BANCORP RHODE ISLAND INC
Form 10-Q
November 03, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1937**

For the transition period from __________ to __________

Commission File No. 001-16101

BANCORP RHODE ISLAND, INC.

(Exact name of Registrant as specified in its charter)

Rhode Island	05-0509802
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

ONE TURKS HEAD PLACE, PROVIDENCE, RI 02903
(Address of principal executive offices)
(401) 456-5000
(Registrant s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the Issuer s classes of common stock, as of November 1, 2011:

Common Stock Par Value $0.01	4,687,355 shares
(class)	(outstanding)

BANCORP RHODE ISLAND, INC.
Quarterly Report on Form 10-Q
Table of Contents

Special Note Regarding Forward Looking Statements

We make certain forward looking statements in this Quarterly Report on Form 10-Q and in other documents that we incorporate by reference into this report that are based upon our current expectations and projections about future events. We intend these forward looking statements to be covered by the safe harbor provisions for forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we are including this statement for purposes of these safe harbor provisions. You can identify these statements by reference to a future period or periods by our use of the words estimate, project, may, believe, intend, anticipate, plan, seek, expect and similar terms or variations Actual results may differ materially from those set forth in forward looking statements as a result of risks and uncertainties, including those detailed from time to time in our filings with the Federal Deposit Insurance Corporation (FDIC) and the Securities and Exchange Commission (SEC). Our forward looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not assume any obligation to update any forward looking statements.

Table of Contents

BANCORP RHODE ISLAND, INC.
Consolidated Balance Sheets (unaudited)

	September 30, 2011	December 31, 2010
	(In thousands)	
ASSETS:		
Cash and due from banks	$ 29,695	$ 14,384
Overnight investments	599	395
Total cash and cash equivalents	**30,294**	**14,779**
Available for sale securities (amortized cost of $316,991 and $357,402, respectively)	327,060	360,025
Stock in Federal Home Loan Bank of Boston	16,274	16,274
Loans and leases receivable:		
Commercial loans and leases	792,114	780,264
Consumer and other loans	204,112	210,348
Residential mortgage loans	151,358	164,877
Total loans and leases receivable	**1,147,584**	**1,155,489**
Allowance for loan and lease losses	(18,149)	(18,654)
Net loans and leases receivable	**1,129,435**	**1,136,835**
Premises and equipment, net	11,208	11,889
Goodwill, net	12,262	12,262
Accrued interest receivable	4,181	4,842
Investment in bank-owned life insurance	32,193	31,277
Prepaid expenses and other assets	12,309	15,576
Total assets	**$ 1,575,216**	**$ 1,603,759**
LIABILITIES:		
Deposits:		
Demand deposit accounts	$ 284,959	$ 264,274
NOW accounts	75,915	70,327
Money market accounts	132,305	96,285
Savings accounts	329,796	341,667
Certificate of deposit accounts	298,733	347,613
Total deposits	**1,121,708**	**1,120,166**
Overnight and short-term borrowings	38,501	40,997
Wholesale repurchase agreements	10,000	20,000
Federal Home Loan Bank of Boston borrowings	231,870	260,889
Subordinated deferrable interest debentures	13,403	13,403
Other liabilities	21,091	19,626
Total liabilities	**1,436,573**	**1,475,081**

SHAREHOLDERS EQUITY:		
Common stock, par value $0.01 per share, authorized 11,000,000 shares:		
Issued: 5,083,991 and 5,047,942 shares, respectively	50	50
Additional paid-in capital	75,771	73,866
Treasury stock, at cost: 396,986 and 373,850 shares, respectively	(13,406)	(12,527)
Retained earnings	69,683	65,584
Accumulated other comprehensive income, net	6,545	1,705
Total shareholders equity	**138,643**	**128,678**
Total liabilities and shareholders equity	**$ 1,575,216**	**$ 1,603,759**

See accompanying notes to unaudited consolidated financial statements

BANCORP RHODE ISLAND, INC.
Consolidated Statements of Operations (unaudited)

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2011	*2010*	*2011*	*2010*
	(In thousands, except per share data)			
Interest and dividend income:				
Overnight investments	$	$ 1	$ 1	$ 6
Mortgage-backed securities	2,508	2,764	7,739	9,034
Investment securities	399	462	1,167	1,502
Federal Home Loan Bank of Boston stock dividends	11		36	
Loans and leases	14,243	14,927	43,298	44,600
Total interest and dividend income	**17,161**	**18,154**	**52,241**	**55,142**
Interest expense:				
Deposits	1,271	1,910	3,978	6,352
Overnight and short-term borrowings	10	16	29	53
Wholesale repurchase agreements	10	139	291	421
Federal Home Loan Bank of Boston borrowings	1,897	2,438	6,124	7,621
Subordinated deferrable interest debentures	166	173	498	503
Total interest expense	**3,354**	**4,676**	**10,920**	**14,950**
Net interest income	**13,807**	**13,478**	**41,321**	**40,192**
Provision for loan and lease losses	1,600	1,275	3,575	4,425
Net interest income after provision for loan and lease losses	**12,207**	**12,203**	**37,746**	**35,767**
Noninterest income:				
Total other-than-temporary impairment losses on available for sale securities		5		54
Non-credit component of other-than-temporary losses recognized in other comprehensive income		(422)		(1,086)
Credit component of other-than-temporary impairment losses on available for sale securities		(417)		(1,032)
Service charges on deposit accounts	1,177	1,337	3,532	3,949
Commissions on nondeposit investment products	336	144	886	529
Income from bank-owned life insurance	307	320	916	953
Loan related fees	127	162	478	484
Net gains on lease sales and commissions on loans originated for others	58	44	118	86
Gain on sale of available for sale securities		465	212	1,043
Other income	194	234	661	877

Total noninterest income	**2,199**	**2,289**	**6,803**	**6,889**
Noninterest expense:				
Salaries and employee benefits	5,769	5,829	18,358	17,418
Occupancy	815	827	2,568	2,517
Data processing	702	667	2,070	1,975
Professional services	558	549	3,296	1,718
Loan workout and other real estate owned	392	196	759	869
Operating	370	461	1,252	1,390
Equipment	275	266	807	776
Marketing	267	333	998	974
Loan servicing	155	133	434	480
FDIC insurance	72	475	991	1,425
Other expenses	558	614	2,287	1,726
Total noninterest expense	**9,933**	**10,350**	**33,820**	**31,268**
Income before income taxes	**4,473**	**4,142**	**10,729**	**11,388**
Income tax expense	1,830	1,334	3,960	3,680
Net income	**$ 2,643**	**$ 2,808**	**$ 6,769**	**$ 7,708**
Per share data:				
Basic earnings per common share	$ 0.56	$ 0.60	$ 1.44	$ 1.65
Diluted earnings per common share	$ 0.55	$ 0.60	$ 1.42	$ 1.65
Cash dividends declared per common share	$ 0.19	$ 0.17	$ 0.57	$ 0.51
Weighted average common shares outstanding basic	4,685	4,674	4,685	4,653
Weighted average common shares outstanding diluted	4,783	4,703	4,757	4,682

See accompanying notes to unaudited consolidated financial statements

Table of Contents

BANCORP RHODE ISLAND, INC.
Consolidated Statements of Changes in Shareholders Equity (unaudited)

Nine months ended September 30,	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total
	(In thousands, expect per share data)					
2010						
Balance at December 31, 2009	$ 50	$ 72,783	$ (12,309)	$ 59,012	$ 1,125	$ 120,661
Net income				7,708		7,708
Other comprehensive income:						
Unrealized holding gains on securities available for sale, net of taxes of ($2,181)					4,051	4,051
Reclassification adjustment for net gains included in net income net of taxes of $365					(678)	(678)
Non-credit portion OTTI, net of taxes of ($380)					706	706
Total comprehensive income						11,787
Exercise of stock options		297				297
Macrolease acquisition		211				211
Share repurchases			(218)			(218)
Share-based compensation		410				410
Tax benefit from exercise of stock options		(4)				(4)
Dividends on common stock ($0.51 per common share)				(2,375)		(2,375)
Balance at September 30, 2010	$ 50	$ 73,697	$ (12,527)	$ 64,345	$ 5,204	$ 130,769
2011						
Balance at December 31, 2010	$ 50	$ 73,866	$ (12,527)	$ 65,584	$ 1,705	$ 128,678
Net income				6,769		6,769
Other comprehensive income:						
Unrealized holding gains on securities available for sale, net of taxes of $(2,680)					4,978	4,978
Reclassification adjustment for net gains included in net income, net of taxes of $74					(138)	(138)
Total comprehensive income						11,609

Exercise of stock options		483				483
Share repurchases			(879)			(879)
Share-based compensation		1,064				1,064
Tax benefit from exercise of stock options		358				358
Dividends on common stock ($0.57 per common share)				(2,670)		(2,670)
Balance at September 30, 2011	$ 50	$ 75,771	$ (13,406)	$ 69,683	$ 6,545	$ 138,643

See accompanying notes to unaudited consolidated financial statements

5

Table of Contents

BANCORP RHODE ISLAND, INC.
Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 6,769	$ 7,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	(677)	(1,128)
Provision for loan and lease losses	3,575	4,425
Income from bank-owned life insurance	(916)	(953)
Share-based compensation expense	1,064	410
Net gains on lease sales	(9)	(54)
Gain on sale of available for sale securities	(212)	(1,043)
Credit component of other-than-temporary impairment losses on available for sale securities		1,032
Gain on sale of other real estate owned	(7)	(57)
Proceeds from sales of leases	510	1,102
Leases originated for sale	(501)	(1,048)
Decrease in accrued interest receivable	661	316
Decrease (increase) in prepaid expenses and other assets	307	(777)
Increase in other liabilities	586	210
Net cash provided by operating activities	11,150	10,143
Cash flows from investing activities:		
Available for sale securities:		
Purchases	(85,217)	(116,917)
Maturities and principal repayments	121,261	147,301
Proceeds from sales	4,176	12,978
Net decrease (increase) in loans and leases	5,171	(24,959)
Capital expenditures for premises and equipment	(356)	(760)
Proceeds from sale of other real estate owned	1,132	1,866
Net cash provided by investing activities	46,167	19,509
Cash flows from financing activities:		
Net increase in deposits	1,542	17,399
Net decrease in overnight and short-term borrowings	(12,496)	(4,143)
Proceeds from long-term borrowings	226,300	42,430
Repayment of long-term borrowings	(255,319)	(87,589)
Exercise of stock options	483	79
Tax benefit (expense) from exercise of stock options	358	(4)
Dividends on common stock	(2,670)	(2,375)

Net cash used in financing activities		(41,802)		(34,203)
Net increase (decrease) in cash and cash equivalents		15,515		(4,551)
Cash and cash equivalents at beginning of period		14,779		20,830
Cash and cash equivalents at end of period	$	30,294	$	16,279
Supplementary Disclosures:				
Cash paid for interest	$	11,500	$	15,664
Cash paid for income taxes		2,770		3,965
Non-cash investing and financing transactions:				
Change in accumulated other comprehensive income, net of taxes		4,840		3,373
Goodwill increase related to Macrolease acquisition				23
Treasury stock acquisitions from shares tendered in share-based payment transactions		879		218
Transfer of loans to other real estate owned and non-real estate foreclosed assets		771		1,239
Non-credit component of other-than-temporary impairment, net of taxes				(706)
Net sales of available for sale securities not yet settled				2,468

See accompanying notes to unaudited consolidated financial statements

BANCORP RHODE ISLAND, INC.
Notes to Consolidated Financial Statements (unaudited)

(1) Basis of Presentation

Bancorp Rhode Island, Inc. (the Company), a Rhode Island corporation, is the holding company for Bank Rhode Island (the Bank). The Company has no significant assets other than the common stock of the Bank. For this reason, substantially all of the discussion in this Quarterly Report on Form 10-Q relates to the operations of the Bank and its subsidiaries.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. These estimates and assumptions are based on management s estimates and judgment and are evaluated on an ongoing basis using historical experiences and other factors, including the current economic environment. Estimates and assumptions are adjusted when facts and circumstances dictate. A recessionary environment, illiquid credit markets and declines in consumer spending have combined to increase the uncertainty inherent in management s estimates and assumptions. As future events cannot be determined with precision, actual results could differ significantly from management s estimates. Material estimates that are particularly susceptible to change relate to the determination of the allowance for loan and lease losses, evaluation of investments for other-than-temporary impairment, review of goodwill for impairment and income taxes.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Bank Rhode Island, along with the Bank s wholly owned subsidiaries, BRI Investment Corp. (a Rhode Island passive investment company), Macrolease Corporation (an equipment financing company), Acorn Insurance Agency, Inc. (a licensed insurance agency) and BRI Realty Corp. (a real estate holding company). All significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited interim consolidated financial statements of the Company conform to accounting principles generally accepted in the United States (U.S. GAAP) and prevailing practices within the banking industry and include all necessary adjustments (consisting of only normal recurring adjustments) that, in the opinion of management, are required for a fair presentation of the results and financial condition of the Company. Prior period amounts are reclassified whenever necessary to conform to the current year classifications.

The Company considers events or transactions that occur after the balance sheet date but before the consolidated financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through the date of the issuance of these consolidated financial statements.

The unaudited interim results of consolidated operations are not necessarily indicative of the results for any future interim period or for the entire year. These interim consolidated financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with the annual consolidated financial statements and accompanying notes included in the Company s 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

(2) Earnings per Share

Basic earnings per share (EPS) exclude dilution and are computed by dividing net income by the weighted average number of common shares and participating securities outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of additional common stock that then share in the earnings of the Company.

The following sets forth a reconciliation of basic EPS and diluted EPS:

	Three Months Ended			
	September 30, 2011		September 30, 2010	
	(In thousands, except per share data)			
Basic EPS Computation:				
Numerator:				
Net income	$	2,643	$	2,808
Denominator:				
Weighted average shares outstanding		4,685		4,674
Basic EPS	$	0.56	$	0.60
Diluted EPS Computation:				
Numerator:				
Net income	$	2,643	$	2,808
Denominator:				
Weighted average shares outstanding		4,685		4,674
Dilutive effect of stock options		95		27
Dilutive effect of contingent shares		3		2
Diluted weighted average shares outstanding		4,783		4,703
Diluted EPS	$	0.55	$	0.60

For the three months ended September 30, 2011 and 2010, weighted average options to purchase 19,500 and 225,650 shares of common stock, respectively, were outstanding but excluded from the computation of diluted EPS because they were anti-dilutive.

(3) Recently Adopted Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Instruments*. ASU No. 2010-06 amends ASC 820 to require additional disclosures regarding fair value measurements. Specifically, the ASU requires entities to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 of the fair value hierarchy, to disclose reasons for any transfers in or out of Level 3 and to separately disclose information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements. In addition, the ASU also amends ASC 820 to clarify certain existing disclosure requirements. Except for the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements separately, the amendments to ASC 820 made by ASU No. 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of these provisions of ASU No. 2010-06 on January 1, 2010 did not have a material impact on the Company s consolidated financial statements. The requirement to separately disclose purchases, sales, issuances and settlements of recurring Level 3 measurements is effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of the remaining provisions of this ASU on January 1, 2011 did not have a material impact on the Company s consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU No. 2010-20 amends ASC 310, *Receivables,* by requiring more robust and disaggregated disclosures about the credit quality of an entity s financing receivables and its allowance for credit losses. An entity is required to disclose the nature of credit risk associated with its financing receivables and the assessment of that risk in estimating its allowance for credit losses, as well as changes in the allowance and the reason for those changes. The new and amended disclosures required under ASC 2010-20 that relate to information as of the end of a reporting period are effective for public entities with fiscal years and interim reporting periods ending on or after December 15, 2010. The Company adopted these provisions of the ASU on October 1, 2010. The disclosures that include information for activity that occurs during a reporting period are effective for public companies with the fiscal years or the first interim period beginning after December 15, 2010. The Company adopted these provisions of the ASU on January 1, 2011. The adoption of ASU No. 2010-20 required significant expansion to the Company s disclosures surrounding loans and leases receivable and the allowance for loan and lease losses. See *Note 6 - Credit Quality of Loans and Leases and Allowance for Loan and Lease Losses.*

Table of Contents

In January 2011, the FASB issued ASU No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.* ASU No. 2011-01 deferred the effective date for the troubled debt restructuring (TDR) disclosures that are required by ASU No. 2010-20. In April 2011, the FASB issued ASU No. 2011-02, *Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring.* ASU No. 2011-02 provides additional guidance clarifying when the restructure of a receivable should be considered a TDR. Specifically, the ASU provides guidance in determining whether the creditor has granted a concession and whether the debtor is experiencing financial difficulty. The TDR disclosures are required upon the adoption of ASU No. 2011-02. Public entities are required to adopt ASU No. 2011-02 for interim and annual periods beginning on or after June 15, 2011 with early adoption permitted. For purposes of TDR disclosures, this ASU applies retrospectively to restructurings occurring on or after the beginning of the annual period of adoption. However, any changes in the method used to measure impairment apply prospectively. Beginning in the period ASU No. 2011-02 is adopted, public entities will also be subject to the requirements to disclose the activity-based information about TDRs under ASU No. 2010-20 that was previously deferred. The Company adopted these provisions of the ASU on July 1, 2011. The adoption of these provisions required expansion of the Company s disclosures surrounding troubled debt restructurings. See *Note 6 Credit Quality of Loans and Leases and Allowance for Loan and Lease Losses.*

(4) Recently Issued Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820).* ASU No. 2011-04 amends ASC 820 to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards. ASU No. 2011-04 includes amendments that clarify the intent of the application of existing fair value measurement requirements, expands existing disclosure requirements for fair value measurements and prohibits the application of block discounts for all fair value measurements. This ASU is effective for interim and annual periods beginning after December 15, 2011 and is required to be applied prospectively. The Company does not expect the adoption of ASU No. 2011-04 to have a material impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220).* ASU No. 2011-05 revises the manner in which entities present comprehensive income in their financial statements. The new guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders equity and requires presentation in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU No. 2011-05 will change the manner in which the Company presents other comprehensive income in its consolidated financial statements, but will have no financial impact on the Company s consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment (Topic 350).* ASU No. 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than the carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. This ASU is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011 with early adoption permitted. The Company does not expect the adoption of ASU No. 2011-08 to have a material impact on the Company s consolidated financial statements.

(5) Available for Sale Securities

The Company categorizes available for sale securities by major category, including government-sponsored enterprise (GSE) obligations, trust preferred collateralized debt obligations (CDOs), collateralized mortgage obligations and GSE mortgage-backed securities. Major categories are determined by the nature and risks of the securities and consider, among other things, the issuing entity, type of investment and underlying collateral. The Company categorizes obligations and/or securities issued by the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Federal Farm Credit Banks Funding Corporation as GSE obligations and/or securities.

A summary of available for sale securities by major categories follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(In thousands)		
At September 30, 2011:				
GSE obligations	$ 65,993	$ 296	$ (27)	$ 66,262
Trust preferred CDOs [(1)]	1,518		(825)	693
Collateralized mortgage obligations	18,571	262	(443)	18,390
GSE mortgage-backed securities	230,909	10,808	(2)	241,715
Total	$ 316,991	$ 11,366	$ (1,297)	$ 327,060
At December 31, 2010:				
GSE obligations	$ 80,992	$ 436	$ (394)	$ 81,034
Trust preferred CDOs [(1)]	1,518		(956)	562
Collateralized mortgage obligations	28,885	517	(1,234)	28,168
GSE mortgage-backed securities	246,007	6,076	(1,822)	250,261
Total	$ 357,402	$ 7,029	$ (4,406)	$ 360,025

[(1)] Amortized cost is net of write-downs as a result of other-than-temporary impairment.

The Company sells available for sale securities to capitalize on fluctuations in the market. During the quarter ended September 30, 2011, no available for sale securities were sold, compared to $7.6 million of available for sale securities sold, generating $465,000 of gains during the same quarter of 2010. The cost of securities used in calculating gains on the sale of available for sale securities is determined using the specific identification method.

The following table sets forth certain information regarding temporarily impaired available for sale securities:

	Number of Holdings	Less than One Year		One Year or Longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(Dollars in thousands)			
At September 30, 2011:							
GSE obligations	2	$ 9,973	$ (27)	$	$	$ 9,973	$ (27)
Trust preferred CDOs	2			693	(825)	693	(825)
Collateralized mortgage obligations	2	992	(17)	5,013	(426)	6,005	(443)
GSE mortgage-backed securities	7	301	(2)	25		326	(2)
Total	13	$ 11,266	$ (46)	$ 5,731	$ (1,251)	$ 16,997	$ (1,297)

At December 31, 2010:											
GSE obligations	7	$	39,599	$	(394)	$		$		$ 39,599	$ (394)
Trust preferred CDOs	2						562		(956)	562	(956)
Collateralized mortgage obligations	3		1,912		(12)		7,896		(1,222)	9,808	(1,234)
GSE mortgage-backed securities	15		60,592		(1,822)					60,592	(1,822)
Total	27	$	102,103	$	(2,228)	$	8,458	$	(2,178)	$ 110,561	$ (4,406)

Table of Contents

The following table sets forth the maturities of available for sale securities:

	Within One Year		After One, But Within Five Years		After Five, But Within Ten Years		After Ten Years	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)							
At September 30, 2011:								
GSE obligations	$ 16,000	$ 16,088	$ 49,993	$ 50,174	$	$	$	$
Trust preferred CDOs							1,518	693
Collateralized mortgage obligations					10,518	10,752	8,053	7,638
GSE mortgage-backed securities			1,585	1,644	12,837	13,608	216,519	226,463
Total	$ 16,000	$ 16,088	$ 51,578	$ 51,818	$ 23,355	$ 24,360	$ 226,090	$ 234,794
At December 31, 2010:								
GSE obligations	$	$	$ 70,997	$ 71,076	$ 9,995	$ 9,957	$	$
Trust preferred CDOs							1,518	562
Collateralized mortgage obligations					15,059	15,426	13,827	12,743
GSE mortgage-backed securities			2,220	2,315	10,396	11,055	233,390	236,891
Total	$	$	$ 73,217	$ 73,391	$ 35,450	$ 36,438	$ 248,735	$ 250,196

At September 30, 2011 and December 31, 2010, respectively, $238.8 million and $245.8 million of available for sale securities were pledged as collateral for repurchase agreements, municipal deposits, treasury, tax and loan deposits, swap agreements, current and future Federal Home Loan Bank of Boston (FHLB) borrowings and future Federal Reserve discount window borrowings.

The Company performs regular analysis on the available for sale securities portfolio to determine whether a decline in fair value indicates that an investment is other-than-temporarily impaired. In making these other-than-temporary determinations, management considers, among other factors, the length of time and extent to which the fair value has been less than amortized cost, projected future cash flows, credit subordination and the creditworthiness, capital adequacy and near-term prospects of the issuers. Management also considers the Company s capital adequacy, interest rate risk, liquidity and business plans in assessing whether it is more likely than not that the Company will sell or be required to sell the securities before recovery.

If the Company determines that a decline in fair value is other-than-temporary and that it is more likely than not that the Company will not sell or be required to sell the security before recovery of its amortized cost, the credit portion of the impairment loss is recognized in earnings and the noncredit portion is recognized in accumulated other comprehensive income. The credit portion of the other-than-temporary impairment represents the difference between the amortized cost and the present value of the expected future cash flows of the security. If the Company determines that a decline in fair value is other-than-temporary and it will more likely than not sell or be required to sell the security before recovery of its amortized cost, the entire difference between the amortized cost and the fair value of the security will be recognized in earnings.

In performing the analysis for the two collateralized debt obligations (CDO A and CDO B) held by the Company, which are backed by pools of trust preferred securities, future cash flow scenarios for each security were estimated based on varying levels of severity for assumptions of future delinquencies, recoveries and prepayments. These estimated cash flow scenarios were used to determine whether the Company expects to recover the amortized cost basis of the securities. Projected credit losses were compared to the current level of credit enhancement to assess whether the security is expected to incur losses in any future period and therefore become other-than-temporarily impaired.

CDO A has experienced $87.0 million, or 38.1%, in deferrals/defaults of the security s underlying collateral to date. During the third quarter of 2011, $12.0 million of collateral that was previously in deferral/default status was cured. In addition, the Company received its scheduled quarterly interest payment. Since 2010, the security had been adding interest to the principal rather than paying out. Projected credit loss severity assumptions were utilized in estimated future cash flow scenarios and it was determined that management expects to recover the security s amortized cost. At September 30, 2011, credit related other-than-temporary impairment losses on this security since its purchase totaled $484,000.

CDO B has experienced $188.5 million, or 32.7%, in deferrals/defaults of the security s underlying collateral to date. The Company has not received its scheduled quarterly interest payments since June 30, 2009 because the security is adding interest to the principal rather than paying out. Projected credit loss severity assumptions were utilized in estimated future cash flow scenarios and it was determined that management expects to recover the security s amortized cost. At September 30, 2011, credit related other-than-temporary impairment losses on this security since its purchase totaled $932,000.

The following table provides a reconciliation of the beginning and ending balances for credit losses on debt securities for which a portion of an other-than-temporary impairment was recognized in other comprehensive income:

	Credit Component of Other-Than-Temporary Impairment Losses For Which a Portion Was Recognized in Other Comprehensive Income			
	2011		2010	
	(In thousands)			
Balance, January 1	$	(1,416)	$	(384)
Credit losses for which an other-than-temporary impairment was previously recognized				(1,032)
Balance, September 30	$	(1,416)	$	(1,416)

The decline in fair value of the remaining available for sale securities in an unrealized loss position is due to general market concerns of the liquidity and creditworthiness of the issuers of the securities. Management believes that it will recover the amortized cost basis of the securities and that it is more likely than not that it will not sell the securities before recovery. As such, management has determined that the securities are not other-than-temporarily impaired as of September 30, 2011. If market conditions for securities worsen or the creditworthiness of the underlying issuers deteriorates, it is possible that the Company may recognize additional other-than-temporary impairments in future periods.

(6) Credit Quality of Loans and Leases and Allowance for Loan and Lease Losses

At September 30, 2011, there were $21.1 million of nonaccrual loans and leases in the portfolio. There were $945,000 of loans and leases past due 60 to 89 days at September 30, 2011. At September 30, 2011, the Bank had no commitments to lend additional funds to borrowers whose loans or leases were on nonaccrual. This compares to $16.5 million of nonaccrual loans and leases and $2.4 million of loans and leases past due 60 to 89 days as of December 31, 2010. There were $16.2 million of impaired loans and leases with $1.7 million of specific impairment reserves at September 30, 2011, while included in nonaccrual loans and leases as of December 31, 2010 were impaired loans and leases of $10.8 million with specific reserves of $1.5 million.

Table of Contents

The following table sets forth information pertaining to the Company s recorded investment of loans and leases accounted for on a nonaccrual basis and past due 90 days or more, but still accruing.

	September 30, 2011			December 31, 2010		
	Nonaccrual	90+ Days, Still Accruing	Total	Nonaccrual	90+ Days, Still Accruing	Total
	(In thousands)					
Commercial loans and leases:						
Commercial real estate nonowner occupied	$ 866	$ 139	$ 1,005	$	$	$
Commercial real estate owner occupied	5,189		5,189	5,272		5,272
Commercial and industrial	3,807		3,807	2,462		2,462
Multifamily	2,664		2,664	717		717
Small business	1,009	168	1,177	1,090		1,090
Construction				470		470
Leases and other	693	65	758	581		581
Total commercial loans and leases	14,228	372	14,600	10,592		10,592
Consumer and other loans:						
Home equity term loans	865		865	826		826
Home equity lines of credit	158		158	50		50
Total consumer and other loans	1,023		1,023	876		876
Residential mortgage loans:						
One- to four-family adjustable rate	5,232		5,232	4,089		4,089
One- to four-family fixed rate	588		588	956		956
Total residential mortgage loans	5,820		5,820	5,045		5,045
Total nonperforming loans and leases	$ 21,071	$ 372	$ 21,443	$ 16,513	$	$ 16,513

Table of Contents

The following tables set forth information pertaining to the Company s recorded investment of past due loans and leases.

	September 30, 2011			
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due(1)	Total
	(In thousands)			
Commercial loans and leases:				
Commercial real estate nonowner occupied	$ 300	$	$ 139	$ 439
Commercial real estate owner occupied	4,807			4,807
Commercial and industrial	473			473
Multifamily	1,355	401		1,756
Small business	464	268	168	900
Leases and other	281	49	65	395
Total past due commercial loans and leases	7,680	718	372	8,770
Consumer and other loans:				
Home equity term loans	289	226		515
Home equity lines of credit	325			325
Unsecured and other	4	1		5
Total past due consumer and other loans	618	227		845
Residential mortgage loans:				
One- to four-family adjustable	1,240			1,240
One- to four family fixed rate	22			22
Total past due residential mortgage loans	1,262			1,262
Total past due loans and leases	$ 9,560	$ 945	$ 372	$ 10,877

	December 31, 2010			
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due(1)	Total
	(In thousands)			
Commercial loans and leases:				
Commercial real estate nonowner occupied	$ 282	$ 143	$	$ 425
Commercial real estate owner occupied	832			832
Commercial and industrial	346	204		550
Multifamily	299	661		960
Small business	812	180		992
Leases and other	1,053	711		1,764
Total past due commercial loans and leases	3,624	1,899		5,523

Consumer and other loans:				
Home equity term loans	398	115		513
Home equity lines of credit	299			299
Unsecured and other	7			7
Total past due consumer and other loans	704	115		819
Residential mortgage loans:				
One- to four-family adjustable	2,005	415		2,420
One- to four family fixed rate	142			142
Total past due residential mortgage loans	2,147	415		2,562
Total past due loans and leases	$ 6,475	$ 2,429	$	$ 8,904

(1) 90+ Days Past Due includes only those loans and leases that are still accruing. All other loans and leases 90 days or more are included as a component of nonaccrual loans and leases.

The Company maintains an allowance for loan and lease losses that management believes is sufficient to absorb probable losses in its loan and lease portfolios. Arriving at an appropriate level of allowance for loan and lease losses requires the creation and maintenance of a risk rating system that accurately classifies all loans and leases by category and further by degree of credit risk. A specified level of allowance is established within each classification and is based upon statistical analysis of loss trends, historical migration and delinquency patterns, anticipated trends in the loan and lease portfolios and industry standards and trends. The levels of allowance within each classification are subject to periodic reviews and, therefore, are subject to change.

Generally, commercial loans and leases are individually risk rated on a scale of 1 through 7. Ratings 1 through 5 are considered pass, or satisfactory credit exposures. Ratings 6, or special mention, and 7, or substandard, are negative ratings and loans and leases with these ratings are considered watch list assets. Loans and leases categorized as special mention have potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects of the loan or lease at some future date. Loans and leases categorized as substandard are inadequately protected by the payment capacity of the obligor or by the collateral pledged, if any. Substandard loans and leases have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

A reserve percentage is assigned to each risk rating category based on the perceived risk of default and loss in conjunction with the Company s historical loss experience. At September 30, 2011 and December 31, 2010, the reserve percentages ranged from 0.00% to 1.50% for pass-rated loans. Special mention and substandard loans were assigned reserve percentages of 5.00% and 15.00%, respectively. Historically, Macrolease-generated loans and leases and small business loans were excluded from the aforementioned commercial risk rating scale and were reserved at 1.00% and 2.00%, respectively, at December 31, 2010. As of September 30, 2011, the Company further disaggregated its Macrolease and small business portfolio reserve categories. Macrolease-generated loans and leases and small business loans that are pass-rated were reserved at 0.85% and 1.50%, respectively. Watch list loans and leases in the Macrolease and small business portfolios were reserved at 25.00% and 40.00%, respectively.

Consumer and other loans are also classified by type of loan. At September 30, 2011 and December 31, 2010, home equity term loans in which the Bank has a subordinated interest and home equity lines of credit were reserved at 0.90%. Home equity term loans in which the Bank has a first position interest are reserved for based on delinquency status, ranging from 0.40% for current loans to 25.00% for loans that are over 90 days delinquent at September 30, 2011 and December 31, 2010. Unsecured and other consumer loans are reserved at 7.00% at September 30, 2011 and December 31, 2010. The Bank does not reserve for loans that are fully secured by depository accounts at the Bank.

Risk classifications for residential mortgage loans are stratified initially by type of loan. At September 30, 2011 and December 31, 2010, current fixed rate loans were reserved at 0.40%, while current adjustable rate mortgage (ARM) loans were reserved at 1.00%. Additionally, these loans are classified by delinquency, ranging from one payment delinquent to four or more payments delinquent. The reserve percentages for delinquent residential mortgage loans ranged from 2.00% to 25.00% at September 30, 2011 and December 31, 2010.

The unallocated portion of the reserve is the most difficult to quantify. It is maintained to protect against the imprecision in estimating and measuring loss when evaluating reserves for individual loans and leases or pools of loans and leases. It is not practical to quantify a specific amount for this portion of the allowance for loan and lease losses. Rather, an acceptable range is sought. Factors that bring a level of uncertainty to probable losses in the Bank s portfolio include, but are not limited to, economic and interest rate uncertainty, real estate market uncertainty, large relationship exposures and industry concentrations. An unallocated reserve range of 0.08% to 0.20% of loans and leases is supported by these factors.

Nonperforming commercial loans and leases in excess of $100,000 are deemed to be impaired. In addition, loans that have been modified as troubled debt restructurings, including consumer and residential mortgage loans regardless of dollar amount, are deemed to be impaired loans. Loans and leases deemed to be impaired are individually reviewed and a specific reserve is established rather than collectively reserved for based on risk rating profile. The reserves for impaired loans and leases are determined by reviewing the present value of expected future cash flows, fair values of the collateral (if collateral-dependent) or observable market prices of the loans and leases.

Table of Contents

Modification of a loan is considered to be a troubled debt restructuring if the debtor is experiencing financial difficulties and the Bank grants a concession to the debtor that it would not otherwise consider. By granting the concession, the Bank expects to obtain more cash or other value from the debtor, or to increase the probability of receipt, than would be expected by not granting the concession. The concession may include, but is not limited to, reduction of the stated interest rate of the loan, reduction of accrued interest, extension of the maturity date or reduction of the face amount or maturity amount of the debt. A concession has been granted when, as a result of the restructuring, the Bank does not expect to collect all amounts due, including interest at the original stated rate. A concession may have also been granted if the debtor is not able to access funds elsewhere at a market rate for debt with similar risk characteristics as the restructured debt. The Bank s determination of whether a loan modification is a troubled debt restructuring considers the individual facts and circumstances surrounding each modification.

The following tables set forth information pertaining to troubled debt restructurings that were modified during the three and nine months ended September 30, 2011. There were no charge-offs to the loans included in the tables during the modification process.

	Three Months Ended September 30,					
	2011			2010		
	Number of Loans	Recorded Investment (End of Period)	Allowance for Loan and Lease Losses (End of Period)	Number of Loans	Recorded Investment (End of Period)	Allowance for Loan and Lease Losses (End of Period)
	(In thousands)					
Commercial loans:						
Commercial real estate owner occupied [1]	1	$ 442	$		$	$
Commercial and industrial [1]	2	259	183			
Total commercial loans	3	701	183			
Residential mortgage loans:						
One- to four-family adjustable rate [2]				1	291	
Total residential mortgage loans				1	291	
Total loans	3	$ 701	$ 183	1	$ 291	$

	Nine Months Ended September 30,					
	2011			2010		
	Number of Loans	Recorded Investment (End of Period)	Allowance for Loan and Lease Losses (End of Period)	Number of Loans	Recorded Investment (End of Period)	Allowance for Loan and Lease Losses (End of Period)
	(In thousands)					
Commercial loans:						
Commercial real estate owner occupied [1] [3]	2	$ 1,957	$ 41	1	$ 385	$

Commercial and industrial [1]	2	259	183	1	95	
Total commercial loans	4	2,216	224	2	480	
Residential mortgage loans:						
One- to four-family adjustable rate [2]				1	291	
Total residential mortgage loans				1	291	
Total loans	4	$ 2,216	$ 224	3	$ 771	$

(1) Terms of modification included a temporary interest-only payment period.

(2) Terms of modification included a reduced interest rate and deferment of past due principal and interest until maturity.

(3) Terms of modification included consolidation of outstanding loans at a reduced interest rate.

For the three and nine months ended September 30, 2011, there were no troubled debt restructurings modified within the previous 12 months for which there was a payment default (defined as more than 90 days past due) and an outstanding loan balance. For the three and nine months ended September 30, 2010, a home equity line of credit that had been modified as a troubled debt restructuring within the previous 12 months defaulted on its payment schedule. The defaulted troubled debt restructuring had an outstanding balance of $48,000 at September 30, 2010.

Early identification and reclassification of deteriorating credits is a critical component of the Company s ongoing evaluation process and includes a formal analysis of the allowance each quarter, which considers, among other factors, the character and size of the loan and lease portfolio, charge-off experience, delinquency and nonperforming loan and lease patterns, business and economic conditions and other asset quality factors. These factors are based on observable information as well as subjective assessment and interpretation. Besides numerous subjective judgments as to the number of categories, appropriate level of allowance with respect to each category and judgments as to categorization of any individual loan or lease, additional subjective judgments are involved when ascertaining the probability, as well as, the extent of any probable losses.

While management evaluates currently available information in establishing the allowance for loan and lease losses, future additions to the allowance may be necessary if conditions differ substantially from the assumptions used in making evaluations. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution s allowance for loan and lease losses and carrying amounts of other real estate owned and non-real estate foreclosed assets. Such agencies may require the financial institution to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Loans and leases deemed uncollectible are charged against the allowance for loan and lease losses, while recoveries of amounts previously charged-off are added to the allowance for loan and lease losses. Generally, amounts are charged-off once it has been determined that collection of the amounts due under the terms of the loan or lease is unlikely, with consideration given to such factors as the customer s financial condition, underlying collateral and guarantees, and general and industry economic conditions. Additionally, in accordance with certain regulatory guidance, residential mortgage and home equity loans are charged-off after 120 days of cumulative delinquency. Home equity lines of credit are charged-off after 180 days of cumulative delinquency.

An analysis of the activity in the allowance for loan and lease losses for the three and nine months ended September 30, 2011 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			