United Financial Bancorp, Inc.
Form 10-Q
May 05, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 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 incorporation or organization)	**(I.R.S. Employer 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 x No ¨.

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

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

Large accelerated filer	¨	Accelerated filer	x
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 x.

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

16,103,831 shares outstanding as of May 3, 2011

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United Financial Bancorp, Inc.

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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)

	March 31, 2011 (unaudited)	December 31, 2010 (audited)
ASSETS		
Cash and due from banks	$ 15,281	$ 10,157
Interest-bearing deposits	57,258	72,912
Total cash and cash equivalents	72,539	83,069
Securities available for sale, at fair value	214,430	205,852
Securities held to maturity, at amortized cost (fair value of $124,814 at March 31, 2011 and $132,026 at December 31, 2010)	125,179	132,475
Loans held for sale	583	
Loans, net of allowance for loan losses of $10,468 at March 31, 2011 and $9,987 at December 31, 2010	1,088,576	1,066,197
Other real estate owned	1,480	1,536
Accrued interest receivable	4,976	4,905
Deferred tax asset, net	10,821	11,029
Stock in the Federal Home Loan Bank of Boston	15,365	15,365
Banking premises and equipment, net	15,746	15,565
Bank-owned life insurance	29,474	29,180
Goodwill	8,192	8,192
Other assets	12,364	11,512
TOTAL ASSETS	$ 1,599,725	$ 1,584,877
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Interest-bearing	$ 992,703	$ 967,305
Non-interest-bearing	181,208	175,996
Total deposits	1,173,911	1,143,301
Short-term borrowings	18,900	21,029
Long-term debt	161,461	173,307
Subordinated debentures	5,471	5,448
Escrow funds held for borrowers	2,194	1,899
Due to broker		3,002
Capitalized lease obligations	4,978	5,011
Accrued expenses and other liabilities	8,758	9,304
Total liabilities	1,375,673	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 March 31, 2011 and December 31, 2010	187	187
Paid-in capital	180,926	180,322
Retained earnings	84,128	82,899
Unearned compensation	(10,578)	(10,750)
Treasury stock, at cost (2,610,898 shares at March 31, 2011 and 2,597,827 shares at December 31, 2010)	(35,123)	(34,940)
Accumulated other comprehensive income, net of taxes	4,512	4,858
Total stockholders equity	224,052	222,576
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,599,725	$ 1,584,877

See notes to unaudited consolidated financial statements

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UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS (unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended March 31, 2011	2010
Interest and dividend income:		
Loans	$ 14,487	$ 15,457
Investments	3,191	3,292
Other interest-earning assets	40	8
Total interest and dividend income	17,718	18,757
Interest expense:		
Deposits	3,297	3,375
Short-term borrowings	37	105
Long-term debt	1,593	1,781
Total interest expense	4,927	5,261
Net interest income before provision for loan losses	12,791	13,496
Provision for loan losses	808	733
Net interest income after provision for loan losses	11,983	12,763
Non-interest income:		
Fee income on depositors accounts	1,292	1,371
Net gain on sale of loans	23	88
Net gain on sale of securities	1	
Impairment charge on security		(145)
Wealth management income	240	138
Income from bank-owned life insurance	331	346
Other income	262	239
Total non-interest income	2,149	2,037
Non-interest expense:		
Salaries and benefits	6,269	6,078
Occupancy expenses	844	927
Marketing expenses	447	560
Data processing expenses	988	1,067
Professional fees	661	541
Merger related expenses		979
FDIC insurance assessments	330	415
Other expenses	1,401	1,451
Total non-interest expense	10,940	12,018
Income before income taxes	3,192	2,782
Income tax expense	763	1,031

Net income	$ 2,429	$ 1,751
Earnings per share:		
Basic	$ 0.16	$ 0.11
Diluted	$ 0.16	$ 0.11
Weighted average shares outstanding:		
Basic	15,014,143	15,618,540
Diluted	15,258,574	15,662,592
Dividends paid per share	$ 0.08	$ 0.07

See notes to unaudited consolidated financial statements**.**

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UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME (unaudited)

FOR THE THREE MONTHS ENDED MARCH 31, 2011 and 2010

(Dollars in thousands, except per share amounts)

	Common Shares Outstanding	Common Stock	Paid-In Capital	Retained Earnings	Unearned Compensation	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2009	16,838,598	$ 187	$ 178,666	$ 77,456	$ (11,441)	$ (24,980)	$ 5,358	$ 225,246
Prior service costs on pension and other post retirement benefit plans							(472)	(472)
Net income				1,751				1,751
Other comprehensive income							91	91
Total comprehensive income								1,842
Cash dividends paid ($0.07 per share)				(1,090)				(1,090)
Treasury stock purchases	(164,338)					(2,124)		(2,124)
Reissuance of treasury shares in connection with restricted stock grants	69,702		(901)			901		
Stock-based compensation			591					591
ESOP shares committed to be released			66		173			239
Balances at March 31, 2010	16,743,962	$ 187	$ 178,422	$ 78,117	$ (11,268)	$ (26,203)	$ 4,977	$ 224,232
Balances at December 31, 2010	16,109,106	$ 187	$ 180,322	$ 82,899	$ (10,750)	$ (34,940)	$ 4,858	$ 222,576
Net income				2,429				2,429
Other comprehensive loss							(346)	(346)
Total comprehensive income								2,083
Cash dividends paid ($0.08 per share)				(1,200)				(1,200)
Treasury stock purchases	(13,896)					(195)		(195)
Tax withheld on options exercised			(7)					(7)
Reissuance of treasury shares in connection with restricted stock	825		(12)			12		

grants								
Stock-based compensation			526					526
ESOP shares committed to be released			97		172			269
Balances at March 31, 2011	16,096,035	$ 187	$ 180,926	$ 84,128	$ (10,578)	$ (35,123)	$ 4,512	$ 224,052

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

	Three Months Ended March 31, 2011	2010
Change in unrealized holding gains on available-for-sale securities	$ (553)	$ 27
Reclassification adjustment for (gains) losses realized in income	(1)	145
Net change in unrealized gains	(554)	172
Tax effect	208	(81)
Other comprehensive (loss) income	$ (346)	$ 91

See notes to unaudited consolidated financial statements.

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UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE MONTHS ENDED MARCH 31, 2011 and 2010

(Dollars in thousands)

	2011	2010
Cash flows from operating activities:		
Net income	$ 2,429	$ 1,751
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	808	733
ESOP expense	269	239
Stock-based compensation	526	591
Amortization of premiums and discounts	392	273
Depreciation and amortization	135	360
Amortization of intangible assets	26	28
Net loss (gain) on sale of other real estate owned	11	(23)
Impairment charges on securities		145
Net gain on sale of securities	(1)	
Originations of loans held for sale	(583)	
Loans originated for sale and sold	(1,671)	
Proceeds from sales of loans held for sale	1,694	
Net gain on sale of loans	(23)	(88)
Net increase in cash surrender value of bank-owned life insurance	(294)	(317)
Increase in accrued interest receivable	(71)	(72)
Increase in other assets	(462)	(2,792)
Decrease in accrued expenses and other liabilities	(480)	(892)
Net cash provided by (used in) operating activities	2,705	(64)
Cash flows from investing activities:		
Purchases of securities available for sale	(34,204)	
Proceeds from maturities, calls and principal repayments of securities available for sale	21,986	18,303
Purchases of securities held to maturity		(11,601)
Proceeds from maturities, calls and principal repayments of securities held to maturity	6,989	3,134
Increase in investment in short term time deposits		(4)
Proceeds from sales of other real estate owned	210	271
Net loan (originations), (purchases) and principal repayments	(23,352)	10,396
Proceeds from sales of loans		9,725
Purchases of property and equipment	(313)	(230)
Net cash (used in) provided by investing activities	(28,684)	29,994

(Continued)

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UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE MONTHS ENDED MARCH 31, 2011 and 2010 (Concluded)

(Dollars in thousands)

	2011	2010
Cash flows from financing activities:		
Net increase in deposits	$ 30,610	$ 26,265
Net change in short-term borrowings	(2,129)	(35,393)
Repayment of long-term debt	(11,823)	(17,862)
Net increase in escrow funds held for borrowers	295	166
Payments on capitalized lease obligations	(102)	(102)
Tax withheld on options exercised	(7)	
Treasury stock purchases	(195)	(2,124)
Cash dividends paid	(1,200)	(1,090)
Net cash provided by (used in) financing activities	15,449	(30,140)
Decrease in cash and cash equivalents	(10,530)	(210)
Cash and cash equivalents at beginning of period	83,069	21,877
Cash and cash equivalents at end of period	$ 72,539	$ 21,667
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period:		
Interest on deposits, borrowings and other interest bearing liabilities	$ 5,111	$ 5,983
Income taxes net	232	41
Non-cash items:		
Transfer of loans to other real estate owned	165	677
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

MARCH 31, 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 March 31, 2011 and the results of operations for the three months ended March 31, 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. In addition, the TDR disclosures required by ASU 2010-20, Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses should be provided beginning in the period of adoption of this ASU. The Company will adopt this ASU on July 1, 2011 and is currently evaluating the impact of adoption on its consolidated financial statements.

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:

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.

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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 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 troubled debt restructuring (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. Interest income on restructured loans 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.

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 held to maturity or 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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NOTE D EARNINGS PER SHARE

Earnings per share (EPS) have been computed by dividing net income by weighted average shares outstanding before any dilution and are adjusted to exclude 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 because there is no difference under the two-class method.

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

	Three Months Ended March 31,	
	2011	**2010**
Net income	$ 2,429	$ 1,751
Weighted average common shares applicable to basic EPS	15,014,143	15,618,540
Effect of dilutive potential common shares (1) (2)	244,431	44,052
Weighted average common shares applicable to diluted EPS	15,258,574	15,662,592
Earnings per share:		
Basic	$ 0.16	$ 0.11
Diluted	$ 0.16	$ 0.11

(1) Options to purchase 308,615 and 339,109 shares for three months ended March 31, 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.

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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
Securities Available for Sale				
March 31, 2011:				
Debt Securities:				
Government-sponsored enterprises	$ 5,227	$ 8	$ (238)	$ 4,997
Government-sponsored and government-guaranteed mortgage-backed securities	188,983	8,255	(286)	196,952
Private label mortgage-backed securities	2,747	95	(14)	2,828
Municipal bonds	7,760	184	(38)	7,906
Corporate bonds	1,451	484	(188)	1,747
Total	$ 206,168	$ 9,026	$ (764)	$ 214,430
December 31, 2010:				
Debt Securities:				
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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Held to Maturity				
March 31, 2011:				
Government-sponsored and government-guaranteed mortgage-backed securities	$ 98,158	$ 840	$ (1,168)	$ 97,830
Private label mortgage-backed securities	247		(1)	246
Industrial revenue bonds	19,050			19,050
State of Israel bonds	150			150
Municipal bonds	7,574	74	(110)	7,538
Total	$ 125,179	$ 914	$ (1,279)	$ 124,814
December 31, 2010:				
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

Total	$ 132,475	$ 1,002	$ (1,451)	$ 132,026

The scheduled maturities of debt securities available for sale and held to maturity at March 31, 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.

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	At March 31, 2011			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 88	$ 88	$ 130	$ 132
Due from one year to five years	4,254	4,390	1,267	1,305
Due from five years to ten years	25,860	26,648	19,567	19,772
Due after ten years	175,966	183,304	104,215	103,605
	$ 206,168	$ 214,430	$ 125,179	$ 124,814

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 $3.1 million of private label residential mortgage-backed securities as a result of its acquisition of CNB Financial Corp. (CNB) on November 30, 2009.

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Gross unrealized losses and fair values at March 31, 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:

	Less than 12 months		12 months or longer			Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
At March 31, 2011:							
Securities Available for Sale							
Debt Securities:							
Government-sponsored enterprises	$ 4,762	$ (238)	$	$	1	$ 4,762	$ (238)
Government-sponsored and government-guaranteed mortgage-backed securities	29,484	(286)			10	29,484	(286)
Private label mortgage-backed securities			814	(14)	1	814	(14)
Municipal bonds	544	(14)	265	(24)	3	809	(38)
Corporate bonds	137	(188)			1	137	(188)
Total	$ 34,927	$ (726)	$ 1,079	$ (38)	16	$ 36,006	$ (764)
Securities Held to Maturity							
Government-sponsored and government-guaranteed mortgage-backed securities	$ 47,789	$ (1,168)	$	$	13	$ 47,789	$ (1,168)
Private label mortgage-backed securities	246	(1)			1	246	(1)
Municipal bonds	3,442	(110)			17	3,442	(110)
Total	$ 51,477	$ (1,279)	$	$	31	$ 51,477	$ (1,279)

	Less than 12 months		12 months or longer			Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
At December 31, 2010:							
Securities Available for Sale							
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)
Total	$ 22,911	$ (635)	$ 1,163	$ (49)	18	$ 24,074	$ (684)
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)
Total	$ 56,799	$ (1,451)	$	$	37	$ 56,799	$ (1,451)

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 March 31, 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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NOTE F LOANS

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

	March 31, 2011	December 31, 2010
Residential mortgages	$ 317,307	$ 295,721
Commercial mortgages	429,949	427,994
Construction	30,512	27,553
Home equity	135,625	138,290
Commercial and industrial	165,607	165,335
Automobile	10,059	11,051
Consumer	7,942	8,167
Total loans	1,097,001	1,074,111
Net deferred loan costs and fees	2,043	2,073
Allowance for loan losses	(10,468)	(9,987)
Loans, net	$ 1,088,576	$ 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 March 31, 2011 and December 31, 2010, the Company was servicing loans for participants aggregating $45.5 million and $44.4 million, respectively.

A summary of the activity pertaining to the allowance for loan losses at March 31, 2011 is as follows:

	Commercial and Industrial	Commercial Real Estate	Commercial & Residential Construction	Residential	Home Equity	Consumer	Total
At March 31, 2011:							
Allowance for Credit Losses:							
Beginning balance	$ 2,801	$ 5,000	$ 668	$ 740	$ 623	$ 155	$ 9,987
Charge-offs	(325)	(112)	(28)				(465)
Recoveries	136					2	138
Provision	500	390	227	(119)	(146)	(44)	808
Ending balance	$ 3,112	$ 5,278	$ 867	$ 621	$ 477	$ 113	$ 10,468
Amount of allowance for loan losses for loans deemed to be impaired	$ 247	$	$ 80	$	$	$	$ 327
Amount of allowance for loan losses for loans not deemed to be impaired	$ 2,820	$ 4,988	$ 661	$ 621	$ 477	$ 113	$ 9,680
Amount of allowance for loan losses for loans acquired with deteriorated credit quality	$ 45	$ 290	$ 126	$	$	$	$ 461

Financing Receivables:							
Total loans	$ 165,607	$ 429,949	$ 30,512	$ 317,307	$ 135,625	$ 18,001	$ 1,097,001
Loans deemed to be impaired	$ 2,422	$ 1,944	$ 1,112	$ 336	$ 74	$ 101	$ 5,989
Loans not deemed to be impaired	$ 162,891	$ 426,053	$ 29,274	$ 316,971	$ 135,551	$ 17,900	$ 1,088,640
Loans acquired with deteriorated credit quality	$ 294	$ 1,952	$ 126	$	$	$	$ 2,372

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The following is a summary of past due and non-accrual loans at March 31, 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
At March 31, 2011:							
Commercial:							
Commercial and industrial	$ 342	$ 23	$ 2,716	$ 3,081	$ 162,526	$ 165,607	$
Commercial real estate	2,160	806	3,633	6,599	423,350	429,949	
Construction	536		366	902	29,610	30,512	
Consumer:							
Residential real estate	9,648	953	336	10,937	306,370	317,307	
Home equity	349	116	74	539	135,086	135,625	
Consumer	144	2	101	247	17,754	18,001	
Total	$ 13,179	$ 1,900	$ 7,226	$ 22,305	$ 1,074,696	$ 1,097,001	$
At December 31, 2010:							
Commercial:							
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	
Consumer:							
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	
Total	$ 11,954	$ 2,442	$ 7,702	$ 22,098	$ 1,052,013	$ 1,074,111	$

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

	At March 31, 2011			At December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial and industrial	$ 364	$ 364	$	$ 112	$ 112	$
Commercial real estate	2,271	2,271		6,246	6,246	
Construction	872	872		1,282	1,282	
Residential real estate	336	336		1,036	1,036	
Home Equity	74	74		60	60	
Consumer	101	101		55	55	
With an allowance recorded:						
Commercial and industrial	2,060	2,352	292	2,324	2,773	449
Commercial real estate	1,335	1,625	290	1,125	1,343	218
Construction	160	366	206			
Residential real estate						
Home Equity						
Consumer						
Total:						

Commercial portfolio segment	$ 7,062	$ 7,850	$ 788	$ 11,089	$ 11,756	$ 667
Consumer portfolio segment	511	511		1,151	1,151	
Total impaired loans	$ 7,573	$ 8,361	$ 788	$ 12,240	$ 12,907	$ 667

Loans acquired from CNB Financial that are impaired at March 31, 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:

	Three Months Ended March 31, 2011
Average investment in impaired loans	$ 8,550
Interest income recognized on impaired loans	
Commercial:	
Commercial and industrial	$ 4
Commercial real estate	92
Commercial and residential construction	9
Consumer:	
Residential real estate	5
Home equity	
Consumer	2
Total	$ 112
Interest income recognized on a cash basis on impaired loans	
Commercial:	
Commercial and industrial	$ 4
Commercial real estate	37
Commercial and residential construction	9
Consumer:	
Residential real estate	5
Home equity	
Consumer	2
Total	$ 57

The following is a summary of non-accrual loans, which includes impaired loans, at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Commercial:		
Commercial and industrial	$ 2,716	$ 2,885
Commercial real estate	3,896	4,116
Commercial and residential construction	1,238	1,282
Consumer:		
Residential real estate	336	1,036
Home equity	74	60
Consumer	101	55
Total	$ 8,361	$ 9,434

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.

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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 March 31, 2011			At December 31, 2010		
	Commercial & Industrial	Commercial Real Estate	Construction	Commercial & Industrial	Commercial Real Estate	Construction
Commercial Portfolio:						
Grade:						
Pass	$ 144,790	$ 393,211	$ 23,147	$ 141,101	$ 391,336	$ 18,315
Special Mention	8,756	11,946	1,193	11,503	13,447	2,678
Substandard	11,969	24,792	6,172	12,419	23,211	6,560
Doubtful	92			312		
Total	$ 165,607	$ 429,949	$ 30,512	$ 165,335	$ 427,994	$ 27,553

	Residential	Home Equity	Consumer	Residential	Home Equity	Consumer
Consumer Portfolio:						
Grade:						
Pass	$ 314,856	$ 135,384	$ 17,856	$ 293,999	$ 138,093	$ 19,155
Special Mention	57			59		
Substandard	2,394	241	145	1,663	197	63
Doubtful						
Total	$ 317,307	$ 135,625	$ 18,001	$ 295,721	$ 138,290	$ 19,218

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The following is a summary of acquired loan information for CNB Financial as of March 31, 2011:

	Contractual Required Payments Receivable	Cash Expected To Be Collected (1)	Non-Accretable Difference	Accretable Yield	Loans Receivable
Balance at acquisition date of November 30, 2009	$ 5,178	$ 3,079	$ 2,099	$ 13	$ 3,066
Recognition of additional non-accretable yield		(250)(2)	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)(3)			(393)
Accretable yield recognized in earnings				(348)(4)	
Balance as of December 31, 2010	1,140	172	968		172
2011 Collections	(37)	(37)			(37)
Impairment		(135)(5)			(135)
Balance as of March 31, 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 tranfered 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 aquisition 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 March 31, 2011, the Company had one acquired loan that was a troubled debt restructure.

NOTE G COMMITMENTS

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

	March 31, 2011	December 31, 2010
Unused lines of credit	$ 236,631	$ 233,403
Amounts due mortgagors	22,998	26,500

Standby letters of credit	4,402	4,382
Commitments to originate loans	14,630	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 March 31, 2011, the Company has contributed $500,000 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 March 31, 2011, the Company has invested $3.1 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 March 31, 2011 and December 31, 2010:

	March 31, 2010	December 31, 2010
Demand	$ 181,208	$ 175,996
NOW	42,117	40,922
Savings	227,069	203,165
Money market	273,536	260,573
Certificates of deposit	449,981	462,645
	$ 1,173,911	$ 1,143,301

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. The Bank believes these claims are without merit and is vigorously defending the litigation. The parties are scheduled to go to trial in the third quarter of 2011. 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
At March 31, 2011				
Securities available for sale:				
Government-sponsored enterprises	$	$ 4,997	$	$ 4,997
Government-sponsored and government-guaranteed mortgage-backed securities		196,952		196,952
Private label mortgage-backed securities		2,828		2,828
Municipal bonds		7,906		7,906
Corporate bonds			1,747	1,747
Total	$	$ 212,683	$ 1,747	$ 214,430
At December 31, 2010				
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 March 31, 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 three months ended March 31, 2011.

Balance at December 31, 2010	$ 1,619
Total realized/unrealized losses included in net income	
Change in unrealized gain	128
Purchases	
Sales	
Issuances	
Settlements	
Transfers	
Balance at March 31, 2011	$ 1,747

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 months ended March 31, 2011.

	At March 31, 2011			Three Months Ended March 31, 2011
	Level 1	Level 2	Level 3	Total Gains/(Losses)
Assets:				
Loans	$	$ 4,343	$	$ (140)
Total assets	$	$ 4,343	$	$ (140)

	At March 31, 2010			Three Months Ended March 31, 2010
	Level 1	Level 2	Level 3	Total Gains/(Losses)
Assets:				
Loans	$	$ 16,460	$	$ (607)
Other real estate owned		1,976		
Other assets			545	(145)
Total assets	$	$ 18,436	$ 545	$ (752)

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 private company stock which is carried at cost. Management determined that several impairment indicators existed and that the investment was impaired at March 31, 2010. In its evaluation, management considered the investee s earnings performance, credit rating, asset quality, regulatory, economic, or technological environment operating environment, and the investee s ability to continue as a going concern. The cost basis of the individual security was written down to fair value as a new cost basis and the amount of the write-down was accounted for as a realized loss and was included in earnings. As a result, management recorded an impairment charge of $145,000 in the first quarter of 2010. There were no additional indicators of impairment in the first quarter of 2011.

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

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

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

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

Loans. For valuation purposes, the loan portfolio was segregated into its significant categories, which are residential mortgage, commercial real estate, commercial and 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 March 31, 2011		At December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$ 72,539	$ 72,539	$ 83,069	$ 83,069
Securities available for sale	214,430	214,430	205,852	205,852
Securities held to maturity	125,179	124,814	132,475	132,026
Stock in Federal Home Loan Bank of Boston	15,365	15,365	15,365	15,365
Net loans	1,088,576	1,108,796	1,066,197	1,091,165
Financial Liabilities:				
Deposits (with no stated maturity)	723,930	723,930	680,656	680,656
Time deposits	449,981	457,703	462,645	469,717
Federal Home Loan Bank of Boston advances	141,461	146,085	153,307	155,945
Repurchase agreements	38,900	37,645	41,029	40,403
Subordinated debentures	5,471	5,471	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 March 31, 2011 and 2010. The following table presents the components of the net periodic benefit cost for the indicated periods:

	For the Three Months Ended March 31,			
	2011		2010	
	SERP	Director Retirement Plan	SERP	Director Retirement Plan
Periodic benefit cost:				
Service cost	$ 84	$ 23	$ 80	$ 17
Interest cost	46	14	44	11
Total pension cost	130	37	124	28
Prior service cost amortization	35	9	29	9
Net loss amortization		3		
Net periodic benefit cost	$ 165	$ 49	$ 153	$ 37

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.

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

This report may contain, 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 that a variety of factors 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, 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 March 31, 2011 and December 31, 2010

Total assets increased $14.8 million, or 0.9%, to $1.60 billion at March 31, 2011 from $1.58 billion at December 31, 2010 reflecting loan growth partially offset by a decrease in interest-bearing deposits and held to maturity investment securities. Net loans increased $22.4 million, or 2.1%, to $1.09 billion at March 31, 2011 from $1.07 billion at December 31, 2010 primarily due to increased residential mortgage origination activity. Residential mortgages increased $21.6 million, or 7.3%, to $317.3 million at March 31, 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. Securities available for sale increased $8.6 million, or 4.2%, to $214.4 million at March 31, 2011 due to purchases of fixed-rate mortgage-backed securities totaling $31.2 million, partially offset by calls and repayments of government-sponsored agency debt and mortgage-backed securities of $21.8 million. Interest-bearing deposits decreased $15.7 million, or 21.5%, reflecting the use of excess cash to paydown maturing FHLB advances. Securities held to maturity decreased $7.3 million, or 5.5%, as a result of repayments.

Total deposits increased $30.6 million, or 2.7%, to $1.17 billion at March 31, 2011 compared to $1.14 billion at December 31, 2010 primarily due to growth in core deposits accounts of $43.3 million, or 6.4%, to $723.9 million at March 31, 2011 from $680.7 million at December 31, 2010. The strong growth in core deposit account balances was driven by the success of sales and marketing initiatives in our new Worcester market, 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 $12.7 million, or 2.7%, to $450.0 million at March 31, 2011 compared to $462.6 million at December 31, 2010. Long-term debt decreased $11.8 million, or 6.8%, to $161.5 million at March 31, 2011 compared to $173.3 million at December 31, 2010 mainly due to the use of excess cash balances to pay down FHLB advances. At March 31, 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.

Total stockholders equity increased $1.5 million, or 0.7%, to $224.1 million at March 31, 2011 from $222.6 million at December 31, 2010 as a result of net income of $2.4 million, stock-based compensation totaling $526,000 and employee stock ownership plan (ESOP) compensation of $269,000 for the three months ended March 31, 2011. These increases were partially offset by a cash dividend payment amounting to $1.2 million, a decrease of $346,000 in other comprehensive income and repurchases of common stock totaling $195,000.

Credit Quality

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 $8.4 million, or 0.76% of total loans, at March 31, 2011 compared to $9.4 million, or 0.88% of total loans, at December 31, 2010. The non-accrual loan total for March 31, 2011 includes an $860,000 commercial real estate loan which was impaired at March 31, 2011 and was restructured during the second quarter of 2010 as well as a $263,000 commercial real estate loan which was impaired at March 31, 2011 and was restructured during the first quarter of 2011. The non-accrual loan total for March 31, 2011 also includes an $872,000 commercial construction loan which was impaired at March 31, 2011 and was restructured during the fourth quarter of 2010. The total amount of classified loans at March 31, 2011 totaled $67.8 million and includes sixteen 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 $1.5 million in other real estate owned, $940,000 is under a sales contract with a closing expected in the second 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.

Comparison of Operating Results for the Three Months Ended March 31, 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 $2.4 million, or $0.16 per diluted share, for the first quarter of 2011 compared to net income of $1.8 million, or $0.11 per diluted share, for the same period in 2010. Excluding expenses totaling $979,000 ($808,000 net of tax benefit) related to the acquisition of Commonwealth National Bank, net income would have been $2.6 million, or $0.16 per diluted share, for the first 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 March 31,					
	2011			2010		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Interest-earning assets:						
Loans:						
Residential real estate(1)	$ 313,619	$ 3,927	5.01%	$ 341,337	$ 4,632	5.43%
Commercial real estate	455,123	6,765	5.95%	455,852	7,069	6.20%
Home equity	137,805	1,307	3.79%	138,530	1,443	4.17%
Commercial and industrial	165,028	2,221	5.38%	152,627	1,977	5.18%
Consumer and other	19,221	267	5.56%	23,983	336	5.60%
Total loans(2)	1,090,796	14,487	5.31%	1,112,329	15,457	5.56%
Investment securities	341,804	3,191	3.73%	302,916	3,292	4.35%
Other interest-earning assets	61,346	40	0.26%	19,011	8	0.17%
Total interest-earning assets	1,493,946	17,718	4.74%	1,434,256	18,757	5.23%
Noninterest-earning assets(3)	85,102			94,953		
Total assets	$ 1,579,048			$ 1,529,209		
Interest-bearing liabilities:						
Savings accounts	$ 211,758	406	0.77%	$ 170,489	397	0.93%
Money market accounts	262,220	494	0.75%	206,325	449	0.87%
NOW accounts	39,589	43	0.43%	38,650	50	0.52%
Certificates of deposit	456,692	2,354	2.06%	467,551	2,479	2.12%
Total interest-bearing deposits	970,259	3,297	1.36%	883,015	3,375	1.53%
FHLB advances	147,880	1,303	3.52%	202,644	1,552	3.06%
Other interest-bearing liabilities	52,152	327	2.51%	53,981	334	2.47%
Total interest-bearing liabilities	1,170,291	4,927	1.68%	1,139,640	5,261	1.85%
Demand deposits	175,037			155,358		
Other noninterest-bearing liabilities	10,653			9,425		
Total liabilities	1,355,981			1,304,423		
Stockholders equity	223,067			224,786		
Total liabilities and stockholders equity	$ 1,579,048			$ 1,529,209		
Net interest income		$ 12,791			$ 13,496	
Interest rate spread(4)			3.06%			3.39%
Net interest-earning assets(5)	$ 323,655			$ 294,616		
Net interest margin(6)			3.42%			3.76%

Average interest-earning assets to average interest-bearing liabilities	127.66%	125.85%

(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 March 31, 2011 vs. 2010		
	Increase (Decrease) Due to		
	Volume	Rate	Net
	(In thousands)		
Interest-earning assets:			
Loans:			
Residential real estate[(1)]	$ (361)	$ (344)	$ (705)
Commercial real estate	(11)	(293)	(304)
Home equity	(8)	(128)	(136)
Commercial and industrial	165	79	244
Consumer and other	(66)	(3)	(69)
Total loans	(281)	(689)	(970)
Investment securities	394	(495)	(101)
Other interest-earning assets	26	6	32
Total interest-earning assets	139	(1,178)	(1,039)
Interest-bearing liabilities:			
Savings accounts	86	(77)	9
Money market accounts	111	(66)	45
NOW accounts	1	(8)	(7)
Certificates of deposit	(57)	(68)	(125)
Total interest-bearing deposits	141	(219)	(78)
FHLB advances	(459)	210	(249)
Other interest-bearing liabilities	(11)	4	(7)
Total interest-bearing liabilities	(329)	(5)	(334)
Change in net interest income	$ 468	$ (1,173)	$ (705)

(1) Includes loans held for sale.

Net Interest Income Before Provision for Loan Losses. Net interest income before provision for loan losses decreased $705,000, or 5.2%, to $12.8 million for the first quarter of 2011 from $13.5 million for the same period in 2010 as a result of net interest margin compression, partially offset by an increase in average interest earning assets. The net interest margin decreased 34 basis points to 3.42% for the three months ended March 31, 2011 from 3.76% for the same period in 2010 due to a decrease of $330,000 in amortization of certain acquisition accounting adjustments to $402,000 for the first quarter of 2011 from $732,000 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. Total average interest-earning assets increased $59.7 million, or 4.2%, to $1.49 billion for the three months ended March 31, 2011, mainly due to growth in investment securities and excess cash balances held at the Federal Reserve Bank.

Interest Income. Interest income decreased $1.0 million, or 5.5%, to $17.7 million for the three months ended March 31, 2011 from $18.8 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 49 basis points to 4.74% for the first quarter of 2011 in connection with the lower interest rate environment and a reduction of $57,000 in the accretion of certain loan fair value accounting adjustments to $245,000 in the first quarter of 2011 from $302,000 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. Total average interest-earning assets increased $59.7 million, or 4.2%, to $1.49 billion for the three months ended March 31, 2011, mainly due to growth in investment securities and excess cash balances held at the Federal Reserve Bank.

Interest Expense. Interest expense decreased $334,000, or 6.3%, to $4.9 million for the three months ended March 31, 2011 from $5.3 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 17 basis points to 1.68% for the three months ended March 31, 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 $273,000 reduction in interest expense associated with the amortization of certain fair value deposits and borrowings accounting adjustments to $157,000 in the first quarter of 2011 from $430,000 for the same period in 2010. Average interest-bearing liabilities increased $30.7 million, or 2.7%, to $1.17 billion for the three months ended March 31, 2011 from $1.14 billion for the prior year period reflecting growth in interest-bearing deposits attributable to attractive products, competitive pricing and excellent customer service.

Provision for Loan Losses. The provision for loan losses increased $75,000, or 10.2%, to $808,000 for the three months ended March 31, 2011 compared to $733,000 for the same period in 2010. 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 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 allowance for loan losses was $10.5 million, or 0.95% of loans outstanding at March 31, 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 1.17%.

Non-interest Income. Non-interest income increased $112,000, or 5.5%, to $2.1 million for the three months ended March 31, 2011, reflecting growth of $102,000, or 73.9%, in wealth management income as a result of increases in commissions from annuity sales and fees from assets under management. The results were also impacted by lower gains from sales of loans of $23,000 for the first quarter of 2011 from $88,000 for the same period in 2010, a decrease of $79,000, or 5.8% in fee income on depositors accounts and an other-than-temporary impairment charge on an equity security of $145,000 for the first quarter of 2010.

Non-interest Expense. Non-interest expense decreased $1.1 million, or 9.0%, to $10.9 million for the first quarter of 2011 from $12.0 million in the same period last year. Excluding acquisition-related expenses totaling $979,000 in the first quarter of 2010, non-interest expense would have decreased $99,000, or 0.9%. Marketing expenses decreased $113,000, or 20.2%, reflecting the cost of promotional activities in 2010 to support the Company s entry into the Worcester market. FDIC premium expense decreased $85,000, or 20.5%, driven by a one-time adjustment in the first quarter of 2010 related to the CNB acquisition. Occupancy expenses decreased $83,000, or 9.0%, mainly due to the closing of the Company s Worcester operations center in 2010. Data processing expenses decreased $79,000, or 7.4%, largely attributable to one-time software setup expenses incurred during the first quarter of 2010. Other expenses decreased $50,000, or 3.4%, reflecting lower costs to operate the Worcester franchise as a result of integration efforts during the first quarter of 2010 and a one-time depreciation expense adjustment related to the CNB fixed assets conversion in 2010, partially offset by an operating loss from an investment in a low income housing tax credit fund. These favorable variances were partially offset by increases in salaries and benefits and professional services. Salaries and

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benefits expense increased $191,000, or 3.1%, mainly reflecting annual wage adjustments and new employees hired to support and facilitate the growth of the Company. Professional services expenses increased $120,000, or 22.2%, in connection with expanded consulting and legal costs primarily driven by the timing of loan review and annual meeting activities.

Income Tax Expense. Income tax expense decreased $268,000, or 26.0%, to $763,000 for the first quarter of 2011 from $1.0 million in the same period last year primarily due to a lower effective tax rate. The effective tax rate decreased from 37.1% in the first quarter of 2010 to 23.9% for the first 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.

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 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 and (v) investing in mortgage-backed securities with variable rates or fixed rates with shorter durations. 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 March 31, 2011 and December 31, 2010.

	Net Interest Income At-Risk	
Change in Interest Rates	**Estimated Increase (Decrease) in NII**	**Estimated Increase (Decrease) in NII**
(Basis Points)	(March 31, 2011)	(December 31, 2010)
-100	(1.7)%	(1.1)%
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 measuring 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.

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.

	March 31, 2011				
		Estimated Increase (Decrease) in NPV		NPV as a Percentage of Present Value of Assets (3)	
Change in Interest Rates (basis points) (1)	**Estimated NPV (2)**	**Amount**	**Percent**	**NPV Ratio (4)**	**Increase (Decrease) (basis points)**
		(Dollars in thousands)			
+300	$ 154,977	$ (65,654)	(30)%	10.48%	(326)
+200	180,031	(40,600)	(18)	11.83	(191)
+100	203,383	(17,248)	(8)	12.99	(75)
0	220,631			13.74	
-100	237,961	17,330	8	14.51	78

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		December 31, 2010			
		Estimated Increase (Decrease) in NPV		NPV as a Percentage of Present Value of Assets (3)	
Change in Interest Rates (basis points) (1)	Estimated NPV (2)	Amount	Percent	NPV Ratio (4)	Increase (Decrease) (basis points)
		(Dollars in thousands)			
+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 March 31, 2011 and December 31, 2010, in the event of a 300 basis point increase in interest rates, we would experience a 30% and 31%, respectively, decrease in net portfolio value. In the event of a 100 basis point decrease in interest rates at March 31, 2011 and December 31, 2010, we would experience a 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 March 31, 2011, our liquidity ratio was 23.55%, 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 March 31, 2011, cash and cash equivalents totaled $72.5 million. Securities classified as available-for-sale and held-to-maturity, which provide additional sources of liquidity, totaled $214.4 million and $125.2 million, respectively, at March 31, 2011. In addition, at March 31, 2011, we had the ability to borrow a total of approximately $376.3 million from the FHLBB. On that date, we had $139.6 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 March 31, 2011, we had $14.6 million in loan commitments outstanding. In addition to commitments to originate loans, we had $236.6 million in unused lines of credit to borrowers, $4.4 million in standby letters of credit and $23.0 million to be disbursed under existing construction loan commitments. Certificates of deposit due within one year of March 31, 2011 totaled $273.1 million, or 18.0% 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 March 31, 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 three months ended March 31, 2011, we originated $72.4 million of loans and purchased $31.2 million of securities. In the comparable 2010 period, we originated $39.3 million of loans and purchased $11.6 million of securities.

Financing activities consist primarily of activity in deposit accounts and FHLBB advances. We experienced a net increase in total deposits of $30.6 million and $26.3 million for the three months ended March 31, 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 $11.8 million and $48.0 million during the three months ended March 31, 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 March 31, 2011 and at December 31, 2010, was approximately $234.7 million at March 31, 2011 and $219.9 million at December 31, 2010. At March 31, 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 $66.6 million at March 31, 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 March 31, 2011, United Financial had liquid assets of $16.5 million.

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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 March 31, 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)				
	Less Than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
Contractual Obligations:					
Certificates of deposit	$ 273,141	$ 129,064	$ 47,692	$	$ 449,897
Federal Home Loan Bank advances	40,086	54,008	22,245	23,245	139,584
Repurchase agreements	18,900			20,000	38,900
Subordinated debentures				7,732	7,732
Standby letters of credit	4,402				4,402
Operating leases	1,043	1,928	1,827	4,033	8,831
Capitalized leases	406	812	813	6,255	8,286
Future benefits to be paid under retirement plans	25	3,432	233	5,628	9,318
Total	$ 338,003	$ 189,244	$ 72,810	$ 66,893	$ 666,950
Commitments:					
Commitments to extend credit	$ 278,661	$	$	$	$ 278,661
Commitment to invest in venture capital fund	500				500
Commitment to invest in low income tax credit fund	5,164	1,022			6,186
Total	$ 284,325	$ 1,022	$	$	$ 285,347

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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 March 31, 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
As of March 31, 2011:			
Total risk-based capital	16.47%	8.00%	10.00%
Tier 1 risk-based capital	15.58%	4.00%	6.00%
Tier 1 (core) capital	11.63%	4.00%	5.00%
Tangible equity	11.63%	1.50%	N/A
As of December 31, 2010:			
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. The Bank believes these claims are without merit and is vigorously defending the litigation. The parties are scheduled to go to trial in the third quarter of 2011. 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 March 31, 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 March 31, 2011.

(b) Not applicable

(c) The following table provides certain information with regard to shares repurchased by the Company in the first 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)
January 1 - 31, 2011	13,896	$ 14.05	13,896	742,506
February 1 - 28, 2011				742,506
March 1 - 31, 2011				742,506
Total	13,896	$ 14.05	13,896	

(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.

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

(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: May 5, 2011	By: /s/ Richard B. Collins Richard B. Collins Chairman, President and Chief Executive Officer
Date: May 5, 2011	By: /s/ Mark A. Roberts Mark A. Roberts Executive Vice President and Chief Financial Officer

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