

NORTHEAST COMMUNITY BANCORP INC
Form 10-Q
May 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from _____ to _____

Commission file number: 0-51852

Northeast Community Bancorp, Inc.
(Exact name of registrant as specified in its charter)

United States of America
(State or other jurisdiction of incorporation or organization)

06-1786701
(I.R.S. Employer Identification No.)

325 Hamilton Avenue, White Plains, New York
(Address of principal executive offices)

10601
(Zip Code)

(914) 684-2500
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No T

As of May 4, 2009, there were 13,225,000 shares of the registrant’s common stock outstanding.

NORTHEAST COMMUNITY BANCORP, INC.
Table of Contents

	Page No.
<u>Part I—Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Financial Condition at March 31, 2009 and December 31, 2008</u>	1
<u>Consolidated Statements of Income for the Three Months Ended March 31, 2009 and 2008</u>	2
<u>Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2009 and 2008</u>	3
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2009 and 2008</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2.</u>	10
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	18
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
<u>Item 4.</u>	19
<u>Controls and Procedures</u>	
<u>Part II—Other Information</u>	
<u>Item 1.</u>	19
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	19
<u>Risk Factors</u>	
<u>Item 2.</u>	20
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 3.</u>	20
<u>Defaults Upon Senior Securities</u>	
<u>Item 4.</u>	20
<u>Submission of Matters to a Vote of Security Holders</u>	
<u>Item 5.</u>	20
<u>Other Information</u>	
<u>Item 6.</u>	20
<u>Exhibits</u>	
<u>Signatures</u>	21

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

	March 31, 2009	December 31, 2008
	(In thousands, except share and per share data)	
ASSETS		
Cash and amounts due from depository institutions	\$ 2,919	\$ 2,368
Interest-bearing deposits	41,251	34,166
Cash and cash equivalents	44,170	36,534
Certificates of deposit	498	498
Securities available for sale	182	182
Securities held to maturity	2,006	2,078
Loans receivable, net of allowance for loan losses of \$1,915 and \$1,865, respectively	384,538	363,616
Premises and equipment, net	7,608	4,365
Federal Home Loan Bank of New York stock, at cost	2,800	2,350
Bank owned life insurance	10,188	8,902
Accrued interest receivable	1,857	1,785
Goodwill	1,310	1,310
Intangible assets	634	649
Real estate owned	527	832
Other assets	1,791	1,127
Total assets	\$ 458,109	\$ 424,228
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	\$ 5,516	\$ 6,209
Interest bearing	283,296	255,221
Total deposits	288,812	261,430
Advance payments by borrowers for taxes and insurance	4,643	6,624
Federal Home Loan Bank advances	50,000	40,000
Accounts payable and accrued expenses	3,268	5,191
Note payable	487	481
Total liabilities	347,210	313,726
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized, none issued	-	-
Common stock, \$0.01 par value; 19,000,000 shares authorized; issued and outstanding: 13,225,000 shares	132	132
Additional paid-in capital	57,542	57,560

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Unearned Employee Stock Ownership Plan (“ESOP”) shares	(4,342)	(4,407)
Retained earnings	57,740	57,399
Accumulated comprehensive loss	(173)	(182)
Total stockholders’ equity	110,899	110,502
Total liabilities and stockholders’ equity	\$ 458,109	\$ 424,228

See Notes to Consolidated Financial Statements

1

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31, 2009 2008 (In thousands, except per share data)	
INTEREST INCOME:		
Loans	\$ 5,832	\$ 4,928
Interest-earning deposits	31	299
Securities – taxable	42	55
Total Interest Income	5,905	5,282
INTEREST EXPENSE:		
Deposits	1,980	1,983
Borrowings	334	70
Total Interest Expense	2,314	2,053
Net Interest Income	3,591	3,229
PROVISION FOR LOAN LOSSES	50	–
Net Interest Income after Provision for Loan Losses	3,541	3,229
NON-INTEREST INCOME:		
Other loan fees and service charges	83	91
Impairment loss on securities	(4)	–
Earnings on bank owned life insurance	86	101
Investment advisory fees	168	201
Other	–	35
Total Non-Interest Income	333	428
NON-INTEREST EXPENSES:		
Salaries and employee benefits	1,534	1,468
Net occupancy expense	285	276
Equipment	155	144
Outside data processing	198	167
Advertising	66	61
Real estate owned expenses	110	–
Other	679	656
Total Non-Interest Expenses	3,027	2,772
Income before Provision for Income Taxes	847	885
PROVISION FOR INCOME TAXES	341	357
Net Income	\$ 506	\$ 528
Net Income per Common Share – Basic	\$.04	\$.04
Weighted Average Number of Common Shares Outstanding – Basic	12,787	12,761
Dividends paid per common share	\$.03	\$.03

See Notes to Consolidated Financial Statements

Table of Contents

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Three Months Ended March 31, 2009 and 2008

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity	Comprehensive Income
Balance at December 31, 2007	\$ 132	\$ 57,555	\$ (4,665)	\$ 55,956	\$ (149)	\$ 108,829	
Comprehensive income:							
Net income	-	-	-	528	-	528	\$ 528
Unrealized loss on securities available for sale, net of taxes of \$6	-	-	-	-	(7)	(7)	(7)
Prior Service Cost and Actuarial Loss- DRP, net of taxes of \$2	-	-	-	-	4	4	4
Cash dividend declared (\$.03 per share) to minority stockholders	-	-	-	(165)	-	(165)	
ESOP shares earned	-	11	64	-	-	75	
Total comprehensive income							\$ 525
Balance at March 31, 2008	\$ 132	\$ 57,566	\$ (4,601)	\$ 56,319	\$ (152)	\$ 109,264	
Balance at December 31, 2008	\$ 132	\$ 57,560	\$ (4,407)	\$ 57,399	\$ (182)	\$ 110,502	
Comprehensive income:							
Net income	-	-	-	506	-	506	\$ 506
Unrealized gain on securities available for sale, net of taxes of \$-	-	-	-	-	5	5	5
Prior Service Cost and Actuarial	-	-	-	-	4	4	4

Loss– DRP, net							
of							
taxes of \$3							
Cash dividend							
declared (\$.03 per							
share) to							
minority stockholders	-	-	-	(165)	-	(165)	
ESOP shares earned	-	(18)	65		-	47	
Total comprehensive							
income							\$ 515
Balance at March 31,							
2009	\$ 132	\$ 57,542	\$ (4,342)	\$ 57,740	\$ (173)	\$ 110,899	

See Notes to Consolidated Financial Statements

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 506	\$ 528
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net amortization of securities premiums and discounts, net	1	1
Provision for loan losses	50	-
Provision for depreciation	154	121
Net (accretion) amortization of deferred loan discounts, fees and costs	(79)	45
Amortization other	21	22
Impairment loss on securities	4	-
Loss on disposal of equipment	3	-
Loss on sale of real estate owned	86	-
Earnings on bank owned life insurance	(86)	(101)
(Increase) in accrued interest receivable	(72)	(110)
(Increase) in other assets	(664)	(358)
(Decrease) in accrued interest payable	(1)	(3)
(Decrease) increase in other accounts payable and accrued expenses	(1,919)	404
ESOP shares earned	47	75
Net Cash (Used in) Provided by Operating Activities	(1,949)	624
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of loans	(1,529)	-
Net (increase) in loans	(19,364)	(28,612)
Principal repayments on securities available-for-sale	1	8
Principal repayments on securities held-to-maturity	71	266
Purchase of Federal Home Loan Bank of New York Stock	(450)	(675)
Purchases of premises and equipment	(3,400)	(51)
Proceeds from sale of real estate owned	283	-
Capitalized costs on real estate owned	(64)	-
Purchase of bank owned life insurance	(1,200)	-
Net Cash (Used in) Investing Activities	(25,652)	(29,064)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	27,383	22,384
Proceeds from FHLB of New York advances	10,000	15,000
(Decrease) increase in advance payments by borrowers for taxes and insurance	(1,981)	1,495
Cash dividends paid to minority stockholders	(165)	(165)
Net Cash Provided by Financing Activities	35,237	38,714
Net Increase in Cash and Cash Equivalents	7,636	10,274
Cash and Cash Equivalents - Beginning	36,534	39,146
Cash and Cash Equivalents - Ending	\$ 44,170	\$ 49,420
SUPPLEMENTARY CASH FLOWS INFORMATION:		
Income taxes paid	\$ 2,613	\$ 405

Interest paid	\$ 2,315	\$ 2,056
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See Notes to Consolidated Financial Statements

4

Table of Contents

NORTHEAST COMMUNITY BANK
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION

Northeast Community Bancorp, Inc. (the “Company”) is a Federally-chartered corporation organized as a mid-tier holding company for Northeast Community Bank (the “Bank”), in conjunction with the Bank’s reorganization from a mutual savings bank to the mutual holding company structure on July 5, 2006. The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and the Bank’s wholly owned subsidiary, New England Commercial Properties, LLC (“NECP”). All significant intercompany accounts and transactions have been eliminated in consolidation.

NECP, a New York limited liability company, was formed in October 2007 to facilitate the purchase or lease of real property by the Bank. As of March 31, 2009, NECP had title to one multi-family property located in Newark, New Jersey. The Bank accepted a deed-in-lieu of foreclosure and transferred this property to NECP on November 19, 2008.

The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information as well as instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information or footnotes necessary for the presentation of financial position, results of operations, changes in stockholders’ equity and cash flows in conformity with accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the full year or any other interim period. The December 31, 2008 consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles. That data, along with the interim financial information presented in the consolidated statements of financial condition, income, changes in stockholders’ equity, and cash flows should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2008.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain recorded amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimate pertains to the allowance for loan losses.

NOTE 2 – EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed in a manner similar to basic earnings per common 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. Common stock equivalents may include restricted stock awards and stock options. Anti-dilutive shares are common stock equivalents with weighted-average exercise prices in excess of the weighted-average market value for the periods presented. The Company has not granted any restricted stock awards or stock options and, during the three-month periods ended March 31, 2009 and 2008, had no potentially dilutive common stock equivalents. Unallocated common shares held by the Employee Stock Ownership Plan (“ESOP”) are not included in the weighted-average number of common shares outstanding for purposes of calculating both basic and diluted earnings

per common share until they are committed to be released.

NOTE 3 – EMPLOYEE STOCK OWNERSHIP PLAN

As of December 31, 2008 and March 31, 2009, the ESOP trust held 518,420 shares of the Company's common stock, which represents all allocated and unallocated shares held by the plan. As of December 31, 2008, the Company had allocated 51,842 shares to participants, and an additional 25,921 shares had been committed to be released.

5

Table of Contents

NOTE 3 – EMPLOYEE STOCK OWNERSHIP PLAN (Continued)

As of March 31, 2009, the Company had allocated 77,763 shares to participants, and an additional 6,480 shares had committed to be released. The Company recognized compensation expense of \$47,000 and \$75,000 during the three-month periods ended March 31, 2009 and 2008, respectively, which equals the fair value of the ESOP shares when they became committed to be released.

NOTE 4 – OUTSIDE DIRECTOR RETIREMENT PLAN (“DRP”)

Periodic expenses for the Company’s DRP were as follows:

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Service cost	\$ 13	\$ 12
Interest cost	9	7
Amortization of Prior Service Cost	5	5
Amortization of actuarial loss	2	1
Total	\$ 29	\$ 25

Effective January 1, 2006, the Bank implemented the DRP. This plan is a non-contributory defined benefit pension plan covering all non-employee directors meeting eligibility requirements as specified in the plan document. The DRP is accounted for under Statements of Financial Accounting Standards Nos. 132 and 158. The amortization of prior service cost and actuarial loss in the three-month periods ended March 31, 2009 and 2008 is also reflected as a reduction in other comprehensive income during the period.

NOTE 5 – FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, “Fair Value Measurements”, for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Staff Position (FSP) No. 157-2, “Effective Date of FASB Statement No. 157,” the Company delayed the application of SFAS 157 for non-financial assets and non-financial liabilities, until January 1, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The adoption of No. 157-2 did not have an impact on the amounts recorded in the consolidated financial statements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques

to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied.

Table of Contents

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability; either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correction or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at the fair value effective January 1, 2008.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counter-party credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things.

The following table summarizes financial assets measured at fair value on a recurring basis as of March 31, 2009 and December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Securities available for sale:				
March 31, 2009	\$ -	\$ 182	\$ -	\$ 182
December 31, 2008	-	182	-	182

7

Table of Contents

NOTE 5 – FAIR VALUE MEASUREMENTS (Continued)

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a nonrecurring basis were not significant at March 31, 2009.

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115.” SFAS 159 permits the Company to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, thus the Company may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles, (ii) is irrevocable (unless a new election date occurs), and (iii) is applied only to entire instruments and not to portions of instruments. Adoption of SFAS 159 on January 1, 2008 did not have any impact on the Company’s consolidated financial statements.

NOTE 6 – EFFECT OF SALE OF OUR NEW YORK CITY BRANCH OFFICE

On June 29, 2007, the Bank completed the sale of its branch office building located at 1353-55 First Avenue, New York, New York (the “Property”). The sale price for the Property was \$28.0 million. At closing, the Bank received \$10.0 million in cash and an \$18.0 million zero coupon promissory note recorded at its then present value of \$16.3 million (the “Original Note”). The Original Note was payable in two \$9.0 million installments due on the first and second anniversaries of the Original Note. On July 31, 2008, as payment of the first installment due under the Original Note, the Bank received \$2.0 million in cash and a new \$7.0 million note bearing interest at 7% per annum and payable over a five-month period ending on December 31, 2008 (the “New Note”). On December 31, 2008, the Original Note and the remaining \$1.9 million balance on the New Note were rolled into a new \$10.9 million note payable on July 31, 2009 (the “Combined Note”). The Combined Note is secured by 100% of the interests in the companies owning the Property. In addition, the Combined Note is secured by a pocket mortgage on the Property, which is held in escrow by the Bank. This note is not treated as a loan or extension of credit for purposes of the regulatory limits on loans to one borrower.

NOTE 7 – COMPREHENSIVE INCOME

Comprehensive income for the three months ended March 31, 2009, totaled \$515,000 and consisted of net income of \$506,000 and \$9,000 in net other comprehensive income related to securities available for sale (unrealized gain of \$5,000 net of income tax effect of \$-) and benefit plan amounts (amortization of prior service costs and actuarial gains of \$7,000 net of income tax effect of \$3,000). Comprehensive income for the three months ended March 31, 2008, totaled \$525,000 and consisted of net income of \$528,000 and \$3,000 in other comprehensive loss related to securities available for sale (unrealized losses of \$7,000 net of income tax effect of \$6,000) and benefit plan amounts (amortization of prior service costs and actuarial losses of \$4,000 net of income tax effect of \$2,000).

NOTE 8 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board (“FASB”) Statement No. 141 (R) “Business Combinations” was issued in December 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the

financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. This new pronouncement will impact the Company's accounting for business combinations, if any, completed beginning January 1, 2009.

8

Table of Contents

NOTE 8 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In March 2008, the FASB issued Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133” (Statement 161). Statement 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. Statement 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 has been applied, and the impact that hedges have on an entity’s financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the potential impact this new pronouncement will have on its consolidated financial statements.

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FASB Statement 157, Fair Value Measurements, defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 provides additional guidance on determining when the volume and level of activity for the asset or liability has significantly decreased. The FSP also includes guidance on identifying circumstances when a transaction may not be considered orderly.

FSP FAS 157-4 provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with Statement 157.

This FSP clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The FSP provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 157-4 must also early adopt FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. The Company has not early adopted this pronouncement and is currently reviewing the effect it will have on its consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

Table of Contents

NOTE 8 – EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP FAS 115-2 and FAS 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 115-2 and FAS 124-2 must also early adopt FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. The Company has not early adopted this pronouncement and is currently reviewing the effect it will have on its consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 107-1 and APB 28-1 must also early adopt FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly and FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. The Company has not early adopted this pronouncement and is currently reviewing the effect it will have on its consolidated financial statements.

NOTE 9 - SUBSEQUENT EVENT

On April 24, 2009, the Bank opened its first Massachusetts retail branch office at 87 Elm Street in Danvers. The Bank's second Massachusetts retail branch office, located at 8 North Park Avenue in Plymouth, is scheduled to open May 29, 2009.

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

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company 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 U.S.

government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Bank's market area, changes in real estate market values in the Bank'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 under "Item 1A. Risk Factors." These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. 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.

Table of Contents

CRITICAL ACCOUNTING POLICIES

We consider 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. We consider the following to be our critical accounting policies: allowance for loan losses and deferred income taxes.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover probable credit losses in the loan portfolio at the statement of financial condition date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance on a quarterly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectibility of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our allowance for loan losses. The Office of Thrift Supervision could require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings. For additional discussion, see note 1 of the notes to the consolidated financial statements included in the Company's annual report on Form 10-K for 2008.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes as prescribed in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings.

Comparison of Financial Condition at March 31, 2