

United Financial Bancorp, Inc.  
Form 10-Q  
August 08, 2011  
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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 June 30, 2011

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** **74-3242562**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)  
**95 Elm Street, West Springfield, Massachusetts 01089**

(Address of principal executive offices)

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.

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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**

**16,104,615 shares outstanding as of August 2, 2011**

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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**

(Dollars in thousands, except per share amounts)

	<b>June 30, 2011 (unaudited)</b>	<b>December 31, 2010 (unaudited)</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 17,804	\$ 10,157
Interest-bearing deposits	21,648	72,912
Total cash and cash equivalents	39,452	83,069
Securities available for sale, at fair value	240,897	205,852
Securities held to maturity, at amortized cost (fair value of \$122,058 at June 30, 2011 and \$132,026 at December 31, 2010)	120,853	132,475
Loans held for sale	342	-
Loans, net of allowance for loan losses of \$10,640 at June 30, 2011 and \$9,987 at December 31, 2010	1,094,718	1,066,197
Other real estate owned	2,858	1,536
Accrued interest receivable	5,034	4,905
Deferred tax asset, net	11,675	11,029
Stock in the Federal Home Loan Bank of Boston	15,365	15,365
Banking premises and equipment, net	16,257	15,565
Bank-owned life insurance	39,832	29,180
Goodwill	8,192	8,192
Other assets	14,178	11,512
<b>TOTAL ASSETS</b>	<b>\$ 1,609,653</b>	<b>\$ 1,584,877</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

<b>Liabilities:</b>		
<b>Deposits:</b>		
Interest-bearing	\$ 993,345	\$ 967,305
Non-interest-bearing	195,925	175,996
Total deposits	1,189,270	1,143,301
Short-term borrowings	16,702	21,029
Long-term debt	154,773	173,307
Subordinated debentures	5,494	5,448
Escrow funds held for borrowers	1,893	1,899
Due to broker	-	3,002
Capitalized lease obligations	4,943	5,011
Accrued expenses and other liabilities	8,813	9,304

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Total liabilities	1,381,888	1,362,301
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; 18,706,933 shares issued at June 30, 2011 and December 31, 2010	187	187
Paid-in capital	181,654	180,322
Retained earnings	85,618	82,899
Unearned compensation	(10,405)	(10,750)
Treasury stock, at cost (2,607,458 shares at June 30, 2011 and 2,597,827 shares at December 31, 2010)	(35,128)	(34,940)
Accumulated other comprehensive income, net of taxes	5,839	4,858
Total stockholders' equity	227,765	222,576
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,609,653</b>	<b>\$ 1,584,877</b>

See notes to unaudited consolidated financial statements

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

(Dollars in thousands, except per share amounts)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Interest and dividend income:</b>				
Loans	\$ 14,703	\$ 15,404	\$ 29,190	\$ 30,861
Investments	3,387	3,122	6,578	6,414
Other interest-earning assets	38	10	78	18
<b>Total interest and dividend income</b>	<b>18,128</b>	<b>18,536</b>	<b>35,846</b>	<b>37,293</b>
<b>Interest expense:</b>				
Deposits	3,194	3,507	6,491	6,882
Short-term borrowings	30	49	67	154
Long-term debt	1,522	1,693	3,115	3,474
<b>Total interest expense</b>	<b>4,746</b>	<b>5,249</b>	<b>9,673</b>	<b>10,510</b>
<b>Net interest income before provision for loan losses</b>	<b>13,382</b>	<b>13,287</b>	<b>26,173</b>	<b>26,783</b>
Provision for loan losses	673	450	1,481	1,183
<b>Net interest income after provision for loan losses</b>	<b>12,709</b>	<b>12,837</b>	<b>24,692</b>	<b>25,600</b>
<b>Non-interest income:</b>				
Fee income on depositors' accounts	1,373	1,340	2,665	2,711
Net gain on sale of loans	50	109	73	197
Net gain on sale of securities	-	-	1	-
Impairment charge on security	(59)	-	(59)	(145)
Wealth management income	214	167	454	305
Income from bank-owned life insurance	393	340	724	686
Other income	240	263	502	502
<b>Total non-interest income</b>	<b>2,211</b>	<b>2,219</b>	<b>4,360</b>	<b>4,256</b>
<b>Non-interest expense:</b>				
Salaries and benefits	6,414	5,968	12,683	12,046
Occupancy expenses	805	800	1,649	1,727
Marketing expenses	635	622	1,082	1,182
Data processing expenses	984	959	1,972	2,026
Professional fees	407	358	1,068	899
Merger related expenses	-	169	-	1,148
FDIC insurance assessments	244	325	574	740
Other expenses	1,914	1,430	3,315	2,881
<b>Total non-interest expense</b>	<b>11,403</b>	<b>10,631</b>	<b>22,343</b>	<b>22,649</b>

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Income before income taxes	3,517	4,425	6,709	7,207
Income tax expense	827	1,492	1,590	2,523
Net income	\$ 2,690	\$ 2,933	\$ 5,119	\$ 4,684
Earnings per share:				
Basic	\$ 0.18	\$ 0.19	\$ 0.34	\$ 0.30
Diluted	\$ 0.18	\$ 0.19	\$ 0.33	\$ 0.30
Weighted average shares outstanding:				
Basic	15,028,468	15,440,400	15,022,249	15,528,928
Diluted	15,309,156	15,517,810	15,285,246	15,589,973
Dividends paid per share	\$ 0.08	\$ 0.07	\$ 0.16	\$ 0.14

See notes to unaudited consolidated financial statements.

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

FOR THE SIX MONTHS ENDED JUNE 30, 2011 and 2010

(Dollars in thousands, except per share amounts)

	<b>Common Shares</b>	<b>Common Stock</b>	<b>Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Unearned Compensation</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total</b>
	<b>Outstanding</b>	<b>Stock</b>	<b>Capital</b>	<b>Earnings</b>	<b>Compensation</b>	<b>Stock</b>	<b>(Loss)</b>	<b>Total</b>
Balances at December 31, 2009	16,838,598	\$ 187	\$ 178,666	\$ 77,456	\$ (11,441)	\$ (24,980)	\$ 5,358	\$ 225,246
Net income	-	-	-	4,684	-	-	-	4,684
Other comprehensive income	-	-	-	-	-	-	1,417	1,417
Prior service costs on pension and other post retirement benefit plans	-	-	-	-	-	-	(279)	(279)
<b>Total comprehensive income</b>								<b>5,822</b>
Cash dividends paid (\$0.14 per share)	-	-	-	(2,178)	-	-	-	(2,178)
Treasury stock purchases	(538,645)	-	-	-	-	(7,274)	-	(7,274)
Shares repurchased in connection with restricted stock forfeited for tax purposes	(14,029)	-	-	-	-	(202)	-	(202)
Tax benefit from Management Retention Plan vesting	-	-	63	-	-	-	-	63
Reissuance of treasury shares in connection with restricted stock grants	72,702	-	(944)	-	-	944	-	-
Stock-based compensation	-	-	1,179	-	-	-	-	1,179
ESOP shares committed to be released	-	-	101	-	345	-	-	446
<b>Balances at June 30, 2010</b>	<b>16,358,626</b>	<b>\$ 187</b>	<b>\$ 179,065</b>	<b>\$ 79,962</b>	<b>\$ (11,096)</b>	<b>\$ (31,512)</b>	<b>\$ 6,496</b>	<b>\$ 223,102</b>
Balances at December 31, 2010	16,109,106	\$ 187	\$ 180,322	\$ 82,899	\$ (10,750)	\$ (34,940)	\$ 4,858	\$ 222,576
Net income	-	-	-	5,119	-	-	-	5,119
Other comprehensive income	-	-	-	-	-	-	981	981
<b>Total comprehensive income</b>								<b>6,100</b>
Cash dividends paid (\$0.16 per share)	-	-	-	(2,400)	-	-	-	(2,400)
Treasury stock purchases	(13,896)	-	-	-	-	(195)	-	(195)
Shares repurchased in connection with restricted stock forfeited for tax purposes	(11,336)	-	-	-	-	(170)	-	(170)
Management Retention Plan 2008 forfeit	(10,910)	-	181	-	-	(181)	-	-
Tax benefit from Management Retention Plan vesting	-	-	50	-	-	-	-	50
Tax withheld on options exercised	-	-	(22)	-	-	-	-	(22)
Reissuance of treasury shares in connection with restricted stock grants	9,997	-	(158)	-	-	158	-	-
Reissuance of treasury shares in connection with stock options exercised	16,514	-	-	-	-	200	-	200



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Stock-based compensation	-	-	1,069	-	-	-	-	1,069
ESOP shares committed to be released	-	-	212	-	345	-	-	557
 Balances at June 30, 2011	 16,099,475	 \$ 187	 \$ 181,654	 \$ 85,618	 \$ (10,405)	 \$ (35,128)	 \$ 5,839	 \$ 227,765

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

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Change in unrealized holding gains on available-for-sale securities	\$ 1,628	\$ 2,158
Reclassification adjustment for (gains) losses realized in income	(1)	145
 Net change in unrealized gains	 1,627	 2,303
Tax effect	(646)	(886)
	 981	 1,417
 Pension liability for retirement plans	 -	 (332)
Pension liability adjustment	-	(44)
 Net change in pension liability	 -	 (376)
Tax effect	-	97
	 -	 (279)
 Other comprehensive income	 \$ 981	 \$ 1,138

See notes to unaudited consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE SIX MONTHS ENDED JUNE 30, 2011 and 2010

(Dollars in thousands)

	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,119	\$ 4,684
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,481	1,183
ESOP expense	557	446
Stock-based compensation	1,069	1,179
Excess tax benefits on stock compensation plan	(50)	(63)
Amortization of premiums and discounts	697	546
Depreciation and amortization	494	701
Amortization of intangible assets	50	55
Net loss (gain) on sale of other real estate owned	21	(121)
Impairment charges on securities	59	145
Net gain on sale of securities	(1)	-
Originations of loans held for sale	(342)	(725)
Loans originated for sale and sold	(4,174)	(4,584)
Proceeds from sales of loans held for sale	4,247	4,693
Net gain on sale of loans	(73)	(197)
Prepaid tax provision	(646)	(474)
Net increase in cash surrender value of bank-owned life insurance	(724)	(50)
(Increase) decrease in accrued interest receivable	(129)	68
Increase in other assets	(3,421)	(3,218)
Decrease in accrued expenses and other liabilities	(312)	(186)
<b>Net cash provided by operating activities</b>	<b>3,922</b>	<b>4,082</b>
<b>Cash flows from investing activities:</b>		
Purchases of securities available for sale	(69,491)	(20,629)
Proceeds from sales, maturities, calls and principal repayments of securities available for sale	32,897	39,883
Purchases of securities held to maturity	-	(18,282)
Proceeds from maturities, calls and principal repayments of securities held to maturity	11,100	6,914
Decrease in investment in short term time deposits	-	1,096
Proceeds from sales of other real estate owned	732	866
Net loan (originations), (purchases) and principal repayments	(32,077)	16,451
Proceeds from sales of loans	-	9,725
Purchases of property and equipment	(1,180)	(400)
Purchases of bank-owned life insurance	(9,928)	-
<b>Net cash (used in) provided by investing activities</b>	<b>(67,947)</b>	<b>35,624</b>

(Continued)



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## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE SIX MONTHS ENDED JUNE 30, 2011 and 2010 (Concluded)

(Dollars in thousands)

	2011	2010
<b>Cash flows from financing activities:</b>		
Net increase in deposits	\$ 45,969	\$ 68,769
Net change in short-term borrowings	(4,327)	(41,958)
Repayment of long-term debt	(18,488)	(20,432)
Net decrease in escrow funds held for borrowers	(6)	(290)
Payments on capitalized lease obligations	(203)	(203)
Excess tax benefits on stock compensation plan	50	63
Tax withheld on options exercised	(22)	-
Reissuance of treasury shares in connection with restricted stock warrants	200	-
Treasury stock purchases	(365)	(7,476)
Cash dividends paid	(2,400)	(2,178)
 Net cash provided by (used in) financing activities	 20,408	 (3,705)
 (Decrease) increase in cash and cash equivalents	 (43,617)	 36,001
Cash and cash equivalents at beginning of period	83,069	21,877
 Cash and cash equivalents at end of period	 \$ 39,452	 \$ 57,878

**Supplemental Disclosure of Cash Flow Information:**

Cash paid during the period:		
Interest on deposits, borrowings and other interest bearing liabilities	\$ 10,048	\$ 11,579
Income taxes net	4,628	3,766
Non-cash items:		
Transfer of loans to other real estate owned	2,075	1,161
Trade date accounting for treasury stock purchases	-	168
Trade date accounting for securities purchased	(3,002)	-

See notes to unaudited consolidated financial statements.

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**UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**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 ) and its wholly-owned subsidiary, United Bank (the Bank ). UCB Securities, Inc. and UCB Securities, Inc. II are subsidiaries of the Bank and are engaged in buying, selling and holding investment securities. UB Properties, LLC is a subsidiary of the Bank 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 June 30, 2011 and the results of operations for the three and six months ended June 30, 2011 and 2010. 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, 2010 included in the Company s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 14, 2011.

**NOTE B RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In April 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-02, Receivables (Topic 310), A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring . This ASU provides additional guidance and clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring ( TDR ). This ASU is effective for the first interim or annual period beginning on or after June 15, 2011, with retrospective application to the beginning of the annual period of adoption. The measurement of impairment should be done prospectively in the period of adoption for loans that are newly identified as TDRs upon adoption of this ASU. This ASU was adopted in the second quarter of 2011 and did not have a significant impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220), *Presentation of Comprehensive Income*. This ASU amends the disclosure requirements for the presentation of comprehensive income. The amended guidance eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholder s equity. Under the amended guidance, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. The changes are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early application is permitted. There will be no impact to the consolidated financial results as the amendments relate only to changes in financial statement presentation.

**NOTE C CRITICAL ACCOUNTING POLICIES**

The Securities and Exchange Commission (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:



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**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, and delinquency rates, the adequacy of the underlying collateral, 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. The allowance consists of a specific and a general component, as further described below.

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 TDR if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest or 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 initially classified as impaired.

The allowance consists of a specific and a general 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 segment (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 segment (residential real estate, home equity and consumer loans) 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 classes: commercial and industrial, commercial real estate, construction, 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 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 conditions; industry conditions; and effects of changes in credit concentrations. This analysis establishes factors that are applied to each loan class to determine the amount of the general component of the allowance for loan losses.

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***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, we review 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 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 held to maturity and available for sale debt securities, impairment is required to be recognized: (1) if we intend to sell the security; (2) if 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 held to maturity and available for sale securities that we intend 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 available for sale 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 the 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 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, an adjustment to the deferred tax asset valuation allowance would be charged to income tax expense in the period such determination was made.

***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.

***Fair 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. Trading assets, securities available for sale, and derivative instruments 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 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 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.



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Earnings per share ( EPS ) have 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 have 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 2,690	\$ 2,933	\$ 5,119	\$ 4,684
Weighted average common shares applicable to basic EPS	15,028,468	15,440,400	15,022,249	15,528,928
Effect of dilutive potential common shares (1) (2)	280,688	77,410	262,997	61,045
Weighted average common shares applicable to diluted EPS	15,309,156	15,517,810	15,285,246	15,589,973
Earnings per share:				
Basic	\$ 0.18	\$ 0.19	\$ 0.34	\$ 0.30
Diluted	\$ 0.18	\$ 0.19	\$ 0.33	\$ 0.30

(1) Options to purchase 245,589 and 357,609 shares for three months ended June 30, 2011 and 2010, respectively, and 240,037 and 357,609 shares for six months ended June 30, 2011 and 2010, respectively, were outstanding but not included in the computation of earnings per share because they were anti-dilutive.

(2) Includes incremental shares related to dilutive stock options.

**NOTE E INVESTMENT SECURITIES**

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
<b>Securities Available for Sale</b>				
<b>June 30, 2011:</b>				
Debt Securities:				
Government-sponsored enterprises	\$ 5,212	\$ 8	\$ (63)	\$ 5,157
Government-sponsored and government- guaranteed mortgage-backed securities	213,502	9,703	(56)	223,149
Private label mortgage-backed securities	2,528	88	(13)	2,603
Municipal bonds	7,760	367	(12)	8,115
Corporate bonds	1,452	482	(61)	1,873

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Total	\$ 230,454	\$ 10,648	\$ (205)	\$ 240,897
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**December 31, 2010:**

<b>Debt Securities:</b>				
Government-sponsored enterprises	\$ 12,747	\$ 36	\$ (281)	\$ 12,502
Government-sponsored and government- guaranteed mortgage-backed securities	172,003	8,892	(129)	180,766
Private label mortgage-backed securities	3,076	110	(16)	3,170
Municipal bonds	7,760	105	(70)	7,795
Corporate bonds	1,450	357	(188)	1,619
Total	\$ 197,036	\$ 9,500	\$ (684)	\$ 205,852

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	Amortized Cost	Unrealized Gains      Losses		Fair Value
<b>Securities Held to Maturity</b>				
<b>June 30, 2011:</b>				
Government-sponsored and government- guaranteed mortgage-backed securities	\$ 93,849	\$ 1,466	\$ (404)	\$ 94,911
Private label mortgage-backed securities	234	4	-	238
Industrial revenue bonds	19,050	-	-	19,050
State of Israel bonds	150	-	-	150
Municipal bonds	7,570	152	(13)	7,709
<b>Total</b>	<b>\$ 120,853</b>	<b>\$ 1,622</b>	<b>\$ (417)</b>	<b>\$ 122,058</b>
<b>December 31, 2010:</b>				
Government-sponsored and government- guaranteed mortgage-backed securities	\$ 105,312	\$ 936	\$ (1,203)	\$ 105,045
Private label mortgage-backed securities	388	1	-	389
Industrial revenue bonds	19,050	-	-	19,050
State of Israel bonds	150	-	-	150
Municipal bonds	7,575	65	(248)	7,392
<b>Total</b>	<b>\$ 132,475</b>	<b>\$ 1,002</b>	<b>\$ (1,451)</b>	<b>\$ 132,026</b>

The scheduled maturities of debt securities available for sale and held to maturity at June 30, 2011 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 June 30, 2011			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 3,523	\$ 3,618	\$ 1,326	\$ 1,334
Due from one year to five years	106,612	113,845	50,328	51,311
Due from five years to ten years	102,323	104,196	47,718	47,905
Due after ten years	17,996	19,238	21,481	21,508
	<b>\$ 230,454</b>	<b>\$ 240,897</b>	<b>\$ 120,853</b>	<b>\$ 122,058</b>

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. The Company also owns \$2.8 million of private label residential mortgage-backed securities as a result of its acquisition of CNB Financial Corp. (CNB) on November 30, 2009.

Gross unrealized losses and fair values at June 30, 2011 and December 31, 2010 aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position follow:

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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
<b>At June 30, 2011:</b>							
<b>Securities Available for Sale</b>							
Debt Securities:							
Government-sponsored enterprises	\$ 4,937	\$ (63)	\$ -	\$ -	1	\$ 4,937	\$ (63)
Government-sponsored and government-guaranteed mortgage- backed securities	13,710	(56)	-	-	5	13,710	(56)
Private label mortgage-backed securities	-	-	734	(13)	1	734	(13)
Municipal bonds	-	-	278	(12)	1	278	(12)
Corporate bonds	266	(61)	-	-	1	266	(61)
<b>Total</b>	<b>\$ 18,913</b>	<b>\$ (180)</b>	<b>\$ 1,012</b>	<b>\$ (25)</b>	<b>9</b>	<b>\$ 19,925</b>	<b>\$ (205)</b>

**Securities Held to Maturity**

Government-sponsored and government-guaranteed mortgage- backed securities	\$ 40,265	\$ (404)	\$ -	\$ -	11	\$ 40,265	\$ (404)
Municipal bonds	1,180	(13)	-	-	4	1,180	(13)
<b>Total</b>	<b>\$ 41,445</b>	<b>\$ (417)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>15</b>	<b>\$ 41,445</b>	<b>\$ (417)</b>

	Less than 12 months		12 months or longer		Number of Securities	Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		Fair Value	Unrealized Losses
<b>At December 31, 2010:</b>							
<b>Securities Available for Sale</b>							
Debt Securities:							
Government-sponsored enterprises	\$ 4,718	\$ (281)	\$ -	\$ -	1	\$ 4,718	\$ (281)
Government-sponsored and government-guaranteed mortgage- backed securities	15,343	(129)	-	-	6	15,343	(129)
Private label mortgage-backed securities	-	-	907	(16)	1	907	(16)
Municipal bonds	2,713	(37)	256	(33)	9	2,969	(70)
Corporate bonds	137	(188)	-	-	1	137	(188)
<b>Total</b>	<b>\$ 22,911</b>	<b>\$ (635)</b>	<b>\$ 1,163</b>	<b>\$ (49)</b>	<b>18</b>	<b>\$ 24,074</b>	<b>\$ (684)</b>

**Securities Held to Maturity**

Government-sponsored and government-guaranteed mortgage- backed securities	\$ 51,839	\$ (1,203)	\$ -	\$ -	14	\$ 51,839	\$ (1,203)
Municipal bonds	4,960	(248)	-	-	23	4,960	(248)
<b>Total</b>	<b>\$ 56,799</b>	<b>\$ (1,451)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>37</b>	<b>\$ 56,799</b>	<b>\$ (1,451)</b>

Management has determined that no declines in the fair value of the Company's securities portfolio are deemed to represent an other-than-temporary impairment as of June 30, 2011. 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, our intent and ability to hold the securities to expected recovery of value and other meaningful information. The Company does not intend to sell any debt securities and is unlikely to be required to sell any security before its maturity or market price recovery.



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The components of the loan portfolio were as follows at June 30, 2011 and December 31, 2010:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Residential mortgages	\$ 314,255	\$ 295,721
Commercial mortgages	437,378	427,994
Construction	28,903	27,553
Home equity	138,023	138,290
Commercial and industrial	167,884	165,335
Automobile	9,215	11,051
Consumer	7,649	8,167
Total loans	1,103,307	1,074,111
Net deferred loan costs and fees	2,051	2,073
Allowance for loan losses	(10,640)	(9,987)
Loans, net	\$ 1,094,718	\$ 1,066,197

The Company has 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 balance sheets. The Company and participating lenders share ratably in any gains or 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 June 30, 2011 and December 31, 2010, the Company was servicing loans for participants aggregating \$44.5 million and \$44.4 million, respectively.

A summary of the activity pertaining to the allowance for loan losses for the three and six months ended June 30, 2011 and 2010 is as follows:

	Commercial and Industrial		Commercial & Residential Construction Residential		Home Equity Consumer		For the Three Months Ended June 30,	
		Commercial Real Estate					2011	2010
Beginning balance	\$ 3,112	\$ 5,278	\$ 867	\$ 621	\$ 477	\$ 113	\$ 10,468	\$ 9,610
Charge-offs	(189)	(422)	-	(3)	(7)	(4)	(625)	(417)
Recoveries	69	52	3	-	-	-	124	79
Provision	316	271	(82)	160	7	1	673	450
Ending balance	\$ 3,308	\$ 5,179	\$ 788	\$ 778	\$ 477	\$ 110	\$ 10,640	\$ 9,722

	Commercial and Industrial		Commercial & Residential		Home Equity		For the Six Months Ended June 30,	
		Commercial Real Estate					2011	2010

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	<b>Industrial</b>	<b>Real Estate</b>	<b>Construction</b>	<b>Residential</b>	<b>Equity</b>	<b>Consumer</b>	<b>2011</b>	<b>2010</b>
Beginning balance	\$ 2,801	\$ 5,000	\$ 668	\$ 740	\$ 623	\$ 155	\$ 9,987	\$ 9,180
Charge-offs	(514)	(534)	(28)	(3)	(7)	(4)	(1,090)	(725)
Recoveries	205	52	3	-	-	2	262	84
Provision	816	661	145	41	(139)	(43)	1,481	1,183
Ending balance	\$ 3,308	\$ 5,179	\$ 788	\$ 778	\$ 477	\$ 110	\$ 10,640	\$ 9,722

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Further information pertaining to the allowance for loan losses as of June 30, 2011 and December 31, 2010 is as follows:

	Commercial and Industrial	Commercial Real Estate	Commercial & Residential Construction	Residential	Home Equity	Consumer	Total
<b>At June 30, 2011:</b>							
Amount of allowance for loan losses for loans deemed to be impaired	\$ 155	\$ -	\$ 50	\$ 175	\$ -	\$ -	\$ 380
Amount of allowance for loan losses for loans collectively evaluated for impairment	\$ 2,853	\$ 5,179	\$ 738	\$ 603	\$ 477	\$ 110	\$ 9,960
Amount of allowance for loan losses for loans acquired with deteriorated credit quality	\$ 300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300
<b>Financing Receivables:</b>							
Total loans	\$ 167,884	\$ 437,378	\$ 28,903	\$ 314,255	\$ 138,023	\$ 16,864	\$ 1,103,307
Loans deemed to be impaired	\$ 4,661	\$ 2,922	\$ 1,137	\$ 1,516	\$ 56	\$ 79	\$ 10,371
Loans collectively evaluated for impairment	\$ 161,704	\$ 432,795	\$ 27,740	\$ 312,739	\$ 137,967	\$ 16,785	\$ 1,089,730
Loans acquired with deteriorated credit quality	\$ 1,519	\$ 1,661	\$ 26	\$ -	\$ -	\$ -	\$ 3,206
<b>At December 31, 2010:</b>							
Amount of allowance for loan losses for loans deemed to be impaired	\$ 449	\$ 48	\$ -	\$ -	\$ -	\$ -	\$ 497
Amount of allowance for loan losses for loans collectively evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amount of allowance for loan losses for loans acquired with deteriorated credit quality	\$ -	\$ 170	\$ -	\$ -	\$ -	\$ -	\$ 170



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**Financing Receivables:**

Total loans	\$ 165,335	\$ 427,994	\$ 27,553	\$ 295,721	\$ 138,290	\$ 19,218	\$ 1,074,111
Loans deemed to be impaired	\$ 2,885	\$ 5,266	\$ 1,261	\$ 832	\$ 60	\$ 54	\$ 10,358
Loans collectively evaluated for impairment	\$ 162,450	\$ 421,878	\$ 26,292	\$ 294,889	\$ 138,230	\$ 19,164	\$ 1,062,903
Loans acquired with deteriorated credit quality	\$ -	\$ 850	\$ -	\$ -	\$ -	\$ -	\$ 850

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The following is a summary of past due and non-accrual loans at June 30, 2011 and December 31, 2010:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investments > 90 Days and Accruing
<b>At June 30, 2011:</b>							
<b>Commercial:</b>							
Commercial and industrial	\$ 444	\$ 262	\$ 3,798	\$ 4,504	\$ 163,380	\$ 167,884	\$ -
Commercial real estate	969	1,421	1,800	4,190	433,188	437,378	-
Construction	142	-	266	408	28,495	28,903	-
<b>Consumer:</b>							
Residential real estate	43	1,988	1,515	3,546	310,709	314,255	-
Home equity	366	182	56	604	137,419	138,023	-
Consumer	106	-	79	185	16,679	16,864	-
<b>Total</b>	<b>\$ 2,070</b>	<b>\$ 3,853</b>	<b>\$ 7,514</b>	<b>\$ 13,437</b>	<b>\$ 1,089,870</b>	<b>\$ 1,103,307</b>	<b>\$ -</b>
<b>At December 31, 2010:</b>							
<b>Commercial:</b>							
Commercial and industrial	\$ 131	\$ 122	\$ 3,135	\$ 3,388	\$ 161,947	\$ 165,335	\$ -
Commercial real estate	3,291	1,088	2,864	7,243	420,751	427,994	-
Construction	-	-	552	552	27,001	27,553	-
<b>Consumer:</b>							
Residential real estate	7,657	1,001	1,036	9,694	286,027	295,721	-
Home equity	730	223	60	1,013	137,277	138,290	-
Consumer	145	8	55	208	19,010	19,218	-
<b>Total</b>	<b>\$ 11,954</b>	<b>\$ 2,442</b>	<b>\$ 7,702</b>	<b>\$ 22,098</b>	<b>\$ 1,052,013</b>	<b>\$ 1,074,111</b>	<b>\$ -</b>

The following is a summary of impaired loans at June 30, 2011 and December 31, 2010:

	At June 30, 2011			At December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>With no related allowance recorded:</b>						
Commercial and industrial	\$ 1,176	\$ 1,176	\$ -	\$ 112	\$ 112	\$ -
Commercial real estate	2,922	2,922	-	6,246	6,246	-
Construction	898	898	-	1,282	1,282	-
Residential real estate	967	967	-	1,036	1,036	-
Home Equity	56	56	-	60	60	-
Consumer	79	79	-	55	55	-
<b>Total</b>	<b>\$ 6,098</b>	<b>\$ 6,098</b>	<b>\$ -</b>	<b>\$ 8,791</b>	<b>\$ 8,791</b>	<b>\$ -</b>
<b>With an allowance recorded:</b>						
Commercial and industrial	3,030	3,485	455	2,324	2,773	449
Commercial real estate	-	-	-	1,125	1,343	218
Construction	190	240	50	-	-	-
Residential real estate	373	548	175	-	-	-

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<b>Total</b>	\$ 3,593	\$ 4,273	\$ 680	\$ 3,449	\$ 4,116	\$ 667
<b>By portfolio segment:</b>						
Commercial portfolio segment	\$ 8,216	\$ 8,721	\$ 505	\$ 11,089	\$ 11,756	\$ 667
Consumer portfolio segment	1,475	1,650	175	1,151	1,151	-
<b>Total impaired loans</b>	\$ 9,691	\$ 10,371	\$ 680	\$ 12,240	\$ 12,907	\$ 667

Loans acquired from CNB Financial that are impaired at June 30, 2011, are included in the above table.

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The following is a summary of information pertaining to impaired and non-accrual loans:

	<b>Three Months Ended June 30, 2011</b>	<b>Six Months Ended June 30, 2011</b>
<b><u>Average investment in impaired loans</u></b>		
Commercial:		
Commercial and industrial	\$ 3,322	\$ 3,104
Commercial real estate	3,230	5,045
Commercial and residential construction	1,204	1,212
Consumer:		
Residential real estate	1,351	977
Home equity	81	75
Consumer	94	80
Total	\$ 9,282	\$ 10,493

The average investment in impaired loans for the three and six month periods ended June 30, 2010 was \$14.0 million and \$15.2 million, respectively.

<b><u>Interest income recognized on impaired loans</u></b>		
Commercial:		
Commercial and industrial	\$ -	\$ 4
Commercial real estate	33	63
Commercial and residential construction	7	23
Consumer:		
Residential real estate	16	21
Home equity	1	1
Consumer	-	2
Total	\$ 57	\$ 114

<b><u>Interest income recognized on a cash basis on impaired loans</u></b>		
Commercial:		
Commercial and industrial	\$ -	\$ 4
Commercial real estate	33	63
Commercial and residential construction	3	19
Consumer:		
Residential real estate	16	21
Home equity	1	1
Consumer	-	2
Total	\$ 53	\$ 110

The following is a summary of non-accrual loans, at June 30, 2011 and December 31, 2010:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Commercial:		

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Commercial and industrial	\$	4,661	\$	2,885
Commercial real estate		2,922		4,116
Commercial and residential construction		266		1,282
Consumer:				
Residential real estate		1,515		1,036
Home equity		56		60
Consumer		79		55
Total	\$	9,499	\$	9,434

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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 mobile home 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. Those loans not assigned a rating are considered pass.

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 table presents the Company's loan segment by internally assigned grades:

	At June 30, 2011			At December 31, 2010		
	Commercial & Industrial	Commercial Real Estate	Construction	Commercial & Industrial	Commercial Real Estate	Construction
<b>Commercial Portfolio:</b>						
Grade:						
Pass	\$ 147,235	\$ 404,806	\$ 21,426	\$ 141,101	\$ 391,336	\$ 18,315
Special Mention	8,606	9,894	1,954	11,503	13,447	2,678
Substandard	12,031	22,678	5,523	12,419	23,211	6,560
Doubtful	12	-	-	312	-	-
<b>Total</b>	<b>\$ 167,884</b>	<b>\$ 437,378</b>	<b>\$ 28,903</b>	<b>\$ 165,335</b>	<b>\$ 427,994</b>	<b>\$ 27,553</b>
	Residential	Home Equity	Consumer	Residential	Home Equity	Consumer
<b>Consumer Portfolio:</b>						
Grade:						
Pass	\$ 311,020	\$ 137,802	\$ 16,654	\$ 293,999	\$ 138,093	\$ 19,155
Special Mention	56	-	-	59	-	-
Substandard	3,179	221	210	1,663	197	63
Doubtful	-	-	-	-	-	-
<b>Total</b>	<b>\$ 314,255</b>	<b>\$ 138,023</b>	<b>\$ 16,864</b>	<b>\$ 295,721</b>	<b>\$ 138,290</b>	<b>\$ 19,218</b>



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The following is a summary of acquired loan information for CNB Financial as of June 30, 2011:

	<b>Contractual Required Payments Receivable</b>	<b>Cash Expected To Be Collected <sup>(1)</sup></b>	<b>Non- Accretable Difference</b>	<b>Accretable Yield</b>	<b>Loans Receivable</b>
Balance at acquisition date of November 30, 2009	\$ 5,178	\$ 3,079	\$ 2,099	\$ 13	\$ 3,066
Recognition of additional non-accretable yield	-	(250) <sup>(2)</sup>	250	-	-
Balance as of December 31, 2009	5,178	2,829	2,349	13	2,816
2010 Collections	(3,645)	(2,264)	(1,381)	(13)	(2,251)
Transfer to OREO	(393)	(393) <sup>(3)</sup>	-	-	(393)
Accretable yield recognized in earnings	-	-	-	(348) <sup>(4)</sup>	-
Balance as of December 31, 2010	1,140	172	968	-	172
2011 Collections	(37)	(37)	-	-	(37)
Impairment	-	(135) <sup>(5)</sup>	-	-	(135)
Balance as of June 30, 2011	\$ 1,103	\$ -	\$ 968	\$ -	\$ -

(1) The Company has not factored any prepayments into the expected cash flows.

(2) During the third quarter of 2010, the Company increased its non-accretable difference, with a corresponding increase to goodwill, by \$250,000, based upon information obtained in the third quarter about conditions existing at the acquisition date.

(3) The reduction in the carrying amount and the cash expected to be collected was due to one loan that was foreclosed upon and transferred to OREO. Prior to acquisition of CNB, a portion of this loan was charged off in order to adjust the loan to its fair value; therefore, there was no non-accretable difference recorded against this loan on the acquisition date.

(4) The transfer from non-accretable yield was due to repayment received in excess of cash expected to be collected, net of selling costs.

(5) Amount represents a full reserve against the remaining net book value of the loan due to uncollectibility.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Changes in the expected cash flows from the date of acquisition will either impact the accretable yield or result in a charge to the provision for credit losses. Subsequent decreases to expected principal cash flows will result in a charge to the provision for credit losses and a corresponding increase to the allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from non-accretable difference to accretable yield for any remaining increase. All changes in expected interest cash flows will result in reclassifications to/from non-accretable differences.

Acquired loans that are modified subsequent to acquisition are reviewed to compare modified contractual cash flows to the carrying value. If modified cash flows are lower than the carrying value, the loan is removed from the acquired loans pool at its carrying value, as well as the related allowance for loan losses, and is classified as a troubled debt restructure. At June 30, 2011, the Company had one acquired loan that was a troubled debt restructure.



**NOTE G COMMITMENTS**

Financial instruments with off-balance sheet risk at June 30, 2011 and December 31, 2010 were as follows:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Unused lines of credit	\$ 236,709	\$ 233,403
Amounts due mortgagors	21,624	26,500
Standby letters of credit	3,942	4,382
Commitments to originate loans	23,033	27,068

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The Company has a commitment to invest up to \$1.0 million in a venture capital fund. As of June 30, 2011, the Company has contributed \$600,000 to the fund.

The Company has also committed to invest up to \$10.0 million, representing 25% of the Class A or senior investor balance, in a low income housing tax credits fund by the end of 2014. At June 30, 2011, the Company has invested \$3.7 million in the fund, which is included in other assets on the 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 tax benefits from net operating losses for a period of eight years or until the minimum investment return has been met.

**NOTE H DEPOSITS**

Deposit accounts, by type, are summarized as follows at June 30, 2011 and December 31, 2010:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Demand	\$ 195,925	\$ 175,996
NOW	42,390	40,922
Savings	238,335	203,165
Money market	273,115	260,573
Certificates of deposit	439,505	462,645
	<b>\$ 1,189,270</b>	<b>\$ 1,143,301</b>

**NOTE I CONTINGENCIES**

The Bank, as successor in interest to Commonwealth National Bank, is involved in litigation relating to its foreclosure on a certain loan property. 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 it should have 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.

In addition, the Company is a defendant in other claims and legal action 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 J - FAIR VALUES OF ASSETS AND LIABILITIES**

In accordance with and as required by the Fair Value Measurements and Disclosures Topic of FASB ASC, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value, as follows:

Level 1 Valuations for assets and liabilities 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 and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 Valuations for assets and liabilities 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.

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

	Level 1	Level 2	Level 3	Total Fair Value
<b>At June 30, 2011</b>				
Securities available for sale:				
Government-sponsored enterprises	\$ -	\$ 5,157	\$ -	\$ 5,157
Government-sponsored and government-guaranteed mortgage-backed securities	-	223,149	-	223,149
Private label mortgage-backed securities	-	2,603	-	2,603
Municipal bonds	-	8,115	-	8,115
Corporate bonds	-	-	1,873	1,873
Total	\$ -	\$ 239,024	\$ 1,873	\$ 240,897
<b>At December 31, 2010</b>				
Securities available for sale:				
Government-sponsored enterprises	\$ -	\$ 12,502	\$ -	\$ 12,502
Government-sponsored and government-guaranteed mortgage-backed securities	-	180,766	-	180,766
Private label mortgage-backed securities	-	3,170	-	3,170
Municipal bonds	-	7,795	-	7,795
Corporate bonds	-	-	1,619	1,619
Total	\$ -	\$ 204,233	\$ 1,619	\$ 205,852

The Company had no liabilities measured at fair value on a recurring basis at June 30, 2011 or December 31, 2010.

The table below presents the changes in Level 3 assets measured at fair value on a recurring basis for the six months ended June 30, 2011.

Balance at December 31, 2010	\$ 1,619
Total realized/unrealized losses included in net income	-
Change in unrealized gain	254
Purchases	-
Sales	-
Issuances	-
Settlements	-
Transfers	-
Balance at June 30, 2011	\$ 1,873

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



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The Company may be required, from time to time, to measure at fair value certain other financial and non-financial 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 table summarizes the fair value hierarchy used to determine the adjustment and the carrying value of the related individual assets for the three and six months ended June 30, 2011.

	At June 30, 2011			Three Months Ended June 30, 2011 Total	Six Months Ended June 30, 2011 Total
	Level 1	Level 2	Level 3	Gains/(Losses)	Gains/(Losses)
<b>Assets:</b>					
Loans	\$ -	\$ 3,593	\$ -	\$ 108	\$ (13)
Other assets	-	-	541	(59)	(59)
<b>Total assets</b>	\$ -	\$ 3,593	\$ 541	\$ 49	\$ (72)

	At June 30, 2010			Three Months Ended June 30, 2010 Total	Six Months Ended June 30, 2010 Total
	Level 1	Level 2	Level 3	Gains/(Losses)	Gains/(Losses)
<b>Assets:</b>					
Loans	\$ -	\$ 16,537	\$ -	\$ 96	\$ (511)
Other real estate owned	-	2,007	-	98	98
Other assets	-	-	545	-	(145)
<b>Total assets</b>	\$ -	\$ 18,544	\$ 545	\$ 194	\$ (558)

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. Included in other assets is a venture capitalist investment carried at cost. In the second quarter of 2011 management determined that an impairment indicator existed and that the investment suffered impairment that was considered other- than- temporary. The cost basis of the investment was written down by \$59,000 to fair value as a new cost basis and the write down was accounted for as a realized loss and was included in earnings. In the first quarter of 2010 management determined that a private company stock had suffered impairment that was considered other- than- temporary. The cost basis of the investment was written down by \$145,000 to fair value as a new cost basis and the write down was accounted for as a realized loss and was included in earnings.

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.



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**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 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 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.

**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 G, the fair value equals the carrying amounts which are not significant.

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**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 June 30, 2011		At December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Assets:</b>				
Cash and cash equivalents	\$ 39,452	\$ 39,452	\$ 83,069	\$ 83,069
Securities available for sale	240,897	240,897	205,852	205,852
Securities held to maturity	120,853	122,059	132,475	132,026
Stock in Federal Home Loan Bank of Boston	15,365	15,365	15,365	15,365
Net loans	1,094,718	1,129,582	1,066,197	1,091,165
<b>Financial Liabilities:</b>				
Deposits (with no stated maturity)	749,765	749,765	680,656	680,656
Time deposits	439,505	445,149	462,645	469,717
Federal Home Loan Bank of Boston advances	134,773	138,732	153,307	155,945
Repurchase agreements	36,702	36,534	41,029	40,403
Subordinated debentures	5,494	5,494	5,448	5,448

**NOTE K 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 June 30, 2011 and 2010. The following table presents the components of the net periodic benefit cost for the indicated periods:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2011		2010		2011		2010	
	SERP	Director Retirement Plan	SERP	Director Retirement Plan	SERP	Director Retirement Plan	SERP	Director Retirement Plan
<b>Periodic benefit cost:</b>								
Service cost	\$ 83	\$ 24	\$ 80	\$ 18	\$ 167	\$ 47	\$ 160	\$ 35
Interest cost	47	14	44	10	93	28	88	21
Total pension cost	130	38	124	28	260	75	248	56
Prior service cost amortization	34	9	28	9	69	18	57	18
Net loss amortization	-	2	-	-	-	5	-	-
Net periodic benefit cost	\$ 164	\$ 49	\$ 152	\$ 37	\$ 329	\$ 98	\$ 305	\$ 74

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, 2010 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 2011.



**Table of Contents****ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Forward-Looking Statements**

This report may contain, and from time to time, the Company may disclose, forward-looking statements relating to such matters as anticipated financial performance, business prospects, 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 size, composition or risks in the loan portfolio, 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, 2010 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 June 30, 2011 and December 31, 2010**

Total assets increased \$24.8 million, or 1.6%, to \$1.61 billion at June 30, 2011 from \$1.58 billion at December 31, 2010 reflecting growth in securities available for sale and net loans, partially offset by a decrease in interest-bearing deposits and held to maturity investment securities. Securities available for sale increased \$35.0 million, or 17.0%, to \$240.9 million at June 30, 2011 from \$205.9 million at December 31, 2010 primarily due to purchases of fixed-rate agency mortgage-backed securities totaling \$66.5 million, partially offset by sales, calls and repayments of government-sponsored agency debt and mortgage-backed securities of \$32.9 million. Net loans increased \$28.5 million, or 2.7%, to \$1.09 billion at June 30, 2011 from \$1.07 billion at December 31, 2010 reflecting growth in the residential and commercial mortgage loans as a result of origination activity offset in part by repayments. Residential mortgages increased \$18.5 million, or 6.3%, to \$314.3 million at June 30, 2011 from \$295.7 million at December 31, 2010 due to increased originations of 10- and 15-year loans as a result of promotional efforts and continued lower market interest rates. Interest-bearing deposits decreased \$51.3 million, or 70.3%, reflecting the use of excess cash to fund purchases of available for sale securities and pay down maturing FHLB advances. Securities held to maturity decreased \$11.6 million, or 8.8%, as a result of repayments of government-sponsored agency debt and mortgage-backed securities.

Total deposits increased \$46.0 million, or 4.0%, to \$1.19 billion at June 30, 2011 compared to \$1.14 billion at December 31, 2010 primarily due to growth in core deposits accounts of \$69.1 million, or 10.2%, to \$749.8 million at June 30, 2011 from \$680.7 million at December 31, 2010. The growth in core deposit account balances was driven by competitive products and pricing, attention to excellence in customer service and targeted promotional activities. The increase in core deposits was partially offset by a decrease in certificates of deposit of \$23.1 million, or 5.0%, to \$439.5 million at June 30, 2011 compared to \$462.6 million at December 31, 2010. Long-term debt decreased \$18.5 million, or 10.7%, to \$154.8 million at June 30, 2011 compared to \$173.3 million at December 31, 2010 mainly due to the use of excess cash balances to pay down FHLBB advances. At June 30, 2011, the Company continued to have considerable liquidity including significant unused borrowing capacity at the FHLBB and the Federal Reserve Bank and access to funding through the repurchase agreement and brokered deposit markets.

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Total stockholders' equity increased \$5.2 million, or 2.3%, to \$227.8 million at June 30, 2011 from \$222.6 million at December 31, 2010 as a result of net income of \$5.1 million, stock-based compensation credits totaling \$1.1 million, other comprehensive income of \$981,000 and ESOP compensation credits of \$557,000 for the six months ended June 30, 2011. These increases were partially offset by cash dividend payments amounting to \$2.4 million and repurchases of common stock totaling \$195,000.

### **Credit Quality & Reserve Coverage**

The Company actively manages credit risk through its underwriting practices and collection operations and it does not offer nor has it historically offered residential mortgage and other consumer loans to subprime or Alt-A borrowers. Non-accrual loans totaled \$9.5 million, or 0.86% of total loans, at June 30, 2011 compared to \$9.4 million, or 0.88% of total loans, at December 31, 2010. The non-accrual loan total for June 30, 2011 includes an \$860,000 commercial real estate loan which was impaired at June 30, 2011 and was restructured during the second quarter of 2010, a \$261,000 commercial real estate loan which was impaired at June 30, 2011 and was restructured during the first quarter of 2011 and an \$863,000 commercial and industrial loan which was impaired at June 30, 2011 and was restructured during the second quarter of 2011. Classified loans at June 30, 2011 totaled \$64.4 million and include fifteen relationships which represent 58% of the total. Construction loans for one- to four-family home or condominium development represent 12% of total classified assets, a slight decrease from 13% at December 31, 2010. Of the \$2.9 million in other real estate owned, \$450,000 is under a sales contract with a closing expected in the third quarter of 2011. See also Note F Loans in the Notes to the Unaudited Consolidated Financial Statements in this report for disclosures about the credit quality.

At June 30, 2011, the ratio of the allowance for loan losses to total loans was 0.96% compared to 0.93% at December 31, 2010. Excluding the impact of loans acquired from CNB and other financial institutions totaling \$189.3 million at June 30, 2011 and \$231.2 million at December 31, 2010, the ratio of the allowance for loan losses to total loans would have been 1.16% at June 30, 2011 and 1.18% at December 31, 2010. Net charge-offs totaled \$828,000, or 0.15% of average loans outstanding, for the six months ended June 30, 2011 as compared to net charge-offs of \$641,000, or 0.12% of average loans outstanding, for the same period in 2010. See also Note F 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 June 30, 2011 and 2010**

#### **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, gain (loss) on sale of loans and securities, wealth management fees, increases in the cash surrender value of bank-owned life insurance and miscellaneous other income. Non-interest expense consists primarily of salaries and benefits, data processing, occupancy, marketing, professional fees, FDIC insurance assessments 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.

**Net Income.** Net income was \$2.7 million, or \$0.18 per diluted share, for the second quarter of 2011 compared to net income of \$2.9 million, or \$0.19 per diluted share, for the same period in 2010. Excluding expenses totaling \$169,000, related to the acquisition of Commonwealth National Bank, net income would have been \$3.1 million, or \$0.20 per diluted share, for the second quarter of 2010.

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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 June 30,					
	Average Balance	2011 Interest and Dividends	Yield/ Cost	Average Balance	2010 Interest and Dividends	Yield/ Cost
(Dollars in thousands)						
<b>Interest-earning assets:</b>						
Loans:						
Residential real estate <sup>(1)</sup>	\$ 318,095	\$ 3,985	5.01%	\$ 325,997	\$ 4,420	5.42%
Commercial real estate	461,866	7,005	6.07%	461,210	6,957	6.03%
Home equity	138,462	1,330	3.84%	138,885	1,438	4.14%
Commercial and industrial	166,914	2,133	5.11%	151,432	2,265	5.98%
Consumer and other	17,968	250	5.57%	22,885	324	5.66%
Total loans <sup>(2)</sup>	1,103,305	14,703	5.33%	1,100,409	15,404	5.60%
Investment securities	356,479	3,387	3.80%	294,849	3,122	4.24%
Other interest-earning assets	49,654	38	0.31%	44,695	10	0.09%
Total interest-earning assets	1,509,438	18,128	4.80%	1,439,953	18,536	5.15%
Noninterest-earning assets <sup>(3)</sup>	93,329			86,201		
Total assets	\$ 1,602,767			\$ 1,526,154		
<b>Interest-bearing liabilities:</b>						
Savings accounts	\$ 233,292	442	0.76%	\$ 181,176	435	0.96%
Money market accounts	269,397	504	0.75%	241,096	555	0.92%
NOW accounts	40,931	37	0.36%	37,557	49	0.52%
Certificates of deposit	444,605	2,211	1.99%	460,607	2,468	2.14%
Total interest-bearing deposits	988,225	3,194	1.29%	920,436	3,507	1.52%
FHLB advances	138,215	1,245	3.60%	158,333	1,412	3.57%
Other interest-bearing liabilities	49,798	307	2.47%	49,809	330	2.65%
Total interest-bearing liabilities	1,176,238	4,746	1.61%	1,128,578	5,249	1.86%
Demand deposits	190,941			164,449		
Other noninterest-bearing liabilities	9,309			9,199		
Total liabilities	1,376,488			1,302,226		
Stockholders' equity	226,279			223,928		
Total liabilities and stockholders' equity	\$ 1,602,767			\$ 1,526,154		
Net interest income		\$ 13,382			\$ 13,287	
Interest rate spread <sup>(4)</sup>			3.19%			3.29%
Net interest-earning assets <sup>(5)</sup>	\$ 333,200			\$ 311,375		

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Net interest margin <sup>(6)</sup>	3.55%	3.69%
Average interest-earning assets to average interest-bearing liabilities	128.33%	127.59%

- (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 June 30,  
2011 vs. 2010**

	Increase (Decrease) Due to Volume	Rate (In thousands)	Net
<b>Interest-earning assets:</b>			
Loans:			
Residential real estate <sup>(1)</sup>	\$ (105)	\$ (330)	\$ (435)
Commercial real estate	10	38	48
Home equity	(4)	(104)	(108)
Commercial and industrial	218	(350)	(132)
Consumer and other	(69)	(5)	(74)
Total loans	50	(751)	(701)
Investment securities	608	(343)	265
Other interest-earning assets	1	27	28
<b>Total interest-earning assets</b>	<b>659</b>	<b>(1,067)</b>	<b>(408)</b>
<b>Interest-bearing liabilities:</b>			
Savings accounts	110	(103)	7
Money market accounts	60	(111)	(51)
NOW accounts	4	(16)	(12)
Certificates of deposit	(84)	(173)	(257)
<b>Total interest-bearing deposits</b>	<b>90</b>	<b>(403)</b>	<b>(313)</b>
FHLB advances	(181)	14	(167)
<b>Other interest-bearing liabilities</b>	<b>-</b>	<b>(23)</b>	<b>(23)</b>
<b>Total interest-bearing liabilities</b>	<b>(91)</b>	<b>(412)</b>	<b>(503)</b>
<b>Change in net interest income</b>	<b>\$ 750</b>	<b>\$ (655)</b>	<b>\$ 95</b>

(1) Includes loans held for sale.

**Net Interest Income Before Provision for Loan Losses.** Net interest income before provision for loan losses increased \$95,000, or 0.7%, to \$13.4 million for the second quarter of 2011 from \$13.3 million for the same period in 2010 as a result of higher average interest-earning assets partially reduced by net interest margin compression. Total average interest-earning assets increased \$69.5 million, or 4.8%, to \$1.51 billion for the three months ended June 30, 2011, mainly due to growth in investment securities and excess cash balances held at the Federal Reserve Bank. The net interest margin decreased 14 basis points to 3.55% for the three months ended June 30, 2011 from 3.69% for the same period in 2010 due to a decrease of \$178,000 in amortization of certain acquisition accounting adjustments to \$528,000 for the second quarter of 2011 from

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\$706,000 for the same period in 2010, the downward repricing of certain fixed rate loans and investments as a result of the lower interest rate environment and an increase in funds held in lower-yielding cash equivalents. These items were partially offset by lower funding costs.

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**Interest Income.** Interest income decreased \$408,000, or 2.2%, to \$18.1 million for the three months ended June 30, 2011 from \$18.5 million for the prior year period due to a lower yield on average interest-earning assets, partially offset by growth in average interest-earning assets. The yield on average interest-earning assets decreased by 35 basis points to 4.80% for the second quarter of 2011 in connection with the lower interest rate environment. 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.

**Interest Expense.** Interest expense decreased \$503,000, or 9.6%, to \$4.7 million for the three months ended June 30, 2011 from \$5.2 million for the prior year period reflecting a decrease in the average rate paid on interest-bearing liabilities, partially offset by an increase in average interest-bearing liabilities. The average rate paid on interest-bearing liabilities declined 25 basis points to 1.61% for the three months ended June 30, 2011 reflecting the repricing of savings, money market, NOW accounts and certificate of deposit balances in response to the lower interest rate environment, partially offset by a \$173,000 increase in interest expense as a result of a decrease in amortization of certain fair value deposits and borrowings accounting adjustments to \$157,000 in the second quarter of 2011 from \$330,000 for the same period in 2010. Average interest-bearing liabilities increased \$47.7 million, or 4.2%, to \$1.18 billion for the three months ended June 30, 2011 from \$1.13 billion for the prior year period reflecting growth in interest-bearing deposits attributable to attractive products, competitive pricing and excellent customer service, partially offset by a decrease in average FHLB advances as a result of payoffs.

**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 certain factors. Among the factors management considers are 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 \$223,000, or 49.6%, to \$673,000 for the three months ended June 30, 2011 compared to \$450,000 for the same period in 2010 primarily as a result of an increase in reserves for classified and impaired loans and growth in net loan originations. The allowance for loan losses was \$10.6 million, or 0.96% of loans outstanding at June 30, 2011. Excluding the impact of loans acquired from CNB Financial Corp. and other financial institutions, the ratio of the allowance for loan losses to total loans would have been 1.16%.

**Non-interest Income.** Non-interest income remained flat at \$2.2 million for the three months ended June 30, 2011. Excluding a write-down of a cost method investment of \$59,000, non-interest income increased \$51,000, or 2.3%, from the same period in 2010 reflecting growth of \$53,000, or 15.6%, in bank owned life insurance due to an additional \$10.0 million BOLI investment in the second quarter of 2011, an increase of \$47,000, or 28.1%, in wealth management income as a result of increases in commissions from annuity sales and fees from assets under management, and an increase of \$33,000, or 2.5% in fee income on depositors' accounts. The results were also impacted by a \$59,000 reduction in gains from loan sales to \$50,000 for the second quarter of 2011 from \$109,000 for the same period in 2010 in connection with a decrease in the volume of loan sales.

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**Non-interest Expense.** Non-interest expense increased \$772,000, or 7.3%, to \$11.4 million for the second quarter of 2011 from \$10.6 million in the same period last year. Excluding acquisition-related expenses totaling \$169,000 in the second quarter of 2010, non-interest expense would have increased \$941,000, or 9.0%. Salaries and benefits increased \$446,000, or 7.5%, mainly driven by annual wage increases, staffing costs for a new loan production office opened in 2011 and a larger incentive accrual due to improved operating performance. Other expenses increased \$484,000, or 33.8%, primarily due to a \$198,000 operating loss from an investment in a low income housing tax credit fund, an increase in other real estate owned costs and an increase in the write-down of mortgage servicing rights. Professional services expenses increased \$49,000, or 13.7%, reflecting a HUD audit completed in 2011 as a result of a new regulation. The increases were partially offset by an \$81,000, or 24.9%, decrease in FDIC premium expense which reflects the positive impact of the new assessment calculation that became effective April 1, 2011.

**Income Tax Expense.** Income tax expense decreased \$665,000, or 44.6%, to \$827,000 for the second quarter of 2011 from \$1.5 million in the same period last year primarily due to a lower effective tax rate. The effective tax rate decreased from 33.7% in the second quarter of 2010 to 23.5% for the second quarter of 2011 largely as a result of tax credits from an investment in a low income housing tax credit fund and an increase in tax exempt municipal investment income in 2011.

**Comparison of Operating Results for the Six Months Ended June 30, 2011 and 2010**

**Net Income.** Net income for the six months ended June 30, 2011 amounted to \$5.1 million, or \$0.33 per diluted share, compared to \$4.7 million, or \$0.30 per diluted share, for the same period in 2010. Excluding acquisition-related expenses totaling \$1.1 million and the related tax benefit of \$329,000, net income would have been \$5.5 million, or \$0.35 per diluted share, for the six months ended June 30, 2010. The 2011 results were impacted by a decrease in net interest income and higher provision for loan losses, offset in part by a decrease in non-interest expense and a lower effective tax rate.



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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.

	Six Months Ended June 30,					
	2011			2010		
	Average	Interest	Yield/	Average	Interest	Yield/
Balance	and	Cost	Balance	and	Cost	
	Dividends	(Dollars in thousands)		Dividends	(Dollars in thousands)	
<b>Interest-earning assets:</b>						
Loans:						
Residential real estate <sup>(1)</sup>	\$ 315,871	\$ 7,912	5.01%	\$ 333,624	\$ 9,051	5.43%
Commercial real estate	458,513	13,771	6.01%	458,547	14,027	6.12%
Home equity	138,134	2,637	3.82%	138,708	2,882	4.16%
Commercial and industrial	165,976	4,355	5.25%	152,028	4,243	5.58%
Consumer and other	18,591	515	5.54%	23,430	658	5.62%
Total loans <sup>(2)</sup>	1,097,085	29,190	5.32%	1,106,337	30,861	5.58%
Investment securities	349,182	6,578	3.77%	298,860	6,414	4.29%
Other interest-earning assets	55,468	78	0.28%	36,128	18	0.10%
Total interest-earning assets	1,501,735	35,846	4.77%	1,441,325	37,293	5.17%
Noninterest-earning assets <sup>(3)</sup>	89,238			86,348		
Total assets	\$ 1,590,973			\$ 1,527,673		
<b>Interest-bearing liabilities:</b>						
Savings accounts	\$ 222,585	848	0.76%	\$ 175,862	834	0.95%
Money market accounts	265,829	998	0.75%	223,807	1,004	0.90%
NOW accounts	40,263	81	0.40%	38,101	100	0.52%
Certificates of deposit	450,615	4,564	2.03%	464,060	4,944	2.13%
Total interest-bearing deposits	979,292	6,491	1.33%	901,830	6,882	1.53%
FHLB advances	143,022	2,548	3.56%	180,366	2,963	3.29%
Other interest-bearing liabilities	50,968	634	2.49%	51,883	665	2.56%
Total interest-bearing liabilities	1,173,282	9,673	1.65%	1,134,079	10,510	1.85%
Demand deposits	183,033			159,929		
Other noninterest-bearing liabilities	9,976			9,310		
Total liabilities	1,366,291			1,303,318		
Stockholders' equity	224,682			224,355		
Total liabilities and stockholders' equity	\$ 1,590,973			\$ 1,527,673		

Net interest income

\$ 26,173

\$ 26,783

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Interest rate spread <sup>(4)</sup>		3.12%	3.32%
Net interest-earning assets <sup>(5)</sup>	\$ 328,453		\$ 307,246
Net interest margin <sup>(6)</sup>		3.49%	3.72%
Average interest-bearing assets to average interest-bearing liabilities		127.99%	127.09%

- (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.

	<b>Six Months Ended June 30, 2011 vs. 2010</b>		
	<b>Increase (Decrease) Due to</b>		<b>Net</b>
	<b>Volume</b>	<b>Rate</b>	
	<b>(In thousands)</b>		
<b>Interest-earning assets:</b>			
Loans:			
Residential real estate <sup>(1)</sup>	\$ (467)	\$ (672)	\$ (1,139)
Commercial real estate	(1)	(255)	(256)
Home equity loans	(12)	(233)	(245)
Commercial and industrial	375	(263)	112
Consumer and other	(134)	(9)	(143)
<b>Total loans</b>	<b>(239)</b>	<b>(1,432)</b>	<b>(1,671)</b>
Investment securities	1,004	(840)	164
Other interest-earning assets	14	46	60
<b>Total interest-earning assets</b>	<b>779</b>	<b>(2,226)</b>	<b>(1,447)</b>
<b>Interest-bearing liabilities:</b>			
Savings accounts	197	(183)	14
Money market accounts	172	(178)	(6)
NOW accounts	6	(25)	(19)
Certificates of deposit	(140)	(240)	(380)
<b>Total interest-bearing deposits</b>	<b>235</b>	<b>(626)</b>	<b>(391)</b>
FHLB advances	(650)	235	(415)
Other interest-bearing liabilities	(12)	(19)	(31)
<b>Total interest-bearing liabilities</b>	<b>(427)</b>	<b>(410)</b>	<b>(837)</b>
<b>Change in net interest income</b>	<b>\$ 1,206</b>	<b>\$ (1,816)</b>	<b>\$ (610)</b>

(1) Includes loans held for sale.

**Net Interest Income Before Provision for Loan Losses.** Net interest income before provision for loan losses decreased \$610,000, or 2.3%, to \$26.2 million for the six months ended June 30, 2011 from \$26.8 million for the comparable 2010 period as a result of net interest margin compression partially offset by an increase in average interest earning assets. Net interest margin decreased 23 basis points to 3.49% for the six months ended June 30, 2011 from 3.72% for the prior year period primarily attributable to a decrease of \$508,000 in amortization of certain acquisition accounting adjustments to \$930,000 for the 2011 period from \$1.4 million for the same period in 2010 and, to a lesser extent, the downward repricing of certain fixed rate loans and investments as a result of the lower interest rate environment and an increase in funds held in lower-yielding cash equivalents. These items were partially offset by lower funding costs. Total average interest-earning assets increased \$60.4 million, or 4.2%, to \$1.50 billion for the six months ended June 30, 2011, due to growth in investment securities and excess cash balances held at the Federal Reserve Bank.



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**Interest Income.** Interest income decreased \$1.4 million, or 3.9%, to \$35.8 million for the six months ended June 30, 2011 from \$37.3 million for the prior year period due to a decrease in the yield on earning assets partially offset by an increase in average interest-earning assets. The yield on average interest-earning assets decreased by 40 basis points to 4.77% for the second quarter of 2011 in connection with the lower interest rate environment and a reduction of \$61,000 in the accretion of certain loan fair value accounting adjustments to \$617,000 for the six months ended June 30, 2011 from \$678,000 for the same period in 2010. 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.

**Interest Expense.** Interest expense decreased \$837,000, or 8.0%, to \$9.7 million for the six months ended June 30, 2011 from \$10.5 million for the prior year period due to a decrease in the average rate paid on interest-bearing liabilities, partially offset by growth in average interest-bearing liabilities. The average rate paid on interest-bearing liabilities declined 20 basis points to 1.65% for the six months ended June 30, 2011 reflecting the repricing of savings, money market, NOW accounts and certificate of deposit balances in response to the lower interest rate environment, partially offset by a \$447,000 decrease in the amortization of certain fair value deposits and borrowings accounting adjustments to \$313,000 for the six months ended June 30, 2011 from \$760,000 for the same period in 2010. Average interest-bearing liabilities increased \$39.2 million, or 3.5%, to \$1.17 billion for the six months ended June 30, 2011 from \$1.13 billion for the prior year period reflecting growth in interest-bearing deposits attributable to attractive products, competitive pricing and excellent customer service. The increase in average interest-bearing deposits was offset in part by a reduction of \$37.3 million, or 20.7%, in average FHLB advances to \$143.0 million for the six months ended June 30, 2011 as a result of paydowns.

**Provision for Loan Losses.** The provision for loan losses increased \$298,000, or 25.2%, to \$1.5 million for the six months ended June 30, 2011, primarily as a result of an increase in reserves for classified and impaired loans and growth in net loan originations.

**Non-interest Income.** Non-interest income increased \$104,000, or 2.4%, to \$4.4 million for the six months ended June 30, 2011, reflecting growth in wealth management income and bank-owned life insurance as well as a decrease of \$86,000 in impairment charges on securities. Wealth management income increased \$149,000, or 48.9%, as a result of increases in commissions from annuity sales and fees from assets under management. Bank-owned life insurance increased \$38,000, or 5.5%, due to the purchase of \$10.0 million of bank-owned life insurance in the second quarter of 2011. These items were offset in part by a \$124,000 reduction in gains from sales of loans to \$73,000 for the six months ended June 30, 2011, from \$197,000 for the same period in 2010 due to a lesser volume of loan sales and a decrease of \$46,000, or 1.7% in fee income on depositors' accounts due to a reduction in overdraft fee income.

**Non-interest Expense.** Non-interest expense decreased \$306,000, or 1.4%, to \$22.3 million for the six months ended June 30, 2011 from \$22.6 million for the prior year period. Excluding acquisition-related expenses totaling \$1.1 million for six months ended June 30, 2010, non-interest expense would have increased \$842,000, or 3.9%. Total salaries and benefits increased \$637,000, or 5.3%, mainly driven by annual wage increases, staffing costs for a new loan production office opened in 2011 and a larger incentive accrual due to improved operating performance. Other expenses increased \$434,000, or 15.1%, largely attributable to a \$395,000 operating loss from an investment in a low income housing tax credit fund and an increase in other real estate owned costs. Professional services expenses increased \$169,000, or 18.8%, in connection with expanded consulting and legal costs. These items were partially offset by a \$166,000, or 22.4%, decrease in FDIC premium expense, which reflects the positive impact of the new assessment calculation which was effective April 1, 2011 and a one-time adjustment in the first quarter of 2010 related to the CNB acquisition. Marketing expenses decreased \$100,000, or 8.5%, reflecting the cost of promotional activities in 2010 to support the Company's entry into the Worcester market. Occupancy expenses decreased \$78,000, or 4.5%, mainly due to the closing of the Company's Worcester operations center in 2010. Data processing expenses decreased \$54,000, or 2.7%, largely attributable to one-time software setup expenses incurred during the first quarter of 2010.

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**Income Tax Expense.** Income tax expense decreased \$933,000 to \$1.6 million for six months ended June 30, 2011 from \$2.5 million for the comparable 2010 period primarily due to a lower effective tax rate. The effective tax rate decreased from 35.0% in the 2010 period to 23.7% for the six months ended June 30, 2011 largely as a result of tax credits from an investment in a low income housing tax credit fund and an increase in tax exempt municipal investment income in 2011.

**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 on a quarterly basis 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 residential real estate, home equity loans, commercial real estate loans, construction loans and commercial and industrial 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 June 30, 2011 and December 31, 2010.

**Net Interest Income At-Risk**

Change in Interest Rates (Basis Points)	Estimated Increase (Decrease) in NII (June 30, 2011)	Estimated Increase (Decrease) in NII (December 31, 2010)
	-100	(1.8)%
Stable	0.0%	0.0%
+200	0.3%	0.5%

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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.

**Net Portfolio Value Simulation Analysis.** The Office of Thrift Supervision requires the computation of amounts by which the net present value of an institution's cash flow from assets, liabilities and off balance sheet items (the institution's net portfolio value or NPV) would change in the event of a range of assumed changes in market interest rates. The Office of Thrift Supervision provides all institutions that file a Consolidated Maturity/Rate Schedule as a part of their quarterly Thrift Financial Report an interest rate sensitivity report of net portfolio value. The Office of Thrift Supervision simulation model uses a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. Historically, the Office of Thrift Supervision model 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, a net portfolio value 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 Office of Thrift Supervision provides us the results of the interest rate sensitivity model, which is based on information we provide to the Office of Thrift Supervision to estimate the sensitivity of our net portfolio value. As of July 21, 2011 the Bank will be regulated by the Office of the Comptroller of the Currency, rather than the Office of Thrift Supervision, as the Office of Thrift Supervision will be abolished as of that date pursuant to the Dodd-Frank Act. Until July 21, the Bank will be regulated by the Office of Thrift Supervision.

The tables below set forth, at the dates indicated, the estimated changes in our net portfolio value 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 subsidiary only and does not include any yield curve changes in the assets of United Financial.

Change in Interest Rates  (basis points) (1)	June 30, 2011				NPV Ratio (4)	NPV as a Percentage of Present Value of Assets (3)  Increase  (Decrease) (basis points)
	Estimated NPV (2)	Estimated Increase (Decrease) in NPV		NPV Ratio (4)		
		Amount (Dollars in thousands)	Percent			
+300	\$ 160,693	\$ (65,468)	(29)%	10.73%	(321)	
+200	186,880	(39,281)	(17)	12.13	(181)	
+100	211,552	(14,608)	(6)	13.35	(60)	
0	226,161			13.94		
-100	244,871	18,710	8	14.79	85	

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Change in Interest Rates  (basis points) (1)	December 31, 2010			NPV as a Percentage of Present Value of Assets (3)	
	Estimated NPV (2)	Estimated Increase (Decrease) in NPV		NPV Ratio (4)	Increase (Decrease) (basis points)
		Amount (Dollars in thousands)	Percent		
+300	\$ 146,150	\$ (64,887)	(31)%	9.99%	(334)
+200	170,561	(40,475)	(19)	11.34	(198)
+100	193,589	(17,448)	(8)	12.53	(80)
0	211,036			13.32	
-100	227,944	16,908	8	14.11	78

- (1) Assumes an instantaneous uniform change in interest rates at all maturities.
- (2) NPV 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) NPV ratio represents NPV divided by the present value of assets.

The tables above indicate that at June 30, 2011 and December 31, 2010, in the event of a 300 basis point increase in interest rates, we would experience a 29% and 31%, respectively, decrease in net portfolio value. In the event of a 100 basis point decrease in interest rates at June 30, 2011 and December 31, 2010, we would experience an 8% increase in net portfolio value.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in net portfolio value 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 net portfolio value 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 net portfolio value 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 and mortgage prepayments 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 June 30, 2011, our liquidity ratio was 21.50%, compared to 22.15% at December 31, 2010.

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-earning deposits and short- and intermediate-term securities.





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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 June 30, 2011, cash and cash equivalents totaled \$39.5 million. Securities classified as available-for-sale and held-to-maturity, which provide additional sources of liquidity, totaled \$240.9 million and \$120.9 million, respectively, at June 30, 2011. In addition, at June 30, 2011, we had the ability to borrow a total of approximately \$400.2 million from the FHLBB. On that date, we had \$133.0 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 June 30, 2011, we had \$23.0 million in loan commitments outstanding. In addition to commitments to originate loans, we had \$236.7 million in unused lines of credit to borrowers, \$3.9 million in standby letters of credit and \$21.6 million to be disbursed under existing construction loan commitments. Certificates of deposit due within one year of June 30, 2011 totaled \$247.6 million, or 20.8% 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 June 30, 2011. 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 six months ended June 30, 2011, we originated \$122.5 million of loans and purchased \$66.5 million of securities. In the comparable 2010 period, we originated \$92.4 million of loans and purchased \$38.9 million of securities.

Financing activities consist primarily of activity in deposit accounts and FHLBB advances. We experienced a net increase in total deposits of \$46.0 million and \$68.8 million for the six months ended June 30, 2011 and 2010, 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 decreased by \$18.5 million and \$50.8 million during the six months ended June 30, 2011 and 2010, respectively, reflecting the use of cash flows received from the loan and investment portfolios and excess deposit funds to pay down FHLBB advances.

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 \$2.0 million at June 30, 2011 and December 31, 2010, was approximately \$265.2 million at June 30, 2011 and \$219.9 million at December 31, 2010. At June 30, 2011 and December 31, 2010, the Bank had no borrowing 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 \$63.2 million at June 30, 2011.

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. United Financial also repurchases shares of its common stock. At June 30, 2011, United Financial had liquid assets of \$13.7 million.

**Table of Contents****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.

**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 June 30, 2011. 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)					Total
	Three to Five Less Than One Year	Three to Five One to Three Years	Three to Five Three to Five Years	Three to Five More than Five Years	Three to Five	
<b>Contractual Obligations:</b>						
Certificates of deposit	\$ 247,571	\$ 143,989	\$ 47,893	\$ -	\$ 439,453	
Federal Home Loan Bank advances	35,000	55,081	19,720	23,243	133,044	
Repurchase agreements	16,702	-	-	20,000	36,702	
Subordinated debentures	-	-	-	7,732	7,732	
Standby letters of credit	3,942	-	-	-	3,942	
Operating leases	1,021	1,915	1,772	3,851	8,559	
Capitalized leases	406	812	813	6,153	8,184	
Future benefits to be paid under retirement plans	25	3,432	233	5,628	9,318	
Total	\$ 304,667	\$ 205,229	\$ 70,431	\$ 66,607	\$ 646,934	
<b>Commitments:</b>						
Commitments to extend credit	\$ 285,308	\$ -	\$ -	\$ -	\$ 285,308	
Commitment to invest in venture capital fund	400	-	-	-	400	
Commitment to invest in low income tax credit fund	4,509	1,022	-	-	5,531	
Total	\$ 290,217	\$ 1,022	\$ -	\$ -	\$ 291,239	

**Table of Contents****Capital Resources**

United 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 June 30, 2011, the Bank exceeded all regulatory capital requirements and was considered well capitalized under regulatory requirements.

	Actual	For Capital Adequacy Purposes	To Be Well Capitalized Under Regulatory Framework
<b>As of June 30, 2011:</b>			
Total risk-based capital	16.40%	8.00%	10.00%
Tier 1 risk-based capital	15.52%	4.00%	6.00%
Tier 1 (core) capital	11.82%	4.00%	5.00%
Tangible equity	11.82%	1.50%	N/A
<b>As of December 31, 2010:</b>			
Total risk-based capital	16.34%	8.00%	10.00%
Tier 1 risk-based capital	15.49%	4.00%	6.00%
Tier 1 (core) capital	11.53%	4.00%	5.00%
Tangible equity	11.53%	1.50%	N/A

**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 most recent fiscal quarter 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.

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**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

The Bank, as successor in interest to Commonwealth National Bank, is involved in litigation relating to its foreclosure on a certain loan property. 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 it should have 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.

In addition, the Company is a defendant in other claims and legal action 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, 2010, which could materially affect our business, financial condition or future results, should be carefully considered. At June 30, 2011, the risk factors for the Company have not changed materially from those reported in our Annual Report on Form 10-K. In addition, the risks described in our Annual Report on Form 10-K are not the only risks that the Company faces. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

(a) No unregistered securities were sold by the Company during the quarter ended June 30, 2011.

(b) Not applicable

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(c) The following table provides certain information with regard to shares repurchased by the Company in the second quarter of 2011.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
April 1 - 30, 2011	-	\$ -	-	742,506
May 1 - 31, 2011	-	-	-	742,506
June 1 - 30, 2011	11,336 <sup>(2)</sup>	14.96	-	742,506
Total	11,336	\$ 14.96	-	

(1) On October 26, 2010, the Board of Directors approved a plan to repurchase up to 5%, or approximately 807,803 shares, of the Company's common stock. Under the plan, the Company intends to repurchase shares from time to time, depending on market conditions and will continue until it is completed.

(2) 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. [Removed and Reserved]**

**ITEM 5. Other Information**

Not applicable.

**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
- 101.0 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements

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of Earnings, (iii) the Consolidated Statement of Changes in Equity and Comprehensive Income, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text.

- \* Furnished, not filed
- (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.

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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 by the undersigned thereunto duly authorized.

**United Financial Bancorp, Inc.**

Date: August 8, 2011

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

Date: August 8, 2011

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