GLAXOSMITHKLINE PLC
Form 6-K
June 18, 2008

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For period ending June 18, 2008

GlaxoSmithKline plc
(Name of registrant)

980 Great West Road, Brentford, Middlesex, TW8 9GS
(Address of principal executive offices)

Indicate by check mark whether the registrant files or
will file annual reports under cover Form 20-F or Form 40-F

Form 20-F x Form 40-F
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Indicate by check mark whether the registrant by furnishing the
information contained in this Form is also thereby furnishing the
information to the Commission pursuant to Rule 12g3-2(b) under the
Securities Exchange Act of 1934.

Yes No x
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GlaxoSmithKline plc (the 'Company') announces that in accordance with the authority granted by shareholders at the Company's Annual General Meeting on 21 May 2008 it purchased 3,010,000 of its Ordinary shares of 25 pence each ('shares') on 18 June 2008 at a price of 1,093.38 pence per share.

The shares will be cancelled.

Following the cancellation of these shares, the Company holds 474,194,158 of its shares in Treasury, representing 8.93% of the total voting rights in the Company.

The Company has 5,311,952,963 shares in issue (excluding Treasury shares). This number represents the total voting rights in the Company and may be used by shareholders as the denominator for the calculations by which they can determine if they are required to notify their interest in, or a change to their interest in the Company under the Financial Services Authority's Disclosure and Transparency Rules.

This announcement does not constitute, or form part of, an offer or any solicitation of an offer to purchase or subscribe for securities in any jurisdiction and is in conformity with the Financial Services Authority's Disclosure and Transparency Rules.

SIGNATURES

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

GlaxoSmithKline plc
(Registrant)

Date: 06.18.2008

By: VICTORIA WHYTE

Victoria Whyte
Authorised Signatory for and on
behalf of GlaxoSmithKline plc

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(3
)
Amortization of investment premiums and discounts, net

921

932

Amortization of loan premiums and discounts, net
1,071

1,045

Depreciation and amortization of premises and equipment
1,355

1,406

Amortization of core deposit intangible
55

8

Net loss (gain) on sales of securities
919

(230
)
Net (gain) loss on fair value of derivatives
(191
)

280

Deferred income taxes
67

124

Loans originated for sale
(36,927
)

(36,303
)
Proceeds from sale of loans held for sale
40,464

37,232

Net loss on disposal of SI Trust Servicing operations
—

698

Net gain on sales of loans held for sale
(735
)

(998
)
Net gain on sales of loans held for investment
(201
)

—

Net loss on disposal of equipment
—

5

Net loss on sales or write-downs of other real estate owned
25

14

Increase in cash surrender value of bank-owned life insurance
(226
)

(213
)
Gain on bank-owned life insurance proceeds
—

(349
)
Impairment charge on long-lived assets
—

410

Other-than-temporary impairment losses on securities

8

123

Change in operating assets and liabilities:

Accrued interest receivable
42

132

Other assets
(1,781
)

290

Accrued expenses and other liabilities
1,974

652

Net cash provided by operating activities
6,583

8,371

Cash flows from investing activities:

Purchases of available for sale securities
(40,863
)

(41,721
)

Proceeds from sales of available for sale securities
13,108

39,115

Proceeds from maturities of and principal repayments on available for sale securities
31,786

42,197

Redemption of Federal Home Loan Bank stock
325

—

Net decrease (increase) in loans
28,811

(12,908
)
Purchases of loans
(20,115
)

(40,788
)
Net cash paid from acquisition of Newport Bancorp, Inc.
(8,935
)

—

Proceeds from sales of loans held for investment
3,189

—

Proceeds from sales of other real estate owned
1,255

1,101

Purchases of premises and equipment
(1,868
)

(1,062
)
Proceeds from bank-owned life insurance
—

585

Net cash provided by (used in) investing activities
6,693

(13,481
)

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SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Concluded)
(In Thousands / Unaudited)

	Nine Months Ended September 30, 2013	2012
Cash flows from financing activities:		
Net increase in deposits	7,971	5,601
Net decrease in mortgagors' and investors' escrow accounts	(1,738)	(1,789)
Proceeds from Federal Home Loan Bank advances	40,000	—
Repayments of Federal Home Loan Bank advances	(44,000)	(7,000)
Excess tax benefit from share-based compensation	4	3
Cash dividends on common stock	(860)	(885)
Stock options exercised	15	10
Common shares repurchased	(9)	(4,977)
Net cash provided by (used in) financing activities	1,383	(9,037)
Net change in cash and cash equivalents	14,659	(14,147)
Cash and cash equivalents at beginning of period	37,689	48,412
Cash and cash equivalents at end of period	$52,348	$34,265
Supplemental cash flow information:		
Interest paid	$6,146	$7,315
Income taxes paid, net	1,312	113
Transfer of loans to other real estate owned	1,407	876
In connection with the purchase acquisition detailed in Note 10 to the unaudited interim consolidated financial statements:		
Fair value of non-cash assets acquired	$406,912	$—
Goodwill and core deposit intangibles	16,943	—
Fair value of liabilities assumed	384,815	—
Value of common shares issued	30,105	—

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012 AND DECEMBER 31, 2012

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business
SI Financial Group, Inc. (the “Company”) is the holding company for Savings Institute Bank and Trust Company (the “Bank”). Established in 1842, the Bank is a community-oriented financial institution headquartered in Willimantic, Connecticut. The Bank provides a variety of financial services to individuals, businesses and municipalities through its twenty-six offices in eastern Connecticut and Rhode Island. Its primary products include savings, checking and certificate of deposit accounts, residential and commercial mortgage loans, commercial business loans and consumer loans. In addition, wealth management services, which include trust, financial planning, life insurance and investment services, are offered to individuals and businesses through the Bank’s offices. The Company does not conduct any material business other than owning all of the stock of the Bank and making payments on the subordinated debentures held by the Company.

On September 6, 2013, the Company acquired Newport Bancorp, Inc. ("Newport"), the holding company for Newport Federal Savings Bank. The acquisition added six full-service banking offices located in eastern Connecticut and Rhode Island. See Note 10 - Acquisition of Newport Bancorp, Inc. for additional details.

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, the Bank, and the Bank’s wholly-owned subsidiaries, 803 Financial Corp., SI Mortgage Company and SI Realty Company, Inc. All significant intercompany accounts and transactions have been eliminated.

Basis of Financial Statement Presentation
The interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, with the instructions to Form 10-Q and Rule 10.01 of Regulation S-X of the Securities and Exchange Commission (“SEC”) and general practices within the banking industry. Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been omitted. Information in the accompanying interim consolidated financial statements and notes to the financial statements of the Company as of September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012 is unaudited. These unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited financial statements of the Company and the accompanying notes for the year ended December 31, 2012 contained in the Company’s Form 10-K.

In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial condition, results of operations and cash flows as of and for the period covered herein. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the operating results for the year ending December 31, 2013 or for any other period.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the balance sheets and reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other-than-temporary impairment ("OTTI") of securities, deferred income taxes and the impairment of long-lived assets.

SI FINANCIAL GROUP, INC.
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Reclassifications
Certain amounts in the Company’s 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. Such reclassifications had no effect on net income.

Loans Receivable
Loans receivable are stated at current unpaid principal balances, net of the allowance for loan losses and deferred loan origination fees and costs. Management has the ability and intent to hold its loans receivable for the foreseeable future or until maturity or pay-off.

A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the 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. Impairment is measured on a loan by loan basis for residential and commercial mortgage loans and commercial business loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not typically identify individual consumer loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring ("TDR") agreement.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and concessions have been made to the original contractual terms, such as reductions of interest rates or deferral of interest or principal payments due to the borrower’s financial condition, the modification is considered a TDR.

Management considers all nonaccrual loans, with the exception of certain consumer loans, to be impaired. Also, all TDRs are initially classified as impaired. In most cases, loan payments less than 90 days past due are considered minor collection delays and the related loans are generally not considered impaired.

Allowance for Loan Losses
The allowance for loan losses, a material estimate which could change significantly in the near-term, is established through a provision for loan losses charged to earnings to account for losses that are inherent in the loan portfolio and estimated to occur, and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Loan losses are charged against the allowance for loan losses when management believes that the uncollectibility of the principal loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses when received. In the determination of the allowance for loan losses, management may obtain independent appraisals for significant properties, if necessary.

Management's judgment in determining the adequacy of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is evaluated on a monthly basis by management and is based on the evaluation of the known and inherent risk characteristics and size and composition of the loan portfolio, the assessment of current economic and real estate market conditions, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, historical loan loss experience, the level of nonperforming loans, delinquencies, classified assets and loan charge-offs and evaluations of loans and other relevant factors.

The allowance for loan losses consists of the following key elements:

- Specific allowance for identified impaired loans. For loans that are identified as impaired, an allowance is established when the present value of expected cash flows (or observable market price of the loan or fair

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value of the collateral if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan.

- General valuation allowance. The general component represents a valuation allowance on the remainder of the loan portfolio, after excluding impaired loans. For this portion of the allowance, loans are segregated by category and assigned an allowance percentage based on historical loan loss experience adjusted for qualitative factors stratified by the following loan segments: residential one- to four-family, multi-family and commercial real estate, construction, commercial business and consumer. Management uses a rolling average of historical losses based on the time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies, classified loans and nonaccrual loans; level of loan charge-offs; trends in volume, nature and terms of loans; existence and effect of/or changes in the level of credit concentrations; effects of changes in risk selection, 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 and impact on value of underlying collateral for collateral dependent loans.

The qualitative factors are determined based on the following various risk characteristics for each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential – One- to Four-Family – The Bank primarily originates conventional loans with loan-to-value ratios less than 95% and generally originates loans with loan-to-value ratios in excess of 80% only when secured by first liens on owner-occupied one- to four-family residences. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance or additional collateral. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Multi-family and Commercial – Loans in this segment are originated for the purpose of acquiring, developing, improving or refinancing multi-family and commercial real estate where the property is the primary collateral securing the loan, and the income generated from the property is the primary repayment source. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Payments on loans secured by income-producing properties often depend on the successful operation and management of the properties. Management continually monitors the cash flows of these loans.

Construction – This segment includes loans to individuals, and to a lesser extent builders, to finance the construction of residential dwellings. The Bank also originates construction loans for commercial development projects. Upon the completion of construction, the loan generally converts to a permanent mortgage loan. Credit risk is affected by cost overruns, time to sell at an adequate price and market conditions.

Commercial Business – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy and reduced viability of the industry in which the customer operates will have a negative impact on the credit quality in this segment. To a lesser but increasing extent, the Bank provides financing for investors in the time share industry, which are secured by consumer receivables, and finances capital improvements for condominium associations, which are secured by the assigned rights to levy special assessments to condominium owners.

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SI FINANCIAL GROUP, INC.
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Consumer – Loans in this segment primarily include home equity lines of credit (representing both first and second liens) and indirect automobile loans and, to a lesser extent, loans secured by marketable securities, passbook or certificate accounts, motorcycles, automobiles and recreational vehicles, as well as unsecured loans. Consumer loan collections depend on the borrower’s continuing financial stability, and therefore, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

In computing the allowance for loan losses, we do not assign a general valuation allowance to the Small Business Administration (“SBA”) and United States Department of Agriculture (“USDA”) loans that we purchase as such loans are fully guaranteed. These loans are included in commercial business loans. See Note 4 for details.

The majority of the Company's loans are collateralized by real estate located in eastern Connecticut and Rhode Island. To a lesser extent, certain commercial real estate loans are secured by collateral located outside of our primary market area. Accordingly, the collateral value of a substantial portion of the Company's loan portfolio and real estate acquired through foreclosure is susceptible to changes in local market conditions.

Although management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and the Company’s results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while management believes it has established the allowance for loan losses in conformity with GAAP, the regulatory agencies, in reviewing the loan portfolio, may request us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, the existing allowance for loan losses may not be adequate or increases may be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses would adversely affect the Company’s financial condition and results of operations.

Interest and Fees on Loans
Interest on loans is accrued and included in net interest income based on contractual rates applied to principal amounts outstanding. Accrual of interest is discontinued when loan payments are 90 days or more past due, based on contractual terms, or when, in the judgment of management, collectibility of the loan or loan interest becomes uncertain. Subsequent recognition of income occurs only to the extent payment is received subject to management's assessment of the collectibility of the remaining interest and principal. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt and the borrower has made regular payments in accordance with the terms of the loan over a period of at least six months. Interest collected on nonaccrual loans is recognized only to the extent cash payments are received, and may be recorded as a reduction to principal if the collectibility of the principal balance of the loan is unlikely.

Loan origination fees and direct loan origination costs are deferred, and the net amount is recognized as an adjustment of the related loan's yield utilizing the interest method over the contractual life of the loan.

Common Share Repurchases
The Company is chartered in the state of Maryland. Maryland law does not provide for treasury shares, rather shares repurchased by the Company constitute authorized but unissued shares. GAAP states that accounting for treasury stock shall conform to state law. Therefore, the cost of shares repurchased by the Company has been allocated to common stock and retained earnings balances.

Recent Accounting Pronouncements

Disclosures about Offsetting Assets and Liabilities – In December 2011, the Financial Accounting Standards Board ("FASB") amended its standard related to disclosure requirements for offsetting assets and liabilities. Under this amendment, an entity is required to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The amendments in this update were effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this amendment had no impact on the Company's consolidated financial statements.

Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities - In January 2013, the FASB issued amendments to clarify that the scope of Disclosures about Offsetting Assets and Liabilities applies to derivatives accounted for in accordance with Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements, reverse repurchase agreements, securities borrowing and securities lending transactions that are either offset in accordance with applicable guidance or subject to an enforceable master netting arrangement or similar agreement. The amendments in this update were effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this amendment had no impact on the Company's consolidated financial statements.

Comprehensive Income - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income - In February 2012, the FASB issued an amendment to improve the transparency of reporting these reclassifications by requiring an organization to 1) present the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income and 2) cross-reference to other disclosures currently required under GAAP for other reclassification items to be reclassified directly to net income in their entirety in the same reporting period. The amendments were effective for reporting periods beginning after December 15, 2012. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements. See Consolidated Statements of Comprehensive Income (Loss).

NOTE 2. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Unvested restricted shares are considered outstanding in the computation of basic earnings (loss) per share since the shares participate in dividends and the rights to the dividends are non-forfeitable. Diluted earnings (loss) per share is computed in a manner similar to basic earnings (loss) per share except that the weighted average number of common shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. The Company’s common stock equivalents relate solely to stock options. Repurchased common shares and unallocated common shares held by the Bank’s ESOP are not deemed outstanding for earnings (loss) per share calculations.

Anti-dilutive shares are common stock equivalents with weighted average exercise prices in excess of the weighted average market value for the periods presented, and are not considered in diluted earnings (loss) per share calculations. The Company had anti-dilutive common shares outstanding of 534,492 and 595,761 for the three and nine months ended September 30, 2013, respectively, and 173,138 and 215,987 for the three and nine months ended September 30, 2012, respectively. For the three and nine months ended September 30, 2013 and for the three months ended September 30, 2012, all common stock equivalents were anti-dilutive and were not included in the computation of loss per share because it would result in a reduction in the net loss per share.

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The computation of earnings (loss) per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in Thousands, Except Per Share Data)			
Net (loss) income	$(1,742)	$(700)	$(1,879)	$373
Weighted average common shares outstanding:				
Basic	10,310,210	9,569,069	9,814,017	9,785,924
Effect of dilutive stock options	—	—	—	21,774
Diluted	10,310,210	9,569,069	9,814,017	9,807,698
(Loss) earnings per share:				
Basic	$(0.17)	$(0.07)	$(0.19)	$0.04
Diluted	$(0.17)	$(0.07)	$(0.19)	$0.04

NOTE 3. SECURITIES

Available for sale securities:
The amortized cost, gross unrealized gains and losses and approximate fair values of available for sale securities at September 30, 2013 and December 31, 2012 are as follows:

	September 30, 2013			
	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and agency obligations	$48,179	$527	$(123)	$48,583
Government-sponsored enterprises	28,533	320	(245)	28,608
Mortgage-backed securities:(2)				
Agency - residential	88,754	1,499	(1,456)	88,797
Non-agency - residential	540	27	(1)	566
Corporate debt securities	4,515	115	—	4,630
Collateralized debt obligations	3,797	—	(104)	3,693
Obligations of state and political subdivisions	6,250	163	(70)	6,343
Tax-exempt securities	3,862	—	(275)	3,587
Foreign government securities	25	—	—	25
Total available for sale securities	$184,455	$2,651	$(2,274)	$184,832

(1) Net of OTTI write-downs recognized in earnings.
(2) Agency securities refer to debt obligations issued or guaranteed by government corporations or government-sponsored enterprises ("GSEs"). Non-agency securities, or private-label securities, are the sole obligation of their issuer and are not guaranteed by one of the GSEs or the U.S. Government.

At September 30, 2013, certain agency-residential mortgage-backed securities were pledged to secure a $15.0 million repurchase agreement assumed in the merger with Newport. These pledged securities have a carrying value of $15.9 million and fair value of $16.3 million at September 30, 2013. In addition, the Company has $4.0 million in cash pledged as collateral to secure this agreement at September 30, 2013. The repurchase agreement has a rate of 2.58% and matures in November 2013.

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	December 31, 2012			
	Amortized Cost [1]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and agency obligations	$55,027	$1,255	$(23)	$56,259
Government-sponsored enterprises	23,388	579	—	23,967
Mortgage-backed securities:[2]				
Agency - residential	69,399	2,211	(66)	71,544
Non-agency - residential	4,784	52	(124)	4,712
Non-agency - HELOC	2,555	—	(78)	2,477
Corporate debt securities	7,555	188	(49)	7,694
Collateralized debt obligations	5,993	—	(1,597)	4,396
Obligations of state and political subdivisions	5,152	262	—	5,414
Foreign government securities	50	—	—	50
Total available for sale securities	$173,903	$4,547	$(1,937)	$176,513

[1] Net of OTTI write-downs recognized in earnings.
[2] Agency securities refer to debt obligations issued or guaranteed by government corporations or government-sponsored enterprises ("GSEs"). Non-agency securities, or private-label securities, are the sole obligation of their issuer and are not guaranteed by one of the GSEs or the U.S. Government.

The amortized cost and fair value of debt securities by contractual maturities at September 30, 2013 are presented below. Actual maturities of mortgage-backed securities ("MBS") may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties. Because MBSs are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

	Amortized Cost	Fair Value
	(In Thousands)	
Within 1 year	$7,983	$8,023
After 1 but within 5 years	25,022	25,448
After 5 but within 10 years	15,959	15,935
After 10 years	46,197	46,063
	95,161	95,469
Mortgage-backed securities	89,294	89,363
Total debt securities	$184,455	$184,832

The following is a summary of realized gains and losses on the sales of securities for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012

	(In Thousands)			
Gross gains on sales	$37	$113	$40	$740
Gross losses on sales	(959)	(457)	(959)	(510)
Net (loss) gain on sale of securities	$(922)	$(344)	$(919)	$230

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Proceeds from the sale of available for sale securities were $12.1 million and $13.1 million for the three and nine months ended September 30, 2013, respectively, and $6.7 million and $39.1 million for the three and nine months ended September 30, 2012, respectively.

The following tables present information pertaining to securities with gross unrealized losses at September 30, 2013 and December 31, 2012, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position.

September 30, 2013:	Less Than 12 Months		12 Months Or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
U.S. Government and agency obligations	$13,578	$101	$1,000	$22	$14,578	$123
Government sponsored enterprises	7,864	245	—	—	7,864	245
Mortgage-backed securities:						
Agency - residential	39,216	1,391	2,856	65	42,072	1,456
Non-agency - residential	173	1	—	—	173	1
Collateralized debt obligations	—	—	3,693	104	3,693	104
Obligations of state and political subdivisions	1,205	70	—	—	1,205	70
Tax-exempt securities	3,587	275	—	—	3,587	275
Total	$65,623	$2,083	$7,549	$191	$73,172	$2,274

December 31, 2012:	Less Than 12 Months		12 Months Or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
U.S. Government and agency obligations	$—	$—	$1,367	$23	$1,367	$23
Mortgage-backed securities:						
Agency - residential	6,923	37	1,404	29	8,327	66
Non-agency - residential	1,926	8	1,417	116	3,343	124
Non-agency - HELOC	—	—	2,477	78	2,477	78
Corporate debt securities	—	—	946	49	946	49
Collateralized debt obligations	—	—	4,396	1,597	4,396	1,597
Total	$8,849	$45	$12,007	$1,892	$20,856	$1,937

For debt securities with OTTI losses, the Company estimated the portion of loss attributable to credit using a discounted cash flow model in accordance with applicable guidance. Significant inputs for the non-agency mortgage-backed securities included the estimated cash flows of the underlying collateral based on key assumptions, such as default rate, loss severity and prepayment rate. Assumptions used can vary widely from loan to loan, and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics and collateral type. Significant inputs for the collateralized debt obligations included estimated cash flows and prospective deferrals, defaults and recoveries based on the underlying seniority status and subordination structure of the pooled trust preferred debt tranche at the time of measurement. Prospective deferral, default and recovery estimates affecting projected cash flows were based on an analysis of the underlying financial condition of the individual issuers, with consideration of the account's capital adequacy, credit quality, lending concentrations and other factors. All cash flow estimates were based on the securities' tranche structure and contractual rate and maturity terms. The Company utilized the services of an independent third-party

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valuation firm to obtain information about the structure in order to determine how the underlying collateral cash flows will be distributed to each security issued from the structure. The present value of the expected cash flows was compared to the Company's holdings to determine the credit-related impairment loss, if any. To the extent that continued changes in interest rates, credit movements and other factors that influence fair value of investments occur, the Company may be required to record impairment charges for OTTI in future periods.

At September 30, 2013, thirty-three debt securities with gross unrealized losses had aggregate depreciation of approximately 3.01% of the Company's amortized cost basis. The majority of the unrealized losses related to the Company's agency mortgage-backed securities. Impairment charges recognized on investments deemed other-than-temporarily impaired were $0 and $8,000 for the three and nine months ended September 30, 2013, respectively compared to $87,000 and $123,000 of net impairment losses recognized by the Company for the three and nine months ended September 30, 2012, respectively. The following summarizes, by security type, the basis for management's determination during the preparation of the financial statements of whether the applicable investments within the Company's securities portfolio were other-than-temporarily impaired at September 30, 2013.

U.S. Government and Agency Obligations. The unrealized losses on the Company's U.S. Government and agency obligations related primarily to a widening of the rate spread to comparable treasury securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the securities before their anticipated recovery, which may be at maturity, the Company did not consider these securities to be other-than-temporarily impaired at September 30, 2013.

Mortgage-backed Securities - Agency - Residential. The unrealized losses on the Company's agency–residential mortgage-backed securities were caused by increases in the rate spread to comparable treasury securities. The Company does not expect these securities to settle at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before the recovery of their amortized cost basis, which may be at maturity, the Company did not consider these investments to be other-than-temporarily impaired at September 30, 2013.

Collateralized Debt Obligations. The unrealized losses on the Company's collateralized debt obligations relate to investments in pooled trust preferred securities ("PTPS"). The PTPS market has stabilized at depressed market values as a result of market saturation. Transactions for PTPS have been limited and have occurred primarily as a result of distressed or forced liquidation sales. The securities were widely held by hedge funds and European banks and used to offset interest rate exposure tied to LIBOR. As the positions have unwound, an excess supply of these securities has saturated the market.

Management evaluated current credit ratings, credit support and stress testing for future defaults related to the Company's PTPS. Management also reviewed analytics provided by the trustee and independent OTTI reviews and associated cash flow analyses performed by an independent third party. The unrealized losses on the Company's PTPS investments were caused by a lack of liquidity, credit downgrades and decreasing credit support. The increased number of bank and insurance company failures has decreased the level of credit support for these investments. A number of lower tranches have foregone payments or have received payment in kind through increased principal allocations. However, the number of deferring securities has been decreasing and a number of reinstatements have occurred recently. Based on the existing credit profile of the remainder of the Company's PTPS investments, management does not believe that these investments will suffer from any further credit-related losses. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company did not record additional impairment losses at September 30, 2013.

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The following table details the Company's collateralized debt obligations that are rated below investment grade at September 30, 2013:

Security	Class	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Lowest Credit Rating [1]	Total Credit-Related OTTI [2]	% of Current Performing Collateral Coverage
(Dollars in Thousands)								
CDO	A2	$2,578	$—	$(78)	$2,500	B-	$62	127.6
		$2,578	$—	$(78)	$2,500		$62	

[1] The Company utilized credit ratings provided by Moody’s, S&P and Fitch in its evaluation of issuers.
[2] The OTTI amounts provided in the table represent cumulative credit loss amounts through September 30, 2013.

The following table presents a roll-forward of the balance of credit losses on the Company’s debt securities for which a portion of OTTI was recognized in other comprehensive (loss) income for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands)			
Balance at beginning of period	$267	$172	$259	$1,207
Amounts related to credit for which OTTI losses were not previously recognized	—	—	8	—
Additional credit losses for which OTTI losses were previously recognized	—	87	—	123
Reduction for permanent loss in value of securities during the period	—	—	—	(1,071)
Reduction for securities sold during the period (realized)	(205)	—	(205)	—
Balance at end of period	$62	$259	$62	$259

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NOTE 4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loan Portfolio
The composition of the Company's loan portfolio at September 30, 2013 and December 31, 2012 is as follows:

	September 30, 2013	December 31, 2012
	(In Thousands)	
Real estate loans:		
Residential - 1 to 4 family	$456,416	$230,664
Multi-family and commercial	262,543	201,951
Construction	9,889	3,284
Total real estate loans	728,848	435,899
Commercial business loans:		
SBA and USDA guaranteed	142,008	148,385
Time share	28,394	23,310
Condominium association	18,054	15,493
Other	67,874	26,339
Total commercial business loans	256,330	213,527
Consumer loans:		
Home equity	41,604	28,375
Indirect automobile	7,120	9,652
Other	2,250	2,353
Total consumer loans	50,974	40,380
Total loans	1,036,152	689,806
Deferred loan origination costs, net of fees	1,592	1,744
Allowance for loan losses	(6,322)	(6,387)
Loans receivable, net	$1,031,422	$685,163

The Company purchased commercial business loans totaling $20.1 million during the nine months ended September 30, 2013. During the nine months ended September 30, 2012, the Company purchased commercial business loans and consumer loans totaling $33.9 million and $6.9 million, respectively.

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Allowance for Loan Losses

Changes in the allowance for loan losses for the three and nine months ended September 30, 2013 and 2012 are as follows:

Three Months Ended September 30, 2013	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Balance at beginning of period	$999	$2,947	$30	$1,531	$500	$6,007
Provision for loan losses	99	11	83	231	19	443
Loans charged-off	(128)	—	—	—	(10)	(138)
Recoveries of loans previously charged-off	1	1	—	2	6	10
Balance at end of period	$971	$2,959	$113	$1,764	$515	$6,322

Nine Months Ended September 30, 2013	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Balance at beginning of period	$1,125	$3,028	$22	$1,735	$477	$6,387
Provision for loan losses	401	56	91	27	58	633
Loans charged-off	(586)	(197)	—	—	(71)	(854)
Recoveries of loans previously charged-off	31	72	—	2	51	156
Balance at end of period	$971	$2,959	$113	$1,764	$515	$6,322

Three Months Ended September 30, 2012	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Balance at beginning of period	$725	$2,700	$314	$1,418	$487	$5,644
Provision (credit) for loan losses	241	1,279	(290)	88	16	1,334
Loans charged-off	(127)	(1,165)	—	—	(27)	(1,319)
Recoveries of loans previously charged-off	26	134	—	3	4	167
Balance at end of period	$865	$2,948	$24	$1,509	$480	$5,826

Nine Months Ended September 30, 2012	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					

Balance at beginning of period	$759	$2,337	$280	$1,148	$446	$4,970
Provision (credit) for loan losses	246	1,740	(256)	346	174	2,250
Loans charged-off	(219)	(1,267)	—	—	(149)	(1,635)
Recoveries of loans previously charged-off	79	138	—	15	9	241
Balance at end of period	$865	$2,948	$24	$1,509	$480	$5,826

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

September 30, 2013	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Allowance for loans individually evaluated and deemed to be impaired	$336	$93	$—	$—	$—	$429
Allowance for loans individually or collectively evaluated and not deemed to be impaired	635	2,866	113	1,764	515	5,893
Total allowance for loan losses	$971	$2,959	$113	$1,764	$515	$6,322
Loans individually evaluated and deemed to be impaired	$6,713	$2,475	$—	$416	$189	$9,793
Loans individually or collectively evaluated and not deemed to be impaired	449,318	254,617	9,889	254,874	50,785	1,019,483
Amount of loans acquired with deteriorated credit quality	385	5,451	—	1,040	—	6,876
Total loans	$456,416	$262,543	$9,889	$256,330	$50,974	$1,036,152

December 31, 2012	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Allowance for loans individually evaluated and deemed to be impaired	$454	$88	$—	$39	$—	$581
Allowance for loans individually or collectively evaluated and not deemed to be impaired	671	2,940	22	1,696	477	5,806
Total allowance for loan losses	$1,125	$3,028	$22	$1,735	$477	$6,387
Loans individually evaluated and deemed to be impaired	$6,991	$5,873	$—	$618	$361	$13,843
Loans individually or collectively evaluated and	223,673	196,078	3,284	212,909	40,019	675,963

not deemed to be impaired						
Total loans	$230,664	$201,951	$3,284	$213,527	$40,380	$689,806

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Past Due Loans

The following represents an aging of loans at September 30, 2013 and December 31, 2012:

September 30, 2013	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total 30 Days or More Past Due	Current	Total Loans
	(In Thousands)					
Real Estate:						
Residential - 1 to 4 family[(1)]	$25	$668	$2,317	$3,010	$453,406	$456,416
Multi-family and commercial[(1)]	285	—	2,101	2,386	260,157	262,543
Construction	—	—	—	—	9,889	9,889
Commercial Business:						
SBA and USDA guaranteed	476	—	—	476	141,532	142,008
Time share	—	—	—	—	28,394	28,394
Condominium association	—	—	—	—	18,054	18,054
Other[(1)]	8	—	348	356	67,518	67,874
Consumer:						
Home equity	84	—	4	88	41,516	41,604
Indirect automobile	59	—	—	59	7,061	7,120
Other	1	4	—	5	2,245	2,250
Total	$938	$672	$4,770	$6,380	$1,029,772	$1,036,152

[(1)] Includes loans acquired with deteriorated credit quality from the Newport merger.

December 31, 2012	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total 30 Days or More Past Due	Current	Total Loans
	(In Thousands)					
Real Estate:						
Residential - 1 to 4 family	$3,245	$1,725	$3,285	$8,255	$222,409	$230,664
Multi-family and commercial	4,149	—	1,266	5,415	196,536	201,951
Construction	—	—	—	—	3,284	3,284
Commercial Business:						
SBA and USDA guaranteed	5,014	1,087	—	6,101	142,284	148,385
Time share	—	—	—	—	23,310	23,310
Condominium association	—	—	—	—	15,493	15,493
Other	—	—	541	541	25,798	26,339
Consumer:						
Home equity	216	—	361	577	27,798	28,375
Indirect automobile	19	—	—	19	9,633	9,652
Other	21	—	—	21	2,332	2,353
Total	$12,664	$2,812	$5,453	$20,929	$668,877	$689,806

The Company did not have any loans that were past due 90 days or more and still accruing interest at September 30, 2013 or December 31, 2012 .

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Impaired and Nonaccrual Loans

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

September 30, 2013[1]	Impaired Loans Recorded Investment	Unpaid Principal Balance	Related Allowance	Nonaccrual Loans
	(In Thousands)			
Impaired loans without valuation allowance:				
Real Estate:				
Residential - 1 to 4 family	$4,662	$4,906	$—	$4,120
Multi-family and commercial	7,545	7,742	—	2,316
Commercial business - Other	1,456	1,456	—	416
Consumer - Home equity	189	189	—	193
Total impaired loans without valuation allowance	13,852	14,293	—	7,045
Impaired loans with valuation allowance:				
Real Estate:				
Residential - 1 to 4 family	2,436	2,447	336	306
Multi-family and commercial	381	471	93	381
Total impaired loans with valuation allowance	2,817	2,918	429	687
Total impaired loans	$16,669	$17,211	$429	$7,732

[1] Includes loans acquired with deteriorated credit quality from the Newport merger.

December 31, 2012	Impaired Loans Recorded Investment	Unpaid Principal Balance	Related Allowance	Nonaccrual Loans
	(In Thousands)			
Impaired loans without valuation allowance:				
Real Estate:				
Residential - 1 to 4 family	$3,866	$4,013	$—	$3,855
Multi-family and commercial	4,407	4,407	—	1,522
Commercial business - Other	546	546	—	470
Consumer - Home equity	361	435	—	366
Total impaired loans without valuation allowance	9,180	9,401	—	6,213
Impaired loans with valuation allowance:				
Real Estate:				
Residential - 1 to 4 family	3,125	3,125	454	1,133
Multi-family and commercial	1,466	1,556	88	236
Commercial business - Other	72	72	39	72
Total impaired loans with valuation allowance	4,663	4,753	581	1,441
Total impaired loans	$13,843	$14,154	$581	$7,654

The Company reviews and establishes, if necessary, an allowance for certain impaired loans for the amount by which the present value of expected cash flows (or observable market price of loan or fair value of the collateral if the loan is collateral dependent) are lower than the carrying value of the loan. At September 30, 2013 and

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December 31, 2012, the Company concluded that certain impaired loans required no valuation allowance as a result of management's measurement of impairment. No additional funds are committed to be advanced to those borrowers whose loans are deemed impaired.

Additional information related to impaired loans is as follows:

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In Thousands)					
Real Estate:						
Residential - 1 to 4 family	$6,984	$43	$24	$7,168	$201	$149
Multi-family and commercial	5,589	29	—	5,093	75	—
Commercial business - Other	965	5	—	710	12	5
Consumer - Home equity	203	—	—	297	27	27
Total	$13,741	$77	$24	$13,268	$315	$181

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In Thousands)					
Real Estate:						
Residential - 1 to 4 family	$6,048	$26	$14	$5,763	$131	$119
Multi-family and commercial	8,320	99	30	8,742	232	30
Commercial business - Other	583	2	2	611	2	2
Consumer - Home equity	488	4	4	402	4	4
Total	$15,439	$131	$50	$15,518	$369	$155

Credit Quality Information

The Company utilizes an eight-grade internal loan rating system for all loans in the portfolio, with the exception of its purchased SBA and USDA commercial business loans that are fully guaranteed by the U.S. government, as follows:

- o Pass (Ratings 1-4): Loans in these categories are considered low to average risk.
- o Special Mention (Rating 5): Loans in this category are starting to show signs of potential weakness and are being closely monitored by management.
- o Substandard (Rating 6): Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the

Company will sustain some loss if the weakness is not corrected.

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- Doubtful (Rating 7): Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.
- Loss (Rating 8): Loans in this category are considered uncollectible and of such little value that their continuance as assets is not warranted.

Management periodically reviews the ratings described above and the Company's internal audit function reviews components of the credit files, including the assigned risk ratings, of certain commercial loans as part of its loan review.

The following tables present the Company's loans by risk rating at September 30, 2013 and December 31, 2012:

September 30, 2013	Not Rated	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)						
Real Estate:							
Residential - 1 to 4 family	$—	$447,496	$671	$8,249	$—	$—	$456,416
Multi-family and commercial	—	226,098	18,787	17,658	—	—	262,543
Construction	—	9,889	—	—	—	—	9,889
Total real estate loans	—	683,483	19,458	25,907	—	—	728,848
Commercial Business:							
SBA and USDA guaranteed	142,008	—	—	—	—	—	142,008
Time share	—	28,394	—	—	—	—	28,394
Condominium association	—	18,054	—	—	—	—	18,054
Other	—	60,437	4,025	3,412	—	—	67,874
Total commercial business loans	142,008	106,885	4,025	3,412	—	—	256,330
Consumer:							
Home equity	—	41,295	—	309	—	—	41,604
Indirect automobile	—	7,120	—	—	—	—	7,120
Other	—	2,250	—	—	—	—	2,250
Total consumer loans	—	50,665	—	309	—	—	50,974
Total loans	$142,008	$841,033	$23,483	$29,628	$—	$—	$1,036,152

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December 31, 2012	Not Rated	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)						
Real Estate:							
Residential - 1 to 4 family	$—	$222,262	$723	$7,679	$—	$—	$230,664
Multi-family and commercial	—	185,141	5,321	11,489	—	—	201,951
Construction	—	3,284	—	—	—	—	3,284
Total real estate loans	—	410,687	6,044	19,168	—	—	435,899
Commercial Business:							
SBA and USDA guaranteed	148,385	—	—	—	—	—	148,385
Time share	—	23,310	—	—	—	—	23,310
Condominium association	—	15,493	—	—	—	—	15,493
Other	—	22,244	3,399	696	—	—	26,339
Total commercial business loans	148,385	61,047	3,399	696	—	—	213,527
Consumer:							
Home equity	—	27,960	—	415	—	—	28,375
Indirect automobile	—	9,652	—	—	—	—	9,652
Other	—	2,353	—	—	—	—	2,353
Total consumer loans	—	39,965	—	415	—	—	40,380
Total loans	$148,385	$511,699	$9,443	$20,279	$—	$—	$689,806

Troubled Debt Restructurings
A modified loan is considered a TDR when two conditions are met: 1) the borrower is experiencing documented financial difficulty and 2) concessions are made by the Company that would not otherwise be considered for a borrower with similar risk characteristics. The most common types of modifications include below market interest rate reductions, deferrals of principal and maturity extensions. Modified terms are dependent upon the financial position and needs of the individual borrower. If the modification agreement is violated, the loan is handled by the Company's Collections Department for resolution, which may result in foreclosure. The Company's determination of whether a loan modification is a TDR considers the individual facts and circumstances surrounding each modification.

The Company's nonaccrual policy is followed for TDRs. If the loan was current prior to modification, nonaccrual status would not be required. If the loan was on nonaccrual prior to modification or if the payment amount significantly increases, the loan will remain on nonaccrual for a period of at least six months. Loans qualify for return to accrual status once the borrower has demonstrated the willingness and the ability to perform in accordance with the restructured terms of the loan agreement for a period of not less than six consecutive months.

All TDRs are initially reported as impaired. Impaired classification may be removed after the year of restructure if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar risk characteristics at the time of restructuring.

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The following tables provide information on loans modified as TDRs during the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,			
	2013		2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in Thousands)			
Residential - 1 to 4 family	—	$—	7	$1,314
Total	—	$—	7	$1,314

	Nine Months Ended September 30,			
	2013		2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in Thousands)			
Residential - 1 to 4 family	1	$408	10	$1,746
Total	1	$408	10	$1,746

During the modification process, there were no loan charge-offs or principal reductions for the loans included in the above tables.

The following table provides the recorded investment, by type of modification, during the three and nine months ended September 30, 2013 and 2012 for modified loans identified as TDRs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands)			
Interest rate adjustments	$—	$500	$—	$500
Combination of rate and payment (1)	—	396	—	828
Combination of rate and maturity (2)	—	418	408	418
Total	$—	$1,314	$408	$1,746

(1) Terms include combination of interest rate adjustments and interest-only payments with deferral of principal.
(2) Terms include combination of interest rate adjustments and extensions of maturity.

One commercial loan totaling $373,000, which was modified as a TDR within the past twelve months, was in payment default (defined as 90 days or more past due) during the three and nine months ended September 30, 2013. There were no TDRs in payment default within twelve months of restructure for the three and nine months ended September 30, 2012.

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NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment at September 30, 2013 and December 31, 2012 are summarized as follows:

	September 30, 2013	December 31, 2012
	(In Thousands)	
Land	$4,311	$2,098
Buildings	11,370	7,052
Leasehold improvements	10,754	7,563
Furniture and equipment	12,431	10,867
Construction in process	51	84
	38,917	27,664
Accumulated depreciation and amortization	(17,462)	(16,448)
Premises and equipment, net	$21,455	$11,216

At September 30, 2013 and December 31, 2012, construction in process related to design and site costs associated with a new branch location. At December 31, 2012, the Company had an outstanding commitment for the purchase of land totaling $450,000, which was purchased during the quarter ended March 31, 2013.

NOTE 6. OTHER COMPREHENSIVE INCOME (LOSS)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income (loss). Although certain changes in assets and liabilities are reported as a separate component of shareholders' equity on the balance sheet, such items, along with net income (loss) are components of comprehensive income (loss).

Components of other comprehensive loss and related tax effects are as follows:

	Nine Months Ended September 30, 2013		
	Before Tax Amount	Tax Effects	Net of Tax Amount
	(In Thousands)		
Securities:			
Unrealized holding losses on available for sale securities	$(3,348)	$1,137	$(2,211)
Reclassification adjustment for losses recognized in net loss	919	(312)	607
Credit portion of OTTI losses recognized in net loss	8	(3)	5
Noncredit portion of OTTI gains on available for sale securities	188	(64)	124
Unrealized holding losses on available for sale securities, net of taxes	(2,233)	758	(1,475)
Derivative instrument:			
Change in fair value of effective cash flow hedging derivative	125	(43)	82
Other comprehensive loss	$(2,108)	$715	$(1,393)

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The components of accumulated other comprehensive (loss) income included in shareholders' equity are as follows:

	September 30, 2013		
	Before Tax Amount	Tax Effects	Net of Tax Amount
	(In Thousands)		
Net unrealized gains on available for sale securities	$455	$(155)	$300
Noncredit portion of OTTI losses on available for sale securities	(78)	26	(52)
Net unrealized loss on effective cash flow hedging derivative	(345)	117	(228)
Accumulated other comprehensive income	$32	$(12)	$20

	December 31, 2012		
	Before Tax Amount	Tax Effects	Net of Tax Amount
	(In Thousands)		
Net unrealized gains on available for sale securities	$2,876	$(977)	$1,899
Noncredit portion of OTTI losses on available for sale securities	(266)	90	(176)
Net unrealized loss on effective cash flow hedging derivative	(470)	160	(310)
Accumulated other comprehensive income	$2,140	$(727)	$1,413

NOTE 7. REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items, as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to total assets (as defined). As of September 30, 2013 and December 31, 2012, the Bank met the conditions to be classified as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since then that management believes have changed the Bank's regulatory category. As a savings and loan holding company regulated by the Federal Reserve Board (the "FRB"), the Company is not currently subject to any separate regulatory capital requirements. The Dodd-Frank Act, however, requires the FRB to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, quantitatively in terms of components of capital, than those applicable to institutions themselves. There is a five-year transition period before the capital requirements will apply to savings and loan holding companies.

The Bank's actual capital amounts and ratios as of September 30, 2013 and December 31, 2012 were as follows:

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
September 30, 2013	Amount	Ratio		Amount	Ratio		Amount	Ratio	
	(Dollars in Thousands)								
Tier I Capital Ratio	$116,164	8.73	%	$53,255	4.00	%	$66,568	5.00	%
Tier I Risk-based Capital Ratio	116,164	14.34		32,393	4.00		48,589	6.00	
Total Risk-based Capital Ratio	123,045	15.19		64,785	8.00		80,982	10.00	
Tangible Equity Ratio	116,164	8.73		19,971	1.50		N/A	N/A	

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
December 31, 2012	Amount	Ratio		Amount	Ratio		Amount	Ratio	
	(Dollars in Thousands)								
Tier I Capital Ratio	$103,547	11.08	%	$37,382	4.00	%	$46,727	5.00	%
Tier I Risk-based Capital Ratio	103,547	20.20		20,504	4.00		30,757	6.00	
Total Risk-based Capital Ratio	109,751	21.41		41,009	8.00		51,262	10.00	
Tangible Equity Ratio	103,547	11.08		14,018	1.50		N/A	N/A	

NOTE 8. FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value Hierarchy

The Company groups its assets and liabilities 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. Transfers between levels are recognized at the end of a reporting period, if applicable.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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Determination of Fair Value
The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

- Cash and cash equivalents. The carrying amounts of cash and cash equivalents approximate the fair values based on the short-term nature of the assets.

- Securities available for sale. Included in the available for sale category are both debt and equity securities. The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. The Company utilizes a nationally-recognized, third-party pricing service to estimate fair value measurements for the majority of its portfolio. The pricing service evaluates each asset class based on relevant market information considering observable data, but these prices do not represent binding quotes. The fair value prices on all investments are reviewed for reasonableness by management. Securities measured at fair value in Level 3 include collateralized debt obligations that are backed by trust preferred securities issued by banks, thrifts and insurance companies. Management determined that an orderly and active market for these securities and similar securities did not exist based on a significant reduction in trading volume and widening spreads relative to historical levels. The Company estimates future cash flows discounted using a rate management believes is representative of current market conditions. Factors in determining the discount rate include the current level of deferrals and/or defaults, changes in credit rating and the financial condition of the debtors within the underlying securities, broker quotes for securities with similar structure and credit risk, interest rate movements and pricing for new issuances.

- Federal Home Loan Bank stock. The carrying value of Federal Home Loan Bank ("FHLB") stock approximates fair value based on the redemption provisions of the FHLB.

- Loans held for sale. The fair value of loans held for sale is estimated using quoted market prices.

- Loans receivable. For valuation purposes, the loan portfolio was segregated into significant categories, including residential mortgage, commercial real estate, commercial business 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 business 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 nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

- Accrued interest receivable. The carrying amount of accrued interest approximates fair value.

- Deposits. The fair value of demand deposits, negotiable orders of withdrawal, regular savings, certain money market deposits and mortgagors' and investors' escrow accounts is the amount payable on demand at the reporting date. The fair value of certificates of deposit and other time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities to a schedule of aggregated expected maturities on such deposits.

- Federal Home Loan Bank advances. The fair value of the advances is estimated using a discounted cash flow calculation that applies current FHLB interest rates for advances of similar maturity to a schedule of maturities of such advances.

- Junior subordinated debt owed to unconsolidated trust. Rates currently available for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

- Repurchase Agreement. The fair value of the Company's repurchase agreement is estimated using a discounted cash flow analysis based on current rates in the market for similar types of borrowing arrangements.

- Interest rate swap agreements. The fair values of the Company's interest rate swaps are obtained from a third-party pricing service and are determined using a discounted cash flow analysis on the expected cash flows of the derivative. The pricing analysis is based on observable inputs for the contractual term of the derivative, including the period to maturity and interest rate curves.

- Forward loan sale commitments and derivative loan commitments. Forward loan sale commitments and derivative loan commitments are based on the fair values of the underlying mortgage loans, including the servicing rights for derivative loan commitments, and the probability of such commitments being exercised. Significant management judgment and estimation is required in determining these fair value measurements.

- Off-balance sheet instruments. Fair values for off-balance sheet 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 standings.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis
The following tables present assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012. The Company had no significant transfers into or out of Levels 1, 2 or 3 during the nine months ended September 30, 2013.

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets:				
U.S. Government and agency obligations	$1,023	$47,560	$—	$48,583
Government-sponsored enterprises	—	28,608	—	28,608
Mortgage-backed securities	—	89,363	—	89,363
Corporate debt securities	—	4,630	—	4,630
Collateralized debt obligations	—	—	3,693	3,693
Obligations of state and political subdivisions	—	6,343	—	6,343
Tax-exempt securities	—	3,587	—	3,587
Foreign government securities	—	25	—	25
Forward loan sale commitments and derivative loan commitments	—	—	114	114
Total assets	$1,023	$180,116	$3,807	$184,946
Liabilities:				
Forward loan sale commitments and derivative loan commitments	$—	$—	$15	$15
Interest rate swap agreements	—	541	—	541
Total liabilities	$—	$541	$15	$556

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets:				
U.S. Government and agency obligations	$1,035	$55,224	$—	$56,259
Government-sponsored enterprises	—	23,967	—	23,967
Mortgage-backed securities	—	78,733	—	78,733
Corporate debt securities	—	7,694	—	7,694
Collateralized debt obligations	—	—	4,396	4,396
Obligations of state and political subdivisions	—	5,414	—	5,414
Foreign government securities	—	50	—	50
Forward loan sale commitments and derivative loan commitments	—	—	17	17
Total assets	$1,035	$171,082	$4,413	$176,530
Liabilities:				
Forward loan sale commitments and derivative loan commitments	$—	$—	$4	$4

Interest rate swap agreements	—	849	—	849
Total liabilities	$—	$849	$4	$853

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The following table shows a reconciliation of the beginning and ending balances for Level 3 assets:

	Collateralized Debt Obligations	Derivative Loan and Forward Loan Sale Commitments, Net
	(In Thousands)	
Balance at December 31, 2012	$4,396	$13
Total realized and unrealized gains included in net loss	—	86
Total unrealized gains included in other comprehensive loss	57	—
Sales	(760)	—
Balance at September 30, 2013	$3,693	$99

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis
The Company may also be required, from time to time, to measure certain other financial assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets at September 30, 2013 and December 31, 2012. There were no liabilities measured at fair value on a nonrecurring basis at September 30, 2013 and December 31, 2012.

	At September 30, 2013			At December 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(In Thousands)					
Impaired loans	$—	$—	$1,243	$—	$—	$1,616
Other real estate owned	—	—	1,520	—	—	1,293
Total assets	$—	$—	$2,763	$—	$—	$2,909

The following table summarizes losses resulting from fair value adjustments for assets measured at fair value on a nonrecurring basis.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In Thousands)			
Impaired loans	$33	$280	$318	$345
Other real estate owned	—	28	32	28
Total assets	$33	$308	$350	$373

The Company measures the impairment of loans that are collateral dependent based on the fair value of the collateral (Level 3). The fair value of collateral used by the Company represents the amount expected to be received from the sale of the property, net of selling costs, as determined by an independent, licensed or certified appraiser using observable market data. This data includes information such as selling price of similar properties, expected future cash flows or earnings of the subject property based on current market expectations, and relevant legal, physical and economic factors. The appraised values of collateral are adjusted as necessary by management based on observable inputs for specific properties. Losses applicable to write-downs of impaired loans are based on the appraised market value of the underlying collateral, assuming foreclosure of these loans is imminent, and are charged against the allowance for loan losses.

The amount of other real estate owned represents the carrying value of the collateral based on the appraised value of the underlying collateral less estimated selling costs. The loss on foreclosed assets represents adjustments in the valuation recorded during the time period indicated and not for losses incurred on sales.

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

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at September 30, 2013 and December 31, 2012. The estimated fair value amounts at September 30, 2013 and December 31, 2012 have been measured as of each respective date, and have not been re-evaluated or updated for purposes of the consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end. The information presented should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Company's disclosures and those of other banks may not be meaningful.

As of September 30, 2013 and December 31, 2012, the recorded carrying amounts and estimated fair values of the Company's financial instruments are as follows:

	September 30, 2013				
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial Assets:	(In Thousands)				
Cash and cash equivalents	$52,348	$52,348	$—	$—	$52,348
Available for sale securities	184,832	1,023	180,116	3,693	184,832
Loans held for sale	1,880	—	—	1,927	1,927
Loans receivable, net	1,031,422	—	—	1,036,571	1,036,571
Federal Home Loan Bank stock	13,109	—	—	13,109	13,109
Accrued interest receivable	4,021	—	—	4,021	4,021
Financial Liabilities:					
Deposits	1,001,556	—	—	1,004,491	1,004,491
Mortgagors' and investors' escrow accounts	1,469	—	—	1,469	1,469
Federal Home Loan Bank advances	168,641	—	171,065	—	171,065
Junior subordinated debt owed to unconsolidated trust	8,248	—	6,164	—	6,164
Repurchase agreement	15,048	—	—	15,048	15,048
On-balance Sheet Derivative Financial Instruments:					
Assets:					
Derivative loan commitments	68	—	—	68	68

Forward loan sale commitments	46	—	—	46	46
Liabilities:					
Forward loan sale commitments	15	—	—	15	15
Interest rate swap agreements	541	—	541	—	541

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	December 31, 2012				
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial Assets:	(In Thousands)				
Cash and cash equivalents	$37,689	$37,689	$—	$—	$37,689
Available for sale securities	176,513	1,035	171,082	4,396	176,513
Loans held for sale	5,069	—	—	5,232	5,232
Loans receivable, net	685,163	—	—	703,925	703,925
Federal Home Loan Bank stock	8,078	—	—	8,078	8,078
Accrued interest receivable	3,215	—	—	3,215	3,215
Financial Liabilities:					
Deposits	705,148	—	—	709,357	709,357
Mortgagors' and investors' escrow accounts	3,207	—	—	3,207	3,207
Federal Home Loan Bank advances	98,069	—	102,919	—	102,919
Junior subordinated debt owed to unconsolidated trust	8,248	—	5,268	—	5,268
On-balance Sheet Derivative Financial Instruments:					
Assets:					
Derivative loan commitments	13	—	—	13	13
Forward loan sale commitments	4	—	—	4	4
Liabilities:					
Derivative loan commitments	3	—	—	3	3
Forward loan sale commitments	1	—	—	1	1
Interest rate swap agreements	849	—	849	—	849

NOTE 9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivative Financial Instruments

The Company has stand-alone derivative financial instruments in the form of interest rate swap agreements, which derive their value from underlying interest rates. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments and the value of the derivatives are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Company’s balance sheets as other assets and other liabilities. The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures and does not expect any counterparties to fail their obligations.

Derivative instruments are generally either negotiated over-the-counter contracts or standardized contracts executed on a recognized exchange. Negotiated over-the-counter derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

Derivative Instruments Designated As Hedging Instruments

The Company uses long-term variable rate debt as a source of funds for use in the Company's lending and investment activities and other general business purposes. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest payments. To meet this objective, management entered into an interest rate swap agreement, characterized as a cash flow hedge, whereby the Company receives variable interest rate payments determined by three-month LIBOR in exchange for making payments at a fixed interest rate.

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At September 30, 2013 and December 31, 2012, information pertaining to the outstanding interest rate swap agreement used to hedge variable rate debt is as follows:

	September 30, 2013		December 31, 2012	
	(Dollars in Thousands)			
Notional amount	$8,000		$8,000	
Weighted average fixed pay rate	2.44	%	2.44	%
Weighted average variable receive rate	0.25	%	0.31	%
Weighted average maturity in years	2.2		3.0	
Unrealized loss relating to interest rate swap	$345		$470	

At September 30, 2013 and December 31, 2012, the unrealized loss related to the above mentioned interest rate swap was recorded as a derivative liability. Changes in the fair value of an interest rate swap designated as a hedging instrument of the variability of cash flows associated with long-term debt are reported in other comprehensive income. These amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the long-term debt affects earnings.

Risk management results for the periods ended September 30, 2013 and December 31, 2012, related to the balance sheet hedging of long-term debt indicate that the hedge was 100% effective and that there was no component of the derivative instrument’s loss which was excluded from the assessment of hedge effectiveness.

The Company’s derivative contract contains a provision establishing a collateral requirement (subject to minimum collateral posting thresholds) based on the Company’s external credit rating. If the Company’s junior subordinated debt rating was to fall below the level generally recognized as investment grade, the counterparty to such derivative contract could require additional collateral on the derivative transaction in a net liability position (after considering the effect of bilateral netting arrangements and posted collateral). The Company had previously posted collateral of $600,000 in the normal course of business for a derivative instrument, with a credit-related contingent feature, that was in a net liability position at September 30, 2013 and December 31, 2012.

Derivative Instruments Not Designated As Hedging Instruments
Certain derivative instruments do not meet the requirements to be accounted for as hedging instruments. These undesignated derivative instruments are recognized on the consolidated balance sheets at fair value, with changes in fair value recorded in other noninterest income.

Interest Rate Swap Agreement - During the first quarter of 2012, management entered into an interest rate swap agreement, that does not meet the hedge accounting requirements of FASB's "Derivatives and Hedging" standard, to manage the Company's exposure to interest rate movements and other identified risks. Changes in fair value of this instrument are recorded as a component of noninterest income.

At September 30, 2013 and December 31, 2012, information pertaining to the Company's interest rate swap agreement not designated as a hedge is as follows:

	September 30, 2013	December 31, 2012
	(Dollars in Thousands)	

Notional amount	$15,000	$15,000
Weighted average fixed pay rate	1.26 %	1.26 %
Weighted average variable receive rate	0.25 %	0.35 %
Weighted average maturity in years	3.3	4.0

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The Company reported a loss in fair value on the interest rate swap not designated as a hedge of $58,000 and a gain in fair value of $183,000 in noninterest income for the three and nine months ended September 30, 2013, respectively.

Derivative Loan Commitments - Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decrease. Conversely, if interest rates decrease, the value of these loan commitments increase. The notional amount of undesignated mortgage loan commitments was $6.6 million at September 30, 2013. At September 30, 2013, the fair values of such commitments were a net asset of $68,000.

Forward Loan Sale Commitments - To protect against the price risk inherent in derivative loan commitments, the Company utilizes “mandatory delivery” forward loan sale commitments to mitigate the risk of potential decreases in the value of loans that would result from the exercise of the derivative loan commitments.

With a “mandatory delivery” contract, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Company fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay a “pair-off” fee, based on then-current market prices, to the investor to compensate the investor for the shortfall.

The notional amount of undesiginated forward loan sale commitments was $6.1 million at September 30, 2013. The fair value of such commitments was a net asset of $31,000 at September 30, 2013.

Interest Rate Risk Management - Derivative Instruments
The following table presents the fair values of derivative instruments as well as their classification on the consolidated balance sheets at September 30, 2013 and December 31, 2012.

	Balance Sheet Location	September 30, 2013 Notional Amount	September 30, 2013 Estimated Fair Value	December 31, 2012 Notional Amount	December 31, 2012 Estimated Fair Value
		(In Thousands)			
Derivative designated as hedging instrument:					
Interest rate swap	Other Liabilities	$8,000	$(345)	$8,000	$(470)
Derivatives not designated as hedging instruments:					

Interest rate swap	Other Liabilities	15,000	(196)	15,000	(379)
Derivative loan commitments	Other Assets	6,557	68	7,844	10
Forward loan sale commitments	Other Assets	6,089	31	5,919	3

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NOTE 10. ACQUISITION OF NEWPORT BANCORP, INC.

On September 6, 2013, the Company acquired Newport. The transaction qualified as a tax-free reorganization for federal income tax purposes. Merger consideration paid in the transaction to shareholders of Newport totaled $61.0 million, consisting of 2,683,099 shares of Company common stock and $30.9 million in cash.

The Company accounted for the transaction using the acquisition method. Accordingly, the Company recorded acquisition expenses totaling $2.2 million (pre-tax) during the nine months ended September 30, 2013. The acquisition method requires an acquirer to recognize the assets acquired and the liabilities assumed at fair value as of the acquisition date. Additionally, the Company's results of operations include Newport's operating results from the date of acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition (dollars in thousands).

Assets:	
Cash & cash equivalents	$21,955
Investment securities	16,431
Loans receivable, net	361,054
Premises and equipment	9,726
Federal Home Loan Bank stock	5,356
Goodwill	8,370
Core deposit intangible	8,573
Other real estate owned	100
Bank-owned life insurance	11,266
Accrued interest receivable	848
Deferred tax asset, net	1,606
Other assets	525
Total assets acquired	445,810
Liabilities:	
Deposits	288,437
FHLB advances	74,820
Repurchase agreement	15,072
Accrued expense and other liabilities	6,486
Total liabilities assumed	384,815
Net assets acquired	$60,995

As noted above, the Company acquired loans with a fair value of $361.1 million. Included in this amount was $6.9 million of loans with evidence of deterioration of credit quality since origination for which it was probable, at the time of the acquisition, that the Company would be unable to collect all contractually required payments receivable. The Company recorded an aggregate nonaccretable credit discount of $1.2 million, which is defined as the loans' contractually required payments receivable in excess of the amount of its cash flows expected to be collected. The Company considered factors such as payment history, collateral values and accrual status when determining whether there was evidence of deterioration of the loans' credit quality at the acquisition date.

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The following table summarizes the unaudited pro forma financial results of operations as if the Company acquired Newport on January 1, 2012. Newport's operating results for 2013 include activity through September 6, 2013.

	Nine Months Ended September 30,	
(In Thousands, Except Per Share Amounts)	2013	2012
Net interest income	$29,926	$31,279
Net income	2,074	2,477
Earnings per share - Basic	0.17	0.20
Earnings per share - Diluted	0.17	0.20

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

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding changes in the Company's financial condition as of September 30, 2013 and December 31, 2012 and the results of operations for the three and nine months ended September 30, 2013 and 2012. The information contained in this section should be read in conjunction with the consolidated financial statements and notes thereto appearing in Part I, Item 1 of this document as well as with management's discussion and analysis of financial condition and results of operations and consolidated financial statements included in the Company's 2012 Annual Report on Form 10-K.

This report may contain certain "forward-looking statements" within the meaning of the federal securities laws, which are made in good faith pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally preceded by terms such as "expects," "believes," "anticipates," "intends," "estimates "projects" and similar expressions. These statements are not historical facts; rather, they are statements based on management's current expectations regarding our business strategies, intended results and future performance.

Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the United States government, including policies of the United States Treasury and the Federal Reserve Board, the quality and composition of the loan and investment portfolios, demand for loan products, deposit flows, competition, the ability to successfully integrate the operations of Newport, demand for financial services in the Company's market area, changes in real estate market values in the Company's market area and changes in relevant accounting principles and guidelines. Additional factors that may affect the Company's results are discussed in the Company's Annual Report on Form 10-K and in other reports filed with the Securities and Exchange Commission. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

The Company considers accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. The Company considers the determination of allowance for loan losses, OTTI of securities, deferred income taxes and the impairment of long-lived assets to be its critical accounting policies. Additional information about the Company's accounting policies is included in the notes to the Company's consolidated financial statements contained in Part I, Item 1 of this document and in the Company's 2012 Annual Report on Form 10-K.

Impact of New Accounting Standards

Refer to Note 1 of the consolidated financial statements in this report for a discussion of recent accounting pronouncements.

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

Assets:
Summary. Assets increased $415.4 million, or 43.6%, to $1.37 billion at September 30, 2013 from $953.3 million at December 31, 2012, due to increases of $346.3 million in net loans receivable, $16.9 million in intangible assets, $11.5 million in bank-owned life insurance, $10.2 million in premises and equipment, $8.3 million in available for sale securities and $5.0 million in Federal Home Loan Bank stock primarily as a result of the acquisition of Newport. The increase was offset by a decrease of $3.2 million in loans held for sale and $1.3 million in the prepaid FDIC deposit insurance assessment.

Loans Receivable, Net. Net loans receivable increased $346.3 million principally due to the loans acquired from the Newport merger of $361.1 million, offset by loan sales of $43.1 million and principal repayments and maturities. Changes in the loan portfolio consisted of the following:

- Residential Real Estate. Residential mortgage loans comprised 44.0% of the total loan portfolio at September 30, 2013. The residential mortgage portfolio increased $225.8 million, or 97.9%, due to the acquisition of $241.0 million in loans from the Newport acquisition, offset by the sale of $40.1 million of fixed rate-residential mortgage loans. Residential mortgage loan originations decreased $3.6 million during the first nine months of 2013 compared to the same period in 2012. Interest rate volatility negatively impacted loan originations during 2013.

- Multi-family and Commercial Real Estate. Multi-family and commercial real estate loans represented 25.3% of total loans at September 30, 2013 and increased $60.6 million, or 30.0%, during the first nine months of 2013. Loan originations for multi-family and commercial real estate loans were $9.9 million, representing a decrease of $40.9 million during the first nine months of 2013 compared to the same period in 2012 resulting from a lack of demand in the market.

- Construction. Construction loans, which include both residential and commercial construction loans, increased $6.6 million.

- Commercial Business. Commercial business loans represented 24.7% of total loans at September 30, 2013. Commercial business loans increased $42.8 million, or 20.0%. Contributing to the increase was the purchase of $20.1 million in commercial business loans, of which $15.5 million were SBA and USDA guaranteed loans, and loan originations of $65.0 million, partially offset by the sale of $3.0 million of SBA and USDA guaranteed loans during the first nine months of 2013. Commercial business loan originations increased $32.7 million over the comparable period in 2012. Commercial business loans included growth in specialized products such as time share lending and condominium of $5.1 million and $2.6 million, respectively. At September 30, 2013, unfunded lines of credit related to time share lending totaled $30.1 million as a result of an experienced lender dedicated to identifying new opportunities for growth within the time share industry.

- Consumer. Consumer loans represented 4.9% of the Company's total loan portfolio at September 30, 2013. Consumer loans increased $10.6 million during the first nine months of 2013. Home equity loans increased $13.2 million, offset by decreases in indirect automobile loans and other consumer loans of $2.5 million and $103,000, respectively. Loan originations for consumer loans totaled $13.5 million, representing an increase of $5.5 million for the nine months ended September 30, 2013, compared to the same period in 2012, as a result of a home equity line of credit promotion.

The allowance for loan losses totaled $6.3 million at September 30, 2013 compared to $6.4 million at December 31, 2012. The ratio of the allowance for loan losses to total loans decreased from 0.93% at December 31, 2012 to 0.61% at September 30, 2013 predominately as a result of loans acquired from the Newport merger that were recorded at fair value on the date of the merger and require no further allowance.

The following table provides information with respect to nonperforming assets and troubled debt restructurings as of the dates indicated.

	September 30 2013	December 31, 2012
Nonaccrual loans:	(Dollars in Thousands)	
Real estate loans:		
Residential - 1 to 4 family	$4,426	$4,988
Multi-family and commercial	2,697	1,758
Total real estate loans	7,123	6,746
Commercial business loans - Other	416	542
Consumer loans - Home equity	193	366
Total nonaccrual loans	7,732	7,654
Accruing loans past due 90 days or more	—	—
Total nonperforming loans [(1)]	7,732	7,654
Other real estate owned, net [(2)]	1,520	1,293
Total nonperforming assets	9,252	8,947
Accruing troubled debt restructurings	5,894	3,826
Total nonperforming assets and troubled debt restructurings	$15,146	$12,773
Allowance for loan losses as a percent of nonperforming loans	81.76 %	83.45 %
Total nonperforming loans to total loans	0.75 %	1.11 %
Total nonperforming loans to total assets	0.56 %	0.80 %
Total nonperforming assets and troubled debt restructurings to total assets	1.11 %	1.34 %

(1) Includes nonperforming TDRs totaling $543,000 and $504,000 at September 30, 2013 and December 31, 2012, respectively.
(2) Other real estate owned balances are shown net of related write-downs or valuation allowance.

Nonperforming multi-family and commercial real estate loans increased $939,000 and residential - 1 to 4 family real estate loans decreased $562,000 at September 30, 2013. Nonperforming loans are expected to remain elevated in the short-term due to the extended judicial foreclosure process in the State of Connecticut. The modification of loan terms, which may result in TDR classification, may be provided to borrowers when necessary to preserve the unpaid principal balance of certain loans.

Other real estate owned increased $227,000 from December 31, 2012 to September 30, 2013, primarily as a result of the acquisition of six residential and two commercial properties with an aggregate carrying value of $1.5 million, partially offset by the sale of five residential and three commercial properties with a carrying value of $1.3 million. At September 30, 2013, other real estate owned included four residential properties and three commercial properties.

Over the past year, the Company has sought to restructure nonperforming loans rather than pursue foreclosure or liquidation, believing this approach achieves the best economic outcome for the Company in view of the current economic environment. Modified payment terms for TDRs generally involve deferred principal payments, interest rate concessions, a combination of deferred principal payments and interest rate concessions or a combination of maturity extensions and interest rate concessions. TDRs increased to $6.4 million at September 30, 2013, compared to $4.3 million at December 31, 2012, resulting from the addition of $3.7 million in TDRs acquired from the Newport merger which consisted of nine commercial real estate loans with a recorded investment of $2.5 million, three residential real estate loans with a recorded investment of $522,000 and one commercial business loan with a recorded investment of $657,000. Of the TDRs, $5.9 million and $3.8 million were performing in accordance with their restructured terms at September 30, 2013 and December 31, 2012, respectively. The Company anticipates that these borrowers will repay all contractual principal and interest in accordance with the terms of their restructured loan agreements.

Liabilities:
Summary. Liabilities increased $388.4 million, or 46.9%, to $1.22 billion at September 30, 2013 compared to $827.5 million at December 31, 2012. Borrowings increased $85.6 million from $106.3 million at December 31, 2012 to $191.9 million at September 30, 2013, which included a $15.1 million repurchase agreement and $74.8 million in Federal Home Loan Bank ("FHLB") advances from the Newport merger. Deposits increased $296.4 million, or 42.0%, which included increases in NOW and money market accounts of $173.4 million, certificates of deposit of $66.6 million and savings account deposits of $5.3 million. Growth in deposits included $288.4 million assumed in the Newport acquisition.

Equity:
Summary. Shareholders' equity increased $27.0 million from $125.8 million at December 31, 2012 to $152.7 million at September 30, 2013. The increase in shareholders' equity was attributable to the acquisition of Newport resulting in an increase in equity of $30.1 million and an unrealized gain of $82,000 on an interest-rate swap derivative, offset by a net loss of $1.9 million, a decline in unrealized gains on available for sale securities aggregating $1.5 million (net of taxes) and dividends of $860,000.

Accumulated Other Comprehensive Income. Accumulated other comprehensive income is comprised of the unrealized gains and losses on available for sale securities and unrealized gains and losses on an interest rate swap designated as a hedge, net of taxes. Net unrealized gains on available for sale securities, net of taxes, decreased to $248,000 at September 30, 2013. The net unrealized loss on the interest rate swap, net of taxes, totaled $228,000 at September 30, 2013 compared to a net unrealized loss on the interest rate swap, net of taxes of $310,000 at December 31, 2012.

Results of Operations for the Three and Nine Months Ended September 30, 2013 and 2012

General. The Company's results of operations depend primarily on net interest income, which is the difference between the interest income earned on the Company's interest-earning assets, such as loans and investments, and the interest expense on its interest-bearing liabilities, such as deposits and borrowings. The Company also generates noninterest income such as gains on the sale of securities, fees earned from mortgage banking activities, fees from deposits, trust and investment management services, insurance commissions and other fees. The Company's noninterest expenses primarily consist of employee compensation and benefits, occupancy, computer services, furniture and equipment, outside professional services, electronic banking fees, marketing and other general and administrative expenses. The Company's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, governmental policies and actions of regulatory agencies.

Summary. The Company reported a net loss of $1.7 million for the three months ended September 30, 2013, representing a decrease of $1.0 million, compared to a net loss of $700,000 for the three months ended September 30, 2012.

The Company reported a net loss of $1.9 million for the nine months ended September 30, 2013, representing a decrease of $2.3 million, compared to net income of $373,000 for the nine months ended September 30, 2012.

Contributing to the net loss for the three and nine months ended September 30, 2013 were expenses totaling $1.3 million and $2.2 million (pre-tax), respectively, associated with the acquisition of Newport, losses realized on security sales and penalties related to the prepayment of FHLB advances.

Interest and Dividend Income. Total interest and dividend income increased $289,000, or 3.3%, to $9.2 million for the quarter ended September 30, 2013, compared to the same period in 2012. The increase in interest income was due to an increase in the average balance of loans, offset by lower yields on loans and securities and a decrease in the average balance of securities. The average yield earned on interest-earning assets decreased 22 basis points to 3.68%, with the yield on loans decreasing 40 basis points to 4.16% and the yield on investment securities decreasing 7 basis points to 2.13%. Average interest-earning assets increased $82.1 million to $986.9 million during the third quarter of 2013, due to an increase in the average balance of loans of $102.7 million, offset by decreases in the average balance of securities of $14.7 million and other interest earning assets of $5.8 million compared to the same quarter in 2012.

Total interest and dividend income decreased $1.0 million, or 3.5%, to $26.0 million for the nine months ended September 30, 2013, compared to the same period in 2012. The decrease in interest income was due to lower yields on loans and securities and a decrease in the average balance of securities, offset by an increase in the average balance of loans. The yield earned on interest-earning assets decreased 23 basis points to 3.73%, with the yield on loans decreasing 39 basis points to 4.28% and the yield on investment securities decreasing 31 basis points to 2.15%. Average interest-earning assets increased $24.6 million to $933.3 million during the first nine months of 2013, due to an increase in the average balance of loans of $61.9 million, offset by decreases in the average balance of securities of $29.3 million and other interest earning assets of $7.9 million.

Interest Expense. For the quarter ended September 30, 2013, interest expense decreased $304,000, or 12.8%, to $2.1 million compared to $2.4 million for the same period in 2012, primarily due to lower rates paid on deposits and borrowings, offset by increases in the average balance of deposits, FHLB advances and other borrowings. Average interest-bearing deposits increased $55.2 million to $677.5 million and the average rate paid decreased 22 basis points to 0.73%. Increases in the average balance of NOW and money market deposits, certificates of deposit and savings accounts totaling $46.6 million, $4.8 million and $3.9 million, respectively, were primarily due to the acquisition of Newport. The average balance of FHLB advances increased $22.4 million and the average rate decreased 91 basis points to 2.53%. The average balance of other borrowed funds, which represents a repurchase agreement assumed in the Newport merger, increased $3.9 million with an average rate paid of 20 basis points. The average rate on subordinated debt, which includes the associated interest rate swap, decreased 1 basis point to 4.09% as a result of a decrease in the LIBOR rate.

For the nine months ended September 30, 2013, interest expense decreased $954,000, or 13.0%, to $6.4 million compared to $7.3 million for the same period in 2012, primarily due to lower rates paid on deposits and borrowings. Average interest-bearing deposits increased $17.1 million to $641.1 million and the average rate paid decreased 17 basis points to 0.81%. Increases in the average balance of NOW and money market deposits and savings accounts totaled $14.2 million and $2.0 million, respectively. The average balance of FHLB advances increased $6.0 million and the average rate decreased 52 basis points to 2.91%. The lower rate paid on FHLB advances for 2013 was attributable to the prepayment of certain higher rate advances and new advances at significantly lower rates. The average balance of other borrowed funds increased $1.3 million with an average rate paid of 20 basis points. The average rate on subordinated debt, including the associated interest rate swap, decreased 3 basis points to 4.07% resulting from a decrease in the LIBOR rate.

Average Balance Sheet. The following sets forth information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resulting yields and rates paid, interest rate spread, net interest margin and the ratio of average interest-earning assets to average interest-bearing liabilities for the periods indicated.

	At or For the Three Months Ended September 30,							
	2013				2012			
	Average Balance	Interest & Dividends	Average Yield/ Rate		Average Balance	Interest & Dividends	Average Yield/ Rate	
	(Dollars in Thousands)							
Interest-earning assets:								
Loans [1] [2]	$773,439	$8,105	4.16	%	$670,751	$7,690	4.56	%
Securities [3]	195,119	1,050	2.13		209,858	1,161	2.20	
Other interest-earning assets	18,314	10	0.22		24,138	11	0.18	
Total interest-earning assets	986,872	9,165	3.68		904,747	8,862	3.90	
Noninterest-earning assets	75,664				46,900			
Total assets	$1,062,536				$951,647			
Interest-bearing liabilities:								
Deposits:								
Business checking	$(14)	—	—		$23	—	—	
NOW and money market	349,346	122	0.14		302,786	134	0.18	
Savings [4]	43,909	18	0.16		39,987	22	0.22	
Certificates of deposit [5]	284,216	1,101	1.54		279,447	1,323	1.88	
Total interest-bearing deposits	677,457	1,241	0.73		622,243	1,479	0.95	
Federal Home Loan Bank advances	115,508	736	2.53		93,069	804	3.44	
Subordinated debt	8,248	85	4.09		8,248	85	4.10	
Other borrowed funds	3,931	2	0.20		—	—	—	
Total interest-bearing liabilities	805,144	2,064	1.02		723,560	2,368	1.30	
Noninterest-bearing liabilities	119,042				99,346			
Total liabilities	924,186				822,906			
Total shareholders' equity	138,350				128,741			
Total liabilities and shareholders' equity	$1,062,536				$951,647			
Net interest-earning assets	$181,728				$181,187			
Tax equivalent net interest income [3]		7,101				6,494		
Tax equivalent interest rate spread [6]			2.66	%			2.60	%
Tax equivalent net interest margin as a percentage of interest-earning assets [7]			2.85	%			2.86	%
Average of interest-earning assets to average interest-bearing liabilities			122.57	%			125.04	%
Less tax equivalent adjustment [3]		(14)				—		

Net interest income	$7,087	$6,494

(1) Amount is net of deferred loan origination fees and costs. Average balances include nonaccrual loans and loans held for sale and excludes the allowance for loan losses.
(2) Loan fees are included in interest income and are immaterial.
(3) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 34%. The tax equivalent adjustment is deducted from tax equivalent net interest income to agree to the amounts reported in the statements of operations.
(4) Includes mortgagors' and investors' escrow accounts.
(5) Includes brokered deposits.
(6) Tax equivalent net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(7) Tax equivalent net interest margin represents tax equivalent net interest income divided by average interest-earning assets.

	At or For the Nine Months Ended September 30,							
	2013				2012			
	Average Balance	Interest & Dividends	Average Yield/ Rate		Average Balance	Interest & Dividends	Average Yield/ Rate	
	(Dollars in Thousands)							
Interest-earning assets:								
Loans (1) (2)	$712,285	$22,822	4.28	%	$650,429	$22,747	4.67	%
Securities (3)	197,408	3,176	2.15		226,750	4,180	2.46	
Other interest-earning assets	23,574	31	0.18		31,482	35	0.15	
Total interest-earning assets	933,267	26,029	3.73		908,661	26,962	3.96	
					—			
Noninterest-earning assets	55,512				48,639			
Total assets	$988,779				$957,300			
Interest-bearing liabilities:								
Deposits:								
Business checking	$33	—	—		$46	—	—	
NOW and money market	321,930	344	0.14		307,765	507	0.22	
Savings (4)	42,175	55	0.17		40,132	81	0.27	
Certificates of deposit (5)	276,966	3,478	1.68		276,031	4,001	1.94	
Total interest-bearing deposits	641,104	3,877	0.81		623,974	4,589	0.98	
Federal Home Loan Bank advances	102,158	2,227	2.91		96,109	2,469	3.43	
Subordinated debt	8,248	251	4.07		8,248	253	4.10	
Other borrowed funds	1,325	2	0.20		—	—	—	
Total interest-bearing liabilities	752,835	6,357	1.13		728,331	7,311	1.34	
Noninterest-bearing liabilities	105,574				98,347			
Total liabilities	858,409				826,678			
Total shareholders' equity	130,370				130,622			
Total liabilities and shareholders' equity	$988,779				$957,300			
Net interest-earning assets	$180,432				$180,330			
Tax equivalent net interest income (3)		19,672				19,651		
Tax equivalent interest rate spread (6)			2.60	%			2.62	%
Tax equivalent net interest margin as a percentage of interest-earning assets (7)			2.82	%			2.89	%
Average of interest-earning assets to average interest-bearing liabilities			123.97	%			124.76	%
Less tax equivalent adjustment (3)		(21)				(1)		

Net interest income	$19,651	$19,650

(1) Amount is net of deferred loan origination fees and costs. Average balances include nonaccrual loans and loans held for sale and excludes the allowance for loan losses.
(2) Loan fees are included in interest income and are immaterial.
(3) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 34%. The tax equivalent adjustment is deducted from tax equivalent net interest income to agree to the amounts reported in the statements of operations.
(4) Includes mortgagors' and investors' escrow accounts.
(5) Includes brokered deposits.
(6) Tax equivalent net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(7) Tax equivalent net interest margin represents tax equivalent net interest income divided by average interest-earning assets.

The following table sets forth the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have on the Company's interest income and interest expense for the periods presented. 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 rate and volume columns. For purposes of this table, changes attributable to both changes in rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Three Months Ended September 30, 2013 and 2012 Increase (Decrease) Due To			Nine Months Ended September 30, 2013 and 2012 Increase (Decrease) Due To		
	Rate	Volume	Net	Rate	Volume	Net
	(In Thousands)					
Interest-earning assets:						
Interest and dividend income:						
Loans (1)(2)	$(710)	$1,125	$415	$(1,981)	$2,056	$75
Securities (3)	(33)	(78)	(111)	(496)	(508)	(1,004)
Other interest-earning assets	2	(3)	(1)	4	(8	