sale							
Debt Securities:							
Government-sponsored enterprises	\$ 1,911	\$ (188)	\$	\$	5	\$ 1,911	\$ (188)
Government-sponsored and government-guaranteed mortgage-backed securities	109,234	(2,331)	11,354	(236)	135	120,588	(2,567)
Municipal bonds	19,490	(1,203)			47	19,490	(1,203)
Total	\$ 130,635	\$ (3,722)	\$ 11,354	\$ (236)	187	\$ 141,989	\$ (3,958)

Securities Held to Maturity

Government-sponsored and government-guaranteed mortgage-backed securities	\$ 16,017	\$ (332)	\$	\$	3	\$ 16,017	\$ (332)
Total	\$ 16,017	\$ (332)	\$	\$	3	\$ 16,017	\$ (332)

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	Less than 12 months		12 months or longer		Number of Securities	Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		Fair Value	Unrealized Losses
At December 31, 2012:							
Securities Available for Sale							
Debt Securities:							
Government-sponsored enterprises	\$ 1,998	\$ (3)	\$	\$	5	\$ 1,998	\$ (3)
Government-sponsored and government-guaranteed mortgage- backed securities	41,537	(444)			81	41,537	(444)
Private label mortgage-backed securities	1,671	(56)			9	1,671	(56)
Municipal bonds	16,293	(481)			38	16,293	(481)
Total	\$ 61,499	\$ (984)	\$	\$	133	\$ 61,499	\$ (984)

There were no securities classified as held to maturity in an unrealized loss position as of December 31, 2012.

Management evaluated the securities in the preceding tables and has determined that no declines in the fair value of the Company's securities portfolio are deemed to be other-than-temporary as of September 30, 2013. In its evaluation, management considered the types of securities, including if the securities were U.S. Government issued, the credit rating on the securities, credit outlook, payment status and financial condition, the length of time the security has been in a loss position, the size of the loss position, intent and ability to hold the securities to expected recovery of value and other meaningful information. The Company does not intend to sell any impaired debt securities and is unlikely to be required to sell any impaired debt security before its maturity or market price recovery.

NOTE G LOANS

The components of the loan portfolio were as follows at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Commercial:		
Commercial and industrial	\$ 304,228	\$ 306,192
Commercial real estate	872,340	814,692
Construction	59,788	52,778
Consumer:		
Residential real estate	459,714	441,874
Home equity	179,507	179,039
Consumer	17,920	21,501
Total loans	1,893,497	1,816,076
Net deferred loan costs and fees	2,653	3,414
Allowance for loan losses	(13,642)	(12,089)

Loans, net	\$ 1,882,508	\$ 1,807,401
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The Company transferred a portion of its originated commercial real estate and commercial and industrial loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated statements of condition. The Company and participating lenders share ratably in any losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At September 30, 2013 and December 31, 2012, the Company was servicing loans for participants aggregating \$72.0 million and \$57.7 million, respectively.

As of September 30, 2013 and December 31, 2012, the Company had two loans that were transferred to participants, which did not meet the requirements to be considered a participating interest. These transferred loans are reported as secured borrowings in the amount of \$2.6 million and \$2.4 million at September 30, 2013 and December 31, 2012, respectively, and are reported in long-term debt on the consolidated statement of condition.

The Company established a Business Banking unit within its Commercial Lending Department during the second quarter of 2012. The portfolio is made up of both commercial and industrial and commercial real estate loans. As a result, the Company has reallocated charge-offs, recoveries, and allowance for loan losses accordingly. A summary of the activity pertaining to the allowance for loan losses for the three and nine months ended September 30, 2013 and 2012 is as follows:

	Commercial and Commercial Real Estate Construction			Business Banking Commercial and Commercial Real Estate Residential			Home Equity	Consumer	Unallocated	Total
<u>Three Months Ended September 30, 2013:</u>										
Beginning balance	\$ 3,374	\$ 5,831	\$ 1,034	\$ 627	\$ 595	\$ 676	\$ 387	\$ 80	\$ 466	\$ 13,070
Charge-offs	(326)	(106)				(113)	(53)	(2)		(600)
Recoveries	7	27					1	12		47
Provision (credit)	(155)	1,064	(10)	7	(6)	183	50	(22)	14	1,125
Ending balance	\$ 2,900	\$ 6,816	\$ 1,024	\$ 634	\$ 589	\$ 746	\$ 385	\$ 68	\$ 480	\$ 13,642

											Business Banking	Commercial Banking	Home Equity	Consumer Lending	Unallocated	Total
Commercial and Commercial Real Industrial Estate			Construction			Commercial and Commercial Real Industrial Estate			Residential			Equity	Consumer	Unallocated	Total	
<u>Three Months Ended September 30, 2012:</u>																

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Beginning balance	\$ 2,828	\$ 5,232	\$ 742	\$ 727	\$ 683	\$ 690	\$ 379	\$ 97	\$ 373	\$ 11,751
Charge-offs	(109)	(97)		(40)	(12)	(45)	(40)	(10)		(353)
Recoveries	84	10		1				7		102
Provision (credit)	163	242	67	85	70	55	69	(7)	306	1,050
Ending balance	\$ 2,966	\$ 5,387	\$ 809	\$ 773	\$ 741	\$ 700	\$ 408	\$ 87	\$ 679	\$ 12,550

	Commercial and Commercial Real Industrial Estate			Business Banking Commercial and Commercial Real Industrial Estate			Home Equity	Consumer	Unallocated	Total
<u>Nine Months Ended</u>										
<u>September 30,</u>										
<u>2013:</u>										
Beginning balance	\$ 2,680	\$ 5,497	\$ 710	\$ 788	\$ 706	\$ 602	\$ 383	\$ 83	\$ 640	\$ 12,089
Charge-offs	(758)	(158)		(123)	(122)	(188)	(79)	(67)		(1,495)
Recoveries	24	27				1	2	27		81
Provision (credit)	954	1,450	314	(31)	5	331	79	25	(160)	2,967
Ending balance	\$ 2,900	\$ 6,816	\$ 1,024	\$ 634	\$ 589	\$ 746	\$ 385	\$ 68	\$ 480	\$ 13,642

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	Commercial and Commercial Real Estate			Business Banking Commercial and Commercial Real Estate			Home Equity Consumer		Unallocated	Total
<u>Nine Months Ended</u>										
<u>September 30, 2012:</u>										
Beginning balance	\$ 3,446	\$ 5,572	\$ 860	\$	\$	\$ 666	\$ 474	\$ 114	\$	\$ 11,132
Charge-offs	(315)	(370)	(127)	(128)	(52)	(133)	(70)	(15)		(1,210)
Recoveries	123	45	1	2				7		178
Provision (credit)	(288)	140	75	899	793	167	4	(19)	679	2,450
Ending balance	\$ 2,966	\$ 5,387	\$ 809	\$ 773	\$ 741	\$ 700	\$ 408	\$ 87	\$ 679	\$ 12,550

Further information pertaining to the allowance for loan losses at September 30, 2013 and December 31, 2012 is as follows:

	Commercial and Commercial Real Estate			Business Banking Commercial and Commercial Real Estate			Home Equity	Consumer	Unallocated	Total
At September 30, 2013:	Industrial	Estate	Construction	Industrial	Estate	Residential				
Amount of allowance for loan losses for loans deemed to be impaired and individually evaluated for impairment	\$ 30	\$ 400	\$	\$	\$	\$	\$	\$	\$	\$ 430
Amount of allowance for loan losses for loans not deemed to be impaired and collectively evaluated for impairment	\$ 2,870	\$ 6,416	\$ 1,024	\$ 634	\$ 589	\$ 746	\$ 385	\$ 68	\$ 480	\$ 13,212

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Total loans	\$ 272,989	\$ 792,503	\$ 59,788	\$ 31,239	\$ 79,837	\$ 459,714	\$ 179,507	\$ 17,920	\$	\$ 1,893,497
Loans deemed to be impaired and individually evaluated for impairment	\$ 5,112	\$ 2,364	\$	\$	\$	\$	\$	\$	\$	\$ 7,476
Loans not deemed to be impaired and collectively evaluated for impairment	\$ 267,617	\$ 788,198	\$ 59,788	\$ 31,239	\$ 79,837	\$ 459,714	\$ 179,507	\$ 17,920	\$	\$ 1,883,820
Loans acquired with deteriorated credit quality and deemed to be impaired	\$ 260	\$ 1,941	\$	\$	\$	\$	\$	\$	\$	\$ 2,201

	Commercial and Industrial		Commercial Real Estate		Business Banking Commercial and Commercial Real Estate		Residential	Home Equity	Consumer	Unallocated	Total
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At December 31, 2012:

Amount of allowance for loan losses for loans deemed to be impaired and individually evaluated for impairment	\$ 32	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 32
Amount of allowance for loan losses for loans not deemed to be impaired and collectively evaluated for	\$ 2,648	\$ 5,497	\$ 710	\$ 788	\$ 706	\$ 602	\$ 383	\$ 83	\$ 640	\$	\$ 12,057

Impairment										
Total loans	\$ 272,789	\$ 732,272	\$ 52,778	\$ 33,403	\$ 82,420	\$ 441,874	\$ 179,039	\$ 21,501	\$	\$ 1,816,076
Loans deemed to be impaired and individually evaluated for impairment										
	\$ 5,943	\$ 3,882	\$ 591	\$	\$	\$	\$	\$	\$	\$ 10,416
Loans not deemed to be impaired and collectively evaluated for impairment										
	\$ 266,091	\$ 722,470	\$ 51,838	\$ 33,403	\$ 82,420	\$ 441,874	\$ 179,039	\$ 21,501	\$	\$ 1,798,636
Loans acquired with deteriorated credit quality and deemed to be impaired										
	\$ 755	\$ 5,920	\$ 349	\$	\$	\$	\$	\$	\$	\$ 7,024

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The following is a summary of past due loans at September 30, 2013 and December 31, 2012:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over Past Due	Total Past Due	Current	Total Financing Receivable	Recorded Investments > 90 Days and Accruing
At September 30, 2013:							
Commercial:							
Commercial and industrial	\$ 1,603	\$ 21	\$ 2,990	\$ 4,614	\$ 299,614	\$ 304,228	\$
Commercial real estate	3,633	4,873	3,462	11,968	860,372	872,340	
Construction		280		280	59,508	59,788	
Consumer:							
Residential real estate		1,786	4,224	6,010	453,704	459,714	
Home equity	392	190	941	1,523	177,984	179,507	
Consumer	323		117	440	17,480	17,920	
Total	\$ 5,951	\$ 7,150	\$ 11,734	\$ 24,835	\$ 1,868,662	\$ 1,893,497	\$
At December 31, 2012:							
Commercial:							
Commercial and industrial	\$ 3,974	\$ 1,155	\$ 4,442	\$ 9,571	\$ 296,621	\$ 306,192	\$
Commercial real estate	6,326	1,136	5,351	12,813	801,879	814,692	
Construction	2,853			2,853	49,925	52,778	
Consumer:							
Residential real estate	11,760	2,450	2,615	16,825	425,049	441,874	
Home equity	1,044	161	137	1,342	177,697	179,039	
Consumer	329	35	120	484	21,017	21,501	
Total	\$ 26,286	\$ 4,937	\$ 12,665	\$ 43,888	\$ 1,772,188	\$ 1,816,076	\$

The following is a summary of impaired loans at September 30, 2013 and December 31, 2012:

	At September 30, 2013			At December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial and industrial	\$ 4,452	\$ 4,473		\$ 6,666	\$ 6,997	
Commercial real estate	3,682	4,182		9,802	10,736	
Construction				940	940	
Total	\$ 8,134	\$ 8,655		\$ 17,408	\$ 18,673	

With an allowance recorded:

Commercial and industrial	920	920	\$ 30	32	32	\$ 32
Commercial real estate	623	623	400			
Total	\$ 1,543	\$ 1,543	\$ 430	\$ 32	\$ 32	\$ 32
Total impaired loans	\$ 9,677	\$ 10,198	\$ 430	\$ 17,440	\$ 18,705	\$ 32

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The following is a summary of information pertaining to impaired loans:

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Average Recorded Investment on	Interest Income Recognized on a Cash Basis		Average Recorded Investment on	Interest Income Recognized on a Cash Basis	
	Impaired Loans	Recognized		Impaired Loans	Recognized	
Commercial:						
Commercial and industrial	\$ 5,922	\$ 40	\$	\$ 4,396	\$ 1	\$
Commercial real estate	5,907	19		3,378	10	
Construction	144			617	6	
Consumer:						
Residential real estate		23	23			
Consumer					1	1
Total	\$ 11,973	\$ 82	\$ 23	\$ 8,391	\$ 18	\$ 1

	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Average Recorded Investment on	Interest Income Recognized on a Cash Basis		Average Recorded Investment on	Interest Income Recognized on a Cash Basis	
	Impaired Loans	Recognized		Impaired Loans	Recognized	
Commercial:						
Commercial and industrial	\$ 6,268	\$ 454	\$ 329	\$ 4,320	\$ 10	\$ 8
Commercial real estate	6,724	52	10	3,477	35	7
Construction	850	5		708	19	
Consumer:						
Residential real estate		39	39		2	2
Consumer					1	1
Total	\$ 13,842	\$ 550	\$ 378	\$ 8,505	\$ 67	\$ 18

The following is a summary of non-accrual loans, at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Commercial:		

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Commercial and industrial	\$	3,510	\$	5,538
Commercial real estate		3,462		5,596
Construction				349
Consumer:				
Residential real estate		4,256		2,970
Home equity		941		137
Consumer		117		120
Total	\$	12,286	\$	14,710

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The following table represents modifications that were deemed to be troubled debt restructurings for the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Number of Contracts	Outstanding Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Outstanding Pre-Modification	Recorded Investment Post-Modification
Troubled Debt Restructurings:						
Commercial and industrial	2	\$ 1,824	\$ 1,420	1	\$ 140	\$ 140
Commercial real estate				4	1,211	1,211
Construction				2	613	613
Total	2	\$ 1,824	\$ 1,420	7	\$ 1,964	\$ 1,964

There were no loan modifications that were deemed troubled debt restructurings for the three months ended September 30, 2013 and 2012.

At September 30, 2013, the modifications related to two commercial and industrial loans to one borrower that were restructured as part of an agreement with the customer whereby the Bank received a cash paydown. The modifications lowered the interest rate and extended the maturity of these loans.

At September 30, 2012, the modifications provided on one commercial and industrial loan and four commercial real estate loans are related to one borrower relationship. The modification extended the maturity of demand notes that had reached maturity. The modifications provided on the two construction loans are related to one borrower relationship. The modification extended the maturity of demand notes that had reached maturity. Management performs a discounted cash flow calculation or collateral analysis if the loan is collateral dependent to determine the amount of impaired reserve required on each of the troubled debt restructurings. Any reserve required is recorded through the provision for loan losses.

As of September 30, 2013 and 2012, there have been no TDRs that have subsequently defaulted (defined as thirty or more days past due) within one year of modification.

CREDIT QUALITY INFORMATION

The Company utilizes a nine grade risk rating system for commercial and industrial, commercial real estate and construction loans as follows:

Pass: Loans within these five categories are considered low to average risk.

Special Mention: Loans in this category portray one or more weaknesses that may be tolerated in the short run. Assets in this category are currently protected but are potentially weak and are being closely monitored by management.

Substandard: Loans in this category are considered inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Doubtful: Loans in this category have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, however, its classification as an estimated loss is deferred until a more exact determination of the extent of the loss is ascertained.

Loss: Loans in this category are considered uncollectible and of such little value that their continuance as loans is not warranted.

The Company does not assign risk ratings to residential real estate, home equity and consumer loans unless they are contractually past due 90 days or more or where legal action has commenced against the borrower. All other consumer loans are charged off when they become contractually past due 120 days. Loans not assigned a rating are considered pass.

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Business banking loans are assigned a Pass rating unless they are contractually past due 90 days or more, legal action has commenced against the borrower or other criteria for a risk rating change as defined within the business banking loan policy have been triggered. Upon one or more of these events, the loan will be risk rated Substandard.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial and industrial, commercial real estate and construction loans. Semi-annually, the Company engages an independent third party to review loans within these segments. Management uses the results of these reviews as part of its annual review process.

The following tables present the Company's loan segment by internally assigned grades:

At September 30, 2013				
	Commercial and Industrial	Commercial Real Estate	Construction	Total
<u>Commercial:</u>				
Grade:				
Pass	\$ 276,722	\$ 817,581	\$ 55,842	\$ 1,150,145
Special Mention	9,292	27,332	428	37,052
Substandard	17,551	27,427	3,518	48,496
Doubtful	663			663
Total	\$ 304,228	\$ 872,340	\$ 59,788	\$ 1,236,356

	Residential	Home Equity	Consumer	Total
<u>Consumer:</u>				
Grade:				
Pass	\$ 455,676	\$ 178,693	\$ 17,894	\$ 652,263
Special Mention				
Substandard	4,038	814	26	4,878
Doubtful				
Total	\$ 459,714	\$ 179,507	\$ 17,920	\$ 657,141

At December 31, 2012				
	Commercial and Industrial	Commercial Real Estate	Construction	Total
<u>Commercial:</u>				
Grade:				
Pass	\$ 275,279	\$ 762,240	\$ 46,196	\$ 1,083,715
Special Mention	14,788	29,092	1,632	45,512
Substandard	15,472	23,360	4,950	43,782
Doubtful	653			653
Total	\$ 306,192	\$ 814,692	\$ 52,778	\$ 1,173,662

	Residential	Home Equity	Consumer	Total
<u>Consumer:</u>				
Grade:				
Pass	\$ 439,201	\$ 178,920	\$ 21,382	\$ 639,503
Special Mention				
Substandard	2,673	119	119	2,911
Doubtful				
Total	\$ 441,874	\$ 179,039	\$ 21,501	\$ 642,414

Table of Contents**NOTE H COMMITMENTS**

Financial instruments with off-balance sheet risk at September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013	December 31, 2012
Unused lines of credit	\$ 338,049	\$ 308,683
Amounts due mortgagors	100,533	36,365
Standby letters of credit	5,499	3,573
Commitments to originate loans	22,851	63,974

The Company has also committed to invest up to \$10.0 million, representing 25% of the Class A or senior investor balance, in low income housing tax credit funds by the end of 2015. At September 30, 2013, the Company invested \$8.4 million in the funds, which has been reduced by net operating losses of \$2.0 million. The net carrying balance of \$6.4 million is included in other assets on the Company's consolidated statement of condition. As a Class A investor, the Company has the right to transfer its investment to the fund's Class B investor at the end of 10 years at which time the Company would have no compliance requirements or interest in the fund. The fund structure contemplates that the Class A investors will receive 95% of the tax credits and net operating losses for a period of eight years or until the minimum investment return has been met. Net operating losses allocated to the Company are recognized as they are incurred and recorded in non-interest expense.

In 2012, the Company committed to and invested \$1.8 million, or 50% interest, in a new markets housing tax credit fund, which has been reduced by net operating losses of \$33. The net carrying value of \$1.8 million is included in other assets on the Company's consolidated statement of condition.

The Company has committed to invest \$2.0 million in another low income housing tax credit fund by the end of 2015. At September 30, 2013, the Company invested \$1.1 million in this fund, which has been reduced by net operating losses of \$165. The net carrying value of \$972 is included in other assets on the Company's consolidated statement of condition.

The Company committed to and invested \$979 in another new market tax credit fund in August 2013. The net carrying value of \$979 is included in other assets on the Company's consolidated financial statement of condition.

NOTE I DEPOSITS

Deposit accounts, by type, are summarized as follows at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Demand	\$ 333,206	\$ 307,302
NOW	86,545	87,983
Savings	335,623	350,188
Money market	455,547	395,293
Certificates of deposit	735,477	707,409

\$ 1,946,398 \$ 1,848,175

Table of Contents**NOTE J CONTINGENCIES**

The Bank, as successor in interest to Commonwealth National Bank, is involved in litigation relating to a loan foreclosure. The litigants claim that Commonwealth National Bank acted in bad faith and in violation of applicable law and that its actions resulted in a sale of the underlying property for less than its market value, thereby causing damage to the parties. During the third quarter of 2011, the judge issued a ruling in favor of the Bank. The litigants have appealed the decision. The Bank believes these claims and the appeal are without merit and is vigorously defending the litigation. No estimate of any reasonably possible loss or range of loss to the Bank can be made at this time.

The Bank is also a defendant in other claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

NOTE K FAIR VALUES OF ASSETS AND LIABILITIES

The Company groups its assets measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value, as follows:

Level 1 Valuations for assets traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. government and government-sponsored enterprises that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2 Valuations for assets traded in less active dealer or broker markets. Level 2 includes U.S. government and mortgage-backed securities issued by government-sponsored enterprises. Valuations are obtained from third party pricing services for identical or comparable assets.

Level 3 Valuations for assets that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities. Level 3 also includes corporate bonds that have fair values derived from unobservable issuer-provided financial information and discounted cash flow models.

Assets measured at fair value on a recurring basis, are summarized below:

	Level 1	Level 2	Level 3	Total Fair Value
<u>At September 30, 2013</u>				
Securities available for sale:				
Government-sponsored enterprises	\$	\$ 1,911	\$	\$ 1,911
Government-sponsored and government-guaranteed mortgage-backed securities		235,394		235,394
Private label mortgage-backed securities		8		8
Municipal bonds		25,230		25,230
Corporate bonds			1,880	1,880

Total	\$	\$ 262,543	\$ 1,880	\$ 264,423
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	Level 1	Level 2	Level 3	Total Fair Value
At December 31, 2012				
Securities available for sale:				
Government-sponsored enterprises	\$	\$ 3,233	\$	\$ 3,233
Government-sponsored and government-guaranteed mortgage-backed securities		257,762		257,762
Private label mortgage-backed securities		2,566		2,566
Municipal bonds		28,827		28,827
Corporate bonds			1,934	1,934
Total	\$	\$ 292,388	\$ 1,934	\$ 294,322

The Company had no liabilities measured at fair value on a recurring basis at September 30, 2013 or December 31, 2012.

The table below presents the changes in Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2013.

Balance at December 31, 2012	\$ 1,934
Change in unrealized gain	(54)
Balance at September 30, 2013	\$ 1,880

Due to the lack of observable market data, corporate bonds were included in Level 3 of the fair value hierarchy. The fair value has been derived by third party pricing services using pricing models and techniques which require significant judgment and estimation. Pricing models and techniques are dependent upon several unobservable inputs including the discount rate, the interest rate environment, credit defaults and losses and financial performance.

There were no transfers in or out of levels 1 and 2.

The Company may be required, from time to time, to measure at fair value certain other assets on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-fair value accounting or write-downs of individual assets. The following tables summarize the fair value hierarchy used to determine the adjustment and the carrying value of the related individual assets for the three and nine months ended September 30, 2013 and 2012.

	At September 30, 2013			Three Months Ended September 30, 2013 Total Gains/(Losses)	Nine Months Ended September 30, 2013 Total Gains/(Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans	\$	\$	\$ 714	\$ 57	\$ (565)

Other real estate owned			711			(135)
Total assets	\$	\$	\$ 1,425	\$	57	\$ (700)

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	At September 30, 2012			Three Months Ended September 30, 2012 Total Gains/(Losses)	Nine Months Ended September 30, 2012 Total Gains/(Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans	\$	\$	\$ 722	\$ (116)	\$ (126)
Other real estate owned			1,070	(134)	(184)
Other assets			595	(37)	(37)
Total assets	\$	\$	\$ 2,387	\$ (287)	\$ (347)

The amount of loans represents the carrying value of impaired loans net of related write-downs and valuation allowances for which adjustments are based on the estimated fair value of the underlying collateral. The other real estate owned amount represents the carrying value for which adjustments are also based on the estimated fair value of the property.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because a market may not readily exist for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used by the Company in estimating fair values of its financial instruments:

Cash and Cash Equivalents and Short-term Investments. The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets.

Investment Securities and FHLBB Stock. The fair value of securities to be held to maturity and securities available for sale is estimated based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Ownership of Federal Home Loan Bank of Boston (FHLBB) stock is restricted to member banks; therefore, the stock is not traded. The estimated fair value of FHLBB stock is equal to its carrying value, which represents the price at which the FHLBB is obligated to redeem its stock.

Loans. For valuation purposes, the loan portfolio was segregated into its significant categories, which are residential mortgage, commercial real estate, commercial and industrial, construction and consumer loans. These categories were further segregated, where appropriate, into components based on significant financial characteristics such as type of interest rate (fixed or adjustable). Fair values were estimated for each component using assumptions developed by management and a valuation model provided by a third party specialist.

The fair values of residential mortgage, commercial real estate, commercial and industrial, construction and consumer loans were estimated by discounting the anticipated cash flows from the respective portfolios. Estimates of the timing and amount of these cash flows considered factors such as future loan prepayments. The discount rates reflected

current market rates for loans with similar terms to borrowers of similar credit quality. The fair value of home equity lines of credit was based on the outstanding loan balances. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Loans Held for Sale. Fair values are based on commitments in effect from investors or prevailing market rates.

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Deposits. The fair value of deposits with no stated maturity, such as demand deposits, NOW, regular savings, and money market deposit accounts, is equal to the amount payable on demand. The fair value estimates do not include the benefit that results from the generally lower cost of funding provided by the deposit liabilities compared to the cost of borrowing funds in the market. The fair value estimate of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits having similar remaining maturities.

Short-term Borrowings. For short-term borrowings maturing within one year, carrying values approximate fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Long-term Debt. The fair values of the Company's long-term debt are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Repurchase Agreements. The Company enters into overnight repurchase agreements with its customers. Since these agreements are short-term instruments, the fair value of these agreements approximates their recorded balance. The Company also secures term repurchase agreements through other financial institutions. The fair value of these agreements are determined by discounting the anticipated future cash payments using rates currently available to the Bank for debt with similar terms and remaining maturities.

Subordinated Debentures. The Company has outstanding subordinated debt in the form of trust preferred securities issued through a private placement offering. The fair value estimate is determined by discounting the anticipated future cash payments by using the rates currently available to the Company for debt with similar terms and remaining maturities.

Off-Balance Sheet Instruments. The fair value of off-balance-sheet mortgage lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. In the case of the commitments discussed in Note H, the fair value equals the carrying amounts which are not significant.

Summary of Fair Values of Financial Instruments. The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments are as follows. Certain financial instruments and all nonfinancial instruments are exempt from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein do not represent the underlying fair value of the Company.

The fair value of the Company's financial instruments is as follows at dates indicated:

	At September 30, 2013				
	Carrying Value	Level 1	Level 2	Level 3	Estimated Fair Value
Financial Assets:					
Cash and cash equivalents	\$ 58,960	\$ 58,960	\$	\$	\$ 58,960
Securities available for sale	264,423		262,543	1,880	264,423
Securities held to maturity	97,991		99,393		99,393
Stock in Federal Home Loan Bank of Boston	17,334			17,334	17,334

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Net loans and loans held for sale	1,882,508	1,887,816	1,887,816
Financial Liabilities:			
Deposits (with no stated maturity)	1,210,921	1,210,921	1,210,921
Time deposits	735,477	740,330	740,330
Federal Home Loan Bank of Boston advances	151,029	153,706	153,706
Repurchase agreements	60,446	60,967	60,967
Subordinated debentures	5,933	5,933	5,933

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	At December 31, 2012				
	Carrying Value	Level 1	Level 2	Level 3	Estimated Fair Value
Financial Assets:					
Cash and cash equivalents	\$ 30,679	\$ 30,679	\$	\$	\$ 30,679
Securities available for sale	294,322		292,388	1,934	294,322
Securities held to maturity	82,986		85,674		85,674
Stock in Federal Home Loan Bank of Boston	18,554			18,554	18,554
Net loans and loans held for sale	1,808,033			1,846,519	1,846,519
Financial Liabilities:					
Deposits (with no stated maturity)	1,140,766			1,140,766	1,140,766
Time deposits	707,409			711,845	711,845
Federal Home Loan Bank of Boston advances	141,525			145,543	145,543
Repurchase agreements	69,229			70,082	70,082
Subordinated debentures	9,630		9,630		9,630

NOTE L PENSION AND POSTRETIREMENT BENEFIT PLANS

The Company maintains a Senior Executive Retirement Plan (SERP) and a Director Retirement Plan. These plans had no assets at September 30, 2013 and 2012. The following table presents the components of the net periodic benefit cost for the indicated periods:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2013		2012		2013		2012	
	SERP	Director Retirement Plan	SERP	Director Retirement Plan	SERP	Director Retirement Plan	SERP	Director Retirement Plan
Periodic benefit cost:								
Service cost	\$ 101	\$ 14	\$ 78	\$ 24	\$ 301	\$ 41	\$ 236	\$ 70
Interest cost	47	11	44	14	141	33	132	42
Total pension cost	148	25	122	38	442	74	368	112
Prior service cost amortization	50	10	29	9	150	32	86	27
Net loss amortization		12		2		36		8
Net periodic benefit cost	\$ 198	\$ 47	\$ 151	\$ 49	\$ 592	\$ 142	\$ 454	\$ 147

Benefits expected to be paid over the next five years as presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 have not changed. These plans are funded on a pay-as-you-go-basis and the Company does not expect to make any contributions to these plans in 2013.

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

Forward-Looking Statements

This report may contain forward-looking statements relating to such matters as anticipated financial performance, business prospects, future strategies, technological developments, new products, and similar matters. Forward-looking statements are generally preceded by terms such as expects, believes, anticipates, intends or similar expressions. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements provided that the Company notes factors that could cause the Company's actual results to differ materially from the anticipated results expressed in the Company's forward-looking statements. Factors that may cause actual results to differ materially from those projected in the forward-looking statements include, but are not limited to, general economic conditions, changes in market interest rates and real estate values, changes in the size, composition or risks in the loan and securities portfolios, loan or deposit demand, changes in asset quality, including levels of delinquent, classified and charged-off loans, legislative, accounting or regulatory changes, and significant increases in competitive pressures. Additional factors are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 under Item 1A. Risk Factors. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Forward-looking statements speak only as of the date they are made and the Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date of the forward-looking statements or to reflect the occurrence of unanticipated events. Accordingly, past results and trends should not be used by investors to anticipate future results or trends.

Comparison of Financial Condition at September 30, 2013 and December 31, 2012

Total assets increased \$88.4 million, or 3.7%, to \$2.49 billion at September 30, 2013 from \$2.40 billion at December 31, 2012 reflecting growth in net loans, interest-bearing deposits and securities held to maturity, partially offset by a decrease in securities available for sale. Net loans increased \$75.1 million, or 4.2%, to \$1.88 billion at September 30, 2013 from \$1.81 billion at December 31, 2012 due to growth of \$62.7 million, or 5.3%, in commercial loans (commercial and industrial, commercial real estate and construction loans) and \$17.8 million, or 4.0%, in residential mortgages as a result of successful business development efforts and competitive products and pricing. These increases were offset by a decrease in consumer loans of \$3.6 million, or 16.7%, primarily due to payments. Interest-bearing deposits increased \$22.0 million primarily reflecting excess cash on deposit at the Federal Reserve Bank. Securities held to maturity increased \$15.0 million, or 18.1%, to \$98.0 million at September 30, 2013 from \$83.0 million at December 31, 2012 as a result of purchases of fixed- and variable-rate agency mortgage-backed securities totaling \$33.7 million, partially offset by repayments of government-sponsored agency debt and mortgage-backed securities of \$18.1 million. Securities available for sale decreased \$29.9 million, or 10.2%, to \$264.4 million at September 30, 2013 from \$294.3 million at December 31, 2012 primarily due to repayments of government-sponsored agency debt and mortgage-backed securities of \$62.0 million, partially offset by purchases of fixed- and variable-rate agency mortgage-backed securities totaling \$43.9 million.

Total deposits increased \$98.2 million, or 5.3%, to \$1.95 billion at September 30, 2013 compared to \$1.85 billion at December 31, 2012 reflecting growth of \$70.1 million, or 6.1%, in core account balances and an increase of \$28.1 million, or 4.0%, in certificates of deposit. Core deposit balances were \$1.21 billion, or 62.2% of total deposits, at September 30, 2013 compared to \$1.14 billion, or 61.7% of total deposits, at December 31, 2012. The growth in core deposit account balances was driven by sales and marketing initiatives, competitive products and pricing, attention to excellence in customer service and targeted promotional activities. The increase in certificates of deposit was attributable to the purchase of \$15.0 million in brokered CDs with a weighted average rate of 1.28% and a weighted average maturity of 3.7 years. Short-term borrowings decreased \$18.8 million, or 23.7%, to \$60.4 million at

September 30, 2013 from \$79.2 million at December 31, 2012 mainly due to a decrease in overnight customer repurchase agreements. Long-term debt increased \$19.7 million, or 14.7%, to \$153.7 million at September 30, 2013 from \$134.0 million at December 31, 2012 attributable to new FHLBB advances totaling \$51.0 million, partially offset by repayments of FHLB advances of \$31.5 million. Subordinated debentures decreased \$3.7 million, or 38.4%, to \$5.9 million at September 30, 2013 as a result of the full redemption of a \$4.0 million callable debt instrument previously issued by New England Bancshares, Inc. partially offset by the amortization of the mark-to-market adjustment on the Commonwealth National Bank trust preferred securities. At September 30, 2013, the Company continued to have considerable liquidity including significant unused borrowing capacity at the FHLBB and the Federal Reserve Bank of Boston and access to funding through the repurchase agreement and brokered deposit markets.

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Total stockholders' equity decreased \$4.4 million, or 1.4%, to \$302.8 million at September 30, 2013 from \$307.2 million at December 31, 2012 largely as a result of repurchases of common stock totaling \$7.3 million, cash dividend payments amounting to \$6.3 million and \$4.7 million in other comprehensive loss, partially offset by net income of \$13.4 million.

Credit Quality and Reserve Coverage

The Company actively manages credit risk through its underwriting practices, loan review activities and collection operations, and does not offer nor has it historically offered residential mortgage and other consumer loans to subprime or Alternative-A-paper borrowers. All loans where the interest payment is 90 days or more in arrears as of the closing date of each month are placed on non-accrual status. Non-accrual loans totaled \$12.3 million, or 0.65% of total loans, at September 30, 2013 compared to \$14.7 million, or 0.81% of total loans, at December 31, 2012. Criticized and classified loans, which are loans that are of lesser quality and are reported for regulatory purposes as special mention, substandard, doubtful or loss, decreased \$1.8 million, or 1.9%, to \$91.1 million at September 30, 2013 compared to \$92.9 million at December 31, 2012, primarily due to a decrease of \$3.7 million in classified commercial and industrial loans, offset in part by an increase of \$2.0 million in classified consumer loans. Other real estate owned decreased \$372,000, or 14.4% to \$2.2 million at September 30, 2013 from \$2.6 million at December 31, 2012 reflecting sales of several properties, partially offset by foreclosure activity. Refer to Note G Loans in the Notes to the Unaudited Consolidated Financial Statements in this report for additional disclosures about credit quality.

At September 30, 2013, the ratio of the allowance for loan losses to total loans was 0.72% compared to 0.67% at December 31, 2012. Excluding the impact of loans acquired through merger (which were marked to market at the time of acquisition) totaling \$549.5 million at September 30, 2013 and \$664.6 million at December 31, 2012, the ratio of the allowance for loan losses to total loans would have been 1.02% at September 30, 2013 and 1.05% at December 31, 2012. Net charge-offs totaled \$1.4 million, or 0.10% of average loans outstanding on an annualized basis, for the nine months ended September 30, 2013 as compared to net charge-offs of \$1.0 million, or 0.12% of average loans outstanding on an annualized basis, for the same period in 2012. Net charge-offs in both periods consisted primarily of commercial loans. Refer to Note G Loans in the Notes to the Unaudited Consolidated Financial Statements in this report for disclosures about the allowance for loan losses.

Comparison of Operating Results for the Three Months Ended September 30, 2013 and 2012

Overview

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income earned on interest-earning assets, consisting primarily of loans, investment securities and other interest-earning assets, and the interest paid on interest-bearing liabilities, consisting primarily of deposits, FHLBB advances and repurchase agreements.

Our results of operations also are affected by provisions for loan losses, non-interest income and non-interest expense. Non-interest income consists primarily of deposit account fees, wealth management fees, increases in the cash surrender value of bank-owned life insurance, gains on sale of loans and securities and miscellaneous other income. Non-interest expense consists primarily of salaries and benefits, occupancy, marketing, data processing, professional fees, FDIC insurance assessments, low income housing tax credit fund and other operating expenses. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

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Net Income. Net income increased \$1.7 million, or 58.7%, to \$4.6 million for the third quarter of 2013 compared to net income of \$2.9 million for the same period in 2012. Excluding acquisition-related expenses of \$366,000 (\$254,000 net of tax benefit) incurred in 2012 as a result of the Company's acquisition of New England Bancshares, Inc. (NEBS) in November 2012 and impairment charges on securities of \$202,000 (\$119,000 net of tax benefit) recognized in 2012, net income would have increased by \$1.3 million, or 40.7%, from \$3.3 million for the third quarter of 2012 to \$4.6 million for the third quarter of 2013. The improved quarterly operating results were largely due to growth in net interest income of \$5.8 million, driven by net interest margin expansion and an increase in average interest earning assets and, to a lesser extent, a \$465,000 increase in non-interest income. These positive results were offset in part by increases of \$3.6 million in non-interest expense and \$75,000 in provision for loan losses. Diluted earnings per share increased \$0.03, or 15.0%, to \$0.23 for the three months ended September 30, 2013 compared to \$0.20 for the same period last year due to improved earnings, offset in part by an increase in weighted average shares outstanding. Total diluted weighted average shares increased by 5.3 million shares for the three months ended September 30, 2013 compared to the same period in 2012 due to the issuance of shares for the acquisition of NEBS, partially offset by the repurchase of shares under the Company's current stock repurchase plan. Excluding the after tax impact of acquisition-related expenses and the impairment charges on securities in 2012, diluted earnings per share would have increased \$0.01, or 3.6%, for the three months ended September 30, 2013 compared to the same period in 2012.

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Average Balances and Yields. The following table sets forth average balances, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield.

	Three Months Ended September 30,					
	2013			2012		
	Average	Interest	Yield/	Average	Interest	Yield/
	Balance	and	Cost	Balance	and	Cost
	(Dollars in thousands)					
Interest-earning assets:						
Loans:						
Residential real estate ⁽¹⁾	\$ 455,892	\$ 4,280	3.76%	\$ 313,919	\$ 3,493	4.45%
Commercial real estate	925,906	11,451	4.95%	512,834	6,841	5.34%
Home equity	180,105	1,543	3.43%	140,812	1,239	3.52%
Commercial and industrial	302,131	3,470	4.59%	197,552	2,742	5.55%
Consumer and other	18,864	230	4.88%	13,685	179	5.23%
Total loans ⁽²⁾	1,882,898	20,974	4.46%	1,178,802	14,494	4.92%
Investment securities	358,535	2,226	2.48%	338,352	2,549	3.01%
Other interest-earning assets	31,378	26	0.33%	26,625	27	0.41%
Total interest-earning assets	2,272,811	23,226	4.09%	1,543,779	17,070	4.42%
Noninterest-earning assets ⁽³⁾	179,852			106,369		
Total assets	\$ 2,452,663			\$ 1,650,148		
Interest-bearing liabilities:						
Savings accounts	\$ 338,564	275	0.32%	\$ 259,783	290	0.45%
Money market accounts	445,038	413	0.37%	293,291	313	0.43%
NOW accounts	82,431	57	0.28%	55,788	42	0.30%
Certificates of deposit	736,485	2,153	1.17%	414,160	1,799	1.74%
Total interest-bearing deposits	1,602,518	2,898	0.72%	1,023,022	2,444	0.96%
FHLBB advances	138,474	699	2.02%	103,915	791	3.04%
Other interest-bearing liabilities	70,755	283	1.60%	51,194	285	2.23%
Total interest-bearing liabilities	1,811,747	3,880	0.86%	1,178,131	3,520	1.20%
Demand deposits	323,960			231,126		
Other noninterest-bearing liabilities	15,925			11,277		
Total liabilities	2,151,632			1,420,534		
Stockholders equity	301,031			229,614		
	\$ 2,452,663			\$ 1,650,148		

Total liabilities and stockholders equity

Net interest income	\$ 19,346	\$ 13,550
Interest rate spread ⁽⁴⁾	3.23%	3.22%
Net interest-earning assets ⁽⁵⁾	\$ 461,064	\$ 365,648
Net interest margin ⁽⁶⁾	3.40%	3.51%
Average interest-earning assets to average interest-bearing liabilities	125.45%	131.04%

- (1) Includes loans held for sale.
- (2) Loans, including non-accrual loans, are net of deferred loan origination costs and advanced funds.
- (3) Includes bank-owned life insurance, the income on which is classified as non-interest income.
- (4) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (6) Net interest margin represents annualized net interest income divided by average total interest-earning assets.

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Rate/Volume Analysis. The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Three Months Ended September 30, 2013 vs. 2012		
	Increase (Decrease) Due to		Net
	Volume	Rate	
	(In thousands)		
Interest-earning assets:			
Loans:			
Residential real estate ⁽¹⁾	\$ 1,396	\$ (609)	\$ 787
Commercial real estate	5,141	(531)	4,610
Home equity	338	(34)	304
Commercial and industrial	1,264	(536)	728
Consumer and other	64	(13)	51
Total loans	8,203	(1,723)	6,480
Investment securities	145	(468)	(323)
Other interest-earning assets	5	(6)	(1)
Total interest-earning assets	8,353	(2,197)	6,156
Interest-bearing liabilities:			
Savings accounts	75	(90)	(15)
Money market accounts	145	(45)	100
NOW accounts	18	(3)	15
Certificates of deposit	1,077	(723)	354
Total interest-bearing deposits	1,315	(861)	454
FHLBB advances	219	(311)	(92)
Other interest-bearing liabilities	91	(93)	(2)
Total interest-bearing liabilities	1,625	(1,265)	360
Change in net interest income	\$ 6,728	\$ (932)	\$ 5,796

(1) Includes loans held for sale.

Net Interest Income Before Provision for Loan Losses. Net interest income before provision for loan losses increased \$5.8 million, or 42.8%, to \$19.3 million for the third quarter of 2013 from \$13.6 million for the same period in 2012 mainly as a result of an increase in average interest-earning assets, partially offset by net interest margin compression.

Total average interest-earning assets increased \$729.0 million, or 47.2%, to \$2.27 billion for the third quarter of 2013, driven by the acquisition of NEBS and organic loan growth. The net interest margin declined 11 basis points to 3.40% for the three months ended September 30, 2013 due in large part to a decrease in net interest spread (excluding the impact of acquisition accounting adjustments) as a result of the challenging interest rate environment.

Interest Income. Interest income increased \$6.2 million, or 36.1%, to \$23.2 million for the three months ended September 30, 2013 from \$17.1 million for the prior year period due to an increase in average interest-earning assets, partially offset by a decrease in the yield on earning assets. The yield on average interest-earning assets decreased by 33 basis points to 4.09% for the third quarter of 2013 in connection with the lower interest rate environment as well as a decrease of \$679,000 in the accretion of loan acquisition accounting adjustments. The decrease in market rates contributed to the downward repricing of a portion of the Company's existing assets and to lower rates for new assets.

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Interest Expense. Interest expense increased \$360,000, or 10.2%, for the three months ended September 30, 2013 compared to the prior year period, reflecting an increase in average interest-bearing liabilities, partially offset by a decrease in the average rate paid on interest-bearing liabilities. Average interest-bearing liabilities increased \$633.6 million, or 53.8%, to \$1.81 billion for the three months ended September 30, 2013 from \$1.18 billion for the prior year period due in large part to the Company's acquisition of NEBS in the fourth quarter of 2012 and organic deposit growth. The average rate paid on interest-bearing liabilities declined 34 basis points to 0.86% for the three months ended September 30, 2013 due to the repricing of deposits in response to the lower interest rate environment partially offset by an increase of \$716,000 in the net accretion of acquisition accounting adjustments.

Provision for Loan Losses. The allowance for loan losses is based on management's estimate of the probable losses inherent in the portfolio, considering the impact of prior loss experience, current economic conditions and their effect on borrowers, the composition and size of the portfolio, trends in non-performing loans, classified and impaired loans, and delinquency rates and the performance of individual loans in relation to contractual terms. The provision for loan losses reflects adjustments to the allowance based on management's review of the loan portfolio in light of those conditions. The provision for loan losses increased by \$75,000, or 7.1%, to \$1.13 million for the three months ended September 30, 2013 from \$1.05 million for the same period in 2012, driven by an increase in general reserves associated with stronger commercial loan origination activity, increases in impaired loan reserves and net charge-offs and the continuing shift to a more commercially oriented loan portfolio. Net charge-offs increased from \$251,000 for the three months ended September 30, 2012 to \$553,000 for the three months ended September 30, 2013. The allowance for loan losses was \$13.6 million, or 0.72% of loans outstanding, at September 30, 2013.

Non-interest Income. Non-interest income increased \$465,000, or 18.5%, to \$3.0 million for the third quarter of 2013 from \$2.5 million for the same period in 2012. Excluding impairment charges on securities of \$202,000 incurred in 2012, non-interest income would have increased \$263,000, or 9.7%. Other income increased \$237,000 as a result of higher loan prepayment penalties and late charges as well as increased credit enhancement fees related to loans sold to the FHLBB. Fee income on depositors' accounts increased \$181,000, or 12.5%, driven by a larger deposit base related to the NEBS acquisition, offset to a large extent by the negative impact of new regulations, including the Durbin Amendment, on debit card fee income. Income from bank-owned life insurance increased \$70,000, or 15.6%, due in large part to the acquisition of the NEBS portfolio, partially offset by a decrease in the yield on the portfolio assets. These increases were offset in part by decreases of \$188,000 in gains on sales of loans and \$27,000 in net gains on sales of securities.

Non-interest Expense. Non-interest expense increased \$3.6 million, or 32.6%, to \$14.8 million in the third quarter of 2013 from \$11.2 million in the same period last year. Excluding acquisition-related expenses incurred in connection with the Company's acquisition of NEBS totaling \$366,000 in 2012, non-interest expense would have increased \$4.0 million, or 37.0%. Salaries and benefits increased \$1.7 million, or 27.2%, mainly due to costs incurred to support our new Connecticut operations, staffing costs associated with a new loan production office opened in Glastonbury, Connecticut during the second quarter of 2012 and a new branch established in Northborough, Massachusetts during the fourth quarter of 2012, annual wage increases and a larger incentive accrual due to improved operating performance. Other expenses increased \$559,000, or 35.7%, reflecting increased expenses from the expansion of our franchise into Connecticut (i.e. telephone, depreciation, postage, core deposit intangible amortization, foreclosed properties, business development, printing, office supplies and branch security). Occupancy costs grew \$539,000, or 65.5%, principally attributable to expenses incurred to operate our new Connecticut facilities as well as expenses related to the new loan production office and new branch. Data processing expenses increased \$319,000, or 28.8%, attributable to a larger loan and deposit base as well as increased costs related to software licenses, online banking and debit cards. Professional fees increased \$215,000, or 57.8%, primarily due to additional legal and consulting costs associated with our Connecticut operations and increased expenses related to loan workout activities and third party loan reviews.

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Income Tax Expense. Income tax expense increased \$824,000, or 92.6%, to \$1.7 million for the third quarter of 2013 from \$890,000 in the same period last year as a result of increases in taxable income and the effective tax rate. The effective tax rate increased from 23.3% in 2012 to 26.9% in 2013 reflecting a decrease in the proportion of tax-exempt income to total taxable income as a result of the acquisition of NEBS.

Comparison of Operating Results for the Nine Months Ended September 30, 2013 and 2012

Net Income. For the nine months ended September 30, 2013, net income was \$13.4 million, or \$0.67 per diluted share, compared to net income of \$8.4 million, or \$0.56 per diluted share, for the same period in 2012. Excluding branch closing costs totaling \$987,000 (\$584,000 net of tax benefit), acquisition-related expenses of \$281,000 (\$270,000 net of tax benefit), a \$206,000 gain related to an investment in a venture capital fund accounted for on a cash basis (\$122,000 net of tax expense), and a net loss of \$50,000 on sales of investment securities (\$30,000 net of tax benefit), net income would have been \$14.2 million, or \$0.71 per diluted share, for the nine months ended September 30, 2013. Excluding acquisition-related expenses of \$958,000 (\$818,000 net of tax benefit) and impairment charges on securities of \$202,000 (\$119,000 net of tax benefit), net income would have been \$9.3 million, or \$0.63 per diluted share, for the nine months of 2012. The improved year-to-date operating results were largely due to growth in net interest income of \$19.6 million, driven by net interest margin expansion and an increase in average interest earning assets and, to a lesser extent, a \$1.1 million increase in non-interest income. These positive results were offset in part by increases of \$13.0 million in non-interest expense and \$517,000 in provision for loan losses. The increase in diluted earnings per share reflects improved earnings, offset in part by an increase in weighted average shares outstanding. Total diluted weighted average shares increased by 5.3 million shares for the nine months ended September 30, 2013 compared to the same period in 2012 due to the issuance of shares for the acquisition of NEBS, partially offset by the repurchase of shares under the Company's current stock repurchase plan.

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Average Balances and Yields. The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield.

	Nine Months Ended September 30,					
	Average Balance	2013 Interest and Dividends	Yield/ Cost	Average Balance	2012 Interest and Dividends	Yield/ Cost
(Dollars in thousands)						
Interest-earning assets:						
Loans:						
Residential real estate ⁽¹⁾	\$ 449,125	\$ 12,756	3.79%	\$ 313,981	\$ 10,794	4.58%
Commercial real estate	896,883	34,387	5.11%	500,959	20,660	5.50%
Home equity	178,625	4,555	3.40%	138,087	3,695	3.57%
Commercial and industrial	307,907	11,749	5.09%	187,230	7,031	5.01%
Consumer and other	20,681	860	5.54%	14,327	570	5.30%
Total loans ⁽²⁾	1,853,221	64,307	4.63%	1,154,584	42,750	4.94%
Investment securities	360,628	6,787	2.51%	338,945	8,171	3.21%
Other interest-earning assets	26,647	68	0.34%	45,463	119	0.35%
Total interest-earning assets	2,240,496	71,162	4.23%	1,538,992	51,040	4.42%
Noninterest-earning assets ⁽³⁾	178,870			104,770		
Total assets	\$ 2,419,366			\$ 1,643,762		
Interest-bearing liabilities:						
Savings accounts	\$ 344,860	928	0.36%	\$ 258,587	994	0.51%
Money market accounts	424,740	1,215	0.38%	300,798	1,121	0.50%
NOW accounts	81,782	217	0.35%	53,278	125	0.31%
Certificates of deposit	728,612	6,192	1.13%	416,471	5,555	1.78%
Total interest-bearing deposits	1,579,994	8,552	0.72%	1,029,134	7,795	1.01%
FHLB advances	129,187	2,207	2.28%	104,281	2,431	3.11%
Other interest-bearing liabilities	75,306	865	1.53%	52,313	870	2.22%
Total interest-bearing liabilities	1,784,487	11,624	0.87%	1,185,728	11,096	1.25%
Demand deposits	314,796			218,296		
Other noninterest-bearing liabilities	16,124			11,293		
Total liabilities	2,115,407			1,415,317		
Stockholders' equity	303,959			228,445		
	\$ 2,419,366			\$ 1,643,762		

Total liabilities and stockholders equity

Net interest income	\$ 59,538	\$ 39,944
Interest rate spread ⁽⁴⁾	3.36%	3.17%
Net interest-earning assets ⁽⁵⁾	\$ 456,009	\$ 353,264
Net interest margin ⁽⁶⁾	3.54%	3.46%
Average interest-bearing assets to average interest-bearing liabilities	125.55%	129.79%

(1) Includes loans held for sale.

(2) Loans, including non-accrual loans, are net of deferred loan origination costs and advanced funds.

(3) Includes bank-owned life insurance, the income on which is classified as non-interest income.

(4) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(6) Net interest margin represents annualized net interest income divided by average total interest-earning assets.

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Rate/Volume Analysis. The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Nine Months Ended September 30, 2013 vs. 2012		
	Increase (Decrease) Due to Volume	Rate	Net
	(In thousands)		
Interest-earning assets:			
Loans:			
Residential real estate ⁽¹⁾	\$ 4,070	\$ (2,108)	\$ 1,962
Commercial real estate	15,274	(1,547)	13,727
Home equity loans	1,041	(181)	860
Commercial and industrial	4,603	115	4,718
Consumer and other	263	27	290
Total loans	25,251	(3,694)	21,557
Investment securities	497	(1,881)	(1,384)
Other interest-earning assets	(48)	(3)	(51)
Total interest-earning assets	25,700	(5,578)	20,122
Interest-bearing liabilities:			
Savings accounts	280	(346)	(66)
Money market accounts	394	(300)	94
NOW accounts	74	18	92
Certificates of deposit	3,145	(2,508)	637
Total interest-bearing deposits	3,893	(3,136)	757
FHLB advances	508	(732)	(224)
Other interest-bearing liabilities	313	(318)	(5)
Total interest-bearing liabilities	4,714	(4,186)	528
Change in net interest income	\$ 20,986	\$ (1,392)	\$ 19,594

(1) Includes loans held for sale.

Net Interest Income Before Provision for Loan Losses. Net interest income before provision for loan losses increased \$19.6 million, or 49.1%, to \$59.5 million for the nine months ended September 30, 2013 from \$39.9 million for the comparable 2012 period as a result of growth in average interest-earning assets and net interest margin expansion.

Total average interest-earning assets increased \$701.5 million, or 45.6%, to \$2.24 billion for the nine months of 2013, driven by the acquisition of NEBS and organic loan growth. The net interest margin increased by 8 basis points to 3.54% for the nine months ended September 30, 2013 due in large part to a \$2.4 million increase in the net accretion of acquisition accounting adjustments to \$3.8 million for the nine months of 2013 from \$1.4 million for the same period in 2012.

Interest Income. Interest income increased \$20.1 million, or 39.4%, to \$71.2 million for the nine months ended September 30, 2013 from \$51.0 million for the prior year period due to an increase in average interest-earning assets partially offset by a decrease in the yield on earning assets. The yield on average interest-earning assets decreased by 19 basis points to 4.23% for the nine months of 2013 in connection with the lower interest rate environment as well as a decrease of \$130,000 in the accretion of loan acquisition accounting adjustments. The decrease in market rates contributed to the downward repricing of a portion of the Company's existing assets and to lower rates for new assets.

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Interest Expense. Interest expense increased \$528,000, or 4.8%, to \$11.6 million for the nine months ended September 30, 2013 from \$11.1 million for the prior year period due to growth in average interest-bearing liabilities partially offset by a decrease in the average rate paid on interest-bearing liabilities. Average interest-bearing liabilities increased \$598.8 million, or 50.5%, to \$1.78 billion for the nine months ended September 30, 2013 from \$1.19 billion for the prior year period due in large part to the Company's acquisition of NEBS in the fourth quarter of 2012 and organic deposit growth. The average rate paid on interest-bearing liabilities declined 38 basis points to 0.87% for the nine months ended September 30, 2013 reflecting the repricing of deposits in response to the lower interest rate environment and an increase of \$2.2 million in the net accretion of acquisition accounting adjustments.

Provision for Loan Losses. The provision for loan losses increased \$517,000, or 21.1%, to \$3.0 million for the nine months ended September 30, 2013, from \$2.5 million for the same period in 2012, driven by increases in net charge-offs, classified loan reserves and impaired loan reserves as well as the continuing shift to a more commercially oriented loan portfolio. Net charge-offs increased from \$1.0 million for the nine months ended September 30, 2012 to \$1.4 million for the nine months ended September 30, 2013. The allowance for loan losses was \$13.6 million, or 0.72% of loans outstanding, at September 30, 2013.

Non-interest Income. Non-interest income increased \$1.1 million, or 14.8%, to \$8.8 million for the nine months ended September 30, 2013. Excluding impairment charges on securities of \$202,000 incurred in 2012, non-interest income would have increased \$933,000, or 11.9%. Other income increased \$766,000 as a result of a \$206,000 gain on an investment in a venture capital fund that is accounted for on a cash basis, higher loan prepayment penalties and late charges as well as increased credit enhancement fees related to loans sold to the FHLBB. Fee income on depositors accounts increased \$340,000, or 7.8%, driven by a larger deposit base related to the NEBS acquisition, offset to a large extent by the negative impact of new regulations, including the Durbin Amendment, on debit card fee income. Income from bank-owned life insurance increased \$217,000, or 16.4%, due in large part to the acquisition of the NEBS portfolio, partially offset by a decrease in the yield on the portfolio assets. These increases were offset in part by decreases of \$245,000 in gains on sales of loans and \$68,000 in wealth management income as well as losses totaling \$50,000 from sales of \$2.6 million in private label mortgage-backed securities in 2013.

Non-interest Expense. Non-interest expense increased \$13.0 million, or 38.4%, to \$46.9 million for the nine months ended September 30, 2013 from \$33.9 million for the prior year period. Excluding branch closing costs of \$987,000 incurred in 2013 and acquisition-related costs totaling \$281,000 for the 2013 period and \$958,000 for the same period in 2012, non-interest expense would have increased by \$12.7 million, or 38.5%. Salaries and benefits increased \$5.6 million, or 29.5%, mainly due to costs incurred to support our new Connecticut operations, staffing costs associated with a new loan production office opened in Glastonbury, Connecticut during the second quarter of 2012 and a new branch established in Northborough, Massachusetts during the fourth quarter of 2012, annual wage increases and a larger incentive accrual due to improved operating performance. Other expenses increased \$2.1 million, or 45.3%, reflecting increased expenses from the expansion of our franchise into Connecticut (i.e. telephone, depreciation, postage, core deposit intangible amortization, foreclosed properties, business development, printing, office supplies and branch security). Occupancy costs grew \$1.8 million, or 68.2%, principally attributable to expenses incurred to operate our new Connecticut facilities as well as expenses related to the new loan production office and new branch. Data processing expenses increased \$1.1 million, or 35.1%, attributable to a larger loan and deposit base as well as increased costs related to software licenses, online banking and debit cards. Professional fees increased \$632,000, or 49.3%, primarily due to additional legal and consulting costs associated with our Connecticut operations and increased expenses related to loan workout activities and third party loan reviews.

Income Tax Expense. Income tax expense increased \$2.1 million to \$5.0 million for nine months ended September 30, 2013 from \$2.9 million for the comparable 2012 period primarily due to higher pretax income and an increase in the effective tax rate. The effective tax rate increased to 27.2% for the nine months ended September 30,

2013 from 25.4% for the same period last year reflecting a decrease in the proportion of tax-exempt income to total taxable income as a result of the acquisition of NEBS.

Table of Contents**Market Risk, Liquidity and Capital Resources****Market Risk**

The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk (IRR). Our assets, the largest portion of which are mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage IRR and reduce the exposure of our net interest income (NII) to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Management Committee, which is responsible for evaluating the IRR inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. With the assistance of an IRR management consultant, the committee monitors the level of IRR on a regular basis and meets at least quarterly to review our asset/liability policies and IRR position.

We have sought to manage our IRR in order to minimize the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we currently use the following strategies to manage our IRR: (i) using alternative funding sources, such as advances from the FHLBB, to match fund certain longer-term loans; (ii) continued emphasis on increasing core deposits; (iii) offering adjustable-rate and shorter-term loans; (iv) offering a variety of consumer loans, which typically have shorter-terms; (v) investing in mortgage-backed securities with variable rates or fixed rates with shorter durations; and (vi) sales of thirty-year fixed-rate residential real estate loans. Reducing the average maturity of our interest-earning assets by increasing our investments in shorter-term loans and securities, as well as loans and securities with variable rates of interest, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our NII to changes in market interest rates.

Net interest income at-risk measures the risk of a decline in earnings due to potential short-term and long term changes in interest rates. The table below represents an analysis of our IRR as measured by the estimated changes in NII for the following twelve months, resulting from an instantaneous and sustained parallel shift in the yield curve of +200 and -100 basis points at September 30, 2013 and December 31, 2012.

Change in Interest Rates (Basis Points)	Net Interest Income At-Risk	Estimated Increase (Decrease)
	Estimated Increase (Decrease) in NII (September 30, 2013)	Estimated Increase (Decrease) in NII (December 31, 2012)
-100	(5.0)%	(3.3)%
Stable	0.0%	0.0%
+200	0.3%	2.0%

The preceding income simulation analysis is for the Bank and its subsidiaries only and does not represent a forecast of NII and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions, which are subject to change, including: the nature and timing of interest rate levels including the yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of asset and liability cash flows, and others. Also, market conditions, prepayment/refinancing levels, the varying impact of interest rate changes on caps and floors embedded in adjustable rate loans, early withdrawal of deposits, changes in product preferences, and other internal/external variables and other factors may vary significantly from assumptions used.

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Economic Value of Equity Simulation Analysis. We also utilize a model to compute the amounts by which the net present value of an institution's cash flows from assets, liabilities and off-balance sheet items (the institution's economic value of equity or "EVE") would change in the event of a range of assumed changes in market interest rates. The model has estimated the economic value of each type of asset, liability and off-balance sheet contract under the assumption that the United States Treasury yield curve increases or decreases instantaneously by 100 to 300 basis points in 100 basis point increments. However, given the low level of market interest rates, an economic value of equity calculation for an interest rate decrease of greater than 100 basis points was not prepared. A basis point equals one-hundredth of one percent, and 200 basis points equals two percent. An increase in interest rates from 3% to 5% would mean, for example, a 200 basis point increase in the "Change in Interest Rates" column below.

The tables below set forth, at the dates indicated, the estimated changes in our economic value of equity that would result from the designated instantaneous changes in the United States Treasury yield curve. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. This data is for the Bank and its subsidiaries only and does not include any yield curve changes in the assets of United Financial which, excluding its investment in the Bank, consists primarily of cash and cash equivalents.

September 30, 2013

				EVE as a Percentage of Present Value of Assets (3)	
Change in Interest Rates (basis points) (1)	Estimated Increase (Decrease) in EVE			EVE Ratio (4)	Increase (Decrease) (basis points)
	Estimated EVE (2)	Amount	Percent		
		(Dollars in thousands)			
+300	\$ 207,047	\$ (92,801)	(31)%	9.10%	(307)
+200	256,078	(43,770)	(15)	10.91	(125)
+100	287,142	(12,707)	(4)	11.92	(25)
0	299,848			12.16	
-100	317,147	17,298	6	12.62	46

December 31, 2012

				EVE as a Percentage of Present Value of Assets (3)	
Change in Interest Rates (basis points) (1)	Estimated EVE (2)	Estimated Increase (Decrease) in EVE		EVE Ratio (4)	Increase (Decrease) (basis points)
		Amount	Percent		
+300	\$ 253,448	\$ (58,910)	(19)%	11.31%	(169)
+200	290,998	(21,360)	(7)	12.64	(36)
+100	311,510	(848)		13.22	22
0	312,358			13.00	
-100	317,039	4,681	2	12.99	(1)

- (1) Assumes an instantaneous uniform change in interest rates at all maturities.
- (2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
- (3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
- (4) EVE ratio represents EVE divided by the present value of assets.

The tables above indicate that at September 30, 2013 and December 31, 2012, in the event of a 300 basis point increase in interest rates, we would experience a 31% and 19%, respectively, decrease in economic value of equity. In the event of a 100 basis point decrease in interest rates at September 30, 2013 and December 31, 2012, we would experience a 6% and 2%, respectively, increase in economic value of equity.

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Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in economic value of equity require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the economic value of equity table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the economic value of equity table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Liquidity

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, advances from the FHLBB, loan and mortgage-backed security repayments and maturities and sales of loans and investment securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, mortgage prepayments and loan and investment sales are greatly influenced by market interest rates, economic conditions and competition. Our Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs of our customers as well as unanticipated contingencies. We seek to maintain a liquidity ratio (defined as the sum of cash and liquid assets divided by the sum of total deposits and short-term interest-bearing liabilities) of 10% or greater. At September 30, 2013, our liquidity ratio was 14.74% compared to 13.29% at December 31, 2012.

We regularly adjust our investments in liquid assets based upon our assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, and (4) the objectives of our asset/liability management program. Excess liquid assets are generally invested in interest-bearing deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At September 30, 2013, cash and cash equivalents totaled \$59.0 million. Securities classified as available for sale and held to maturity, which provide additional sources of liquidity, totaled \$264.4 million and \$98.0 million, respectively, at September 30, 2013. In addition, at September 30, 2013, we had the ability to borrow a total of approximately \$365.6 million from the FHLBB and had \$150.4 million in advances outstanding.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At September 30, 2013, we had \$22.9 million in loan commitments outstanding. In addition to commitments to originate loans, we had \$338.0 million in unused lines of credit to borrowers, \$5.5 million in standby letters of credit and \$100.5 million to be disbursed under existing construction loan commitments. Certificates of deposit due within one year of September 30, 2013 totaled \$432.3 million, or 22.2% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit, FHLBB advances, borrowings from the Federal Reserve Bank and repurchase agreements. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2014. We believe however, based on past experience, that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. For the nine months ended September 30, 2013, we originated \$414.1 million of loans and purchased \$77.6 million of securities. In the comparable 2012 period, we originated \$311.9 million of loans and purchased \$67.4 million of securities.

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Financing activities consist primarily of activity in deposit accounts and FHLBB advances. We experienced a net increase in total deposits of \$98.2 million and \$45.2 million for the nine months ended September 30, 2013 and 2012, respectively. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. FHLBB advances increased by \$9.7 million during the nine months ended September 30, 2013 and \$11.8 million for the same period in 2012, to fund loan growth.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLBB, which provides an additional source of funds. We have also used FHLBB advances to match-fund certain longer-term one- to four-family residential mortgage loans and commercial real estate loans. The Bank's unused borrowing capacity with the FHLBB, excluding its available line of credit balance of \$12.0 million at September 30, 2013 and December 31, 2012, was approximately \$203.3 million at September 30, 2013 and \$28.3 million at December 31, 2012. At September 30, 2013 and December 31, 2012, the Bank had no borrowings against the line of credit. We also have access to funding through the repurchase agreement and brokered CD markets and have received approval from the Federal Reserve Bank to access its discount window. The Bank's unused borrowing capacity with the Federal Reserve Bank was approximately \$73.0 million at September 30, 2013.

United Financial is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, United Financial is responsible for paying any dividends declared to its shareholders and all interest paid on its subordinated debentures. United Financial also repurchases shares of its common stock. At September 30, 2013, United Financial on an unconsolidated basis had liquid assets of \$19.4 million.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments

As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit, standby letters of credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans made by us. We consider commitments to extend credit in determining our allowance for loan losses.

Table of Contents**Contractual Obligations**

In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment. The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at September 30, 2013. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

	Payments Due by Period (In Thousands)				
	Less Than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
<u>Contractual Obligations:</u>					
Certificates of deposit	\$ 432,321	\$ 225,703	\$ 73,853	\$	\$ 731,877
Federal Home Loan Bank advances	31,000	40,353	51,000	28,000	150,353
Repurchase agreements	40,446			20,000	60,446
Subordinated debentures				7,732	7,732
Standby letters of credit	5,499				5,499
Operating leases	2,150	4,141	3,102	10,815	20,208
Capitalized leases	423	848	848	4,910	7,029
Future benefits to be paid under retirement plans	3,690	162	1,530	5,398	10,780
Total	\$ 515,529	\$ 271,207	\$ 130,333	\$ 76,855	\$ 993,924
<u>Commitments:</u>					
Commitments to extend credit	\$ 466,932	\$	\$	\$	\$ 466,932
Investment in venture capital fund	150				150
Investment in tax credit funds	1,260	413			1,673
Total	\$ 468,342	\$ 413	\$	\$	\$ 468,755

Capital Resources

The Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2013, the Bank exceeded all regulatory capital requirements and was considered well capitalized under regulatory requirements.

	To Be Well Capitalized Under Regulatory Framework		
	Actual	For Capital Adequacy Purposes	
As of September 30, 2013:			

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Total risk-based capital	12.94%	8.00%	10.00%
Tier 1 risk-based capital	12.26%	4.00%	6.00%
Tier 1 (core) capital	10.04%	4.00%	5.00%
Tangible equity	10.04%	1.50%	N/A
As of December 31, 2012:			
Total risk-based capital	13.61%	8.00%	10.00%
Tier 1 risk-based capital	12.98%	4.00%	6.00%
Tier 1 (core) capital	10.69%	4.00%	5.00%
Tangible equity	10.69%	1.50%	N/A

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is included above in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the caption Market Risk, Liquidity and Capital Resources.

ITEM 4. Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and in a timely manner alerting them to material information relating to the Company (or its consolidated subsidiary) required to be filed in its periodic SEC filings.

No change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) occurred during the three months ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In the ordinary course of business, we routinely enhance our internal controls and procedures for financial reporting by either upgrading our current systems or implementing new systems. Changes have been made and will be made to our internal controls and procedures for financial reporting as a result of these efforts.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The Bank, as successor in interest to Commonwealth National Bank, is involved in litigation relating to a loan foreclosure. The litigants claim that Commonwealth National Bank acted in bad faith and in violation of applicable law and that its actions resulted in a sale of the underlying property for less than its market value, thereby causing damage to the parties. A trial was held in the third quarter of 2011 and the judge ruled in the Bank's favor. The litigants have appealed the decision. The Bank believes these claims and the appeal are without merit and is vigorously defending the litigation. No estimate of any reasonably possible loss or range of loss to the Bank can be made at this time.

The Bank is also a defendant in other claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

ITEM 1A. Risk Factors

In addition to the other information set forth in this report, the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results, should be carefully considered. At September 30, 2013, the risk factors for the Company have not changed materially from those reported in our Annual Report on Form 10-K.

Table of Contents**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) No unregistered securities were sold by the Company during the quarter ended September 30, 2013.

(b) Not applicable.

(c) The following table provides certain information with regard to shares repurchased by the Company in the third quarter of 2013.

	(a)	(b)	(c) Total Number of Shares (or Units)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1, 2)
Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Purchased as Part of Publicly Announced Plans or Programs	
July 1 31, 2013		\$		253,037
August 1 31, 2013	568 ⁽³⁾	16.02		1,223,037
September 1 30, 2013	700	15.55	700	1,222,337
Total	1,268	\$ 15.76	700	

- (1) On October 18, 2012, the Board of Directors approved a plan to repurchase up to 5%, or approximately 769,000 shares, of the Company's common stock. Under the plan, the Company intends to repurchase shares from time to time, depending on market conditions until it is completed. As of September 30, 2013, the Company has repurchased 516,663 shares at a cost of approximately \$7.7 million and an average price of \$14.88 per share, under this plan.
- (2) On August 15, 2013, the Board of Directors approved a plan to repurchase up to 5%, or approximately 970,000 shares, of the Company's common stock. This repurchase program will commence immediately upon completion of the previous plan approved on October 18, 2012, under which the Company intends to repurchase shares from time to time, depending on market conditions until it is completed.
- (3) Represents withholdings subject to restricted stock awards under the United Financial Bancorp, Inc. 2008 Equity Incentive Plan as payment of taxes due upon the vesting of the restricted stock awards.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Not applicable.

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ITEM 6. Exhibits.

- 3.1 Articles of Incorporation of United Financial Bancorp, Inc. (1)
 - 3.2 Amended and Restated Bylaws of United Financial Bancorp, Inc. (2)
 - 4.0 Form of Common Stock Certificate of United Financial Bancorp, Inc. (1)
 - 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
 - 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
 - 32.0 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer
 - 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Net Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.*
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- (1) Incorporated by reference to the Registration Statement on Form S-1 of United Financial Bancorp, Inc. (File No. 333-144245), originally filed with the Securities and Exchange Commission on June 29, 2007.
 - (2) Incorporated by reference to the Form 10-K of United Financial Bancorp, Inc. filed with the Securities and Exchange Commission on March 13, 2009.
- * Furnished, not filed

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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.

United Financial Bancorp, Inc.

Date: November 8, 2013

By: /s/ Richard B. Collins
Richard B. Collins
Chairman, President and Chief Executive Officer

Date: November 8, 2013

By: /s/ Mark A. Roberts
Mark A. Roberts
Executive Vice President and Chief Financial Officer