

United Financial Bancorp, Inc.  
Form 10-K  
March 13, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended December 31, 2013**

**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 No. 000-52947**

**United Financial Bancorp, Inc.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of incorporation or organization)

**74-3242562**

(I.R.S. Employer Identification Number)

**95 Elm Street, West Springfield, Massachusetts**

(Address of Principal Executive Offices)

**01089**

Zip Code

**(413) 787-1700**

(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

**Common Stock, par value \$0.01 per share**

(Title of each class)

**NASDAQ Global Select Market**

Name of each exchange on which registered

Securities Registered Pursuant to Section 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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 twelve months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES  NO

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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

YES  NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the last sale price on June 30, 2013, as reported by the NASDAQ Global Select Market, was approximately \$287.6 million.

As of March 5, 2014, 19,790,762 shares of the registrant's common stock were outstanding.

**Table of Contents**

TABLE OF CONTENTS

ITEM		PAGE
	<u>PART I</u>	
1	<u>BUSINESS</u>	1
1A	<u>RISK FACTORS</u>	39
1B	<u>UNRESOLVED STAFF COMMENTS</u>	46
2	<u>PROPERTIES</u>	46
3	<u>LEGAL PROCEEDINGS</u>	47
4	<u>MINE SAFETY DISCLOSURES</u>	47
	<u>PART II</u>	
5	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	47
6	<u>SELECTED FINANCIAL DATA</u>	50
7	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	52
7A	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	70
8	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	71
9	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	71
9A	<u>CONTROLS AND PROCEDURES</u>	71
9B	<u>OTHER INFORMATION</u>	73
	<u>PART III</u>	
10	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	73
11	<u>EXECUTIVE COMPENSATION</u>	73
12	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	73
13	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	74
14	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	74
	<u>PART IV</u>	
15	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	74
	<u>SIGNATURES</u>	

---

**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**  
**Terminology**

As used in this Annual Report, unless we specify otherwise, terms such as we, us, and our refer to United Financial Bancorp, Inc., a Maryland corporation, or United Bank, a federal savings bank and the wholly owned subsidiary of United Financial Bancorp, Inc., as indicated by the context.

**Forward Looking Statements**

This Annual Report contains certain forward-looking statements that may be identified by the use of words such as believe, expect, anticipate, should, planned, estimated and potential. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors that could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage and other loans, real estate values, the ability to obtain regulatory approvals and meet other closing conditions to the merger with Rockville Financial, Inc. on the expected terms and schedule, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services. Additional factors are discussed in this 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. Forward-looking statements speak only as of the date they are made and we do not undertake to update forward-looking statements to reflect circumstances or events that occur after the date of the forward-looking statements or to reflect the occurrence of unanticipated events. Accordingly, past results and trends should not be used by investors to anticipate future results or trends.

**United Financial Bancorp, Inc.**

United Financial Bancorp, Inc. (the Company), a Maryland corporation incorporated in 2007, is the holding company for United Bank. The Company's assets consist of its investment in United Bank and its liquid investments. The Company is primarily engaged in the business of directing, planning, and coordinating the business activities of the Bank. The Company's most significant asset is its investment in the Bank.

In 2007, the Company sold 9,564,570 shares of its common stock in connection with the second-step conversion from mutual to stock form of United Financial Bancorp, MHC, a federal mutual corporation. The Company contributed \$45.1 million of the net proceeds of the offering to United Bank.

On November 30, 2009, the Company acquired CNB Financial Corp. (CNB Financial), the holding company for Commonwealth National Bank. The transaction qualified as a tax-free reorganization for federal income tax purposes. The consideration paid in the transaction to stockholders of CNB Financial consisted of 943,376 shares of Company common stock and \$12.6 million in cash. Based upon the Company's \$12.84 per share closing price on November 30, 2009, the transaction was valued at approximately \$24.8 million. As a result of this transaction, the Company added six branches, \$289.3 million in assets, \$242.9 million in loans and \$195.2 million in deposits to its franchise.

On November 16, 2012, the Company acquired New England Bancshares, Inc. (NEBS), the holding company for New England Bank. The transaction qualified as a tax-free reorganization for federal income tax purposes. The consideration paid in the transaction to stockholders of NEBS consisted of 5,559,495 shares of Company common stock and \$2.3 million in cash. Based upon the Company's \$14.24 per share closing price on November 16, 2012, the transaction was valued at approximately \$81.5 million. As a result of this transaction, the Company expanded its operations into Connecticut and added 15 branches, \$745.8 million in assets, \$554.0 million in loans and \$597.0 million in deposits to its franchise.

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**Table of Contents**

On November 15, 2013, the Company and Rockville Financial, Inc. ( Rockville Financial ), the parent company of Rockville Bank, announced the signing of a definitive agreement under which Rockville Financial will acquire the Company in an all-stock transaction valued at \$369 million, based on the closing price of Rockville Financial common stock of \$13.62 on November 14, 2013. Under the terms of the definitive merger agreement, the Company's shareholders will receive 1.3472 shares of Rockville Financial common stock for each share of the Company's common stock. Upon closing, Rockville Financial shareholders will own approximately 49% of stock in the combined company and United Financial Bancorp, Inc. shareholders will own approximately 51%. The transaction, which has been approved by the boards of directors of both the Company and Rockville Financial, is expected to close by mid-year 2014. The transaction is subject to approval by shareholders from both companies, regulatory approval and other customary closing conditions.

The Company is authorized to pursue other business activities permitted by applicable laws and regulations for savings and loan holding companies which may include the acquisition of banking and financial services companies. See Supervision and Regulation Holding Company Regulation for a discussion of the activities that are permitted for savings and loan holding companies. We currently have no understandings or agreements to acquire other financial institutions. We also may borrow funds for reinvestment in United Bank.

The Company's cash flows depend on earnings from interest-earning deposits and any dividends received from United Bank. The Company neither owns nor leases any property, but instead uses the premises, equipment and furniture of United Bank. At the present time, we employ as officers certain persons who are also officers of United Bank. However, we use the support staff of United Bank from time to time. These persons are not separately compensated by the Company. The Company may hire additional employees, as appropriate, to the extent it expands its business in the future.

The Company's executive offices are located at 95 Elm Street, West Springfield, Massachusetts, and its telephone number is 413-787-1700.

**United Bank**

United Bank is a federally chartered savings bank headquartered in West Springfield, Massachusetts. United Bank was originally founded in 1882 as a Massachusetts-chartered cooperative bank. Over the years, United Bank has grown through internal growth as well as through a series of five mutual-to-mutual business combinations that occurred between 1960 and 1994 and acquisitions of Commonwealth National Bank and New England Bank described above. In February 2004, United Bank converted to a federal savings bank and, in April 2004, reorganized into the two-tier mutual holding company structure. In July 2005, United Bank completed a minority public stock offering through its holding company, raising net proceeds of \$74.8 million. In November 2007, the Bank completed a second-step stock offering raising net proceeds of \$83.0 million.

United Bank's principal business consists of attracting retail deposits from the general public in the areas surrounding our main office in West Springfield, Massachusetts and our 16 branch offices located in our Springfield Region (Agawam, Chicopee, East Longmeadow, Feeding Hills, Holyoke, Huntington, Indian Orchard, Longmeadow, Ludlow, Northampton, Springfield and Westfield, Massachusetts as well as our 2 Express Drive-Up branches located in West Springfield and Northampton, Massachusetts) and seven branches in our Worcester Region (West Boylston, Whitinsville, Worcester, Shrewsbury, and Northborough Massachusetts). Following our acquisition of New England Bank, we now operate 12 branch offices in Hartford, Tolland, New Haven and Litchfield counties in Connecticut. We invest deposits, together with funds generated from operations, in one- to four-family residential mortgage loans, home equity loans and lines of credit, commercial real estate loans, construction loans, commercial and industrial loans, automobile loans, other consumer loans, and investment securities. In general, we retain in our portfolio all loans that we originate; however, over the past few years we have sold the majority of the 20- and 30-year fixed-rate one- to four-family residential loans we have originated in the secondary market, for strategic reasons, including interest rate risk management objectives. Occasionally, we will also enter into loan participations with other financial institutions. Our revenues are derived principally from interest on loans and securities. We also generate revenues from fees and service

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## **Table of Contents**

charges and other income. United Bank emphasizes exceptional personal service for its customers. Our primary sources of funds are deposits, borrowings and principal and interest payments on loans and securities.

United Bank's executive offices are located at 95 Elm Street, West Springfield, Massachusetts, and its telephone number is 413-787-1700.

### **Available Information**

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on our website, [www.bankatunited.com](http://www.bankatunited.com), as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission. The information on our website shall not be considered as incorporated by reference into this Form 10-K.

### **Market Area**

We are headquartered in West Springfield, Massachusetts. Our primary market area for generating deposits is concentrated in the communities surrounding our main and branch offices. We also maintain two financial services facilities that offer insurance and investment products and financial planning services. These facilities are located in West Springfield and Northampton, Massachusetts. Our primary lending area is significantly broader than our deposit market area and includes all of Hampden and Hampshire Counties in Western Massachusetts, Worcester County, Massachusetts, as well as areas of Northern and Central Connecticut including Hartford, Tolland, New Haven and Litchfield counties. At December 31, 2013, 69.6% of our mortgage loan portfolio consisted of loans secured by real estate located in Hampden and Hampshire Counties, Massachusetts.

**Springfield Region.** The city of West Springfield is largely suburban and is located in the Pioneer Valley near the intersection of U.S. Interstates 90 (the Massachusetts Turnpike) and 91. Interstate 90 is the major east-west highway that transverses Massachusetts. Interstate 91 is the major north-south highway that runs directly through the heart of New England. West Springfield is located approximately 90 miles west of Boston, 70 miles southeast of Albany and 30 miles north of Hartford. According to a recent census report, West Springfield's estimated 2012 population was approximately 28,574 and the estimated 2012 population for Hampden and Hampshire Counties was 465,923 and 159,795, respectively. From April 1, 2010 to July 1, 2012, the population of Hampden County increased 0.5% and the population of Hampshire County increased by 1.1%. The population of the Commonwealth of Massachusetts increased by 1.5% during the same period.

The economy of the Springfield Region has benefited from the presence of large employers such as the University of Massachusetts, Baystate Health System, Mass Mutual Financial Group, Big Y Supermarkets, Hasbro Games, Peter Pan Bus Lines, Westover Air Force Base, Smith & Wesson, Yankee Candle and Verizon. Other employment and economic activity is provided by financial institutions, colleges and universities, hospitals and a variety of wholesale and retail trade businesses. The Springfield Region also enjoys a strong tourism business with attractions such as Six Flags amusement park, the Eastern States Exposition, called New England's Great State Fair, the Basketball Hall of Fame and several other notable cultural and recreational areas. According to recent census data, per capita and median household income for Hampden County was \$25,646 and \$49,729, respectively, in 2012, lower than the Commonwealth of Massachusetts (\$35,485 and \$66,658) and the United States (\$28,051 and \$53,046). 2012 per capita and median household income for Hampshire County was \$29,246 and \$66,658 respectively.

The Springfield Region job market has recently shown improvement. The unemployment rate in Hampden County decreased from a 2013 high of 9.6% in June to 8.5% in November 2013, which is higher than the unemployment rates for Massachusetts as a whole (6.6%) and to the United States as a whole (7.0%) during the same time period.

**Worcester Region.** Located one hour from our corporate headquarters in West Springfield, the city of Worcester is located 30 minutes from Boston's MetroWest area and adjacent to the I-495 Corridor. Worcester is

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## **Table of Contents**

the second largest city in New England with an estimated population of 182,669 in 2012. Worcester County's 2012 population was 806,163, a 1.0% increase from 2010. United Bank's Worcester Region Headquarters is located at 33 Waldo Street in Worcester, Massachusetts.

Worcester has a diversified economy. The City of Worcester is home to eight colleges and the University of Massachusetts Medical School, its largest employer. Biotechnology is a major enterprise within the city. Its biotech park is host to several innovative companies including Abbott Laboratories, a leading pharmaceutical research and manufacturing firm. Hanover Insurance maintains its national headquarters in Worcester and a subsidiary of Unum, the Paul Revere Life Insurance Company and Harleysville Worcester Insurance Company, the oldest life insurance company based in Massachusetts, are also headquartered in Worcester. In addition, Worcester is also home to several libraries and museums. Residents also enjoy access to several performing arts centers and a variety of annual music festivals and events.

According to recent census data, per capita and median household income for Worcester County for 2011 was \$31,609 and \$66,658. The unemployment rate in Worcester County decreased from 7.4% in December 2012 to 7.3% in November 2013.

**Connecticut Region.** The Connecticut region includes all of Hartford County in addition to eight towns in Tolland and New Haven Counties that are contiguous to towns in Hartford County as well as Wallingford in New Haven County and Plymouth in Litchfield County. Hartford County is directly contiguous with Hampden County. Located thirty minutes from our West Springfield corporate headquarters, the city of Hartford is the capital city of Connecticut. Hartford County had a population of 897,259 as of 2012. The Connecticut Region Headquarters is located at 855 Enfield Street in Enfield, Connecticut.

Hartford serves as the headquarters for several Fortune 500 companies, including United Technologies Corporation, The Hartford Financial Services Group, Aetna Inc., and Northeast Utilities. Hailed as the insurance capital of the world, Hartford County employs seven times more people in the insurance field than the average metropolitan area. Among these employers are Aetna, ING, CIGNA, Lincoln Life, Uniprise, Travelers, The Phoenix Companies, Mass Mutual and Prudential Financial Services. There are also significant businesses in other areas including the aerospace, precision machining, information technology and health and medical sectors. Among these employers are AT&T, Henkel Loctite, Kaman, Lego Systems Inc., Retail Brand Alliance and Ahlstrom.

Hartford County is in the heart of the New England Knowledge Corridor that stretches from the city of Hartford to Western Massachusetts. Institutions of higher education include Trinity College, Wesleyan University, the University of Connecticut, the University of Hartford and Central Connecticut State University.

In addition, Hartford County is also home to several noteworthy libraries and museums including the Wadsworth Athenaeum Museum of Art, the Mark Twain House and Museum Center and the Air Museum. Residents also enjoy access to several performing arts centers and variety of annual music festivals and events. According to 2012 estimates, per capita income for Hartford County was \$34,356 and median household income was \$64,752. The unemployment rate in Hartford County decreased from 9.0% in January 2013 to 7.1% in November 2013.

## **Competition**

We face intense competition within our market area both in making loans and attracting deposits. Our market area has a high concentration of financial institutions, large money center and regional banks including Bank of America Corp., TD Bank, N.A., People's United Financial, Inc. and Webster Bank Financial Corporation, community banks and credit unions. Some of these institutions are significantly larger and, therefore, have significantly greater resources than we do and may offer products and services that we do not provide, such as trust services and private banking. As of June 30, 2013, the latest date for which data is available, our market share of deposits was 11.98%, or fourth of 20 banks, in Hampden County, 1.77%, or

**Table of Contents**

eleventh of 16 banks, in Hampshire County, 1.53%, or twenty-first of 38 banks, in Worcester County and 1.44%, or tenth of 27 banks, in Hartford County, Connecticut.

Our competition for loans and deposits comes principally from commercial banks, savings and co-operative institutions, mortgage banking firms and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies.

**Lending Activities**

Our principal lending activities are the origination of first mortgage loans for the purchase or refinancing of one- to four-family residential real property, home equity, commercial real estate, construction and commercial and industrial loans. In general, we retain in our portfolio all loans that we originate; however, over the past few years we have sold the majority of the 20- and 30-year fixed-rate one- to four-family residential loans we have originated in the secondary market, for strategic reasons, including interest rate risk management objectives. At December 31, 2012, we had \$632,000 loans held for sale. There were no loans held for sale at December 31, 2013.



**Table of Contents**

**Loan Portfolio Composition.** The following table sets forth the composition of our loan portfolio by type of loan as of the dates indicated.

	2013		2012		At December 31, 2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<b>Types of loans:</b>										
Real estate loans:										
One- to four-family	\$ 466,604	24.80%	\$ 441,874	24.33%	\$ 314,839	28.06%	\$ 295,721	27.53%	\$ 343,300	30.59%
Commercial	862,596	45.84%	814,692	44.86%	450,180	40.13%	427,994	39.85%	409,680	36.51%
Construction										
(1)	62,811	3.34%	52,778	2.90%	30,271	2.70%	27,553	2.57%	48,808	4.35%
Home equity	179,502	9.54%	179,039	9.86%	135,518	12.08%	138,290	12.87%	137,371	12.24%
Commercial and industrial										
Automobile	293,094	15.57%	306,192	16.86%	176,086	15.69%	165,335	15.39%	159,437	14.21%
Other consumer	4,754	0.25%	6,492	0.36%	7,843	0.70%	11,051	1.03%	14,729	1.31%
	12,478	0.66%	15,009	0.83%	7,142	0.64%	8,167	0.76%	8,916	0.79%
Total loans	\$ 1,881,839	100.00%	\$ 1,816,076	100.00%	\$ 1,121,879	100.00%	\$ 1,074,111	100.00%	\$ 1,122,241	100.00%
<b>Other items:</b>										
Net deferred loan costs and fees										
	2,640		3,414		2,194		2,073		2,355	
Allowance for loan losses										
	(13,413)		(12,089)		(11,132)		(9,987)		(9,180)	
Total loans, net	\$ 1,871,066		\$ 1,807,401		\$ 1,112,941		\$ 1,066,197		\$ 1,115,416	

(1) Includes \$61,713, \$49,725, \$28,648, \$24,833 and \$45,615 of commercial construction loans at December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

**Table of Contents**

**Loan Portfolio Maturities and Yields.** The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2013. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	Residential		Commercial Real Estate		Construction		Home Equity		Commercial and Industrial		Automobile		Other Consumer		Total (1)	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
During the next 12 months	\$ 10,438	5.46%	\$ 34,019	5.61%	\$ 20,947	4.79%	\$ 1,896	3.77%	\$ 59,066	3.09%	\$ 296	4.73%	\$ 344	4.22%	\$ 127,006	4.22%
More than 12 months but not more than 18 months	9,506	5.15%	196,604	4.47%	7,574	4.96%	16,603	3.88%	69,876	4.56%	4,458	3.40%	1,309	4.77%	305,930	4.47%
More than 18 months	441,894	3.98%	638,224	4.85%	34,699	4.33%	160,782	3.67%	165,283	4.22%	-	0.00%	10,478	8.25%	1,451,360	4.33%
Total	\$ 461,838	4.04%	\$ 868,847	4.79%	\$ 63,220	4.56%	\$ 179,281	3.69%	\$ 294,225	4.07%	\$ 4,754	3.48%	\$ 12,131	7.76%	\$ 1,884,296	4.33%

(1) Excludes the fair value adjustment balance of \$2.5 million recorded in connection with the acquisition of NEBS and CNB Financial. The following table sets forth the scheduled repayments of fixed and adjustable-rate loans at December 31, 2013 that are contractually due after December 31, 2014.

	Due After December 31, 2014		
	Fixed	Adjustable	Total
	(In thousands)		
Residential real estate	\$ 415,175	\$ 36,225	\$ 451,400
Commercial real estate	291,219	543,609	834,828
Construction	25,186	17,087	42,273
Home equity	38,633	138,752	177,385
Commercial and industrial	83,981	151,178	235,159
Automobile	4,458	-	4,458
Other consumer	11,709	78	11,787
Total loans	\$ 870,361	\$ 886,929	\$ 1,757,290

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**Table of Contents**

***One- to Four-Family Residential Mortgage Loans.*** One of our primary lending activities consists of the origination of one- to four-family residential mortgage loans, substantially all of which are secured by properties located in our primary market area. At December 31, 2013, \$466.6 million, or 24.8% of our loan portfolio, consisted of one- to four-family residential mortgage loans. In general, we retain in our portfolio all loans that we originate; however, over the past few years we have sold the majority of the 20- and 30-year fixed-rate one- to four-family residential loans we have originated in the secondary market, for strategic reasons, including interest rate risk management objectives. One- to four-family mortgage loan originations are generally obtained from our in-house loan representatives, from existing or past customers, through advertising, and through referrals from local builders, real estate brokers and attorneys, and are underwritten pursuant to United Bank's policies and standards. Generally, one- to four-family residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property, with private mortgage insurance or government guarantees required on loans with a loan-to-value ratio in excess of 80%. We generally will not make loans with a loan-to-value ratio in excess of 95%. Further, we generally limit the loan-to-value ratio to 70% on a cash-out refinance transaction based on updated appraisal information.

Fixed-rate mortgage loans are originated for terms of up to 30 years. Generally, fixed-rate residential mortgage loans are underwritten according to Fannie Mae guidelines, policies and procedures. We also offer adjustable-rate mortgage loans for one- to four-family properties, with an interest rate based on the weekly average yield on U.S. Treasuries adjusted to a constant maturity of one-year, which adjust either annually or every three years from the outset of the loan or which adjust annually after a five-, seven- or ten-year initial fixed-rate period. For the year ended December 31, 2013, we originated \$123.1 million of fixed rate one- to four-family residential loans and \$3.2 million of adjustable-rate one- to four-family residential loans. Our adjustable-rate mortgage loans generally provide for maximum rate adjustments of 2% per adjustment, with a lifetime maximum adjustment up to 6%, regardless of the initial rate. Our adjustable-rate mortgage loans amortize over terms of up to 30 years.

Adjustable rate mortgage loans decrease the risk associated with changes in market interest rates by periodically repricing, but involve other risks because as interest rates increase the underlying payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate also is limited by the maximum periodic and lifetime interest rate adjustments permitted by our loan documents and, therefore, the effectiveness of adjustable-rate mortgage loans may be limited during periods of rapidly rising interest rates. At December 31, 2013, \$36.0 million, or 7.7%, of our one- to four-family residential mortgage loans had adjustable rates of interest.

In an effort to provide financing for low- and moderate-income home buyers, we offer a variety of programs to qualified borrowers. These programs include Veterans Administration (VA), Federal Housing Administration (FHA), Massachusetts Housing Financing Agency (MHFA) and several other programs that we have developed in-house. These loans are offered with fixed rates of interest, terms of up to 30 years and are secured by one-to four-family residential properties. All of these loans are originated using agency underwriting guidelines. These loans may be originated in amounts with loan-to-value ratios up to 100%. Private mortgage insurance or government guarantees are required for loans with loan-to-value ratios over 80%. We also offer our own first-time homebuyer loans to qualified individuals. These loans are offered with terms of up to 30 years and fixed or adjustable rates of interest, which may be discounted, and the applicant may not be required to pay certain loan origination fees.

We also offer our employees who satisfy certain criteria and our general underwriting standards fixed- or adjustable rate loan products with reduced interest rates, and reduced application and loan origination fees. Employee and insider loans adhere to all other terms and conditions contained in the loan policy.

All residential mortgage loans that we originate include due-on-sale clauses, which give us the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. All borrowers are required to

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**Table of Contents**

obtain title insurance for the benefit of United Bank. We also require homeowner's insurance and fire and casualty insurance and, where circumstances warrant, flood insurance on properties securing real estate loans.

**Commercial Real Estate Loans.** We originate commercial real estate loans that are generally secured by five or more unit apartment buildings, industrial properties and properties used for business purposes such as small office buildings, hotels, motels, recreational and retail facilities mainly located in our primary market area. At December 31, 2013, commercial real estate mortgage loans totaled \$862.6 million, or 45.8% of our total loans, compared to \$814.7 million, or 44.9% of our total loans at December 31, 2012. Our real estate underwriting policies provide that such loans may be made in amounts up to 85% of the appraised value of the property, though such loans are generally limited to 80% of the appraised value. In addition, these loans must comply with our loan policy guidelines and with our current loans-to-one borrower limit for these types of loans which is generally 15% of our unimpaired capital and surplus which, at December 31, 2013, was approximately \$39.0 million. Our commercial real estate loans may be made with amortization terms of up to 30 years that mature in 10 years. While the majority of our loans continue to be in the 20- to 25-year amortization range, we occasionally grant loans with 30-year amortization schedules on an exception basis. Commercial real estate loans are offered with interest rates that are fixed or adjust periodically and are generally indexed to the prime rate as reported in *The Wall Street Journal* or to rates published by the Federal Home Loan Bank of Boston. In reaching a decision on whether to make a commercial real estate loan, we consider the net operating income of the property, the borrower's expertise and credit history, and the profitability of the underlying business and the value of the underlying property. In addition, with respect to real estate rental properties, we will also consider the term of the lease and the credit quality of the tenants. We generally require that the properties securing these real estate loans have stabilized debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.2 times. Environmental surveys are generally required for commercial real estate loans. Generally, commercial real estate loans made to corporations, partnerships and other business entities require personal guarantees by the principals unless certain loan-to-value ratios and debt service coverage thresholds are met.

A commercial borrower's financial information is monitored on an ongoing basis by requiring periodic financial statement updates, payment history reviews and periodic face-to-face meetings with the borrower. We generally require commercial borrowers with loans in excess of \$250,000 to provide annually updated financial statements and federal tax returns. These requirements also apply to the individual principals of our commercial borrowers when they are providing personal guarantees. We also require borrowers with rental investment property to provide us with an annual report of income and expenses for the property, including a tenant list and copies of leases, as applicable. The largest commercial real estate relationship in our portfolio at December 31, 2013 was a combination of loans totaling \$28.2 million secured by three properties, all of which are medical buildings located in the Springfield area. The second largest commercial real estate relationship at that date was a loan of \$21.9 million secured by an office building in Hartford fully leased to a local hospital and an office building development in Simsbury, Connecticut. All of these loans were performing in accordance with their terms at December 31, 2013. There were sixteen commercial real estate loans originated in excess of \$5 million during 2013 with fifty percent being owner occupied and fifty percent for investment (\$72.3 aggregate outstanding balance at December 31, 2013).

Loans secured by commercial real estate, including multi-family properties, generally involve larger principal amounts and a greater degree of risk than one- to four-family residential mortgage loans. Because payments on loans secured by commercial real estate often depend on the successful operation or management of the properties, repayment of such loans may be affected by adverse conditions in the real estate market or the economy.

**Construction Loans.** We originate construction loans for the development of one- to four-family residential properties located in our primary market area. Residential construction loans are generally offered to individuals for the construction of their personal residences. At December 31, 2013, residential construction loans totaled \$1.1 million, or 0.1% of total loans, compared to \$3.1 million, or 0.2% at December 31, 2012. At December 31, 2013, the unadvanced portion of these construction loans totaled \$653,000.

**Table of Contents**

Our residential construction loans generally provide for the payment of interest only during the construction phase, which is usually 12 months. In the case of construction loans to individuals for the construction of their primary residences, our policies require that the loan convert to a permanent mortgage loan at the end of the construction phase. Residential construction loans can be made up to a maximum loan-to-value ratio of 90%, provided that the borrower obtains private mortgage insurance if the loan balance exceeds 80% of the appraised value or sales price, whichever is less, of the secured property. Residential construction loans are generally made on the same terms as our one- to four-family mortgage loans.

We also make commercial construction and land development loans for residential and commercial development projects. The projects include single family, multi-family, apartment, industrial, retail and office buildings, and condominium developments. These loans generally have an interest-only phase during construction and then convert to permanent financing. We generally require that a commitment for permanent financing be in place prior to closing the construction loan. The maximum loan-to-value ratio limit applicable to these loans is generally 80%. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We generally also review and inspect each property before disbursement of funds during the terms of the construction loan. Loan proceeds are disbursed after inspection based on the percentage-of-completion method. Due to current economic conditions, management has become more cautious in evaluating and approving funding for construction loans. At December 31, 2013, commercial construction and land development loans totaled \$61.7 million, or 3.3% of total loans, compared to \$49.7 million, or 2.7% of total loans, at December 31, 2012. At December 31, 2013, the largest outstanding commercial construction loan balance was for \$3.7 million, and was secured by a commercial office building in Hartford, Connecticut that is fully leased. The largest land development loan was for \$4.4 million and was secured by commercial land under development in Stamford, Connecticut. These loans were performing according to their terms at December 31, 2013. At December 31, 2013, the unadvanced portion of all commercial construction and land development loans totaled \$101.5 million.

Construction and development financing is generally considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, we may be required to advance funds beyond the amount originally committed in order to protect the value of the property. Additionally, if the estimate of value proves to be inaccurate, the value of the project, when completed, may be insufficient to assure full repayment of the loan.

***Home Equity Loans and Home Equity Lines of Credit.*** We also offer home equity loans and home equity lines of credit, both of which are secured by one- to four-family residences, substantially all of which are located in our primary market area. At December 31, 2013, home equity loans and equity lines of credit totaled \$179.5 million, or 9.5% of total loans. Additionally, at December 31, 2013, the unadvanced amounts of home equity lines of credit totaled \$154.9 million. The underwriting standards utilized for home equity loans and equity lines of credit include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan and the value of the collateral securing the loan. The combined (first and second mortgage liens) loan-to-value ratio for home equity loans and equity lines of credit is limited to 80%. Home equity loans are offered with fixed and adjustable rates of interest and with terms of up to 20 years. Our home equity lines of credit have adjustable rates of interest, which are indexed to the prime rate, as reported in *The Wall Street Journal*, interest-only draw periods under the lines are limited to 10 years. We originated \$55.3 million under home equity lines of credit and other home equity loans during the year ended December 31, 2013, as compared to total originations of \$52.3 million during the year ended December 31, 2012.

***Commercial and Industrial Loans.*** Commercial and industrial loans have been a substantial part of our lending operations for a number of years. At December 31, 2013, we had \$293.1 million of commercial and industrial loans, which amounted to 15.6% of total loans compared to \$306.2 million, or 16.9% of total loans at

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**Table of Contents**

December 31, 2012. We originate commercial and industrial loans primarily in our market area to a variety of professionals, sole proprietorships and small and mid-sized businesses. Commercial and industrial loan products include term loans and revolving lines of credit. The maximum amount of a commercial and industrial loan is limited by our loans-to-one-borrower limit which is generally 15% of our unimpaired capital and surplus and which, at December 31, 2013, was approximately \$39.0 million. Such loans are generally used for working capital and purchasing equipment or furniture. Commercial and industrial loans are made with either adjustable or fixed rates of interest with a maximum term of twenty years. The interest rates for commercial loans are based on the prime rate, as published in *The Wall Street Journal*.

When making commercial and industrial loans, we consider the financial strength and debt service capabilities of the borrower, our lending history with the borrower, the projected cash flows of the business and the value and type of the collateral. Commercial and industrial loans are generally secured by a variety of collateral, primarily accounts receivable, inventory, equipment, savings instruments and readily marketable securities. In addition, we usually require the business principals to execute personal guarantees.

Commercial and industrial loans generally have greater credit risk than residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial and industrial loans generally are made on the basis of the borrower's ability to repay the loan from the cash flows of the borrower's business. As a result, the availability of funds for the repayment of commercial and industrial loans may depend substantially on the success of the business itself. Further, any collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We seek to minimize these risks through our underwriting standards. At December 31, 2013, our largest commercial and industrial loan outstanding was \$6.6 million, which is secured by a certificate of deposit that we maintain. Our largest committed commercial and industrial relationship was \$18.1 million to a manufacturer located in our primary market area. Including an additional \$4.5 million participated out to another bank, the total relationship of \$22.6 million is comprised of \$4.0 million of commercial and industrial loan availability, a \$4.6 million loan secured by business assets, an \$8.3 million industrial development bond for the construction of a new facility (\$4.5 million of which is participated out) and a \$2.5 million commercial real estate loan on the borrower's secondary facility. The total amount outstanding at December 31, 2013 was \$16.0 million (\$11.5 million net of participation), with no amounts outstanding on the line of credit. All loans to this customer were performing in accordance with loan terms at December 31, 2013.

***Automobile and Other Consumer Loans.*** We offer direct automobile loans with terms of up to 60 months. For new cars, our lending policy provides that the amount financed should not exceed 100% of the gross selling price of the vehicle. For used cars, our lending policy provides that the amount of the loan should not exceed the loan value of the vehicle, as established by industry guides. The interest rates offered are the same for new and used automobile loans. Full insurance coverage must be maintained on the financed vehicle and United Bank must be named loss payee on the policy. At December 31, 2013, we had \$4.8 million in automobile loans, which amounted to 0.3% of total loans.

We offer a variety of other consumer loans, principally to existing United Bank customers residing in our primary market area with acceptable credit ratings. Our other consumer loans generally consist of secured and unsecured personal loans, motorcycle and motor home loans, manufactured housing, boat loans and pool and spa loans. Other consumer loans totaled \$12.5 million, or 0.7% of our total loan portfolio at December 31, 2013. At December 31, 2013, \$573,000 of such consumer loans were unsecured.

Consumer loans have greater credit risk than residential mortgage loans, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as automobiles, motorcycles, motor homes and boats. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections depend on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

**Table of Contents**

***Loan Originations, Purchases, Sales, Participations and Servicing of Loans.*** Lending activities are conducted primarily by our loan personnel operating at our main and branch office locations. All loans that we originate are underwritten pursuant to our policies and procedures. We originate both fixed-rate and adjustable-rate loans. Our ability to originate fixed or adjustable rate loans is dependent upon relative customer demand for such loans, which is affected by current and expected future levels of market interest rates.

Generally, we retain in our portfolio all loans that we originate, however, for strategic reasons, including our interest rate risk management objectives, we periodically sell fixed-rate residential mortgage loans which conform to the underwriting standards specified by Federal National Mortgage Association ( Fannie Mae ), Massachusetts Housing Financing Authority ( MHFA ) and Federal Home Loan Bank ( FHLB ). All one-to-four-family loans sold are on a non-recourse basis. Historically, in such instances, our loans have been typically sold to Fannie Mae and MHFA with servicing retained. Depending on interest rate levels at the time of any such sale, loans may be sold at either a net gain or a net loss. Additionally, we may not be able to reinvest the proceeds from any future loan sales at interest rates comparable to the interest rates on the loans that are sold. Reinvestment in loans with lower interest rates would result in lower interest income on the reinvested proceeds compared to the interest income previously generated by the loans that were sold.

The Company was servicing loans sold in the amount of \$87.4 million and \$98.2 million as of December 31, 2013 and 2012, respectively. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. The balance of mortgage servicing rights to these loans was insignificant as of December 31, 2013 and 2012.

From time to time, we will also purchase loans. Other than the loans acquired during the acquisition of New England Bank in 2012, there were no loans purchased during 2013 or 2012.

From time to time, we will also participate in loans, sometimes as the lead lender. Whether we are the lead lender or not, we underwrite our participation portion of the loans according to our own underwriting criteria and procedures. At December 31, 2013, we had \$90.7 million in loan participation interests in which we were the lead bank after \$81.0 million of participations sold, and \$58.9 million in loan participations in which we were not the lead bank.

**Table of Contents**

The following table shows our loan originations, purchases, sales and repayment activities for the years indicated.

	Years Ended December 31,		
	2013	2012 (In thousands)	2011
<b>Total loans at beginning of period</b>	\$ 1,816,076	\$ 1,121,879	\$ 1,074,111
Loan originations:			
Residential mortgages	126,369	110,748	93,959
Commercial mortgages	120,901	115,681	68,504
Construction (1)	120,972	29,115	22,147
Home equity	55,296	52,343	35,222
Commercial and industrial	138,859	134,265	57,235
Automobile	1,791	2,588	2,626
Other consumer	688	692	481
Total loans originated	564,876	445,432	280,174
Loans acquired from NEBS at fair value	-	553,983	-
Deductions:			
Principal loan repayments	450,654	294,260	226,610
Loan sales	8,130	17,548	11,214
Decrease (increase) due to other items (2)	40,329	(6,590)	(5,418)
Total deductions	499,113	305,218	232,406
<b>Net loan activity</b>	<b>65,763</b>	<b>694,197</b>	<b>47,768</b>
<b>Total loans at end of period</b>	<b>\$ 1,881,839</b>	<b>\$ 1,816,076</b>	<b>\$ 1,121,879</b>

(1) Includes \$118,338, \$27,235 and \$21,022 of commercial construction loans for the years ended December 31, 2013, 2012 and 2011, respectively. Construction loans for the 2013 period include \$81,122 in unadvanced funds.

(2) Includes additional disbursements on home equity and lines of credit, participation loans serviced for others, minor changes and other activity on loans previously originated.

**Loan Approval Procedures and Authority.** United Bank's lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by United Bank's Board of Directors. The loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan and the adequacy of the value of the property that will secure the loan. To assess the borrower's ability to repay, we review the employment and credit history and information on the historical and projected income and expenses of borrowers.

United Bank's policies and loan approval limits are established by the Board of Directors. The Board of Directors has delegated authority to United Bank's Chief Lending Officer to review and assign lending authorities to certain individuals of United Bank (ranging from senior management to senior loan underwriter) (the Designated Individuals) to consider and approve loans within their designated authority. In addition the Board has delegated authority at the request of the Chief Lending Officer to an Officers' Loan Committee comprising the Chief Executive Officer, Chief Lending Officer, EVP of Commercial Banking, Chief Credit Officer and SVP of Risk Management. Loans in amounts above the authorized limits of the Officers' Loan Committee and loans outside of the designated authority of the Officers' Loan Committee require the approval of United Bank's Directors' Loan Committee. The Directors' Loan Committee consists of four of our directors, including our Chief Executive Officer. All loans that are approved by the Designated Individuals or the Officers' Loan Committee are still reviewed and ratified by the Directors' Loan Committee and the Board of Directors on a monthly basis.



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All residential mortgage loans (one- to four-family loans, home equity loans, home equity lines of credit, and residential construction loans) may be approved by certain of the Designated Individuals in amounts

## **Table of Contents**

up to the annually adjusted Fannie Mae and Federal Home Loan Mortgage Corporation ( Freddie Mac ) secondary market conforming loan limits ( Conforming Loans ). Residential mortgage loans in excess of the Conforming Loan limit and up to \$1.0 million may be approved by any two of either United Bank s Chief Executive Officer, Chief Financial Officer or Senior Vice President of Retail Lending. Residential loans in excess of \$1.0 million must be approved by any two of the senior executive officers listed above and United Bank s Officers Loan Committee.

All commercial real estate, commercial construction loans and commercial and industrial loans in amounts up to \$1.0 million may be approved by certain of the Designated Individuals. All such loans in excess of \$1.0 million, or additional extensions of credit to existing commercial borrowers that result in liability in excess of \$1.0 million, must be approved by United Bank s Officers Loan Committee. All home equity loans and home equity lines of credit up to \$500,000 may be approved by certain of the Designated Individuals. All home equity loans and home equity lines of credit in excess of \$500,000 must be approved by the Officers Loan Committee. All loans in excess of \$2.0 million, or additional extensions of credit to existing commercial borrowers that result in liability in excess of \$2.0 million, must also be approved by United Bank s Directors Loan Committee.

All consumer loans in amounts up to \$100,000 may be approved by certain of the Designated Individuals. All consumer loans in excess of \$100,000 must be approved by the Loan Committee.

We generally require appraisals of all real property securing loans, except for home equity loans and equity lines of credit, in which case we may use the assessed tax value of the property securing such loans. Appraisals are performed by independent licensed appraisers. All appraisers are approved by the Directors Loan Committee annually. We require fire and extended coverage insurance in amounts at least equal to the principal amount of the loan.

### **Non-performing and Problem Assets**

**Asset Quality Process.** Our internal review process involves an ongoing evaluation of credit risk and risk ratings. The Account Officers, with the assistance of the Credit Analysts, are primarily responsible for the initial risk rating assignment. Secondary responsibility rests with the Chief Lending Officer, the SVP of Credit Administration and the Chief Credit Officer, all of whom are responsible for the accuracy of the risk rating system. Loans are graded from pass to loss, depending on credit quality, with pass representing loans that are fully satisfactory as additions to our portfolio. We engage independent loan review consultants who provided four on-site reviews of our commercial portfolio during 2013. Three of the reviews focused on the regional lending centers of Worcester, West Springfield and Connecticut with the fourth review focused on Watch List credits and changes to the Watch List of \$500,000 or greater. All loan relationships and all criticized relationships in excess of \$1.0 million were reviewed by the third party consultants.

We initiate collection efforts when a loan becomes ten days past due with system-generated reminder notices. Subsequent late charge and delinquent notices are issued and the account is monitored on a regular basis thereafter. Personal, direct contact with the borrower is attempted early in the collection process as a courtesy reminder and later to determine the reason for the delinquency and to safeguard our collateral. When a loan is more than 60 days past due, the credit file is reviewed and, if deemed necessary, information is updated or confirmed and collateral re-evaluated. We make every effort to contact the borrower and develop a plan of repayment to cure the delinquency. A summary report of all loans 30 days or more past due is reported to the Board of Directors monthly. If no repayment plan is in process, the file is referred to counsel for the commencement of foreclosure or other collection efforts.

Loans are generally placed on non-accrual status when they are 90 days or more delinquent. When loans are placed on a non-accrual status, unpaid accrued interest is fully reversed.

**Table of Contents**

**Non-Performing Assets.** The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. There were no loans 90 days or more past due and still accruing interest as of the dates indicated.

	2013	2012	At December 31, 2011	2010	2009
	(Dollars in thousands)				
<b>Non-accrual loans:</b>					
Residential mortgages	\$ 3,212	\$ 2,970	\$ 1,417	\$ 1,036	\$ 1,190
Commercial mortgages	5,899	5,092	2,124	3,256	10,717
Construction	279	349	330	410	3,280
Home equity	1,157	137	56	60	492
Commercial and industrial	2,431	5,538	2,641	2,885	571
Automobile	-	-	-	-	4
Other consumer	64	120	163	55	33
<b>Total</b>	<b>13,042</b>	<b>14,206</b>	<b>6,731</b>	<b>7,702</b>	<b>16,287</b>
<b>Non-accrual troubled debt restructures:</b>					
Commercial mortgages	2,741 <sup>(1)</sup>	504 <sup>(1)</sup>	860 <sup>(1)</sup>	860 <sup>(1)</sup>	-
Construction	-	-	-	872 <sup>(2)</sup>	-
Commercial and industrial	232 <sup>(3)</sup>	-	863 <sup>(3)</sup>	-	-
<b>Total</b>	<b>2,973</b>	<b>504</b>	<b>1,723</b>	<b>1,732</b>	<b>-</b>
<b>Total non-accrual loans</b>	<b>16,015</b>	<b>14,710</b>	<b>8,454</b>	<b>9,434</b>	<b>16,287</b>
<b>Other non-performing assets:</b>					
Other real estate owned	2,451	2,578	2,054	1,536	1,545
Other non-performing assets	69	52	69	-	-
<b>Total</b>	<b>2,520</b>	<b>2,630</b>	<b>2,123</b>	<b>1,536</b>	<b>1,545</b>
<b>Total non-performing assets</b>	<b>\$ 18,535</b>	<b>\$ 17,340</b>	<b>\$ 10,577</b>	<b>\$ 10,970</b>	<b>\$ 17,832</b>
<b>Accruing troubled debt restructures:</b>					
Commercial mortgages	\$ 1,528 <sup>(4, 5)</sup>	\$ 2,066 <sup>(4, 5)</sup>	\$ 257 <sup>(5)</sup>	\$ 3,473 <sup>(6)</sup>	\$ -
Construction	-	591 <sup>(2, 4)</sup>	872 <sup>(2)</sup>	-	-
Commercial and industrial	2,851 <sup>(3, 4)</sup>	1,103 <sup>(3, 4)</sup>	-	-	-
<b>Total</b>	<b>\$ 4,379</b>	<b>\$ 3,760</b>	<b>\$ 1,129</b>	<b>\$ 3,473</b>	<b>\$ -</b>
<b>Ratios:</b>					
Total non-accrual loans to total loans	0.85%	0.81%	0.75%	0.88%	1.45%
Total non-performing assets to total assets	0.75%	0.72%	0.65%	0.69%	1.16%
Allowance for loan losses to non-performing loans	83.75% <sup>(7)</sup>	82.18% <sup>(7)</sup>	131.68%	105.86% <sup>(7)</sup>	56.36%

(1) Includes two troubled debt restructure commercial mortgage loans which were restructured in the fourth quarter of 2013. Represented in the previous periods is an \$860,000 troubled debt restructure commercial mortgage loan which was restructured in the second quarter of 2010 and subsequently, in the fourth quarter of 2012, \$356,000 was charged off. The remainder of this loan was paid off with an additional recovery of \$60,000 during the fourth quarter of 2013. There were no additional commitments to this borrower.

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- (2) Includes an \$872,000 (in 2010) and \$947,000 (in 2012) troubled debt restructure construction loan which was restructured in the fourth quarter of 2010, returned to accrual status within the fourth quarter of 2011 as the customer has been current on the new payments for six months and recieved a principle increase in the first quarter of 2012. There were no additional commitments to this borrower.
  
- (3) Includes (in 2013) a \$232,000 troubled debt restructure commercial and industrial loan which was restructured in the fourth quarter of 2013 and an \$890,000 and \$459,000 troubled debt restructure commercial and industrial loans which were restructured in the first quarter of 2013 and returned to accrual status in the second quarter of 2013 and a \$400,000 troubled debt restructure commercial and industrial loan which was restructured in the second quarter of 2013 and is accruing as the customer has remained current on the new payments. The 2011 period includes an \$863,000 troubled debt restructure commercial and industrial loan which was restructured in the second quarter of 2011 and returned to accrual status in the first quarter of 2012. There were no additional commitments to these borrowers.

**Table of Contents**

- (4) Includes (in 2013) four troubled debt restructured loans totaling \$1.1 million by one borrower with three commercial mortgage loans and one commercial and industrial loan. In the 2012 period these loans, including another borrower with two construction loans totaling \$1.7 million, were restructured in the first quarter of 2012 and are accruing as the customers have remained current on the new payments.
  
- (5) Includes a commercial mortgage loan totaling \$264,000 (in 2013) and \$248,000 (in 2012) which was restructured in the first quarter of 2011 and was returned to accrual status at September 30, 2011 as the customer has been current on the new payments for six months and received a principle increase in the third quarter of 2013.
  
- (6) Represents a commercial mortgage loan which was restructured in the first quarter of 2010 and was returned to accrual status at September 30, 2010 as the customer has been current on the new payments for six months.
  
- (7) Exclusive of the \$7.4 million and \$7.0 million in non-performing loans acquired in the acquisition of NEBS at December 31, 2013 and 2012, respectively, and \$163,000 and \$3.3 million in non-performing loans acquired in the acquisition of CNB Financial at December 2010 and 2009, respectively, allowance for loan losses as a percent of non-performing loans would have been 155.33%, 157.72%, 107.72% and 70.44%, respectively. This is a non-GAAP financial measure. It is not a substitute for a GAAP measure and should only be considered in conjunction with the Company's GAAP financial information. These non-GAAP financial measures provide investors with more detailed information that is useful in understanding our financial performance and condition. As noted in the above table, non-accrual loans amounted to approximately \$16.0 million and \$14.7 million at December 31, 2013 and 2012, respectively. The \$1.3 million increase in total non-accrual loans from December 31, 2012 to December 31, 2013 was primarily due to increases of \$1.0 million in home equity loans, \$807,000 in commercial real estate loans and \$242,000 in residential mortgages, partially offset by a decrease of \$3.1 million in commercial and industrial loans. The non-accrual loan total for December 31, 2013 included three troubled debt restructures: a \$2.2 million commercial real estate loan, a \$231,000 commercial and industrial loan and a \$557,000 commercial real estate loan. All three loans were acquired from New England Bancshares. The non-accrual loan total for December 31, 2012 includes a troubled debt restructure commercial real estate loan for \$860,000 which was impaired at March 31, 2010, restructured during the second quarter of 2010 and subsequently, in the fourth quarter of 2012, \$356,000 was charged off. The non-accrual loan total for December 31, 2011 includes two troubled debt restructure loans: an \$860,000 commercial real estate loan which was impaired at March 31, 2010 and was restructured during the second quarter of 2010 and a troubled debt restructure commercial and industrial loan for \$863,000 which was restructured in the second quarter of 2011. The \$980,000 decrease in total non-accrual loans from December 31, 2010 to December 31, 2011 was mainly due to decreases of \$1.1 million in commercial mortgages and \$952,000 in construction loans, offset by increases of \$619,000 in commercial and industrial loans and \$381,000 in residential mortgages. The non-accrual loan total for December 31, 2010 includes two troubled debt restructure loans: an \$860,000 commercial real estate loan which was impaired at March 31, 2010 and was restructured during the second quarter of 2010 and a troubled debt restructure construction loan for \$872,000 which was restructured in the fourth quarter of 2010. The non-accrual loan total for December 31, 2009 includes a \$3.5 million commercial real estate loan which was impaired at December 31, 2009 and was restructured during the first quarter of 2010. This loan was classified as a troubled debt restructure and was placed on non-accrual status as of March 31, 2010. As of September 30, 2010, this loan was returned to accruing status as the customer has been current on the revised payment structure for more than six months.

Each of the Company's non-performing assets has an active workout plan in place. Additional interest income of approximately \$858,000, \$1.3 million, \$539,000, \$363,000 and \$281,000, respectively, would have been recorded during the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively, if the loans had performed in accordance with their original terms. The Company recognized interest income on a cash basis on these loans of \$392,000, \$44,000, \$288,000, \$120,000 and \$0, respectively, in the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

**Table of Contents**

At December 31, 2013 and 2012, the recorded investment in impaired loans was \$14.1 million and \$17.4 million, respectively. A loan reserve of \$127,000 and \$32,000 was established on \$1.2 million and \$32,000 of the impaired loans at December 31, 2013 and 2012, respectively. During the year ended December 31, 2012, in accordance with the Loans and Debt Securities Acquired with Deteriorating Credit Quality section of the Financial Accounting Standards Board Accounting Standards Codification ( FASB ASC ) for Receivables (Topic 310), the Company recorded a non-accretable credit discount of \$2.9 million related to impaired loans of \$9.9 million acquired from NEBS. In 2009, the Company recorded a non-accretable credit discount of \$2.3 million related to impaired loans of \$5.2 million acquired from CNB Financial. The average balance of impaired loans was \$13.5 million, \$9.6 million, and \$10.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. Interest income recognized on impaired loans during 2013, 2012 and 2011 was not significant.

**Delinquent Loans.** The following table sets forth our loan delinquencies 60 days and greater by type and amount at the dates indicated.

	Loans Delinquent For					
	60 - 89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
<b>At December 31, 2013</b>						
Residential mortgages	21	\$ 2,525	19	\$ 3,180	40	\$ 5,705
Commercial mortgage	8	2,841	18	4,909	26	7,750
Construction	1	116	1	279	2	395
Home equity	2	239	8	1,157	10	1,396
Commercial and industrial	11	753	22	2,431	33	3,184
Other consumer	2	129	2	64	4	193
Total	45	\$ 6,603	70	\$ 12,020	115	\$ 18,623
<b>At December 31, 2012</b>						
Residential mortgages	15	\$ 2,450	22	\$ 2,615	37	\$ 5,065
Commercial mortgage	7	1,136	24	5,351	31	6,487
Home equity	3	161	5	137	8	298
Commercial and industrial	9	1,155	13	4,442	22	5,597
Other consumer	2	35	4	120	6	155
Total	36	\$ 4,937	68	\$ 12,665	104	\$ 17,602
<b>At December 31, 2011</b>						
Residential mortgages	15	\$ 1,984	7	\$ 1,417	22	\$ 3,401
Commercial mortgage	5	1,028	9	2,131 <sup>(1)</sup>	14	3,159
Construction	-	-	2	330	2	330
Home equity	-	-	1	56	1	56
Commercial and industrial	7	205	10	2,728	17	2,933
Other consumer	1	1	3	163	4	164
Total	28	\$ 3,218	32	\$ 6,825	60	\$ 10,043
<b>At December 31, 2010</b>						
Residential mortgages	10	\$ 1,001	5	\$ 1,036	15	\$ 2,037
Commercial mortgage	6	1,088	13	3,256 <sup>(1)</sup>	19	4,344
Construction	-	-	3	410 <sup>(2)</sup>	3	410
Home equity	3	223	1	60	4	283
Commercial and industrial	3	122	13	2,885	16	3,007
Automobile	1	5	-	-	1	5
Other consumer	1	3	2	55	3	58
Total	24	\$ 2,442	37	\$ 7,702	61	\$ 10,144
<b>At December 31, 2009</b>						
Residential mortgages	13	\$ 1,355	5	\$ 1,190	18	\$ 2,545

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Commercial mortgages	8	2,298	13	10,717	21	13,015
Construction	3	424	5	3,280	8	3,704
Home equity	3	157	4	492	7	649
Commercial and industrial	3	54	15	571	18	625
Automobile	-	-	3	4	3	4
Other consumer	3	11	1	33	4	44
<b>Total</b>	<b>33</b>	<b>\$ 4,299</b>	<b>46</b>	<b>\$ 16,287</b>	<b>79</b>	<b>\$ 20,586</b>

- (1) Excludes an \$860,000 commercial mortgage loan which was restructured in the second quarter of 2010 and was placed on non-accrual status. Although this troubled debt restructure loan is reported as a non-performing asset, the borrower is delinquent for less than 60 days.

**Table of Contents**

- (2) Excludes an \$872,000 construction loan which was restructured in the fourth quarter of 2010 and was placed on non-accrual status. Although this loan is reported as a non-performing asset, the borrower is current with respect to the restructured payment terms.

**Other Real Estate Owned.** Other real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until sold. When property is acquired it is recorded at the lower of cost or fair market value at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value after acquisition are expensed. At December 31, 2013, we had \$2.5 million of real estate owned.

**Classified Assets.** Office of the Comptroller of the Currency regulations provide that loans and other assets of lesser quality should be classified as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as special mention if the asset has a potential weakness that warrants management's close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset.

We establish general allowances for loan losses in an amount deemed prudent by management for loans classified substandard or doubtful, as well as for other potential problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When we classify problem assets as loss, we are required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the Office of the Comptroller of the Currency, which can order the establishment of additional general or specific loss allowances.

The following table shows the aggregate amounts of our classified assets at the dates indicated for loans and foreclosed assets. The total amount of loans in the table below at December 31, 2013 includes twenty-five relationships which exceed \$1 million and represent 45.5% of the classified loans. During 2013, several large relationships aggregating \$5.6 million were paid in full. Of the \$2.5 million in other real estate owned, two properties having a book value of \$686,000 are under purchase and sales agreements and are slated to close in the first quarter of 2014.

	At December 31,	
	2013	2012
	(In thousands)	
<b>Classified Loans:</b>		
Special mention	\$ 31,788	\$ 45,512
Substandard	53,268	46,693
Doubtful	65	653
Loss	-	-
Total classified loans	85,121	92,858
<b>Foreclosed Assets:</b>		
Other real estate owned	2,451	2,578
Other non-performing assets	69	52
Total classified assets	\$ 87,641	\$ 95,488



## **Table of Contents**

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

A loan is classified as a troubled debt restructuring if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest or extending the maturity date and possibly a partial forgiveness of debt. Interest income on restructured loans is accrued after the borrower demonstrates the ability to pay under the restructured terms through a sustained period of repayment performance, which is generally six months.

### **Allowance for Loan Losses**

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in our loan portfolio and changes in the nature and volume of loan activities, delinquent and classified loans and charge-offs, along with the general economic and real estate market conditions. A description of our methodology in establishing our allowance for loan losses is set forth in under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation Critical Accounting Policies Allowance for Loan Losses. The allowance for loan losses as of December 31, 2013 was maintained at a level that represents management's best estimate of losses inherent in the loan portfolio. However, this analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at levels to absorb probable and estimable losses, future additions or deductions may be necessary if economic or other conditions in the future differ from the current environment. In addition, as an integral part of their examination process, the Office of the Comptroller of the Currency has authority to periodically review our allowance for loan losses. Such agencies may require that we recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

**Table of Contents**

**Allowance for Loan Losses.** The following table sets forth activity in our allowance for loan losses for the years indicated.

	At or For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Balance at beginning of period	\$ 12,089	\$ 11,132	\$ 9,987	\$ 9,180	\$ 8,250
<b>Charge-offs:</b>					
Residential mortgages	389	246	139	1	69
Commercial mortgages	1,471	922	589	529	1,399
Construction	-	127	78	206	135
Home equity	89	225	24	115	-
Commercial and industrial	962	765	1,556	766	545
Automobile	-	9	-	4	5
Other consumer	67	70	6	16	10
Total charge-offs	2,978	2,364	2,392	1,637	2,163
<b>Recoveries:</b>					
Residential mortgages	60	-	-	-	1
Commercial mortgages	90	45	52	96	5
Construction	-	1	3	-	2
Home equity	6	-	-	-	-
Commercial and industrial	25	127	235	63	85
Automobile	-	7	2	-	2
Other consumer	29	2	3	-	-
Total recoveries	210	182	295	159	95
Net charge-offs	(2,768)	(2,182)	(2,097)	(1,478)	(2,068)
Provision for loan losses	4,092	3,139	3,242	2,285	2,998
Balance at end of period	\$ 13,413	\$ 12,089	\$ 11,132	\$ 9,987	\$ 9,180
<b>Ratios:</b>					
Net charge-offs to average loans outstanding	0.15%	0.18%	0.19%	0.13%	0.23%
Allowance for loan losses to non-performing loans at end of period	83.75% <sup>(1)</sup>	82.18% <sup>(1)</sup>	131.68%	105.86% <sup>(1)</sup>	56.36% <sup>(1)</sup>
Allowance for loan losses to total loans at end of period	0.71% <sup>(2)</sup>	0.67% <sup>(2)</sup>	0.99% <sup>(2)</sup>	0.93% <sup>(2)</sup>	0.82% <sup>(2)</sup>

(1) Exclusive of the \$7.4 million, \$7.0 million, \$163,000 and \$3.3 million in non-performing acquired loans at December 31, 2013, 2012, 2010 and 2009, respectively, allowance for loan losses as a percent of non-performing loans would have been 155.33%, 157.72%, 107.72% and 70.44%, respectively. This is a non-GAAP financial measure. It is not a substitute for a GAAP measure and should only be considered in conjunction with the Company's GAAP financial information. These non-GAAP financial measures provide investors with more detailed information that is useful in understanding our financial performance and condition.

(2) Exclusive of the \$523.9 million, \$659.6 million, \$148.9 million, \$209.8 million and \$242.9 million in acquired loans and \$4.6 million, \$5.0 million, \$19.1 million, \$21.4 million and \$22.7 million in loans purchased from other financial institutions, allowance for loan losses as a percent of total loans would have been 0.99%, 1.05%, 1.17%, 1.18% and 1.07% for the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively. This is a non-GAAP financial measure. It is not a substitute for a GAAP measure and should only be considered in conjunction with the Company's GAAP financial information. These non-GAAP financial measures provide investors with more detailed information that is useful in understanding our financial performance and condition.



**Table of Contents**

**Allocation of Allowance for Loan Losses.** The following table sets forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	2013			At December 31, 2012			2011		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
<b>(Dollars in thousands)</b>									
<b>At end of period allocated to:</b>									
Residential mortgages	\$ 805	6.00%	24.80%	\$ 602	4.98%	24.33%	\$ 666	5.98%	28.06%
Commercial mortgages	6,841	51.00%	45.84%	6,203	51.31%	44.86%	5,572	50.05%	40.13%
Construction	1,095	8.16%	3.34%	710	5.87%	2.90%	860	7.73%	2.70%
Home equity	374	2.79%	9.54%	383	3.17%	9.86%	474	4.26%	12.08%
Commercial and industrial	3,709	27.65%	15.57%	3,468	28.69%	16.86%	3,446	30.96%	15.69%
Automobile	30	0.22%	0.25%	49	0.41%	0.36%	60	0.54%	0.70%
Other consumer	33	0.25%	0.66%	34	0.28%	0.83%	54	0.48%	0.64%
Unallocated	526	3.92%	-	640	5.29%	-	-	-	-
Total allowance	\$ 13,413	100.00%	100.00%	\$ 12,089	100.00%	100.00%	\$ 11,132	100.00%	100.00%

	2010			At December 31, 2009		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
<b>(Dollars in thousands)</b>						
<b>At end of period allocated to:</b>						
Residential mortgages	\$ 740	7.41%	27.53%	\$ 802	8.74%	30.59%
Commercial mortgages	5,000	50.07%	39.85%	4,300	46.84%	36.51%
Construction	668	6.69%	2.57%	1,194	13.01%	4.35%
Home equity	623	6.24%	12.87%	621	6.76%	12.24%
Commercial and industrial	2,801	28.05%	15.39%	2,051	22.34%	14.21%
Automobile	90	0.90%	1.03%	110	1.20%	1.31%
Other consumer	65	0.64%	0.76%	102	1.11%	0.79%
Total allowance	\$ 9,987	100.00%	100.00%	\$ 9,180	100.00%	100.00%

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## Table of Contents

### Investments

The investment policy is reviewed annually by management and any changes to the policy are recommended to and subject to the approval of the Board of Directors. Authority to make investments under the approved investment policy guidelines is delegated to appropriate officers. While general investment strategies are developed and authorized by the Board of Directors, the execution of specific actions primarily rests with United Bank's Chief Financial Officer. He is both responsible for ensuring that the guidelines and requirements included in the investment policy are followed and that all securities are considered prudent for investment. He and United Bank's Treasurer or his/her designee, under his/her direction is authorized to execute investment transactions (purchases and sales) up to \$10 million per transaction without prior approval and within the scope of the established investment policy. All investment transactions are reviewed and ratified or approved (as the case may be) at regularly scheduled meetings of the Board of Directors. Any investment that, subsequent to its purchase, fails to meet the guidelines of the policy is reported to the Board of Directors at its next meeting where the Board decides whether to hold or sell the investment.

The Company's Board of Directors has adopted an investment policy that is substantially identical to the Bank's policy. Any references herein to the Bank also apply to the Company.

Federally chartered savings banks have authority to invest in various types of assets, including U.S. Treasury obligations, securities of various federal agencies, mortgage-backed securities, certain certificates of deposit of insured financial institutions, overnight and short-term loans to other banks, corporate debt instruments, and Fannie Mae and Freddie Mac equity securities. United Financial Bancorp, Inc., as a savings and loan holding company, may invest in equity securities subject to certain limitations.

The investment policy requires that all securities transactions be conducted in a safe and sound manner. Investment decisions must be based upon a thorough analysis of each security instrument to determine its quality and inherent risks, fit within United Bank's overall asset/liability management objectives, effect on its risk-based capital measurement and prospects for yield and/or appreciation. The investment policy provides that United Bank may invest in U.S. Treasury obligations, U.S. and state agency securities, mortgage-backed securities, corporate debt securities and other conservative investment opportunities.

Securities can be classified as held-to-maturity or available-for-sale at the date of purchase.

***Mortgage-Backed Securities.*** We purchase mortgage-backed securities insured or guaranteed by Fannie Mae, Freddie Mac or Government National Mortgage Association (Ginnie Mae). We invest in mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae or Ginnie Mae. Our investment policy also authorizes the investment in collateralized mortgage obligations (CMOs), also insured or issued by Freddie Mac, Fannie Mae and Ginnie Mae.

Mortgage-backed securities are created by the pooling of mortgages and the issuance of a security with an interest rate that is slightly less than the interest rate on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although we focus our investments on mortgage-backed securities backed by one- to four-family mortgages. The issuers of such securities (generally U.S. government agencies and government sponsored enterprises, including Fannie Mae, Freddie Mac and Ginnie Mae) pool and resell the participation interests in the form of securities to investors such as us, and guarantee the payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize our specific liabilities and obligations.

At December 31, 2013, our mortgage-backed securities totaled \$315.2 million, or 12.7% of total assets. Our mortgage-backed securities at December 31, 2013 were classified as both available-for-sale and

## **Table of Contents**

held-to-maturity. At December 31, 2013, 18.5% of the mortgage-backed securities were backed by adjustable-rate mortgage loans and 81.5% were backed by fixed-rate mortgage loans. The mortgage-backed securities portfolio had a weighted average yield of 2.54% at December 31, 2013. The estimated fair value of our mortgage-backed securities at December 31, 2013 was \$315.6 million, which was \$814,000 more than the amortized cost of \$314.7 million. Private label CMOs are included in our mortgage-backed securities portfolio as a result of the acquisitions of NEBS and CNB Financial. At December 31, 2013, private label CMOs had an estimated fair value of \$51,000 and an amortized cost of \$50,000, representing 0.02% of total mortgage-backed securities and had a weighted average yield of 6.39%. Investments in mortgage-backed securities involve a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or if such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

***Government-Sponsored Enterprises.*** At December 31, 2013, our Government-Sponsored Enterprises securities portfolio totaled \$1.9 million, all of which was classified as available-for-sale. While these securities generally provide lower yields than other investments in our securities investment portfolio, we maintain these investments, to the extent appropriate, for liquidity purposes, as collateral for borrowings and for prepayment protection.

***Corporate Bonds.*** At December 31, 2013, our corporate bond portfolio totaled \$1.6 million, all of which was classified as available-for-sale, consisting of trust preferred securities issued by financial services companies. Although corporate bonds may offer higher yields than U.S. Treasury or agency securities of comparable duration, corporate bonds also have a higher risk of default due to possible adverse changes in the credit worthiness of the issuer. In order to mitigate this risk, our investment policy requires that at the time of purchase corporate debt obligations be rated in one of the four highest categories by a nationally recognized rating service.

***Municipal Obligations and Industrial Revenue Bonds.*** Municipal obligations are securities issued by states, counties and municipalities or their agencies. The industrial revenue bonds in our portfolio are issued by the Massachusetts Development Finance Agency, an independent public authority created by Massachusetts to assist nonprofit organizations to borrow funds through tax-exempt bond issuances. Our investment policy requires that the municipal obligations be rated as investment grade at the time of purchase. At December 31, 2013, our municipal obligations portfolio consisted of both available-for-sale and held-to-maturity securities.

**Table of Contents**

**Investment Securities Portfolio.** The following table sets forth the amortized cost and fair value of our securities portfolio at the dates indicated.

	2013		At December 31, 2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
<b>Investment securities</b>						
<b>Available-for-sale:</b>						
Government-sponsored enterprises	\$ 2,099	\$ 1,851	\$ 3,234	\$ 3,233	\$ 187	\$ 192
Government-sponsored and government-guaranteed mortgage-backed securities	236,004	236,454	248,370	257,762	198,446	209,493
Private label mortgage-backed securities	-	-	2,568	2,566	2,127	2,178
Corporate bonds	1,125	1,606	1,290	1,934	1,453	1,566
Municipal bonds	25,902	24,718	28,713	28,827	7,759	8,384
Total available-for-sale	\$ 265,130	\$ 264,629	\$ 284,175	\$ 294,322	\$ 209,972	\$ 221,813
<b>Held-to-maturity:</b>						
Government-sponsored and government-guaranteed mortgage-backed securities	\$ 78,686	\$ 79,049	\$ 57,986	\$ 60,200	\$ 89,955	\$ 91,949
Private label mortgage-backed securities	50	51	79	81	163	167
Industrial revenue bonds	26,361	26,361	18,847	18,847	19,000	19,000
State of Israel bonds	175	175	150	150	150	150
Municipal bonds	5,913	6,079	5,924	6,396	6,629	7,045
Total held-to-maturity	\$ 111,185	\$ 111,715	\$ 82,986	\$ 85,674	\$ 115,897	\$ 118,311

At December 31, 2013, the Company did not own any securities, other than government-sponsored and government-guaranteed mortgage-backed securities, that had an aggregate book value in excess of 10% of our total capital at that date.

**Table of Contents**

**Portfolio Maturities and Yields.** The composition and maturities of the investment securities portfolio at December 31, 2013 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Equity securities do not have contractual maturities and are excluded from this table. Weighted average yields are not presented on a tax-equivalent basis.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		Fair Value
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	
<b>Investment securities</b>											
<b>Available-for-sale:</b>											
Government-sponsored enterprises	\$ -	0.00%	\$ -	0.00%	\$ 500	1.30%	\$ 1,599	2.77%	\$ 2,099	2.42%	\$ 1,851
Government-sponsored and government-guaranteed mortgage-backed securities	37	3.74%	6,576	3.63%	27,613	2.89%	201,778	2.50%	236,004	2.58%	236,454
Corporate bonds	-	0.00%	-	0.00%	-	0.00%	1,125	5.57%	1,125	5.57%	1,606
Municipal bonds	-	0.00%	2,096	2.85%	15,370	2.66%	8,436	3.21%	25,902	2.85%	24,718
<b>Total available-for-sale</b>	<b>\$ 37</b>	<b>3.74%</b>	<b>\$ 8,672</b>	<b>3.44%</b>	<b>\$ 43,483</b>	<b>2.79%</b>	<b>\$ 212,938</b>	<b>2.55%</b>	<b>\$ 265,130</b>	<b>2.62%</b>	<b>\$ 264,629</b>
<b>Held-to-maturity:</b>											
Government-sponsored and government-guaranteed mortgage-backed securities	\$ -	0.00%	\$ 1,759	3.54%	\$ 26,246	2.11%	\$ 50,681	2.56%	\$ 78,686	2.43%	\$ 79,049
Private label mortgage-backed securities	-	0.00%	50	6.39%	-	0.00%	-	0.00%	50	6.39%	51
Industrial revenue bonds	-	0.00%	-	0.00%	-	0.00%	26,361	3.89%	26,361	3.89%	26,361
State of Israel bonds	125	1.02%	50	1.25%	-	0.00%	-	0.00%	175	1.09%	175
Municipal bonds	-	0.00%	760	3.85%	1,534	3.66%	3,619	4.22%	5,913	4.03%	6,079
<b>Total held-to-maturity</b>	<b>\$ 125</b>	<b>1.02%</b>	<b>\$ 2,619</b>	<b>3.64%</b>	<b>\$ 27,780</b>	<b>2.20%</b>	<b>\$ 80,661</b>	<b>3.07%</b>	<b>\$ 111,185</b>	<b>2.86%</b>	<b>\$ 111,715</b>



**Table of Contents****Sources of Funds**

**General.** Deposits have traditionally been our primary source of funds for lending and investment activities. We also use borrowings, primarily Federal Home Loan Bank advances, to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage the cost of funds. Other sources of funds are scheduled loan payments, investment maturities, loan prepayments, retained earnings and income on other earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

**Deposits.** Our deposits are generated primarily from residents and businesses within our primary market area. We offer a selection of deposit accounts, including demand accounts, NOW accounts, money market accounts, savings accounts, retirement accounts and certificates of deposit. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. We rely on personalized customer service, long-standing relationships with customers and an active marketing program to attract and retain deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates, and competition. The variety of deposit accounts offered allows us to be competitive in obtaining funds and responding to changes in consumer demand. Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits, and the rates paid on these deposits, have been and will continue to be significantly affected by market conditions. At December 31, 2013, \$731.1 million, or 37.6% of our deposit accounts, were certificates of deposit, of which \$428.1 million had maturities of one year or less.

The following table sets forth the distribution of total deposits by account type, at the dates indicated.

	2013			At December 31, 2012			2011		
	Balance (1)	Percent	Weighted Average Rate	Balance (1)	Percent	Weighted Average Rate	Balance (1)	Percent	Weighted Average Rate
	(Dollars in thousands)								
<b>Deposit type:</b>									
Demand	\$ 342,000	17.60%	- %	\$ 307,302	16.68%	- %	\$ 205,902	16.74%	- %
NOW	92,696	4.77%	0.20%	87,983	4.78%	0.32%	52,899	4.30%	0.35%
Savings	342,605	17.63%	0.25%	350,188	19.01%	0.39%	247,664	20.14%	0.60%
Money market	435,171	22.39%	0.34%	395,293	21.46%	0.42%	301,770	24.53%	0.59%
Certificates of deposit	731,052	37.61%	1.43%	701,115	38.07%	1.76%	421,737	34.29%	1.84%
<b>Total deposits</b>	<b>\$ 1,943,524</b>	<b>100.00%</b>	<b>0.67%</b>	<b>\$ 1,841,881</b>	<b>100.00%</b>	<b>0.85%</b>	<b>\$ 1,229,972</b>	<b>100.00%</b>	<b>0.91%</b>

(1) Excludes the fair value adjustment balance of \$3.0 million and \$6.3 million recorded in connection with the acquisition of NEBS at December 31, 2013 and 2012, respectively, and \$3,000 recorded in connection with the acquisition of CNB Financial at December 31, 2011.

**Table of Contents**

As of December 31, 2013, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 was approximately \$406.4 million. The following table sets forth the maturity of those certificates as of December 31, 2013, in thousands.

Three months or less	\$ 69,852
Over three months through six months	66,025
Over six months through one year	96,051
Over one year to three years	123,702
Over three years	50,747
 Total	 \$ 406,377

**Borrowings.** Our borrowings consist of advances from the Federal Home Loan Bank of Boston, collateralized repurchase agreements with our customers and other financial institutions and subordinated debentures. As of December 31, 2013, we had Federal Home Loan Bank advances of \$139.1 million, or 6.4% of total liabilities, with a weighted average maturity of 3.6 years and a weighted average rate of 1.85%. As a member of the Federal Home Loan Bank of Boston, we can currently borrow up to approximately \$368.1 million from the Federal Home Loan Bank.

The following table summarizes information concerning balances and interest rates on our Federal Home Loan Bank advances at and for the periods indicated:

	For the Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Balance at end of period	\$ 139,063 <sup>(1)</sup>	\$ 140,603 <sup>(2)</sup>	\$ 104,984 <sup>(3)</sup>
Average amount outstanding during year	129,165 <sup>(1)</sup>	107,668 <sup>(2)</sup>	130,753 <sup>(3)</sup>
Interest expense incurred during year	3,181 <sup>(1)</sup>	3,869 <sup>(2)</sup>	5,107 <sup>(3)</sup>
Maximum amount outstanding at any month-end	160,461 <sup>(1)</sup>	140,603 <sup>(2)</sup>	150,840 <sup>(3)</sup>
Average interest rate during the year	2.46% <sup>(1)</sup>	3.59% <sup>(2)</sup>	3.91% <sup>(3)</sup>
Weighted average interest rate on end of period balances	1.85%	2.51%	3.68%

(1) Excludes the fair value adjustment balance of \$600,000, an average balance of \$771,000 and interest expense of \$322,000 for December 31, 2013, recorded in connection with the acquisition of NEBS.

(2) Excludes the fair value adjustment balance of \$922,000, an average balance of \$1.2 million and interest expense of \$509,000 for December 31, 2012, recorded in connection with the acquisition of NEBS.

(3) Excludes the fair value adjustment balance of \$1.4 million, an average balance of \$1.7 million and interest expense of \$594,000 for December 31, 2011, recorded in connection with the acquisition of CNB Financial.

Securities sold under agreements to repurchase include funds borrowed from customers on an overnight basis. At December 31, 2013, the Company had \$41.6 million of repurchase agreements outstanding with its customers at a weighted average rate of 0.33%. The following table summarizes our customer repurchase agreements at and for the periods shown:

	For the Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Balance at end of period	\$ 41,555	\$ 49,229	\$ 17,260
Average amount outstanding during year	40,587	22,077	18,408

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Interest expense incurred during year	42	55	121
Maximum amount outstanding at any month-end	49,580	49,229	21,952
Average interest rate during the year	0.10%	0.25%	0.66%
Weighted average interest rate on end of period balances	0.33%	0.57%	0.57%

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## **Table of Contents**

In addition, the Company had a total of \$20.0 million in structured term repurchase agreements secured through another financial institution. The Company entered into a \$10.0 million repurchase agreement in 2009 due to mature in 2019, is callable in 2014 and has a rate of 2.44%. The Company had previously entered into a \$10.0 million repurchase agreement in 2008 due to mature in 2018, is callable on any interest payment date and has a rate of 2.73%. All of the repurchase agreements are secured by mortgage-backed securities issued by government sponsored enterprises.

The Company assumed subordinated debt as a result of the acquisition of CNB Financial in 2009 in the form of trust preferred securities issued through a private placement offering with a face amount of \$7.7 million. The Company recorded a fair value acquisition discount of \$2.4 million on November 30, 2009. The remaining unamortized discount was \$1.8 million at December 31, 2013. This issue has a maturity date of March 15, 2036 and bears a floating rate of interest that reprices quarterly at the 3-month LIBOR rate plus 1.85%. The interest rate at December 31, 2013 was 2.09%. A special redemption provision allows the Company to redeem this issue at par on March 15, June 15, September 15, or December 15 of any year subsequent to March 15, 2011.

The Company assumed subordinated debt as a result of the acquisition of NEBS in 2012 in the form of trust preferred securities issued through a private placement offering with a face amount of \$4.1 million. The subordinated debt bore a floating rate of interest that repriced quarterly at the 3-month LIBOR rate plus 1.90%. The interest rate at December 31, 2012 was 2.21%. The Company redeemed this issue at par on February 23, 2013.

The Company has unused borrowing capacity with the Federal Reserve Bank of approximately \$60.8 million.

### **Subsidiary Activities**

UCB Securities, Inc. is a wholly owned subsidiary of United Bank and was established in 1998 as a Massachusetts security corporation for the purpose of buying, selling and holding investment securities. The income earned on UCB Securities, Inc.'s investment securities is subject to a significantly lower rate of state tax than that assessed on income earned on investment securities maintained at United Bank. At December 31, 2013, UCB Securities, Inc. had total assets of \$161.7 million, all of which were qualifying securities under the applicable regulations.

UCB Securities, Inc. II is a wholly owned subsidiary of United Bank and was established in 2010 as a Massachusetts security corporation for the purpose of buying, selling and holding investment securities. The income earned on UCB Securities, Inc. II's investment securities is subject to a significantly lower rate of state tax than that assessed on income earned on investment securities maintained at United Bank. At December 31, 2013, UCB Securities, Inc. II had total assets of \$69.5 million, all of which were qualifying securities under the applicable regulations.

UB Properties, LLC is a subsidiary of the Bank formed to hold real estate assets acquired through foreclosure. At December 31, 2013, UB Properties, LLC had total assets of \$2.3 million.

VB REO, LLC is a subsidiary of the Bank formed to hold real estate assets acquired through foreclosure. At December 31, 2013, VB REO, LLC had total assets of \$1.3 million.

### **United Wealth Management**

United Bank, through its division, United Wealth Management, has a partnership with a registered broker-dealer, NFP Securities, Inc. In 2006, United Bank acquired Levine Financial Group in an effort to expand its customer base with increased opportunities to grow its market share and expand the financial services portion of business in the Northampton market. Together they offer United Bank customers a complete range of

## **Table of Contents**

non-deposit investment products and financial planning services, including mutual funds, debt, equity and government securities, insurance products, fixed and variable annuities, financial planning for individual and commercial customers and estate planning services. United Bank receives a portion of the commissions generated by United Wealth Management from sales to customers.

### **Expense and Tax Allocation Agreements**

United Bank has entered into an agreement with the Company that generally provides that the Company will pay to United Bank, on a quarterly basis, fees for its use of United Bank's premises, furniture, equipment and employees in an amount to be determined by the board of directors of the Company and United Bank. Such fees shall not be less than the fair market value received for such goods or services. In addition, the Company and United Bank entered into a tax allocation agreement as a result of their status as members of an affiliated group under the Internal Revenue Code. The tax allocation agreement generally provides that the Company will file consolidated federal tax income returns with United Bank and its subsidiaries. The tax allocation agreement also formalizes procedures for allocating the consolidated tax liability of the group among its members and establishes procedures for the future payments by United Bank to the Company for tax liabilities attributable to United Bank and its subsidiaries.

### **Personnel**

As of December 31, 2013, we had 376 full-time employees and 43 part-time employees. Our employees are not represented by any collective bargaining group. Management believes that we have good relations with our employees.

## **SUPERVISION AND REGULATION**

### **General**

United Bank is subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency as its primary federal regulator, and by the Federal Deposit Insurance Corporation, as the insurer of its deposits. United Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation. United Bank also is a member of and owns stock in the Federal Home Loan Bank of Boston, which is one of the twelve regional banks in the Federal Home Loan Bank System. United Bank also is regulated to a lesser extent by the Board of Governors of the Federal Reserve System, governing reserves to be maintained against deposits and other matters. United Bank's relationship with its depositors and borrowers also is regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts and the form and content of United Bank's mortgage documents. United Bank must file reports with the Office of the Comptroller of the Currency concerning its activities and financial condition in addition to obtaining regulatory approvals before entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the Office of the Comptroller of the Currency to evaluate United Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of an adequate allowance for loan losses for regulatory purposes. Any change in such policies, whether by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation or Congress, could have a material adverse impact on the Company and United Bank and their operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) made extensive changes to the regulation of financial institutions and their holding companies. Under the Dodd-Frank Act, the Office of Thrift Supervision was eliminated and responsibility for the supervision and regulation

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## **Table of Contents**

of federal savings banks was transferred to the Office of the Comptroller of the Currency on July 21, 2011. The Office of the Comptroller of the Currency is the agency that is primarily responsible for the regulation and supervision of national banks. Additionally, on that date, responsibility for the regulation and supervision of savings and loan holding companies was transferred to the Board of Governors of the Federal Reserve System. Additionally, the Dodd-Frank Act created a Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. However, institutions of less than \$10 billion in assets, such as United Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their prudential regulators.

Certain of the regulatory requirements that are or will be applicable to United Bank and United Financial Bancorp are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on United Bank and United Financial Bancorp and is qualified in its entirety by reference to the actual statutes and regulations.

### **Federal Banking Regulation**

**Business Activities.** The activities of federal savings banks, such as United Bank, are governed by federal laws and regulations. Those laws and regulations delineate the nature and extent of the business activities in which federal savings banks may engage. In particular, certain lending authority for federal savings banks, e.g., commercial, non-residential real property loans and consumer loans, is limited to a specified percentage of the institution's capital or assets.

The Dodd-Frank Act authorizes depository institutions to pay interest on business demand deposits. Depending upon competitive responses, that change could have an adverse impact on United Bank's interest exposure.

**Capital Requirements.** Applicable capital regulations require savings associations to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio; a 4% tier 1 capital to assets leverage ratio (3% for institutions receiving the highest rating on the CAMELS financial institution examination rating system); and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest examination rating) and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard for savings associations requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital, less certain specified deductions from total capital such as reciprocal holdings of depository institution capital instruments and equity investments) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet activities, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor, assigned by the capital regulation based on the risks believed inherent in the type of asset. Core (Tier 1) capital is generally defined as common stockholders' equity (including retained earnings), certain non-cumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital (Tier 2 capital) include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets, and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

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## **Table of Contents**

The Office of the Comptroller of the Currency also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At December 31, 2013, United Bank's capital exceeded all applicable requirements.

Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, required the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies, including savings and loan holding companies, that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. In early July 2013, the Federal Reserve Board and the Office of the Comptroller of the Currency approved revisions to their capital adequacy guidelines and prompt corrective action rules that implement the revised standards of the Basel Committee on Banking Supervision, commonly called Basel III, and address relevant provisions of the Dodd-Frank Act. Basel III refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which are effective January 1, 2015, and revise the definition of what constitutes capital for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Company and United Bank will be: (1) a new common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 capital ratio of 6% (increased from 4%); (3) a total capital ratio of 8% (unchanged from current rules); and (4) a Tier 1 leverage ratio of 4% for all institutions. The rules eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital. Instruments issued prior to May 19, 2010 will be grandfathered for companies with consolidated assets of \$15 billion or less. The rules also establish a capital conservation buffer of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0%; (2) a Tier 1 capital ratio of 8.5%; and (3) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

***Loans-to-One Borrower.*** Federal law provides that savings associations are generally subject to the limits on loans to one borrower applicable to national banks. Generally, a federal savings bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2013, United Bank was in compliance with the loans-to-one borrower limitations.

***Qualified Thrift Lender Test.*** As a federal savings bank, United Bank must satisfy the qualified thrift lender, or QTL, test. Under the QTL test, United Bank must maintain at least 65% of its portfolio assets in qualified thrift investments in at least nine of the most recent 12 months. Portfolio assets generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings bank's business.

A savings bank that fails the qualified thrift lender test must either convert to a bank charter or operate under specified restrictions. The Dodd-Frank Act also makes noncompliance with the QTL test subject to agency enforcement action for a violation of law and subject to dividend limitations. At December 31, 2013, United Bank satisfied this test.

## **Table of Contents**

**Capital Distributions.** Federal regulations govern capital distributions by a federal savings bank, which include cash dividends, payments to repurchase its shares and other transactions charged to the capital account. Savings banks must file an application for approval of a capital distribution if:

the total capital distributions for the applicable calendar year exceed net income for that year to date plus retained net income for the preceding two years;

the savings bank would not be at least adequately capitalized following the distribution;

the distribution would violate any applicable statute, regulation, agreement or Office of the Comptroller of the Currency imposed condition; or

the savings bank is not eligible for expedited treatment of its filings (*i.e.*, generally, examination and Community Reinvestment Act ratings in top two categories).

Even if an application is not otherwise required, every savings bank that is a subsidiary of a holding company must still file a notice with the Board of Governors of the Federal Reserve System at least 30 days before the Board of Directors declares a dividend or approves a capital distribution. Notice also must be provided to the Office of the Comptroller of the Currency.

A notice or application may not be approved if:

the association would be undercapitalized following the distribution;

the proposed capital distribution raises safety and soundness concerns; or

the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution, if after making such distribution the institution would be undercapitalized.

**Community Reinvestment Act.** All savings banks have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. Responsibility for administering the Community Reinvestment Act, unlike other fair lending laws, is not being transferred to the Consumer Financial Protection Bureau. United Bank received a satisfactory Community Reinvestment Act rating in its most recent examination.

**Transactions with Related Parties.** Federal law limits a federal savings bank's authority to engage in transactions with its affiliates (e.g., a company that controls, is controlled by, or is under common control with an insured depository institution such as United Bank, including United Financial Bancorp). In general, loan transactions between an insured depository institution and its affiliate are subject to certain quantitative and collateral requirements. Transactions between an insured depository institution and its affiliate are limited to 10% of the institution's unimpaired capital and unimpaired surplus for transactions with any one affiliate and 20% of unimpaired capital and unimpaired surplus for transactions in the aggregate with all affiliates. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type specified by federal law. In addition, applicable regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Transactions with affiliates must be consistent with safe and sound banking practices, not involve low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.





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**Table of Contents**

The Sarbanes-Oxley Act of 2002 generally prohibits loans by United Financial Bancorp to its executive officers and directors. However, the law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, United Bank's authority to extend credit to executive officers, directors and 10% shareholders (insiders), as well as entities such persons control, is limited. The laws limit both the individual and aggregate amount of loans that United Bank may make to insiders based, in part, on United Bank's capital level and requires that certain board approval procedures be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are subject to additional limitations based on the type of loan involved.

**Enforcement.** The Office of the Comptroller of the Currency has primary enforcement responsibility over federal savings banks and has the authority to bring enforcement action against the institution and all institution-affiliated parties, including stockholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors to the appointment of a receiver or conservator or termination of deposit insurance. Civil penalties cover a wide range of violations, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1 million per day. The Federal Deposit Insurance Corporation also has the authority to recommend to the Office of the Comptroller of the Currency that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation has authority to take action under specified circumstances. Federal law also establishes criminal penalties for certain violations.

**Prompt Corrective Action Regulations.** Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept broker deposits. The Office of the Comptroller of the Currency is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The Office of the Comptroller of the Currency could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. Significantly and critically undercapitalized institutions are subject to additional mandatory and discretionary measures.

At December 31, 2013, United Bank met the criteria for being considered well-capitalized.

**Insurance of Deposit Accounts.** Under the Federal Deposit Insurance Corporation's risk-based assessment system, insured institutions are assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned and certain adjustments specified by the Federal Deposit Insurance Corporation. The Federal Deposit Insurance Corporation may adjust the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment. No institution may pay a dividend if in default of the federal deposit insurance assessment.

The Dodd-Frank Act required the Federal Deposit Insurance Corporation to revise its procedures to base its assessments upon each insured institution's total assets less tangible equity instead of deposits. The Federal Deposit Insurance Corporation finalized a rule, effective April 1, 2011, that set the assessment range at 2.5 to 45 basis points of total assets less tangible equity.

## **Table of Contents**

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of United Bank. Management cannot predict what insurance assessment rates will be in the future.

***Federal Home Loan Bank System.*** United Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. United Bank, as a member of the Federal Home Loan Bank of Boston, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. United Bank was in compliance with this requirement with an investment in Federal Home Loan Bank stock at December 31, 2013, of \$17.3 million.

***Federal Reserve System.*** Federal Reserve Board regulations require savings banks to maintain noninterest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including \$79.5 million; a 10% reserve ratio is applied above \$79.5 million. The first \$12.4 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements. At December 31, 2013, United Bank was in compliance with these reserve requirements.

## **Other Regulations**

Interest and other charges collected or contracted for by United Bank are subject to state usury laws and federal laws concerning interest rates. United Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;

Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;

Truth in Savings Act; and

rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The operations of United Bank also are subject to the:

Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking

services;

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## **Table of Contents**

Check Clearing for the 21<sup>st</sup> Century Act (also known as Check 21 ), which gives substitute checks, such as digital check images and copies made from that image, the same legal standing as the original paper check;

The USA PATRIOT Act, which requires savings banks to, among other things, establish broadened anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and

The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to opt out of the sharing of certain personal financial information with unaffiliated third parties.

### **Holding Company Regulation**

The Company is a unitary savings and loan holding company, subject to Federal Reserve Board regulation, examination, supervision, reporting requirements and regulations regarding its officers. The Federal Reserve Board has enforcement authority over the Company and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a risk to United Bank. Under federal law and regulations and policy, the business activities of the Company are limited to those activities permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act and certain additional activities that have been authorized for savings and loan holding companies by regulation.

Federal law prohibits a savings and loan holding company from directly or indirectly, or through one or more subsidiaries, acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company, without prior written approval of the Federal Reserve Board or from acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary holding company or savings association. A savings and loan holding company is also prohibited from acquiring more than 5% of a company engaged in activities other than those authorized by federal law or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider, among other things, the financial and managerial resources and future prospects of the savings institution and company involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

1. the approval of interstate supervisory acquisitions by savings and loan holding companies; and
2. the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

**Capital.** Savings and loan holding companies historically have not been subject to consolidated regulatory capital requirements. However, in July 2013, the Federal Reserve Board approved a new rule that implements the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The final

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## **Table of Contents**

rule established consolidated capital requirements for many savings and loan holding companies, including the Company. See Regulation and Supervision-Federal Banking Regulation-Capital Requirements.

**Source of Strength.** The Dodd-Frank Act also extends the source of strength doctrine to savings and loan holding companies. The regulatory agencies must issue regulations implementing the source of strength policy that holding companies act as a source of strength to their subsidiary depository institutions by providing capital and other support to their subsidiary institutions in times of financial distress.

**Dividends and Stock Repurchases.** The Federal Reserve Board has the power to prohibit dividends by savings and loan holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies that it has made applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is not consistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. Moreover, a company should inform the Federal Reserve Board reasonably in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid. The policy statement also provides for regulatory review prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

**Acquisition of the Company.** Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect control of a savings and loan holding company or savings association. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the outstanding voting stock of the company or institution, unless the Federal Reserve Board has found that the acquisition will not result in a change of control. Under the Change in Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that acquires control would then be subject to regulation as a savings and loan holding company.

## **Federal Securities Laws**

The Company's common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. As a result, the Company files quarterly and annual reports with the Securities and Exchange Commission and is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act.

## **Federal Taxation**

**General.** The Company and United Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to United Financial Bancorp, Inc. or United Bank.

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## **Table of Contents**

**Method of Accounting.** For federal income tax purposes, the Company currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its federal and state income tax returns.

**Bad Debt Reserves.** Historically, United Bank has been subject to special provisions in the tax law regarding allowable bad debt tax deductions and related reserves. Tax law changes were enacted in 1996, pursuant to the Small Business Protection Act of 1996 (the 1996 Act ), that eliminated the use of the percentage of taxable income method for tax years after 1995 and required recapture into taxable income over a six-year period all bad debt reserves accumulated after 1988. United Bank recaptured its reserves accumulated after 1988 over the six-year period ended December 31, 2001.

Currently, the Company s consolidated group uses the specific charge off method to account for bad debt deductions for income tax purposes.

**Taxable Distributions and Recapture.** Prior to the 1996 Act, bad debt reserves created prior to November 1, 1988 were subject to recapture into taxable income if United Bank failed to meet certain thrift asset and definitional tests.

At December 31, 2013, United Bank s total federal base year reserve was approximately \$2.6 million. However, under current law, base-year reserves remain subject to recapture if United Bank makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter.

**Alternative Minimum Tax.** The IRC imposes an alternative minimum tax ( AMT ) at a rate of 20% on a base of regular taxable income plus certain tax preferences ( alternative minimum taxable income or AMTI ). The AMT is payable to the extent such AMTI is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Company and United Bank have not been subject to the alternative minimum tax and have no such amounts available as credits for carryover.

**Corporate Dividends-Received Deduction.** The Company may exclude from its federal taxable income 100% of dividends received from United Bank as a wholly owned subsidiary. The corporate dividends-received deduction is 80% when the dividend is received from a corporation having at least 20% of its stock owned by the recipient corporation. A 70% dividends-received deduction is available for dividends received from corporations owned less than 20% by the recipient corporation.

## **State Taxation**

Beginning in 2009, due to a change in law, the Company and United Bank filed a combined Massachusetts return. The security corporation subsidiaries continue to file separately. The Company s state tax returns, as well as those of United Bank and its subsidiaries, are not currently under audit. The years after 2009 are open for examination.

United Financial Bancorp and United Bank file combined Massachusetts financial institution income tax returns and are subject to an annual Massachusetts tax at a rate of 9.0% of their net income in 2013. Massachusetts net income is defined as gross income, other than 95% of dividends received in any taxable year beginning on or after January 1, 1999 from or on account of the ownership of any class of stock if the institution owns 15% or more of the voting stock of the institution paying the dividend, less the deductions, but not the credits allowable under the provisions of the Internal Revenue Code, as amended and in effect for the taxable year. The dividends must meet the qualifications under Massachusetts law. Deductions with respect to the following items, however, are not allowed except as otherwise provided: (a) dividends received, except as

**Table of Contents**

otherwise provided; (b) losses sustained in other taxable years; (c) taxes on or measured by income, franchise taxes measured by net income, franchise taxes for the privilege of doing business and capital stock taxes imposed by any state; or (d) the deduction allowed by section 168(k) of the Code.

Due to the legislative change, beginning in 2010, the Massachusetts financial institution tax rate decreased by 0.5% each year for three years until 2012, when it became 9% and will remain at that rate.

As a Maryland business corporation, United Financial Bancorp is required to file annual returns and pay annual fees to the State of Maryland.

United Bank's subsidiaries, UCB Securities, Inc. and UCB Securities, Inc. II, are taxed as Massachusetts security corporations, and are subject to a state tax rate of 1.32% of their gross income.

Beginning in 2010, United Bank began filing corporation income tax returns in Connecticut due to its lending activity within the state.

**Executive Officers of the Registrant**

The executive officers of the Company and the Bank are elected annually by the Board of Directors and serve at the Board's discretion. The executive officers of the Company and the Bank are:

Name	Position
Richard B. Collins	President and Chief Executive Officer of the Company and the Bank
Mark A. Roberts	Executive Vice President and Chief Financial Officer of the Company and the Bank
J. Jeffrey Sullivan	Executive Vice President and Chief Operating Officer of the Bank
Charles R. Valade	Executive Vice President and Chief Lending Officer of the Bank
John J. Patterson	Senior Vice President, Risk Management, of the Bank
Dena M. Hall	Senior Vice President, Marketing and Community Relations, of the Bank

Below is information regarding the executive officers who are not also directors. Unless otherwise stated, each executive officer has held his current position for at least the last five years. Ages presented are as of December 31, 2013.

**Mark A. Roberts** is the Executive Vice President and Chief Financial Officer of the Company and the Bank. He joined the Company and the Bank in 2006. Before that, he served as the Vice President and Controller for The Connecticut Bank and Trust Company in Hartford, Connecticut and was the Vice President of Finance at Woronoco Savings Bank for six years. Age 50.

**J. Jeffrey Sullivan** is Executive Vice President and Chief Operating Officer of the Bank. Mr. Sullivan previously served as Executive Vice President and Chief Lending Officer of the Bank from 2003 until he was appointed Executive Vice President and Chief Operating Officer of the Bank effective January 1, 2013. Mr. Sullivan joined the Bank in 2003. Age 49.

**Charles R. Valade** is Executive Vice President and Chief Lending Officer of the Bank. Mr. Valade previously served as Executive Vice President, Commercial Lending/Worcester Region, of the Bank from 2009 until he was appointed Executive Vice President and Chief Lending Officer of the Bank effective January 1, 2013. Before joining the Bank in connection with the Company's acquisition of CNB Financial in November 2009, Mr. Valade served as President and Chief Executive Officer of CNB Financial since its formation in 2005. Age 62.

**John J. Patterson** is Senior Vice President, Risk Management of the Bank. Mr. Patterson joined the Bank in 1993. Age 67.



## **Table of Contents**

**Dena M. Hall** is the Senior Vice President of Marketing and Community Relations of the Bank. She joined the Bank in 2005. Previously, she was the Director of Marketing for Woronoco Savings Bank for seven years. Age 40.

### **ITEM 1A. RISK FACTORS**

An investment in our common stock involves risk. You should carefully consider the risks described below and all other information contained in this Annual Report on Form 10-K before you decide to buy our common stock. It is possible that risks and uncertainties not listed below may arise or become material in the future and affect our business, results of operations or the price of our common stock.

#### **Negative Developments In The Financial Industry, The Domestic and International Credit Markets, and The Economy In General Pose Significant Challenges For Our Industry and Us and Could Adversely Affect Our Business, Financial Condition And Results Of Operations.**

Negative developments that began in the latter half of 2007 and that have continued since then in the global credit and securitization markets have resulted in unprecedented volatility and disruption in the financial markets, a general economic downturn and a tepid economic recovery, both nationally and in our primary markets in Massachusetts and Connecticut. As a result, commercial as well as consumer loan portfolio performances deteriorated at many institutions and have not fully recovered, and the competition for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. As a result, we may face the following risks:

economic conditions that negatively affect housing prices and the job market may cause the credit quality of our loan portfolios to deteriorate;

market developments that affect consumer confidence may cause adverse changes in payment patterns by our customers, causing increases in delinquencies and default rates on loans and other credit facilities;

the processes that we use to estimate our allowance for loan losses and reserves may no longer be reliable because they rely on judgments, such as forecasts of economic conditions, that may no longer be capable of accurate estimation;

the value of our securities portfolio may decline; and

we face increased regulation of our industry, and the costs of compliance with such regulation may increase.

These conditions or similar ones may continue to persist or worsen, causing us to experience continuing or increased adverse effects on our business, financial condition, results of operations and the price of our common stock.

#### **Future Changes in Interest Rates Could Reduce Our Profits.**

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between the income we earn on our interest-earning assets, such as loans and securities, and the expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

The rates we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of time. Our liabilities generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility because market interest rates change over time. In a period of



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## **Table of Contents**

rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans. In a period of declining interest rates, the interest income earned on our assets may decrease more rapidly than the interest paid on our liabilities, as borrowers prepay mortgage loans, and mortgage-backed securities and callable investment securities are called or prepaid thereby requiring us to reinvest those cash flows at lower interest rates.

Changes in interest rates also affect the current fair value of our securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2013, the fair value of our available-for-sale securities portfolio, consisting of agency securities, mortgage-backed securities, corporate debt obligations, municipal obligations and preferred stock, totaled \$264.6 million. Unrealized net losses on these available-for-sale securities totaled \$501,000 at December 31, 2013 and are reported as a separate component of stockholders' equity. Decreases in the fair value of securities available for sale in future periods would have an adverse effect on stockholders' equity.

We evaluate interest rate sensitivity using income simulation models that estimate the change in our net interest income over a range of interest rate scenarios. Net income at risk measures the risk of a decline in earnings due to potential short-term and long term changes in interest rates. At December 31, 2013, in the event of an immediate 200 basis point increase in interest rates, the model projects that we would experience a 1.29% decrease in net interest income over the following 12 months. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Management of Market Risk.

### **Our Increased Emphasis on Commercial Real Estate and Commercial and Industrial Lending May Expose Us to Increased Lending Risks.**

At December 31, 2013, our portfolio of commercial real estate loans totaled \$862.6 million, or 45.8% of our total loans, and our portfolio of commercial and industrial loans totaled \$293.1 million, or 15.6% of our total loans. These loans have increased as a percentage of our total loan portfolio in recent years and generally have more risk and require a commensurately higher loan loss allowance than one- to four-family residential mortgage loans. Because the repayment of commercial real estate and commercial and industrial loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the real estate market or the local economy. Many of our borrowers also have more than one commercial real estate or commercial and industrial loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Finally, if we foreclose on a commercial real estate or commercial and industrial loan, our holding period for the collateral, if any, typically is longer than for one- to four-family residential mortgage loans because there are fewer potential purchasers of the collateral. Because we plan to continue to increase our originations of these loans, it may be necessary to increase the level of our allowance for loan losses because of the increased risk characteristics associated with these types of loans. Any such increase to our allowance for loan losses would adversely affect our earnings.

### **Our Emphasis On Residential Mortgage Loans and Home Equity Loans And Lines Of Credit Exposes Us To Lending Risks.**

At December 31, 2013, \$466.6 million, or 24.8%, of our loan portfolio consisted of one- to four-family residential mortgage loans and \$179.5 million, or 9.5%, of our loan portfolio consisted of home equity loans and lines of credit. Recent declines in the housing market have resulted in declines in real estate values in our market areas. These declines in real estate values could cause some of our mortgage and home equity loans and lines of credit to be inadequately collateralized, which would expose us to a greater risk of loss if we seek to recover on defaulted loans by selling the real estate collateral.

## **Table of Contents**

### **The Merger Agreement May Be Terminated In Accordance With Its Terms and the Merger May Not Be Completed.**

The Merger Agreement is subject to a number of conditions that must be fulfilled to complete the merger. Those conditions include: approval of the merger agreement by our and Rockville Financial's stockholders, receipt of requisite regulatory approvals, absence of orders prohibiting completion of the merger, the continued accuracy of the representations and warranties by both parties and the performance by both parties of their covenants and agreements, and the receipt by both parties of legal opinions from their respective tax counsels. If these conditions to the closing of the Merger are not fulfilled, then the Merger may not be completed. In addition, if the Merger is not completed by September 14, 2014, either Rockville Financial or we may choose not to proceed with the Merger, and the parties can mutually decide to terminate the merger agreement at any time, before or after stockholder approval. In addition, Rockville Financial may elect to terminate the merger agreement in certain other circumstances.

### **Termination of the Merger Agreement Could Negatively Impact Us.**

If the Merger Agreement is terminated, our business may be adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the merger. In addition, if the Merger Agreement is terminated, the market price of our common stock might decline to the extent that the current market price reflects a market assumption that the merger will be completed. If the Merger Agreement is terminated and our board of directors seeks another merger or business combination, our stockholders cannot be certain that we will be able to find a party willing to offer equivalent or more attractive consideration than the consideration we are receiving in this merger. If the Merger Agreement is terminated under certain circumstances, we may be required to pay a termination fee of \$15 million to Rockville Financial.

### **We Will Be Subject to Business Uncertainties and Contractual Restrictions While the Merger is Pending.**

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on us and consequently on Rockville Financial. These uncertainties may impair our ability to attract, retain and motivate key personnel until the merger is completed and could cause customers and others that deal with us to seek to change existing business relationships with us. Retention of certain employees may be challenging during the pendency of the merger, as certain employees may experience uncertainty about their future roles. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the business, our business could be negatively impacted. In addition, the Merger Agreement restricts us from making certain acquisitions and taking other specified actions until the merger occurs without the consent of Rockville Financial. These restrictions may prevent us from pursuing attractive business opportunities that may arise before the completion of the merger.

### **Income From Secondary Mortgage Market Operations is Volatile, and We May Incur Losses or Charges With Respect to Our Secondary Mortgage Market Operations Which Would Negatively Affect Our Earnings.**

We generally sell in the secondary market the fixed-rate residential mortgage loans that we originate, earning non-interest income. When interest rates rise, the demand for mortgage loans tends to fall and may reduce the number of loans available for sale. When interest rates fall, the demand for fixed-rate mortgage loans also tends to fall and may reduce the number of loans available for sale. In addition to interest rate levels, weak or deteriorating economic conditions also tend to reduce loan demand. Although we sell loans in the secondary market without recourse, we are required to give customary representations and warranties to the buyers. If we breach those representations and warranties, the buyers can require us to repurchase the loans and we may incur a loss on the repurchase. Because we generally retain the servicing rights on the loans we sell in the secondary market, we are required to record a mortgage servicing right asset, which we test quarterly for impairment. The value of mortgage servicing rights tend to increase with rising interest rates and to decrease with falling interest rates. If we are required to take an impairment charge, that would hurt our earnings.

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**Table of Contents**

**If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease.**

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, growth of our loan portfolio, changes in the composition of our loan portfolio and the volume and trends in our non-performing and classified loans and charge-offs. We also evaluate economic conditions and general market collateral valuations. Because of the degree of uncertainty and susceptibility of these factors to change, our actual losses may vary from our current estimates. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Our allowance for loan losses was 0.71% of total loans and 83.8% of non-performing loans at December 31, 2013, compared to 0.67% of total loans and 82.2% of non-performing loans at December 31, 2012. Material additions to our allowance could materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our financial condition and results of operations.

**Further Declines in the Value of Certain Investment Securities Could Require Write-Downs, Which Would Reduce Our Earnings.**

At December 31, 2013, our investment portfolio included \$1.6 million in trust preferred securities and \$30.6 million in municipal bonds. In addition, we have two cost basis investments totaling \$1.4 million. We review our investment securities portfolio at each quarter and reporting period to determine whether the fair value is below the current carrying value. When the fair value of any of our investment securities has declined below its current carrying value, we are required to assess whether the decline is other-than-temporary. Management evaluated the investment portfolio and has determined that no declines in the fair value of the Company's security portfolio are deemed to represent other-than-temporary impairment ( OTTI ) as of December 31, 2013. In 2012, management recognized a pre-tax, non-cash OTTI charge of \$165,000 on a corporate bond. Management based its assessment on the issuer's credit ratings, credit outlook, payment status and financial condition, the length of time the bond has been in a loss position, the size of the loss position and other meaningful information. Management has concluded that no other securities have experienced impairments that are other-than-temporary. During 2012 and 2011, management determined that a venture capital investment carried at cost had suffered impairment that was considered other-than-temporary. The cost basis of the investment was written down by \$37,000 and \$99,000 in 2012 and 2011, respectively, to fair value as a new cost basis and the write down was accounted for as a realized loss and was included in earnings. A number of factors or combinations of factors could cause us to conclude in one or more future reporting periods that an unrealized loss that exists with respect to these securities constitutes an impairment that is other-than-temporary. These factors include, but are not limited to, changes in the expected cash flows, failure to make scheduled interest payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and/or industry or issuer specific factors that would render us unable to forecast a full recovery in value. An other-than-temporary impairment write-down would reduce our earnings.

## **Table of Contents**

### **Regulatory Reform May Have a Material Impact on Our Operations.**

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) was passed, which imposes significant regulatory and compliance changes. The key effects of the Dodd-Frank Act on our business are:

changes to regulatory capital requirements;

creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which oversees systemic risk, and the Consumer Financial Protection Bureau, which develops and enforces rules for bank and non-bank providers of consumer financial products);

potential limitations on federal preemption;

changes to deposit insurance assessments;

regulation of debit interchange fees we earn;

changes in retail banking regulations, including potential limitations on certain fees we may charge; and

changes in regulation of consumer mortgage loan origination and risk retention.

In addition, the Dodd-Frank Act restricts the ability of banks to engage in certain proprietary trading or to sponsor or invest in private equity or hedge funds. The Dodd-Frank Act also contains provisions designed to limit the ability of insured depository institutions, their holding companies and their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments.

Some provisions of the Dodd-Frank Act became effective immediately upon its enactment. Many provisions, however, will require regulations to be promulgated by various federal agencies to be implemented, some but not all of which have been proposed or finalized by the applicable federal agencies. The provisions of the Dodd-Frank Act may have unintended effects, which will not be clear until after implementation. Certain changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to investors in our common stock.

### **We Operate in a Highly Regulated Environment and We May be Adversely Affected by Changes in Laws and Regulations.**

We are subject to extensive regulation, supervision and examination by the Federal Reserve Board and the Office of the Comptroller of the Currency, our primary federal regulators, and the Federal Deposit Insurance Corporation, as insurer of its deposits. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and the depositors and borrowers of the Bank rather than for holders of our common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.



## **Table of Contents**

### **Strong Competition Within Our Market Area May Limit Our Growth and Profitability.**

We face intense competition in making loans and attracting deposits. In our market area, we compete with commercial banks, savings and cooperative institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. The competition has made it more difficult for us to make new loans and at times has forced us to offer higher deposit rates. Price competition for loan and deposits might result in us earning less on our loans and paying more on our deposits, which could reduce net interest income. Some of our competitors have substantially greater resources and lending limits than we have, have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do. Our profitability depends upon our continued ability to successfully compete in our market area. The greater resources and deposit and loan products offered by some of our competitors may limit our ability to increase our interest-earning assets.

### **Our Wholesale Funding Sources May Prove Insufficient to Replace Deposits at Maturity and Support Our Future Growth.**

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. As we continue to grow, we are likely to become more dependent on these sources, which include Federal Home Loan Bank advances, borrowings from the Federal Reserve Bank, reverse repurchase agreements, brokered CDs and proceeds from the sale of loans and securities and liquidity resources of the holding company. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

### **If The Goodwill That We Recorded In Connection With A Business Acquisition Becomes Impaired, It Could Have A Negative Impact On Our Profitability.**

Goodwill represents the amount of acquisition cost over the fair value of net assets we acquired in the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value of the asset might be impaired. We determine impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. At December 31, 2013, our goodwill totaled \$41.0 million. While we have recorded no such impairment charges since we initially recorded the goodwill, our future evaluations of goodwill may result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

### **The Building Of Market Share Through The Creation Of New Branches Or Loan Production Offices Could Cause Our Expenses To Increase Faster Than Revenues.**

We have opened two loan production offices and a new branch office in the past two years. We may continue to build market share in our primary market areas by opening new branches or loan production offices. There are considerable costs involved in opening branches and new branches generally require a period of time to generate sufficient revenues to offset their costs, especially in areas in which we do not have an established presence. Accordingly, any new branch or loan production office can be expected to negatively impact our earnings for some period of time until the branch or loan production office reaches certain economies of scale. We have no assurance any new branches or loan production offices will be successful even after they have been established.



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**Table of Contents**

**Our Estimates Of Discounts On Acquired Loans With Deteriorated Credit Quality May Be Insufficient.**

Under generally accepted principles for business combinations, there is no loan loss allowance recorded for acquired loans, which are recorded at net fair value on the acquisition date. This net fair value generally includes embedded loss estimates for acquired loans with deteriorated credit quality. These estimates are based on projections of expected cash flows for these problem loans. If the projections are incorrect, the fair value estimates may exceed the actual collectability of the balances, and this may result in the related loans being considered impaired.

**The Geographic Concentration of Our Markets In Massachusetts and Connecticut Makes Our Business Highly Susceptible To Downturns In These Local Economies and Depressed Banking Markets, Which Could Materially and Adversely Affect Us.**

Unlike larger financial institutions that are more geographically diversified, we are a regional banking franchise concentrated in certain markets in Massachusetts and Connecticut. Our success depends significantly on growth in population, income levels, deposits and housing starts in the geographic markets in which we operate. The local economic conditions in these areas have a significant impact on our commercial, real estate and construction loans, the ability of borrowers to repay these loans, and the value of the collateral securing these loans. Adverse changes in, and further deterioration of, the economic conditions in the markets in which we operate in Massachusetts and Connecticut could negatively affect our financial condition, results of operations and profitability. A continuing deterioration in economic conditions could result in the following consequences, any of which could have a material adverse effect on our business:

loan delinquencies may increase;

problem assets and foreclosures may increase;

demand for our products and services may decline; and

collateral for loans that we make may decline in value, in turn reducing a customer's borrowing power, and reducing the value of assets and collateral associated with the our loans.

**We Are Dependent On Our Information Technology and Telecommunications Systems and Third-Party Servicers, and Systems Failures, Interruptions or Breaches of Security Could Have An Adverse Effect on Our Financial Condition and Results of Operations.**

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. We outsource many of our major systems, such as data processing, loan servicing and deposit processing. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process new and renewal loans, gather deposits and provide customer service, compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

In addition, we provide our customers the ability to bank remotely, including online over the Internet. The secure transmission of confidential information is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches. We may be required to spend significant resources to protect

**Table of Contents**

against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. Further, we outsource some of the data processing functions used for remote banking, and accordingly we are dependent on the expertise and performance of our third-party providers. To the extent that our activities, the activities of our customers, or the activities of our third-party service providers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation, results of operations and ability to attract and maintain customers and businesses. In addition, a security breach could also subject us to additional regulatory scrutiny, expose us to civil litigation and possible financial liability and cause reputational damage.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

The Company conducts its business through its executive office at 95 Elm Street, West Springfield, Massachusetts, its 35 full-service branch offices, two loan production offices, two financial services facilities, and two drive-up express branches. Of the 35 full-service branch offices, 14 are owned and 21 are leased, both of the loan production offices are leased, one of the financial services facilities is owned and one is leased, and one of the drive-up branches is owned and one is leased. The Company also has three remote ATM locations, two of which are leased. Lease expiration dates range from 2014 to 2034 with renewal options ranging from five to ten years. *See Note F in the Company's Consolidated Financial Statements for more information.*

**Table of Contents****ITEM 3. LEGAL PROCEEDINGS**

United Bank, as successor in interest to Commonwealth National Bank, is involved in litigation relating to its foreclosure on a certain loan property. The litigants claim that Commonwealth National Bank acted in bad faith and in violation of applicable law and that its actions resulted in a sale of the underlying property for less than its market value, thereby causing damage to the parties. A trial was held in the third quarter of 2011 and the judge ruled in United Bank's favor. The litigants have appealed the decision. United Bank believes these claims and the appeal are without merit and is vigorously defending the litigation. No estimate of any reasonably possible loss or range of loss to United Bank can be made at this time.

In addition, the Company and its subsidiary are subject to various legal actions arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a) Our shares of common stock are traded on the Nasdaq Global Select Market under the symbol UBNK. The approximate number of holders of record of United Financial Bancorp, Inc.'s common stock as of March 5, 2014 was 3,698. Certain shares of the Company are held in nominee or street name; accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

The following table presents quarterly market information and dividends declared for the common stock of the Company for the years ended December 31, 2013 and 2012. The high and low sales prices for the quarterly periods noted below were obtained from the NASDAQ Global Select Market.

	Price Per Share		Cash Dividend Declared
	High	Low	
<b>2013</b>			
Fourth quarter	\$ 20.47	\$ 15.60	\$ 0.11
Third quarter	17.00	15.24	0.11
Second quarter	16.47	14.25	0.11
First quarter	16.32	14.44	0.10
<b>2012</b>			
Fourth quarter	\$ 15.75	\$ 14.13	\$ 0.10
Third quarter	14.93	13.73	0.10
Second quarter	16.88	13.36	0.09
First quarter	16.93	15.10	0.09

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on the common stock for the period beginning on December 31, 2008 through December 31, 2013, (b) the cumulative total return on stocks included in the SNL Thrift Index over such period and (c) the cumulative total return on stocks included in the Russell 2000 Index over such period. The stock performance graph is being furnished solely to accompany this report pursuant to Item 201(e) of Regulation S-K, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into

**Table of Contents**

any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

The cumulative total return on the common stock was computed assuming the reinvestment of cash dividends during the period and is expressed in dollars based on an assumed initial investment of \$100.

Under the agreement and plan of merger between the Company and Rockville Financial, Inc., the Company is prohibited from paying any dividends on its capital stock, except for regular quarterly cash dividends at a rate of no more than \$0.11 per share. Future dividends depend upon earnings, financial condition, appropriate legal restrictions and other factors in existence at the time the Board of Directors considers a dividend declaration. In addition, future dividends are dependent primarily on cash flows from the investment portfolio, and dividends or capital distributions from United Bank.

For a discussion of United Bank's ability to pay dividends, see Part I Item 1. Business Supervision and Regulation Federal Banking Regulation and Holding Company Regulation.

(b) Not Applicable.

**Table of Contents**

(c) The following table provides certain information with regard to shares repurchased by the Company in the fourth quarter of 2013.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>(1, 2)</sup>
October 1 - 31, 2013	-	\$ -	-	1,222,337
November 1 - 30, 2013	639 <sup>(3)</sup>	17.04	-	1,222,337
December 1 - 31, 2013	3,428 <sup>(3)</sup>	19.73	-	1,222,337
Total	4,067	\$ 19.31	-	

- (1) On October 18, 2012, the Board of Directors approved a plan to repurchase up to 5%, or approximately 769,000 shares, of the Company's common stock. Under the plan, the Company intends to repurchase shares from time to time, depending on market conditions until it is completed. As of September 30, 2013, the Company has repurchased 516,663 shares at a cost of approximately \$7.7 million and an average price of \$14.88 per share, under this plan.
- (2) On August 15, 2013, the Board of Directors approved a plan to repurchase up to 5%, or approximately 970,000 shares, of the Company's common stock. This repurchase program will commence immediately upon completion of the previous plan approved on October 18, 2012, under which the Company intends to repurchase shares from time to time, depending on market conditions until it is completed.
- (3) Represents withholdings subject to restricted stock awards under the United Financial Bancorp, Inc. 2008 Equity Incentive Plan as payment of taxes due upon the vesting of the restricted stock awards.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The summary financial information presented below is derived in part from the consolidated financial statements of the Company. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes beginning on page F-1. The information at December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 is derived in part from the audited consolidated financial statements of the Company that appear in this Annual Report on Form 10-K. The information for the years ended December 31, 2010 and 2009 is derived in part from audited consolidated financial statements that do not appear in this Annual Report on Form 10-K.

	2013	2012	At December 31, 2011 (In thousands)	2010	2009
<b>Selected Financial Condition Data:</b>					
Total assets	\$ 2,481,843	\$ 2,402,303	\$ 1,623,752	\$ 1,584,877	\$ 1,541,040
Cash and cash equivalents	47,241	30,679	61,518	83,069	21,877
Short-term investments	-	-	-	-	1,096
Investment securities available-for-sale	264,629	294,322	221,813	205,852	243,304
Investment securities held-to-maturity	111,185	82,986	115,897	132,475	63,174
Loans, net (1)	1,871,066	1,807,401	1,112,941	1,066,197	1,115,416
Deposits	1,946,484	1,848,175	1,229,975	1,143,301	1,038,927
FHLB advances	139,663	141,525	106,417	153,307	208,173
Repurchase agreements	61,555	69,229	37,260	41,029	47,303
Subordinated debentures	5,959	9,630	5,539	5,448	5,357
Stockholders equity	302,779	307,189	227,361	222,576	225,246
Non-performing assets (2)	18,535	17,340	10,577	10,970	17,832

	2013	2012	2011	2010	2009
	Years Ended December 31, (Dollars in thousands, except per share amounts)				
<b>Selected Operating Data:</b>					
Interest and dividend income	\$ 94,293	\$ 71,171	\$ 71,074	\$ 73,858	\$ 62,986
Interest expense	15,403	14,992	18,261	20,947	21,986
Net interest income before provision for loan losses	78,890	56,179	52,813	52,911	41,000
Provision for loan losses	4,092	3,139	3,242	2,285	2,998
Net interest income after provision for loan losses	74,798	53,040	49,571	50,626	38,002
Non-interest income	12,028	10,623	9,353	8,716	8,676
Non-interest expense	62,962	56,240	44,062	43,841	36,858
Income before taxes	23,864	7,423	14,862	15,501	9,820
Income tax expense	6,462	3,795	3,678	5,469	4,014
Net income	\$ 17,402 <sup>(3)</sup>	\$ 3,628 <sup>(4)</sup>	\$ 11,184	\$ 10,032 <sup>(5)</sup>	\$ 5,806 <sup>(5)</sup>
Basic earnings per share	\$ 0.88	\$ 0.24	\$ 0.75	\$ 0.66	\$ 0.38
Diluted earnings per share	\$ 0.87	\$ 0.24	\$ 0.74	\$ 0.65	\$ 0.38
Dividends per share	\$ 0.43	\$ 0.38	\$ 0.34	\$ 0.30	\$ 0.28
Number of shares outstanding					
Basic	19,779,667	15,234,896	14,929,714	15,302,505	15,265,192
Diluted	20,073,219	15,421,777	15,198,702	15,394,761	15,273,375



**Table of Contents**

	At or For the Years Ended December 31,				
	2013	2012	2011	2010	2009
<b>Selected Financial Ratios and Other Data:</b>					
<b>Performance Ratios (6):</b>					
Return on average assets	0.71% <sup>(7)</sup>	0.21% <sup>(8)</sup>	0.70%	0.65% <sup>(9)</sup>	0.46% <sup>(9)</sup>
Return on average equity	5.72% <sup>(7)</sup>	1.52% <sup>(8)</sup>	4.94%	4.49% <sup>(9)</sup>	2.67% <sup>(9)</sup>
Average equity to average assets	12.49%	13.70%	14.15%	14.56%	17.17%
Tangible equity to tangible assets at end of period (6)	10.58% <sup>(10)</sup>	11.12% <sup>(10)</sup>	13.53% <sup>(10)</sup>	13.54% <sup>(10)</sup>	14.13% <sup>(10)</sup>
Interest rate spread (11)	3.32%	3.18%	3.17%	3.25%	2.83%
Net interest margin (12)	3.50%	3.45%	3.51%	3.65%	3.39%
Average interest-earning assets to average interest-bearing liabilities	125.86%	129.12%	128.20%	127.83%	130.87%
Total non-interest expense to average total assets	2.59% <sup>(13)</sup>	3.22% <sup>(14)</sup>	2.75%	2.85% <sup>(15)</sup>	2.91% <sup>(15)</sup>
Efficiency ratio (16)	69.59% <sup>(13)</sup>	85.08% <sup>(14)</sup>	71.08%	71.42% <sup>(15)</sup>	75.45% <sup>(15)</sup>
Dividend payout ratio	48.82%	152.18%	45.31%	45.74%	72.99%
<b>Regulatory Capital Ratios (6, 17):</b>					
Tier I risk-based capital	12.43%	12.98%	16.17%	15.49%	15.73%
Tier I (core) capital	10.27%	10.69%	12.23%	11.53%	12.14%
Tangible Equity Ratio	10.27%	10.69%	12.23%	11.53%	12.14%
Total risk-based capital	13.09%	13.61%	17.09%	16.34%	16.53%
<b>Asset Quality Ratios (6):</b>					
Non-performing assets as a percent of total assets (2)	0.75%	0.72%	0.65%	0.69%	1.16%
Non-performing loans as a percent of total loans (2)	0.85%	0.81%	0.75%	0.88%	1.45%
Allowance for loan losses as a percent of total loans	0.71% <sup>(18)</sup>	0.67% <sup>(18)</sup>	0.99% <sup>(18)</sup>	0.93% <sup>(18)</sup>	0.82% <sup>(18)</sup>
Allowance for loan losses as a percent of non-performing loans (2)	83.75% <sup>(19)</sup>	82.18% <sup>(19)</sup>	131.68%	105.86% <sup>(19)</sup>	56.36% <sup>(19)</sup>
<b>Number of full service customer facilities</b>	35	38	22	22	22

- (1) The allowance for loan losses at December 31, 2013, 2012, 2011, 2010 and 2009 was \$13.4 million, \$12.1 million, \$11.1 million, \$10.0 million and \$9.2 million, respectively.
- (2) Non-performing assets consist of non-performing loans, foreclosed other real estate owned ( OREO ) and other non-performing assets. Non-performing loans consist of non-accrual and accruing loans 90 days or more overdue, while OREO consists of real estate acquired through foreclosure and real estate acquired by acceptance of a deed-in-lieu of foreclosure.
- (3) Exclusive of the \$987,000 branch closing costs, \$879,000 merger-related expenses, \$227,000 net gains on sale of securities, a \$206,000 gain related to an investment in a venture capital fund accounted for on a cash basis and the related \$386,000 net tax benefit of these items for the year ended December 31, 2013, net income would have been \$18.4 million. \*
- (4) Exclusive of the \$5.0 million merger-related expenses, \$4.5 million ESOP plan termination expense, \$207,000 in FHLBB prepayment penalties, the \$202,000 other-than-temporary impairment charge and the \$660,000 income tax effect of these expense items for the year ended December 31, 2012, net income would have been \$12.8 million. \*
- (5) Exclusive of the \$819,000 and \$2.5 million (after tax) in merger-related expenses for the years ended December 31, 2010 and 2009, respectively, and a \$318,000 (after tax) special FDIC insurance assessment for the year ended December 31, 2009, net income would have been \$10.9 million and \$8.7 million, respectively. \*
- (6) Asset Quality Ratios and Regulatory Capital Ratios and the tangible equity to tangible assets ratio are end-of-period ratios. With the exception of end-of-period ratios, all ratios are based on average monthly balances during the indicated periods and are annualized where appropriate. Tangible equity, and



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measures that refer to tangible equity, are non-GAAP financial measures. They are used by investors as an alternate measure of capital strength. Many regulatory capital measures also adjust equity to exclude goodwill and most intangible assets.

**Table of Contents**

- (7) Exclusive of the \$987,000 branch closing costs, \$879,000 merger-related expenses, \$227,000 net gains on sale of securities, a \$206,000 gain related to an investment in a venture capital fund accounted for on a cash basis and the related \$386,000 net tax benefit of these items for the year ended December 31, 2013, the return on average assets would have been 0.76% and the return on average equity would have been 6.07%, respectively. \*
- (8) Exclusive of the \$5.0 million merger-related expenses, \$4.5 million ESOP plan termination expense, \$207,000 in FHLBB prepayment penalties, the \$202,000 other-than-temporary impairment charge and the \$660,000 income tax effect of these expense items for the year ended December 31, 2012, the return on average assets would have been 0.73% and the return on average equity would have been 5.34%, respectively. \*
- (9) Exclusive of the \$819,000 and \$2.5 million (after tax) in acquisition related expenses for the years ended December 31, 2010 and 2009, respectively, and a \$318,000 (after tax) special FDIC insurance assessment for the year ended December 31, 2009, the return on average assets would have been 0.71% and 0.68% and average equity would have been 4.85% and 3.97%, respectively. \*
- (10) Excludes the impact of goodwill and other intangible assets of \$45.0 million at December 31, 2013, \$44.4 million at December 31, 2012, \$8.9 million at December 31, 2011, \$9.2 million at December 31, 2010 and \$8.8 million at December 31, 2009.
- (11) The interest rate spread represents the difference between weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities.
- (12) The net interest margin represents net interest income as a percent of average interest-earning assets.
- (13) Exclusive of the \$987,000 branch closing costs and \$879,000 merger-related expenses for the year ended December 31, 2013, non-interest expense to average total assets would have been 2.51% and the efficiency ratio would have been 67.68%. \*
- (14) Exclusive of the \$5.0 million merger-related expenses, \$4.5 million ESOP plan termination expense, \$207,000 in FHLBB prepayment penalties for the year ended December 31, 2012, non-interest expense to average total assets would have been 2.67% and the efficiency ratio would have been 70.49%. \*
- (15) Exclusive of the \$1.1 million and \$2.9 million in acquisition-related expenses for the years ended December 31, 2010 and 2009, respectively, and a \$538,000 special FDIC insurance assessment for the year ended December 31, 2009, non-interest expense to average total assets would have been 2.78% and 2.64% and the efficiency ratio would have been 69.55% and 68.49%, respectively. \*
- (16) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income and excludes gains/losses on sales of securities and loans and impairment charges on securities.
- (17) Regulatory Capital Ratios are reported for United Bank only.
- (18) Exclusive of the \$523.9 million, \$659.6 million, \$148.9 million, \$209.8 million and \$242.9 million in loans acquired and \$4.6 million, \$5.0 million, \$19.1 million, \$21.4 million and \$22.7 million in loans purchased from other financial institutions, allowance for loan losses as a percent of total loans would have been 0.99%, 1.05%, 1.17%, 1.18% and 1.07% at December 31, 2013, 2012, 2011, 2010 and 2009, respectively. \*
- (19) Excluding the \$7.4 million, \$7.0 million, \$163,000 and \$3.3 million in non-performing loans acquired, allowance for loan losses as a percent of non-performing loans would have been 155.33%, 157.72%, 107.72% and 70.44% at December 31, 2013, 2012, 2010 and 2009, respectively. \*

\* These are non-GAAP financial measures presented for comparative purposes only. They are not a substitute for GAAP measures and should only be considered in conjunction with the Company's GAAP financial information. These non-GAAP financial measures provide investors with more detailed information that is useful in understanding our financial performance and condition.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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This discussion and analysis reflects our consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the audited consolidated financial statements, which appear beginning on page F-1 of this Annual Report. You should read the information in this section in conjunction with the business and financial information regarding the Company provided in this Annual Report on Form 10-K.

### **Overview**

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities (including mortgage-backed securities, other securities and corporate and municipal bonds) and other interest-earning assets (primarily Federal Home Loan Bank stock and cash and cash equivalents), and the interest paid on our interest-bearing liabilities, consisting primarily of savings accounts, money market accounts, transaction accounts, certificates of deposit and Federal Home Loan Bank advances.

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## **Table of Contents**

Our results of operations are also affected by our provision for loan losses, non-interest income and non-interest expense. Non-interest income consists primarily of deposit account fees, wealth management income, increases in cash value of bank-owned life insurance, gains and losses on the sales of loans and of securities, impairment charges for securities and miscellaneous other income. Non-interest expense consists primarily of compensation and employee benefits, data processing, occupancy, marketing and public relations, professional services, printing and office supplies, acquisition related costs and other operating expenses. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

### **Critical Accounting Policies**

The SEC defines critical accounting policies as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. The Company's significant accounting policies are described in Note 1 to the consolidated financial statements. Please see those policies in conjunction with this discussion. Management believes that the following policies would be considered critical under the SEC's definition:

***Allowance for Loan Losses.*** The allowance for loan losses is the amount estimated by management as necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged against income. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in adjustments to the amount of the recorded allowance for loan losses.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, prior loss experience, current economic conditions, trends in nonperforming loans and delinquency rates, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDRs are initially classified as impaired.

The allowance consists of specific, general and unallocated components, as further described below.

**Specific component.** The specific component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for the commercial segment (commercial and industrial, commercial real estate and construction) by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. A specific allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of the loan. Groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual loans in the consumer segment (residential real estate, home equity and consumer loans) for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

## **Table of Contents**

The Company has established a Business Banking unit within its Commercial Lending Department. The portfolio is made up of both commercial and industrial loans less than \$250,000 and commercial real estate loans less than \$500,000 which are managed by exception. This grouping of loans is considered a homogenous pool of loans and collectively evaluated for impairment. Accordingly, the Company does not separately identify individual loans within this unit for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

**General component.** The general component is based on historical loss experience adjusted for qualitative factors stratified by each of the loan classes: commercial and industrial, commercial real estate, construction, residential real estate, home equity and consumer. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each loan class. This historical loss factor for each loan class is adjusted for the following qualitative factors: the levels/trends in delinquencies and nonaccruals; levels and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience, ability and depth of lending management and staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. This analysis establishes factors that are applied to each loan class to determine the amount of the general component of the allowance for loan losses. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2013.

**Unallocated component.** An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

**Reserve for Unfunded Commitments.** The Company also maintains a reserve for unfunded credit commitments to provide for the risk of loss inherent in these arrangements. The reserve is determined using a methodology similar to the analysis of the allowance for loan losses, taking into consideration probabilities of future funding requirements. The reserve for unfunded commitments is included in other liabilities and was \$142,000 and \$213,000 at December 31, 2013 and 2012, respectively.

**Evaluation of the Investment Portfolio for Other-Than-Temporary Impairment.** The evaluation of the investment portfolio for other-than-temporary impairment is also a critical accounting estimate. On a quarterly basis, we review securities with a decline in fair value below the amortized cost of the investment to determine whether the decline in fair value is temporary or other-than-temporary. Declines in the fair value of marketable equity securities below their cost that are deemed to be other-than-temporary based on the severity and duration of the impairment are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses for held to maturity and available for sale debt securities, impairment is required to be recognized if (1) we intend to sell the security; (2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired held to maturity and available for sale securities that we intend to sell, or more likely than not will be required to sell, the full amount of the other-than-temporary impairment is recognized through earnings. For all other impaired held to maturity or available for sale securities, credit-related other-than-temporary impairment is recognized through earnings, while non-credit related other-than-temporary impairment is recognized in other comprehensive income, net of applicable taxes.

**Income Taxes.** The Company uses the asset and liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of the Company's asset and liabilities. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years' taxable income, to which carry back refund claims could be made. A valuation allowance is maintained for deferred tax assets that management estimates are more likely than not to be unrealizable based on available evidence at the time the estimate is made. Significant management judgment is required in determining income tax expense and deferred

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**Table of Contents**

tax assets and liabilities. In determining the valuation allowance, the Company uses historical and forecasted future operating results, based upon approved business plans, including a review of the eligible carryforward periods, tax planning opportunities and other relevant considerations. These underlying assumptions can change from period to period. For example, tax law changes or variances in future projected operating performance could result in a change in the valuation allowance. Should actual factors and conditions differ materially from those considered by management, the actual realization of the net deferred tax asset could differ materially from the amounts recorded in the financial statements. If the Company is not able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset valuation allowance would be charged to income tax expense in the period such determination was made.

***Goodwill and Identifiable Intangible Assets.*** Goodwill and identifiable intangible assets are recorded as a result of business acquisitions and combinations. These assets are evaluated for impairment annually or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. If the carrying amount exceeds fair value, an impairment charge is recorded to income. The fair value is based on observable market prices, when practicable. Other valuation techniques may be used when market prices are unavailable, including estimated discounted cash flows and market multiples analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. In the event of future changes in fair value, the Company may be exposed to an impairment charge that could be material.

***Fair Valuation of Financial Instruments.*** The Company uses fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Trading assets, securities available for sale, and derivative instruments are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, or to establish a loss allowance or write-down based on the fair value of impaired assets. Further, the notes to financial statements include information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. Additionally, for financial instruments not recorded at fair value, the notes to financial statements disclose the estimate of their fair value. Due to the judgments and uncertainties involved in the estimation process, the estimates could result in materially different results under different assumptions and conditions.

**Comparison of Financial Condition at December 31, 2013 and 2012**

***Balance Sheet Summary.*** Total assets increased \$79.5 million, or 3.3%, to \$2.48 billion at December 31, 2013 from \$2.40 billion at December 31, 2012 due to growth in net loans, held to maturity investment securities and interest-bearing deposits, partially offset by a decrease in securities available for sale. Net loans increased \$63.7 million, or 3.5%, to \$1.87 billion at December 31, 2013 from \$1.81 billion at December 31, 2012 due to origination activity, partially offset by normal amortization and repayments. Held to maturity investment securities increased \$28.2 million, or 34.0%, to \$111.2 million at December 31, 2013 from \$83.0 million at December 31, 2012 due to purchases totaling \$51.2 million primarily of government-sponsored mortgage-backed securities and industrial revenue bonds, partially offset by maturities, calls and repayments of government-sponsored agency debt and mortgage-backed securities of \$22.2 million. Interest-bearing deposits increased \$19.0 million reflecting an increase in cash balances at the Federal Reserve Bank. Securities available for sale decreased \$29.7 million, or 10.1%, due to calls, maturities and repayments of mortgage-backed securities partially offset by purchases of securities available for sale. At year end, the Company continued to have considerable liquidity consisting of a large amount of marketable loans and investment securities, substantial unused borrowing capacity at the Federal Home Loan Bank and the Federal Reserve Bank and access to funding through the repurchase agreement and brokered deposit markets. The Company's balance sheet is also supported by a strong capital position, with total stockholders' equity of \$302.8 million, or 12.2% of total assets, at December 31, 2013.

***Loans.*** Net loans increased \$63.7 million, or 3.5%, to \$1.87 billion at December 31, 2013 from \$1.81 billion at December 31, 2012. Commercial real estate loans increased \$47.9 million, or 5.9%, to \$862.6 million,

**Table of Contents**

primarily attributable to business development efforts and competitive products and pricing. One- to four-family residential mortgage loans increased \$24.7 million, or 5.6%, to \$466.6 million due to originations of 10- and 15-year loans as a result of promotional efforts and continued lower market interest rates, partially offset by payments and sales of 30-year fixed rate loan originations. Construction loans increased \$10.0 million, or 19.0%, to \$62.8 million, due to successful business development efforts, including relationships with successful developers, and improving real estate markets in Massachusetts and Connecticut. A significant portion of these loans mature in less than a year and will either convert to permanent financing or pay-off in full. Commercial and industrial loans decreased \$13.1 million, or 4.3%, to \$293.1 million due to repayments offset by new loan originations. We continued to focus our efforts on growing the commercial real estate and commercial and industrial loan portfolios in order to increase our interest income and improve our net interest rate spread.

**Asset Quality.** Throughout 2013, economic conditions improved modestly despite the effects of sequestration and the government shutdown. Our asset quality has also been impacted by a strategy adopted several years ago to emphasize the origination of commercial and industrial loans and commercial mortgages. These loans have increased as a percentage of our total loan portfolio in recent years and generally have more risk than one- to four-family residential mortgage loans. Because the repayment of commercial and industrial loans and commercial mortgages depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the real estate market or the local economy.

As a result of the NEBS acquisition, we experienced an increase in non-performing loans and classified assets in 2012 which continue to be somewhat elevated as compared to historic periods. Non-performing loans increased \$1.3 million to \$16.0 million, or 0.85% of total loans, at December 31, 2013 as compared to \$14.7 million, or 0.81% of total loans, at December 31, 2012, primarily as a result of the NEBS acquisition and continued migration of delinquent loans, primarily commercial real estate loans. Including non-performing loans, the Company has identified \$87.7 million of classified assets at December 31, 2013 compared to \$95.5 million at December 31, 2012. The decrease of \$7.8 million in classified assets is due, in large part, to active efforts to exit marginal credits as well as the upgrade of credits which have exhibited improvement. Classified assets include loans that are performing or non-performing, are of lesser quality and are reported as special mention, substandard, doubtful or loss, as well as other real estate owned. At December 31, 2013 and 2012, classified loans primarily consisted of special mention and substandard commercial business loans and commercial mortgages. Commercial real estate loans make up 56.9% of total classified assets while construction loans for single family homes, subdivisions, and condominium developments represent 5.8%. Other real estate owned totaled \$2.5 million at December 31, 2013 and comprises twelve properties, of which seven are residential properties, three are commercial and two are manufactured homes. Management cannot predict the extent to which economic conditions may worsen or other factors may impact borrowers and the classified assets. Accordingly, additional loans may become 90 days or more past due, be placed on nonaccrual status, become classified or restructured, or require increased allowance coverage and provision for loan losses.

**Deposits.** Total deposits increased \$98.3 million, or 5.3%, to \$1.95 billion at December 31, 2013 from \$1.85 billion at December 31, 2012, primarily due to growth in core deposits accounts of \$71.7 million, or 6.3%, to \$1.21 billion at December 31, 2013 from \$1.14 billion at December 31, 2012. The growth in core deposit account balances was driven by competitive products and pricing, attention to excellence in customer service and targeted promotional activities. Certificates of deposit increased by \$26.6 million, or 3.8%, to \$734.0 million at December 31, 2012 compared to \$707.4 million at December 31, 2012 mainly as a result of the issuance of \$20.0 million in brokered CDs with a weighted average rate of 1.28% and a weighted average maturity of 3.7 years.

**FHLB Advances.** FHLB advances decreased \$1.9 million, or 1.3%, to \$139.7 million at December 31, 2013 as additional advances used to fund loan originations were more than offset by paydowns.

**Repurchase Agreements.** Repurchase agreements decreased \$7.6 million, or 15.6%, to \$41.6 million at December 31, 2013 from \$49.2 million at December 31, 2012 due to a decrease in overnight customer repurchase agreements.

**Table of Contents**

**Total Stockholders Equity.** Total stockholders equity decreased \$4.4 million, or 1.4%, to \$302.8 million at December 31, 2013 from \$307.2 million at December 31, 2012 primarily due to cash dividends paid of \$8.5 million, common stock repurchases of \$7.3 million and other comprehensive loss of \$6.5 million partially offset by net income of \$17.4 million.

**Comparison of Operating Results for the Years Ended December 31, 2013 and 2012**

**Net Income.** Net income for the year ended December 31, 2013 totaled \$17.4 million, or \$0.87 per diluted share, compared to net income of \$3.6 million, or \$0.24 per diluted share, for the same period in 2012. Excluding branch closing costs totaling \$987,000, merger-related expenses of \$879,000, net gains from sales of securities totaling \$227,000, a \$206,000 gain related to an investment in a venture capital fund accounted for on a cash basis and the related net tax benefit of \$387,000, net income would have been \$18.4 million, or \$0.92 per diluted share, for the year ended December 31, 2013. Excluding merger-related expenses of \$5.0 million, a \$4.5 million ESOP plan termination expense, FHLB advance prepayment penalties totaling \$227,000, impairment charges on securities of \$202,000 and the related tax benefit of \$660,000, net income would have been \$12.8 million, or \$0.83 per diluted share for the year ended December 31, 2012.



**Table of Contents**

**Average Balances and Yields.** The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. Loan fees are not included in interest income amounts. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield.

	Years Ended December 31,					
	Average Balance	2013 Interest and Dividends	Yield/ Cost (Dollars in thousands)	Average Balance	2012 Interest and Dividends	Yield/ Cost
<b>Interest-earning assets:</b>						
Loans:						
Residential real estate (1)	\$ 453,511	\$ 17,067	3.76%	\$ 331,143	\$ 14,926	4.51%
Commercial real estate	904,669	45,567	5.04%	551,980	29,717	5.38%
Home equity loans	179,115	6,086	3.40%	144,411	5,152	3.57%
Commercial and industrial	305,046	15,189	4.98%	203,667	9,781	4.80%
Consumer and other	19,977	1,114	5.58%	15,206	825	5.43%
Total loans (2)	1,862,318	85,023	4.57%	1,246,407	60,401	4.85%
Investment securities	361,324	9,168	2.54%	341,868	10,544	3.08%
Other interest-earning assets	31,658	102	0.32%	39,816	226	0.57%
Total interest-earning assets	2,255,300	94,293	4.18%	1,628,091	71,171	4.37%
Noninterest-earning assets (3)	179,243			116,252		
Total assets	\$ 2,434,543			\$ 1,744,343		
<b>Interest-bearing liabilities:</b>						
Savings accounts	\$ 343,452	1,196	0.35%	\$ 270,349	1,328	0.49%
Money market accounts	430,459	1,603	0.37%	316,228	1,501	0.47%
NOW accounts	81,758	277	0.34%	57,780	204	0.35%
Certificates of deposit	730,907	8,320	1.14%	451,991	7,433	1.64%
Total interest-bearing deposits	1,586,576	11,396	0.72%	1,096,348	10,466	0.95%
FHLB advances	129,936	2,859	2.20%	108,818	3,360	3.09%
Other interest-bearing liabilities	75,342	1,148	1.52%	55,732	1,166	2.09%
Total interest-bearing liabilities	1,791,854	15,403	0.86%	1,260,898	14,992	1.19%
Demand deposits	322,207			232,569		
Other noninterest-bearing liabilities	16,490			11,865		
Total liabilities	2,130,551			1,505,332		
Stockholders equity	303,992			239,011		
Total liabilities and stockholders equity	\$ 2,434,543			\$ 1,744,343		
Net interest income		\$ 78,890			\$ 56,179	
Interest rate spread (4)			3.32%			3.18%
Net interest-earning assets (5)	\$ 463,446			\$ 367,193		
Net interest margin (6)			3.50%			3.45%
			125.86%			129.12%

Average interest-earning assets to average  
interest-bearing liabilities

- (1) Includes loans held for sale.
- (2) Loans, including non-accrual loans, are net of deferred loan origination costs and advanced funds.
- (3) Includes bank-owned life insurance, the income on which is classified as non-interest income.
- (4) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (6) Net interest margin represents net interest income divided by average total interest-earning assets.

**Table of Contents**

**Rate/Volume Analysis.** The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Years Ended December 31, 2013 vs. 2012		Net
	Increase (Decrease) Due to Volume	Rate (In thousands)	
<b>Interest-earning assets:</b>			
Loans:			
Residential real estate (1)	\$ 4,886	\$ (2,745)	\$ 2,141
Commercial real estate	17,877	(2,027)	15,850
Home equity loans	1,189	(255)	934
Commercial and industrial	5,036	372	5,408
Consumer and other	265	24	289
Total loans	29,253	(4,631)	24,622
Investment securities	574	(1,950)	(1,376)
Other interest-earning assets	(40)	(84)	(124)
Total interest-earning assets	29,787	(6,665)	23,122
<b>Interest-bearing liabilities:</b>			
Savings accounts	308	(440)	(132)
Money market accounts	469	(367)	102
NOW accounts	82	(9)	73
Certificates of deposit	3,645	(2,758)	887
Total interest-bearing deposits	4,504	(3,574)	930
FHLB advances	577	(1,078)	(501)
Other interest-bearing liabilities	347	(365)	(18)
Total interest-bearing liabilities	5,428	(5,017)	411
Change in net interest income	\$ 24,359	\$ (1,648)	\$ 22,711

(1) Includes loans held for sale.

**Net Interest Income Before Provision for Loan Losses.** Net interest income before provision for loan losses increased \$22.7 million, or 40.4%, to \$78.9 million for the year ended December 31, 2013 from \$56.2 million for 2012 as a result of growth in average interest-earning assets and net interest margin expansion. Total average interest-earning assets increased \$627.2 million, or 38.5%, to \$2.26 billion for the year ended December 31, 2013, driven by the acquisition of NEBS and organic loan growth. The net interest margin increased by 5 basis points to 3.50% for the year ended December 31, 2013 due in large part to a \$2.4 million increase in the net accretion of acquisition accounting adjustments to \$4.4 million for the year ended December 31, 2013 from \$2.0 million for the year ended December 31, 2012.

**Interest Income.** Interest income increased \$23.1 million, or 32.5%, to \$94.3 million for the year ended December 31, 2013 from \$71.2 million for the prior year due to an increase in average interest-earning assets partially offset by a decrease in the yield on earning assets. The yield on average interest-earning assets decreased by 19 basis points to 4.18% in connection with the lower interest rate environment as well as a decrease of \$214,000 in the accretion of loan acquisition accounting adjustments. The decrease in market rates contributed to the downward repricing of a portion of the Company's existing assets and to lower rates for new assets.

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**Interest Expense.** Interest expense increased \$411,000, or 2.7%, to \$15.4 million for the year ended December 31, 2013 from \$15.0 million for the prior year period due to growth in average interest-bearing liabilities partially offset by a decrease in the average rate paid on interest-bearing liabilities. Average interest-bearing

**Table of Contents**

liabilities increased \$531.0 million, or 42.1%, to \$1.79 billion for the year ended December 31, 2013 from \$1.26 billion for the prior year due in large part to the Company's acquisition of NEBS in the fourth quarter of 2012 and organic deposit growth. The average rate paid on interest-bearing liabilities declined 33 basis points to 0.86% for the year ended December 31, 2013 reflecting the repricing of deposits in response to the lower interest rate environment and an increase of \$2.6 million in the net accretion of acquisition accounting adjustments.

**Provision for Loan Losses.** We establish provisions for loan losses, which are charged to operations, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the size and composition of the loan portfolio, trends in non-performing loans, classified assets and delinquency rates, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. The provision for loan losses was \$4.1 million for the year ended December 31, 2013 as compared to \$3.1 million for 2012. The allowance for loan losses was \$13.4 million, or 0.71% of loans outstanding, at December 31, 2013. The increase in the 2013 provision was primarily the result of an increase in net charge-offs, reserves for classified loans, and growth in net loan originations.

**Non-interest Income.** Non-interest income increased \$1.4 million, or 13.2%, to \$12.0 million for the year ended December 31, 2013. Excluding gains on sales and calls of securities of \$227,000 in 2013 and \$254,000 in 2012, as well as impairment charges on securities of \$202,000 in 2012, non-interest income would have increased \$1.2 million, or 11.6%. Other income increased \$928,000 as a result of a \$206,000 gain on an investment in a venture capital fund that is accounted for on a cash basis, higher loan prepayment penalties and late charges as well as increased credit enhancement fees related to loans sold to the FHLBB. Fee income on depositors' accounts increased \$435,000, or 7.3%, driven by a larger deposit base related to the NEBS acquisition, offset to a large extent by the negative impact of new regulations, including the Durbin Amendment, on debit card fee income. Income from bank-owned life insurance increased \$238,000, or 13.0%, due in large part to the acquisition of the NEBS portfolio in the fourth quarter of 2012, partially offset by a decrease in the yield on the portfolio assets. Wealth management income increased \$61,000, or 5.9%, as a result of growth in commissions from annuity sales and fees from assets under management. These increases were partially offset by decreases of \$432,000 in gains on sales of loans due to reduced sales volume.

**Non-interest Expense.** Non-interest expense increased \$6.7 million, or 12.0%, to \$63.0 million for the year ended December 31, 2013, from \$56.2 million for the prior year. Excluding branch closing costs of \$987,000 incurred in 2013, merger-related costs totaling \$879,000 for the 2013 period and \$5.0 million for the same period in 2012 and a \$4.5 million ESOP termination expense incurred in 2012, non-interest expense would have increased by \$14.3 million, or 30.5%. Salaries and benefits increased \$6.3 million, or 23.7%, mainly due to costs incurred to support our new Connecticut operations, staffing costs associated with a new loan production office opened in Glastonbury, Connecticut during the second quarter of 2012 and a new branch established in Northborough, Massachusetts during the fourth quarter of 2012, annual wage increases and a larger incentive accrual due to improved operating performance. Other expenses increased \$2.1 million, or 29.5%, reflecting increased expenses from the expansion of our franchise into Connecticut (i.e. telephone, depreciation, postage, core deposit intangible amortization, foreclosed properties, business development, printing, office supplies and branch security). Occupancy costs grew \$2.0 million, or 53.2%, principally attributable to expenses incurred to operate our new Connecticut facilities as well as expenses related to the new loan production office and new branch. Data processing expenses increased \$1.2 million, or 25.7%, attributable to a larger loan and deposit base as well as increased costs related to software licenses, online banking and debit cards. Tax credit funds increased \$1.1 million due to increased operating losses and an increase in investments in these tax credit funds. Professional fees increased \$681,000, or 36.1%, primarily due to additional legal and consulting costs associated with our Connecticut operations and increased expenses related to loan workout activities and third party loan reviews.

**Income Tax Expense.** Income tax expense increased \$2.7 million to \$6.5 million for the year ended December 31, 2013 from \$3.8 million for the comparable 2012 period primarily due to higher pretax income for

**Table of Contents**

the year ended December 31, 2013 offset by a decrease in the effective tax rate. The effective tax rate decreased from 51.1% for the year ended December 31, 2012 to 27.1% for the year ended December 31, 2013 primarily due to the non-deductible ESOP termination expense of \$4.5 million in 2012 and a decrease in non-deductible merger-related expenses of \$1.7 million to \$233,000 for the year ended December 31, 2013.

**Comparison of Operating Results for the Years Ended December 31, 2012 and 2011**

**Net Income.** Net income for the year ended December 31, 2012 totaled \$3.6 million, or \$0.24 per diluted share, compared to net income of \$11.2 million, or \$0.74 per diluted share, for the same period in 2011. The 2012 results were impacted by acquisition-related expenses of \$5.0 million, a \$4.5 million ESOP plan termination expense, FHLB advance prepayment penalties totaling \$227,000 and the related tax benefit of \$607,000. Excluding these items, net income would have been \$12.8 million, or \$0.83 per diluted share.

**Table of Contents**

**Average Balances and Yields.** The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. Loan fees are not included in interest income amounts. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield.

	Years Ended December 31,					
	Average Balance	2012 Interest and Dividends	Yield/ Cost	Average Balance	2011 Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
<b>Interest-earning assets:</b>						
Loans:						
Residential real estate (1)	\$ 331,143	\$ 14,926	4.51%	\$ 317,445	\$ 15,643	4.93%
Commercial real estate	551,980	29,717	5.38%	464,438	27,724	5.97%
Home equity loans	144,411	5,152	3.57%	138,440	5,273	3.81%
Commercial and industrial	203,667	9,781	4.80%	169,078	8,617	5.10%
Consumer and other	15,206	825	5.43%	17,518	963	5.50%
Total loans (2)	1,246,407	60,401	4.85%	1,106,919	58,220	5.26%
Investment securities	341,868	10,544	3.08%	351,074	12,728	3.63%
Other interest-earning assets	39,816	226	0.57%	46,150	126	0.27%
Total interest-earning assets	1,628,091	71,171	4.37%	1,504,143	71,074	4.73%
Noninterest-earning assets (3)	116,252			95,739		
Total assets	\$ 1,744,343			\$ 1,599,882		
<b>Interest-bearing liabilities:</b>						
Savings accounts	\$ 270,349	1,328	0.49%	\$ 232,284	1,694	0.73%
Money market accounts	316,228	1,501	0.47%	276,249	1,963	0.71%
NOW accounts	57,780	204	0.35%	42,220	159	0.38%
Certificates of deposit	451,991	7,433	1.64%	440,047	8,633	1.96%
Total interest-bearing deposits	1,096,348	10,466	0.95%	990,800	12,449	1.26%
FHLB advances	108,818	3,360	3.09%	132,501	4,513	3.41%
Other interest-bearing liabilities	55,732	1,166	2.09%	49,964	1,299	2.60%
Total interest-bearing liabilities	1,260,898	14,992	1.19%	1,173,265	18,261	1.56%
Demand deposits	232,569			190,136		
Other noninterest-bearing liabilities	11,865			10,138		
Total liabilities	1,505,332			1,373,539		
Stockholders' equity	239,011			226,343		
Total liabilities and stockholders' equity	\$ 1,744,343			\$ 1,599,882		
Net interest income		\$ 56,179			\$ 52,813	
Interest rate spread (4)			3.18%			3.17%
Net interest-earning assets (5)	\$ 367,193			\$ 330,878		
Net interest margin (6)			3.45%			3.51%
Average interest-earning assets to average interest-bearing liabilities			129.12%			128.20%

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- (1) Includes loans held for sale.
- (2) Loans, including non-accrual loans, are net of deferred loan origination costs and advanced funds.
- (3) Includes bank-owned life insurance, the income on which is classified as non-interest income.
- (4) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (6) Net interest margin represents net interest income divided by average total interest-earning assets.



**Table of Contents**

**Rate/Volume Analysis.** The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	<b>Years Ended December 31, 2012 vs. 2011</b>		
	<b>Increase (Decrease)</b>		
	<b>Volume</b>	<b>Rate (In thousands)</b>	<b>Net</b>
<b>Interest-earning assets:</b>			
Loans:			
Residential real estate (1)	\$ 656	\$ (1,373)	\$ (717)
Commercial real estate	4,889	(2,896)	1,993
Home equity loans	221	(342)	(121)
Commercial and industrial	1,683	(519)	1,164
Consumer and other	(125)	(13)	(138)
Total loans	7,324	(5,143)	2,181
Investment securities	(327)	(1,857)	(2,184)
Other interest-earning assets	(19)	119	100
Total interest-earning assets	6,978	(6,881)	97
<b>Interest-bearing liabilities:</b>			
Savings accounts	248	(614)	(366)
Money market accounts	255	(717)	(462)
NOW accounts	56	(11)	45
Certificates of deposit	229	(1,429)	(1,200)
Total interest-bearing deposits	788	(2,771)	(1,983)
FHLB advances	(758)	(395)	(1,153)
Other interest-bearing liabilities	139	(272)	(133)
Total interest-bearing liabilities	169	(3,438)	(3,269)
Change in net interest income	\$ 6,809	\$ (3,443)	\$ 3,366

(1) Includes loans held for sale.

**Net Interest Income Before Provision for Loan Losses.** Net interest income before provision for loan losses increased \$3.4 million, or 6.4%, to \$56.2 million for the year ended December 31, 2012 from \$52.8 million for 2011 as a result of an increase in average interest earning assets partially offset by net interest margin compression. Total average interest-earning assets increased \$123.9 million, or 8.2%, to \$1.63 billion for the year ended December 31, 2012 mainly due to growth in loans offset by decreases in investment securities and other interest-earning assets. Net interest margin decreased 6 basis points to 3.45% for the for the year ended December 31, 2012 from 3.51% for the prior year period primarily attributable to the downward repricing of certain fixed rate loans and investments as a result of the lower interest rate environment. These items were partially offset by lower funding costs.

**Interest Income.** Interest income increased \$97,000, or 0.1%, to \$71.2 million for the year ended December 31, 2012 from \$71.1 million for the prior year due to an increase in average interest-earning assets partially offset by a decrease in the yield on earning assets. The yield on average interest-earning assets decreased by 36 basis points to 4.37% in connection with the lower interest rate environment. The decrease in

market rates contributed to the downward repricing of a portion of the Company's existing assets and to lower rates for new assets.

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**Table of Contents**

**Interest Expense.** Interest expense decreased \$3.3 million, or 17.9%, to \$15.0 million for the year ended December 31, 2012 from \$18.3 million for the prior year due to a decrease in the average rate paid on interest-bearing liabilities, partially offset by growth in average interest-bearing liabilities. The average rate paid on interest-bearing liabilities declined 37 basis points to 1.19% for the year ended December 31, 2012 reflecting the repricing of savings, money market, NOW account and certificate of deposit balances in response to the lower interest rate environment and pay downs of higher-rate FHLB advances. Average interest-bearing liabilities increased \$87.6 million, or 7.5%, to \$1.26 billion for the year ended December 31, 2012 reflecting growth in interest-bearing deposits offset in part by the pay down of FHLB advances. Total average interest-bearing deposits increased \$105.5 million, or 10.7%, to \$1.10 billion for the year ended December 31, 2012 due to growth in savings, money market and NOW account balances attributable to the NEBS acquisition as well as attractive products, competitive pricing and excellent customer service

**Provision for Loan Losses.** We establish provisions for loan losses, which are charged to operations, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the size and composition of the loan portfolio, trends in non-performing loans, classified assets and delinquency rates, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. The provision for loan losses was \$3.1 million for the year ended December 31, 2012 as compared to \$3.2 million for 2011. The allowance for loan losses was \$12.1 million, or 0.67% of loans outstanding, at December 31, 2012. The provision was lower in 2012 despite an increase in the loan portfolio due to the acquisition of NEBS. As discussed in Note C to the Consolidated Financial Statements, the loans acquired from NEBS were recorded at their market value as of the acquisition date. Therefore no provision for losses were added for these loans during 2012.

**Non-interest Income.** Non-interest income increased \$1.3 million, or 13.6%, to \$10.6 million for the year ended December 31, 2012. Excluding impairment charges on securities of \$202,000 in 2012 and \$99,000 in 2011, and gains on sales and calls of securities of \$254,000 in 2012, non-interest income would have increased \$1.1 million, or 12.0%. Gains from sales of loans increased \$371,000, or 135.4%, due to an increase in the volume of loan sales and improved pricing. Fee income on depositors' accounts increased \$368,000, or 6.6%, reflecting growth in transaction accounts and volume. Income from bank-owned life insurance increased \$183,000, or 11.1%, due to the purchase of \$10.0 million of insurance policies in the second quarter of 2011 and the addition of policies acquired in the NEBS merger. Wealth management income increased \$107,000, or 11.6%, as a result of growth in commissions from annuity sales and fees from assets under management.

**Non-interest Expense.** Non-interest expense increased \$12.2 million, or 27.6%, to \$56.2 million for the year ended December 31, 2012, from \$44.1 million for the prior year. Excluding acquisition-related expenses of \$5.0 million and a \$4.5 million ESOP termination expense incurred in 2012, total non-interest expense would have increased \$2.7 million, or 6.2%. Total salaries and benefits increased \$1.7 million, or 6.9%, mainly driven by annual wage increases, additional costs incurred in the fourth quarter of 2012 to operate the NEBS franchise and staffing costs associated with a new loan production office and a new branch, partially offset by lower stock-based compensation. Data processing expense increased \$630,000, or 15.9%, primarily due to increases in fees paid to the Bank's core processor as a result of the increased number of loan and deposit accounts related to the acquisition of NEBS. Occupancy expense increased \$454,000, or 13.7%, largely attributable to expenses related to the new NEBS branches. These items were partially offset by decreases of \$288,000, or 13.2%, in professional services and \$143,000, or 8%, in marketing expenses. These decreases were the result of efforts undertaken to control non-interest expense.

**Income Tax Expense.** Income tax expense increased \$117,000 to \$3.8 million for the year ended December 31, 2012 from \$3.7 million for the comparable 2011 period primarily due to a higher effective tax rate

**Table of Contents**

offset by lower pre-tax net income. The effective tax rate increased from 24.8% in the 2011 period to 51.1% for the year ended December 31, 2012 largely as a result of non-deductible merger related and ESOP termination expenses incurred in 2012.

**Management of Market Risk**

**General.** The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk ( IRR ). Our assets, the largest portion of which are mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage IRR and reduce the exposure of our net interest income ( NII ) to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Management Committee, which is responsible for evaluating the IRR inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. With the assistance of an IRR management consultant, the committee monitors the level of IRR on a regular basis and meets at least quarterly to review our asset/liability policies and IRR position.

**Economic Value of Equity Simulation Analysis.** We have sought to manage our IRR in order to minimize the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we currently use the following strategies to manage our IRR: (i) using alternative funding sources, such as advances from the FHLBB, to match fund certain longer-term loans; (ii) continued emphasis on increasing core deposits; (iii) offering adjustable rate and shorter-term residential real estate, home equity loans, commercial real estate loans, construction loans and commercial and industrial loans; (iv) offering a variety of consumer loans, which typically have shorter-terms; (v) investing in mortgage-backed securities with variable rates or fixed rates with shorter durations; and (vi) selling thirty-year fixed rate residential real estate loans. Reducing the average maturity of our interest-earning assets by increasing our investments in shorter-term loans and securities, as well as loans and securities with variable rates of interest, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our NII to changes in market interest rates.

Net interest income at-risk measures the risk of a decline in earnings due to potential short-term and long term changes in interest rates. The table below represents an analysis of our IRR as measured by the estimated changes in NII for the following twelve months, resulting from an instantaneous and sustained parallel shift in the yield curve of +200 and -100 basis points at December 31, 2013 and 2012.

Change in Interest Rates (basis points)	Net Interest Income At-Risk	
	Estimated Increase (Decrease) in NII (December 31, 2013)	Estimated Increase (Decrease) in NII (December 31, 2012)
-100	(4.3)%	(3.3)%
Stable	0.0%	0.0%
+200	(1.3)%	2.0%

The preceding income simulation analysis is for United Bank and its subsidiaries only and does not represent a forecast of NII and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions, which are subject to change, including: the nature and timing of interest rate levels including the yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of asset and liability cash flows, and others. Also, market conditions, prepayment/refinancing levels, the varying impact of interest rate changes on caps and floors embedded in adjustable rate loans, early withdrawal of deposits, changes in product preferences, and other internal/external variables and other factors may vary significantly from assumptions used.

**Table of Contents**

**Economic Value of Equity Simulation Analysis.** We also analyze the amounts by which the net present value of an institution's cash flows from assets, liabilities and off balance sheet items (the institution's economic value of equity or "EVE") would change in the event of a range of assumed changes in market interest rates. The model has estimated the economic value of each type of asset, liability and off-balance sheet contract under the assumption that the United States Treasury yield curve increases or decreases instantaneously by 100 to 300 basis points in 100 basis point increments. However, given the low level of market interest rates, an economic value of equity calculation for an interest rate decrease of greater than 100 basis points was not prepared. A basis point equals one-hundredth of one percent, and 200 basis points equals two percent. An increase in interest rates from 3% to 5% would mean, for example, a 200 basis point increase in the "Change in Interest Rates" column below.

The tables below set forth, at the dates indicated, the estimated changes in our economic value of equity that would result from the designated instantaneous changes in the United States Treasury yield curve. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. This data is for United Bank and its subsidiary only and does not include any yield curve changes in the assets of the Company.

December 31, 2013					
Change in Interest Rates (basis points) (1)	Estimated EVE (2)	Estimated Increase (Decrease) in EVE		EVE as a Percentage of Present Value of Assets (3)	
		Amount (Dollars in thousands)	Percent	EVE Ratio (4)	Increase (Decrease) (basis points)
+300	\$ 226,610	\$ (86,749)	(28)%	10.10%	(272)
+200	275,030	(38,329)	(12)	11.87	(94)
+100	304,611	(8,747)	(3)	12.77	(4)
0	313,359	-	-	12.81	-
-100	332,516	19,157	6	13.30	49

December 31, 2012					
Change in Interest Rates (basis points) (1)	Estimated EVE (2)	Estimated Increase (Decrease) in EVE		EVE as a Percentage of Present Value of Assets (3)	
		Amount (Dollars in thousands)	Percent	EVE Ratio (4)	Increase (Decrease) (basis points)
+300	\$ 253,448	\$ (58,910)	(19)%	11.31%	(169)
+200	290,998	(21,360)	(7)	12.64	(36)
+100	311,510	(848)	-	13.22	22
0	312,358	-	-	13.00	-
-100	317,039	4,681	2	12.99	(1)

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

(2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.

(4) EVE ratio represents EVE divided by the present value of assets.

The tables above indicate that at December 31, 2013 and 2012, in the event of a 300 basis point increase in interest rates, United Bank would experience a 28% and 19%, respectively, decrease in economic value of equity. In the event of a 100 basis point decrease in interest rates at December 31, 2013 and 2012, United Bank would experience a 6% and 2%, respectively, increase in economic value of equity.

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## **Table of Contents**

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in economic value of equity require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the economic value of equity table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the economic value of equity table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

### **Liquidity and Capital Resources**

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and sales of loans. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, mortgage prepayments and loan and security sales are greatly influenced by general interest rates, economic conditions and competition. Our Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs of our customers as well as unanticipated contingencies. We seek to maintain a liquidity ratio (defined as liquid assets less short-term liabilities) of 10% or greater. At December 31, 2013, our liquidity ratio was 14.52%.

We regularly adjust our investments in liquid assets based upon our assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, and (4) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2013, cash and cash equivalents totaled \$47.2 million. Securities classified as available-for-sale and held-to-maturity, which provide additional sources of liquidity, totaled \$264.6 million and \$111.2 million, respectively, at December 31, 2013. In addition, at December 31, 2013, we had the ability to borrow a total of approximately \$368.1 million from the Federal Home Loan Bank of Boston. On that date, we had \$139.1 million in advances outstanding.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At December 31, 2013, we had \$33.9 million in loan commitments outstanding. In addition to commitments to originate loans, we had \$338.7 million in unused lines of credit to borrowers. Certificates of deposit due within one year of December 31, 2013 totaled \$428.1 million, or 22.0% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit, Federal Home Loan Bank advances, borrowings from the Federal Reserve Bank, reverse repurchase agreements and brokered deposits. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2013. We believe, however, based on past experience, a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. In 2013, we originated \$564.9 million of loans and purchased \$110.2 million of securities. In 2012, we originated \$445.4 million of loans and purchased \$99.2 million of securities.

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**Table of Contents**

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We experienced a net increase in total deposits of \$98.3 million and \$618.2 million for the years ended December 31, 2013 and 2012, respectively. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Boston, which provide an additional source of funds. Federal Home Loan Bank advances decreased \$1.9 million for the year ended December 31, 2013, reflecting the use of cash flows received from the loan and investment portfolios to pay down maturing Federal Home Loan Bank advances and increased \$35.7 million for the year ended December 31, 2012 to fund loan growth. Federal Home Loan Bank advances have primarily been used to fund loan demand and to purchase securities. Our current asset/liability management strategy has been to match-fund certain longer-term commercial real estate loans and one- to four-family residential mortgage loans with Federal Home Loan Bank advances. United Bank's unused borrowing capacity with the Federal Home Loan Bank of Boston, excluding its available line of credit balance of \$12.0 million at December 31, 2013 and 2012, was approximately \$217.0 million at December 31, 2013 and \$28.3 million at December 31, 2012. At December 31, 2013 and 2012, United Bank had no borrowing against the line of credit. We also have access to funding through the repurchase agreement and brokered CD markets as well as the Federal Reserve Bank discount window. United Bank's unused borrowing capacity with the FRB was approximately \$60.8 million at December 31, 2013.

The Company is a separate legal entity from United Bank and must provide for its own liquidity. In addition to its operating expenses, United Financial is responsible for paying any dividends declared to its shareholders. The Company also has repurchased shares of its common stock. At December 31, 2013, the Company had liquid assets of \$15.7 million.

United Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2013, United Bank exceeded all regulatory capital requirements. United Bank is considered well-capitalized under regulatory guidelines. See Item 1. Business Supervision and Regulation Federal Banking Regulation Capital Requirements and Note P of the Notes to the Consolidated Financial Statements.

**Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

**Commitments.** As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit, standby letters of credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans made by us. We consider commitments to extend credit in determining our allowance for loan losses. For additional information, see Note N, Commitments and Contingencies, to our Consolidated Financial Statements.

**Contractual Obligations.** In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating and capitalized leases for premises and equipment.



**Table of Contents**

The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at December 31, 2013. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

	Payments Due by Period (In Thousands)				Total
	Less Than One Year	One to Three Years	Three to Five Years	More than Five Years	
<b>Contractual Obligations:</b>					
Certificates of deposit	\$ 428,092	\$ 217,665	\$ 85,295	\$ -	\$ 731,052
Federal Home Loan Bank advances	33,000	27,583	50,758	27,722	139,063
Repurchase agreements	41,555	-	-	20,000	61,555
Subordinated debentures	-	-	-	7,732	7,732
Standby letters of credit	5,443	-	-	-	5,443
Operating leases	2,182	4,080	3,004	10,468	19,734
Capitalized leases	423	848	848	4,804	6,923
Future benefits to be paid under retirement plans	3,871	1,667	528	717	6,783
Total	\$ 514,566	\$ 251,843	\$ 140,433	\$ 71,443	\$ 978,285
<b>Commitments:</b>					
Commitments to extend credit	\$ 480,166	\$ -	\$ -	\$ -	\$ 480,166
Investment in venture capital fund	150	-	-	-	150
Investment in tax credit funds	3,075	-	-	-	3,075
Total	\$ 483,391	\$ -	\$ -	\$ -	\$ 483,391

**Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This Update requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line item of net income. The Company adopted this ASU in the first quarter of 2013 and there was no impact on the Company's consolidated financial results as the amendments relate only to disclosures in the consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)*. This Update provides that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect that the adoption of this ASU will have an impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-01, *Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*. This update eliminates the

## **Table of Contents**

effective yield election and permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Those not electing the proportional amortization method would account for the investment using the equity method or cost method. The amendments in this ASU should be applied retrospectively to all periods presented. The amendments in this ASU are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company is currently evaluating the impact of adopting this ASU, but does not expect that it will have a material effect on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-04, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company is currently evaluating the impact if adopting this ASU, but does not expect that it will have a material effect on the Company's consolidated financial statements.

### **Impact of Inflation and Changing Prices**

The consolidated financial statements and related notes of United Financial Bancorp, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

For information regarding market risk, see Item 7- Management's Discussion and Analysis of Financial Conditions and Results of Operations.

**Table of Contents**

**ITEM 8.            FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**  
INDEX TO FINANCIAL STATEMENTS

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm on Financial Statements.</u>	F-1
<u>Consolidated Balance Sheets</u>	F-2
<u>Consolidated Statements of Net Income</u>	F-3
<u>Consolidated Statements of Comprehensive Income</u>	F-4
<u>Consolidated Statements of Stockholders' Equity</u>	F-5
<u>Consolidated Statements of Cash Flows</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-8

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

United Financial Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of United Financial Bancorp, Inc. and subsidiary (the Company ) as of December 31, 2013 and 2012, and the related consolidated statements of net income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Financial Bancorp, Inc. and subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), United Financial Bancorp, Inc. and subsidiary's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report, dated March 13, 2014, expressed an unqualified opinion on the effectiveness of United Financial Bancorp, Inc.'s internal control over financial reporting.

/s/ Wolf & Company, P.C.

Boston, Massachusetts

March 13, 2014

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

## Consolidated Balance Sheets

December 31, 2013 and 2012

(Dollars in thousands except per share amounts)

	2013	2012
<b>ASSETS</b>		
Cash and due from banks	\$ 26,497	\$ 28,972
Interest-bearing deposits	20,744	1,707
Total cash and cash equivalents	47,241	30,679
Securities available for sale, at fair value	264,629	294,322
Securities held to maturity, at amortized cost (fair value of \$111,715 at December 31, 2013 and \$85,674 at December 31, 2012)	111,185	82,986
Loans held for sale	-	632
Loans, net of allowance for loan losses of \$13,413 at December 31, 2013 and \$12,089 at December 31, 2012	1,871,066	1,807,401
Other real estate owned	2,451	2,578
Accrued interest receivable	6,388	6,790
Deferred tax asset, net	14,961	20,178
Stock in the Federal Home Loan Bank of Boston	17,334	18,554
Premises and equipment, net	25,586	25,064
Bank-owned life insurance	54,583	52,876
Goodwill	40,992	39,852
Other assets	25,427	20,391
<b>TOTAL ASSETS</b>	<b>\$ 2,481,843</b>	<b>\$ 2,402,303</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Liabilities:		
Deposits:		
Interest-bearing	\$ 1,604,484	\$ 1,540,873
Non-interest-bearing	342,000	307,302
Total deposits	1,946,484	1,848,175
Short-term borrowings	61,555	79,229
Long-term debt	142,252	133,969
Subordinated debentures	5,959	9,630
Escrow funds held for borrowers	4,856	4,315
Capitalized lease obligations	4,539	4,711
Accrued expenses and other liabilities	13,419	15,085
Total liabilities	2,179,064	2,095,114
Commitments and contingencies (Notes F and N)		

## Edgar Filing: United Financial Bancorp, Inc. - Form 10-K

Stockholders' equity:

Preferred stock, par value \$0.01 per share, authorized 50,000,000 shares; none issued	-	-
Common stock, par value \$0.01 per share, authorized 100,000,000 shares; shares issued: 24,266,428 at December 31, 2013 and December 31, 2012	243	243
Paid-in capital	271,643	272,822
Retained earnings	96,059	87,153
Treasury stock, at cost (4,486,750 shares at December 31, 2013 and 4,114,310 shares at December 31, 2012)	(64,075)	(58,430)
Accumulated other comprehensive income (loss), net of taxes	(1,091)	5,401
<b>Total stockholders' equity</b>	<b>302,779</b>	<b>307,189</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,481,843</b>	<b>\$ 2,402,303</b>

The accompanying notes are an integral part of the consolidated financial statements.

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

## Consolidated Statements of Net Income

December 31, 2013, 2012 and 2011

(Dollars in thousands except per share amounts)

	2013	2012	2011
<b>Interest and dividend income:</b>			
Loans	\$ 85,023	\$ 60,401	\$ 58,220
Investments	9,168	10,544	12,728
Other interest-earning assets	102	226	126
<b>Total interest and dividend income</b>	<b>94,293</b>	<b>71,171</b>	<b>71,074</b>
<b>Interest expense:</b>			
Deposits	11,396	10,466	12,449
Short-term borrowings	84	60	123
Long-term debt	3,923	4,466	5,689
<b>Total interest expense</b>	<b>15,403</b>	<b>14,992</b>	<b>18,261</b>
<b>Net interest income before provision for loan losses</b>	<b>78,890</b>	<b>56,179</b>	<b>52,813</b>
Provision for loan losses	4,092	3,139	3,242
<b>Net interest income after provision for loan losses</b>	<b>74,798</b>	<b>53,040</b>	<b>49,571</b>
<b>Non-interest income:</b>			
Fee income on depositors' accounts	6,357	5,922	5,554
Wealth management income	1,087	1,026	919
Income from bank-owned life insurance	2,063	1,825	1,642
Net gain on sales of loans	213	645	274
Net gain on sales/calls of securities	227	254	1
Impairment charges on securities	-	(202)	(99)
Other income	2,081	1,153	1,062
<b>Total non-interest income</b>	<b>12,028</b>	<b>10,623</b>	<b>9,353</b>
<b>Non-interest expense:</b>			
Salaries and benefits	32,808	26,533	24,818
Occupancy expenses	5,779	3,771	3,317
Marketing expenses	2,157	1,654	1,797
Data processing expenses	5,780	4,600	3,970
Professional fees	2,567	1,886	2,174
ESOP plan termination expense	-	4,482	-
Merger related expenses	879	4,952	-
Branch closing expenses	987	-	-
FDIC insurance assessments	1,639	1,135	1,029
Tax credit funds	1,319	243	837

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Other expenses	9,047	6,984	6,120
Total non-interest expense	62,962	56,240	44,062
Income before provision for income taxes	23,864	7,423	14,862
Provision for income tax expense	6,462	3,795	3,678
Net income	\$ 17,402	\$ 3,628	\$ 11,184
Earnings per share:			
Basic	\$ 0.88	\$ 0.24	\$ 0.75
Diluted	\$ 0.87	\$ 0.24	\$ 0.74
Weighted average shares outstanding:			
Basic	19,779,667	15,234,896	14,929,714
Diluted	20,073,219	15,421,777	15,198,702
Dividends paid per share	\$ 0.43	\$ 0.38	\$ 0.34

The accompanying notes are an integral part of the consolidated financial statements.

F-3



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

## Consolidated Statements of Comprehensive Income

December 31, 2013, 2012 and 2011

(Dollars in thousands)

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net Income	\$ 17,402	\$ 3,628	\$ 11,184
Other comprehensive income (loss):			
<u>Unrealized gains/losses on securities:</u>			
Unrealized holding (losses) gains on available-for-sale securities	\$ (10,421)	\$ (1,605)	\$ 3,026
Reclassification adjustment for gains realized in income <sup>(1)</sup>	(227)	(89)	(1)
Net change in unrealized gains/losses	(10,648)	(1,694)	3,025
Tax effect	4,060	633	(1,198)
Net of tax amount	(6,588)	(1,061)	1,827
<u>Pension liability components:</u>			
Pension liability for retirement plans	(169)	19	(61)
Pension liability adjustment	243	(406)	152
Net change in pension liability	74	(387)	91
Tax effect	22	97	(24)
Net of tax amount	96	(290)	67
Total other comprehensive income (loss)	(6,492)	(1,351)	1,894
Comprehensive income	\$ 10,910	\$ 2,277	\$ 13,078

(1) Amounts are included in net gains on sales of securities in non-interest income on the consolidated statements of net income. Income tax expense associated with these reclassification adjustments was \$87, \$33 and \$0 for the years ended December 31, 2013, 2012 and 2011, respectively. The accompanying notes are an integral part of the consolidated financial statements.

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

## Consolidated Statements of Stockholders' Equity

December 31, 2013, 2012 and 2011

(Dollars in thousands except per share amounts)

	Common Shares Outstanding	Common Stock	Paid-In Capital	Retained Earnings	Unearned Compensation	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2010	16,109,106	\$ 187	\$ 180,322	\$ 82,899	\$ (10,750)	\$ (34,940)	\$ 4,858	\$ 222,576
Comprehensive income	-	-	-	11,184	-	-	1,894	13,078
Shares repurchased in connection with restricted stock forfeited for tax purposes	(26,411)	-	-	-	-	(403)	-	(403)
Restricted shares forfeited	(10,910)	-	181	-	-	(181)	-	-
Cash paid for in the money stock options exercised	-	-	(2)	-	-	-	-	(2)
Excess tax benefit on stock compensation plans	-	-	91	-	-	-	-	91
Cancellation of shares for tax withholdings on options exercised	-	-	(55)	-	-	-	-	(55)
Reissuance of treasury shares in connection with stock options exercised	14,820	-	(110)	(11)	-	210	-	89
Reissuance of treasury shares in connection with stock warrants exercised	35,091	-	-	(28)	-	454	-	426
Reissuance of treasury shares in connection with restricted stock grants	17,500	-	(296)	42	-	254	-	-
Cash dividends paid (\$0.34 per share)	-	-	-	(5,067)	-	-	-	(5,067)
Treasury stock purchases	(426,299)	-	-	-	-	(6,377)	-	(6,377)
Stock-based compensation	-	-	1,891	-	-	-	-	1,891
ESOP shares committed to be released	-	-	411	-	703	-	-	1,114
Balances at December 31, 2011	15,712,897	187	182,433	89,019	(10,047)	(40,983)	6,752	227,361
Comprehensive income	-	-	-	3,628	-	-	(1,351)	2,277
Shares issued pursuant to the acquisition of NEBS	5,559,495	56	81,430	-	-	-	-	81,486
Shares repurchased in connection with restricted stock forfeited for tax purposes	(14,934)	-	-	-	-	(205)	-	(205)
Restricted shares forfeited	(11,000)	-	151	-	-	(151)	-	-
Excess tax benefit on stock compensation plans	-	-	29	-	-	-	-	29
Cancellation of shares for tax withholdings on options exercised	-	-	(102)	-	-	-	-	(102)
Reissuance of treasury shares in connection with stock options exercised	26,596	-	(259)	(10)	-	366	-	97
Reissuance of treasury shares in connection with restricted stock grants	29,500	-	(445)	37	-	408	-	-
Cash dividends paid (\$0.38 per share)	-	-	-	(5,521)	-	-	-	(5,521)
Treasury stock purchases	(357,415)	-	-	-	-	(5,455)	-	(5,455)
Stock-based compensation	-	-	1,453	-	-	-	-	1,453
ESOP shares committed to be released	-	-	392	-	697	-	-	1,089
ESOP plan termination New England Bank	(128,469)	-	2,161	-	-	(1,963)	-	198

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ESOP plan termination	United Bank	(664,552)	-	5,579	-	9,350	(10,447)	-	4,482
Balances at December 31, 2012		20,152,118	243	272,822	87,153	-	(58,430)	5,401	307,189
Comprehensive income		-	-	-	17,402	-	-	(6,492)	10,910
Shares repurchased in connection with restricted stock forfeited for tax purposes		(16,736)	-	-	-	-	(270)	-	(270)
Restricted shares forfeited		(5,000)	-	75	-	-	(75)	-	-
Excess tax benefit on stock compensation plans		-	-	73	-	-	-	-	73
Cancellation of shares for tax withholdings on options exercised		-	-	(685)	-	-	-	-	(685)
Reissuance of treasury shares in connection with stock options exercised		138,647	-	(1,687)	-	-	1,980	-	293
Cash dividends paid (\$0.43 per share)		-	-	-	(8,496)	-	-	-	(8,496)
Treasury stock purchases		(489,351)	-	-	-	-	(7,280)	-	(7,280)
Stock-based compensation		-	-	1,045	-	-	-	-	1,045
Balances at December 31, 2013		19,779,678	\$ 243	\$ 271,643	\$ 96,059	\$ -	\$ (64,075)	\$ (1,091)	\$ 302,779

The accompanying notes are an integral part of the consolidated financial statements.

F-5

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

## Consolidated Statements of Cash Flows

For the years ended December 31, 2013, 2012 and 2011

(Dollars in thousands)

	2013	2012	2011
<b>Cash flows from operating activities:</b>			
Net income	\$ 17,402	\$ 3,628	\$ 11,184
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Provision for loan losses	4,092	3,139	3,242
ESOP expense	-	5,769	1,114
Stock-based compensation	1,045	1,453	1,891
Excess tax benefits on stock compensation plan	(73)	(29)	(91)
Amortization of premiums and discounts	2,655	2,209	1,654
Depreciation and amortization	2,854	1,865	1,320
Amortization of intangible assets	759	179	101
Provision for other real estate owned	-	-	130
Loans originated for sale	(7,498)	(18,127)	(11,267)
Proceeds from sales of loans held for sale	8,343	18,193	11,488
Net gain on sales of loans	(213)	(645)	(274)
Net loss on sale and writedown of other real estate owned	420	573	48
Net gain on sale of property and equipment	-	(7)	-
Net gain on sale/call of available for sale securities	(227)	(254)	(1)
Impairment charges on securities	-	202	99
Deferred tax provision (benefit)	9,299	(1,186)	(4,199)
Net increase in cash surrender value of bank-owned life insurance	(1,707)	(1,622)	(1,508)
Decrease (increase) in accrued interest receivable	402	(35)	59
(Increase) decrease in other assets	(6,935)	(1,138)	1,371
(Decrease) increase in accrued expenses and other liabilities	(1,281)	3,457	917
Net cash provided by operating activities	29,337	17,624	17,278
<b>Cash flows from investing activities:</b>			
Purchases of securities available for sale	(58,911)	(97,785)	(82,614)
Proceeds from sales of securities available for sale	3,007	6,216	-
Proceeds from calls, maturities and principal repayments of securities available for sale	73,326	69,899	66,253
Purchases of securities held to maturity	(51,240)	(1,455)	(13,432)
Proceeds from maturities, calls and principal repayments of securities held to maturity	22,236	33,143	28,780
Redemption of Federal Home Loan Bank of Boston stock	1,220	911	-
Proceeds from sales of other real estate owned	3,086	2,053	1,843
Net loan originations, purchases and principal repayments	(71,136)	(145,295)	(52,525)
Purchases of property and equipment	(3,362)	(4,570)	(2,180)
Cash provided by business combination	-	68,908	-
Proceeds from sale of property and equipment	-	85	-
Purchases of bank-owned life insurance	-	-	(10,000)

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Net cash used in investing activities	(81,774)	(67,890)	(63,875)
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F-6

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY****Consolidated Statements of Cash Flows (Concluded)**

For the years ended December 31, 2013, 2012 and 2011

(Dollars in thousands)

	2013	2012	2011
<b>Cash flows from financing activities:</b>			
Net increase in deposits	98,309	21,206	86,674
Net change in short-term borrowings	(17,674)	36,135	(3,769)
Proceeds from issuance of long-term debt	51,474	24,759	10,440
Repayment of long-term debt, net of amortization of discount	(42,862)	(51,255)	(56,799)
Redemption of trust preferred securities	(4,000)	-	-
Net increase in escrow funds held for borrowers	541	163	204
Payments on capitalized lease obligation	(424)	(424)	(406)
Excess tax benefits on stock compensation plans	73	29	91
Cancellation of shares for tax withholdings on options exercised	(685)	(102)	(55)
Reissuance of treasury shares in connection with restricted stock warrants	-	-	426
Reissuance of treasury shares in connection with stock options exercised	293	97	89
Treasury stock purchases	(7,550)	(5,660)	(6,780)
Cash paid for in the money stock options exercised	-	-	(2)
Cash dividends paid	(8,496)	(5,521)	(5,067)
Net cash provided by financing activities	68,999	19,427	25,046
Increase (decrease) in cash and cash equivalents	16,562	(30,839)	(21,551)
Cash and cash equivalents at beginning of year	30,679	61,518	83,069
Cash and cash equivalents at end of year	\$ 47,241	\$ 30,679	\$ 61,518

**Supplemental Disclosure of Cash Flow Information:****Cash paid during the period:**

Interest on deposits and other borrowings	\$ 18,741	\$ 16,021	\$ 19,020
Income taxes net	2,532	2,460	5,073

**Non-cash items:**

Transfer of loans to other real estate owned	\$ 3,379	\$ 1,679	\$ 2,539
Trade date accounting for securities purchased	-	-	(3,002)
Transfer of treasury shares to pay-off ESOP loan	-	12,410	-

**In conjunction with the purchase acquisition detailed in Note C to the Consolidated Financial Statements:**

Fair value of assets acquired, net of cash acquired	\$ -	\$ 676,888	\$ -
Goodwill and core deposit	-	35,390	-
Fair value of liabilities assumed	-	664,310	-
Shares issued	-	81,430	-

The accompanying notes are an integral part of the consolidated financial statements.



**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements include the accounts of United Financial Bancorp, Inc. and its wholly-owned subsidiary, United Bank (the Bank). UCB Securities, Inc. and UCB Securities, Inc. II are subsidiaries of the Bank and are engaged in buying, selling and holding of securities. UB Properties, LLC and VB REO, LLC are subsidiaries of the Bank formed to hold real estate assets acquired through foreclosure. All significant intercompany accounts and transactions have been eliminated in consolidation. These entities are collectively referred to herein as the Company.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and general practices within the banking industry.

**Use of Estimates**

In preparing consolidated financial statements in conformity with U.S. GAAP, 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 sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change are the determination of the allowance for loan losses, other-than-temporary impairment of securities, goodwill, fair value of financial instruments, and income taxes.

The following is a description of the Company's more significant accounting policies:

**Cash and Cash Equivalents**

The Company classifies cash and due from banks, interest-bearing deposits in other banks and overnight funds sold as cash and cash equivalents as these liquid assets have maturities at date of purchase of 90 days or less.

**Investment Securities**

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities that are held principally for the purpose of trading in the near term are classified as trading securities. Trading securities are carried at fair value, with unrealized gains and losses recognized in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.





**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

Purchase premiums and discounts are recognized in interest income using the level yield method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Company evaluates all securities classified as available-for-sale or held-to-maturity with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporary ( OTTI ).

OTTI is required to be recognized if (1) the Company intends to sell the security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. Marketable equity securities are evaluated for OTTI based on the severity and duration of the impairment and, if deemed to be other-than-temporary, the declines in fair value are reflected in earnings as realized losses. For impaired debt securities that the Company intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income, net of applicable taxes.

**Federal Home Loan Bank stock**

The Company, as a member of the Federal Home Loan Bank of Boston (the FHLBB ), is required to maintain an investment in capital stock of the FHLBB. Based on redemption provisions of the FHLBB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLBB may declare dividends on the stock. Management reviews its investment in FHLBB stock for other-than-temporary impairment based upon an assessment of the ultimate recoverability of the par value. Management concluded that no other-than-temporary impairment charge was necessary as of December 31, 2013.

**Significant Group Concentrations of Credit Risk**

A substantial portion of the Company's loans are secured by real estate in Hampden, Hampshire and Worcester Counties of Massachusetts and Hartford, Tolland and New Haven Counties of Connecticut. Accordingly, the ultimate collectability of the Company's loan portfolio is susceptible to changing conditions in these market areas. Note E discusses the types of lending that the Company engages in. The Company does not have any significant concentrations in any one industry or customer.

F-9

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

**Loans**

The Company's loan portfolio includes commercial and industrial ( C&I ), commercial real estate, construction, business banking C&I and commercial real estate, residential real estate, home equity and consumer segments. Loans are stated at their unpaid principal balance net of unearned loan fees and costs and the allowance for loan losses.

Interest on most loans is included in income as earned based upon interest rates applied to unpaid principal using the simple interest method. Accrual of interest on loans is discontinued when in the judgment of management the collectibility of principal or interest becomes doubtful or when a loan becomes contractually past due 90 days with respect to principal or interest. Past due status is based on the contractual terms of the loan. The accrual of interest on residential mortgage loans, however, may continue even though they are 90 days past due if management deems it appropriate, provided that the loans are well secured and in the process of collection. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

When a loan is placed on non-accrual status, all interest previously accrued is reversed against current period interest income. Interest subsequently received on non-accrual loans is either applied against principal or recorded as income based on management's judgment as to the collectibility of principal. Interest accruals are resumed on such loans only when they are brought fully current as to principal and interest and when, in the judgment of management, the loans are estimated to be fully collectible.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount is amortized over the contractual term of the loan as an adjustment of yield. In addition, discounts related to fair value adjustments for loan receivables acquired in a business combination or asset purchase are accreted into earnings over the contractual term as an adjustment of yield. If acquired loans experience credit quality deterioration after acquisition, the Company evaluates the difference between the contractually required payments at acquisition and the cash flows expected to be collected. Changes in the expected cash flows from the date of acquisition will impact the accretable yield and may also result in a charge to the provision for loan losses to the extent the cash flow shortfall is greater than the non-accretable amount.

**Allowance for Loan Losses**

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance

F-10

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The adequacy of the allowance for loan losses is evaluated on a quarterly basis by management. Factors considered in evaluating the adequacy of the allowance include prior loss experience, current economic conditions and their effect on borrowers, the composition and size of the loan portfolio, trends in nonperforming loans, classified assets, and delinquency rates and the performance of individual loans in relation to contractual terms. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on judgments different from those of management.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructure ( TDR ). This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest or extending the maturity date or a partial forgiveness of debt. Restructured loans are returned to accrual status after the borrower demonstrates the ability to pay under the restructured terms through a sustained period of repayment performance, which is generally six months. All TDRs are initially classified as impaired.

The allowance consists of specific, general and unallocated components, as further described below.

F-11

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

**Specific component**

The specific component relates to loans that are classified as impaired. A specific allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of the loan. Groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential real estate, home equity and consumer loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

The Company has established a Business Banking unit within its Commercial Lending Department. The portfolio is made up of both commercial and industrial loans less than \$250 and commercial real estate loans less than \$500 which are managed by exception. This grouping of loans is considered a homogenous pool of loans and collectively evaluated for impairment. Accordingly, the Company does not separately identify individual loans within this unit for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

**General component**

The general component is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: C&I, commercial real estate, construction, business banking C&I and commercial real estate, residential real estate, home equity and consumer. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each loan class. This historical loss factor for each loan class is adjusted for the following qualitative factors: the levels/trends in delinquencies and non-accruals; levels and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience, ability and depth of lending management and staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. This analysis establishes factors that are applied to each loan class to determine the amount of the general component of the allowance for loan losses. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2013.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Relevant risk characteristics are as follows:



Commercial and industrial loans (including business banking) Loans in these segments are made to businesses. Generally these loans are secured by assets of the business and repayment

F-12

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer and/or business spending, may have an effect on the credit quality in these loan segments.

**Commercial real estate (including business banking)** Loans in these segments include income-producing investment properties and owner-occupied real estate used for business purposes. The underlying properties are generally located in our primary market area. The cash flows of the income-producing investment properties may be adversely impacted by a downturn in the economy as vacancy rates may increase, which in turn, will have an effect on credit quality. Generally management obtains annual financial information for borrowers with loans in excess of \$250 in these segments. In the case of owner-occupied real estate used for business purposes, a weakened economy and resultant decreased consumer and/or business spending may have an adverse effect on credit quality.

**Construction loans** Loans in this segment primarily include land loans to local individuals, contractors and developers for developing the land for sale or for making improvements thereon. Repayment is derived from sale of the lots/units including any pre-sold units. Credit risk is affected by market conditions, time to sell at an adequate price, whether initial estimates of value are accurate and cost overruns. To a lesser extent this class includes commercial development projects we finance which in most cases have an interest-only phase during construction and then convert to permanent financing. Credit risk is affected by cost overruns, market conditions and the availability of permanent financing, to the extent such permanent financing is not being provided by us.

**Residential real estate** Loans in this segment are made to and secured by one- to four-family 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, may have an effect on the credit quality in this loan class. The Company generally does not originate loans with a loan-to-value ratio greater than 95 percent and does not originate subprime loans.

**Home equity loans** Loans in this segment are made to and secured by one- to four-family 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, may have an effect on the credit quality in this loan segment.

Consumer loans Loans in this segment may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan (such as automobile or mobile home). The overall health of the

F-13

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

economy, including unemployment rates and housing prices, may have an effect on the credit quality in this loan segment.

Loans acquired with evidence of credit quality deterioration since origination and for which it is probable at purchase that the Company will be unable to collect all contractually required payments are accounted for as required by and in accordance with the Receivables Topic of Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ), Loans and Debt Securities Acquired with Deteriorating Credit Quality (ASC 310). Evidence of credit quality deterioration as of the purchase date may include statistics such as past due status, refreshed borrower credit scores and refreshed loan-to-value ( LTV ), some of which are not immediately available as of the purchase date. The Company continues to evaluate this information and other credit-related information as it becomes available. ASC 310 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the Company's initial investment in loans if those differences are attributable, at least in part, to credit quality.

The initial fair values for loans within the scope of ASC 310 are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. The Company estimates the cash flows expected to be collected at acquisition using internal credit risk, interest rate and prepayment risk models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and payment speeds.

**Unallocated component**

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

**Reserve for Unfunded Commitments**

The Company also maintains a reserve for unfunded credit commitments to provide for the risk of loss inherent in these arrangements. The reserve is determined using a methodology similar to the analysis of the allowance for loan

losses, taking into consideration probabilities of future funding requirements. The reserve for unfunded commitments is included in other liabilities and was \$142 and \$213 at December 31, 2013 and 2012.

F-14

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

**Goodwill**

Goodwill is measured as the excess of the cost of a business acquisition over the sum of the amounts assigned to identifiable tangible and intangible assets acquired less liabilities assumed. Goodwill is not amortized but is assessed for impairment annually or more frequently if circumstances warrant.

Management has the option of first assessing qualitative factors, such as events and circumstances, to determine whether it is more likely than not, meaning a likelihood of more than 50%, that the value of a reporting unit is less than its carrying amount. If, after considering all relevant events and circumstances, management determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing an impairment test is unnecessary. For the year ended December 31, 2013, management determined that it was not more likely than not that the fair value of the reporting unit (the consolidated Company) was less than its carrying amount. If management had determined otherwise, the following two-step process would have been completed to determine the impairment and necessary write-down of goodwill.

The first step ( Step 1 ) is used to identify potential impairment, and involves comparing the reporting unit's estimated fair value to its carrying amount, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying amount, goodwill is not deemed to be impaired. Should the carrying amount of the reporting unit exceed its estimated fair value, an indicator of impairment is deemed to exist and a second step is performed to measure the amount of such impairment, if any. The second step ( Step 2 ) involves calculating the implied fair value of goodwill. The implied fair value of goodwill is determined in a manner similar to how the amount of goodwill is determined in a business combination (i.e. by measuring the excess of the estimated fair value, as determined in Step 1, over the aggregate estimated fair values of the individual assets, liabilities, and identifiable intangibles as of the impairment testing date). If the implied fair value of goodwill exceeds the carrying amount of goodwill assigned to the reporting unit, no impairment exists. If the carrying amount of goodwill exceeds the implied fair value of the goodwill, an impairment loss is recorded in an amount equal to such excess. An impairment loss cannot exceed the carrying amount of goodwill, and the loss (write-down) establishes a new carrying amount for the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which are dependent on internal forecasts, estimation of the long-term rate of growth, the period over which cash flows will occur, and determination of our cost of capital.

Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions related to goodwill impairment.

F-15

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

**Business Segments**

As a community oriented financial institution, substantially all of the Company's operations involve the delivery of loan and deposit products to customers. Management makes operating decisions and assesses performance based on an ongoing review of these community-banking operations, which constitutes the Company's only operating segment for financial reporting purposes.

**Bank-owned Life Insurance**

Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value net of any deferred fees or loans. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statements of net income and are not subject to income taxes.

**Off-balance Sheet Financial Instruments**

In the ordinary course of business, the Company enters into off-balance sheet financial instruments, consisting primarily of credit related financial instruments. These financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

**Earnings Per Share**

Basic earnings per share have been calculated by dividing net income by weighted average shares outstanding before any dilution and adjusted to exclude the weighted average number of unallocated shares held by the United Bank Employee Stock Ownership Plan (the ESOP). Diluted earnings per share have been calculated by dividing net income by weighted average shares outstanding after giving effect to the potential dilution that could occur if potential common shares were converted into common stock using the treasury stock method.

**Other Real Estate Owned**



Other real estate owned ( OREO ) is comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. OREO is held for sale and is initially recorded at fair value, less cost to sell, at the date of foreclosure, establishing a new cost basis. Losses arising from the acquisition of such properties are charged against the allowance for loan losses. Operating expenses are charged to current period operations as incurred. Gains and losses upon disposition are reflected in income as realized.

F-16

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

Foreclosed assets held for sale are recorded at the lower of fair value less estimated costs to sell or cost. Subsequent changes in the fair value of the foreclosed assets are reflected through a valuation allowance.

**Premises and Equipment**

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation. Depreciation is computed for financial reporting purposes on the straight-line method over the estimated useful life of each type of asset. Leasehold improvements are amortized on the straight-line method over the shorter of the lease term, including consideration of renewal options, or the estimated useful life of the asset. The cost of maintenance and repairs is charged against income as incurred. The Company reviews for possible impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Transfers of Financial Assets**

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets.

During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation loan or the government guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

**Securities Sold Under Agreements to Repurchase**

The Company accounts for securities sold under agreements to repurchase as secured borrowings as the Company maintains effective control over the transferred assets. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection

F-17

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

**Retirement Benefits**

The Company has established a defined contribution plan for eligible employees. The Company matches employee contributions up to 5% of an employee's qualified compensation.

In 2007, the Company established an unfunded Supplemental Executive Retirement Plan (SERP) for certain employees that provides benefits that cannot be paid from a qualified retirement plan due to Internal Revenue Code restrictions. This plan is nonqualified under the Internal Revenue Code and assets used to fund benefit payments are not segregated from other assets of the Company. Therefore, in general, a participant's or beneficiary's claim to benefits under these plans is as a general creditor. The Company recognizes the plan's un-funded status as a liability with an offsetting adjustment to Accumulated Other Comprehensive Income (AOCI) to the extent not previously recognized in earnings. Actuarial gains and losses and prior service costs or credits are recognized as a component of AOCI.

As part of the acquisition of New England Bancshares, Inc. (further described in Note B), the Company assumed a defined benefit multi-employer pension plan. Disclosures for this plan are provided in Note M.

**Income Taxes**

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the tax consequences attributable to the temporary differences between the financial statement carrying amount and the tax bases of the Company's assets and liabilities and certain tax carryforwards at enacted tax rates.

The provision for deferred income taxes is the result of changes in deferred tax assets and liabilities. A valuation allowance is recorded against deferred tax assets when management deems a portion of the asset to be more likely than not unrealizable. The Company's valuation allowance is reviewed and adjustments are made to the valuation allowance based on management's judgments relating to the realizability of the deferred tax asset. It is management's

belief that it is more likely than not that the reversal of deferred tax liabilities and results of future operations will generate sufficient taxable income to realize the deferred tax assets. Therefore, no valuation allowance was necessary at December 31, 2013 or 2012 for deferred tax assets.

F-18

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The Company reports interest and penalties associated with tax obligations in other non-interest expense. The Company does not have any uncertain tax positions at December 31, 2013 and 2012 which require accrual or disclosure.

The Company's income tax returns are subject to review and examination by federal and state taxing authorities. The Company is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2010 through 2013. The years open to examination by state taxing authorities vary by jurisdiction. No years prior to 2010 are open.

**Stock Compensation Plan**

Share-based compensation costs are based on the grant date fair value and these costs are recognized over the requisite vesting period. For all of our stock option grants, the fair value of each grant was estimated at the date of grant using the Black-Scholes option pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield and employee exercise behavior. Expected volatilities utilized in the model are based on the historic volatility of the Company's stock price. The risk free interest rate is derived from the U.S. Treasury Yield curve in effect at the time of the grant. The model incorporates exercise and post-vesting forfeiture assumptions based on an analysis of historical data.

**Employee Stock Ownership Plan**

The Company's ESOP was terminated on December 31, 2012. Prior to this, compensation expense for the ESOP was recorded at an amount equal to the shares allocated by the ESOP multiplied by the average fair market value of the shares during the period. The Company recognized compensation expense ratably over the year based upon the Company's estimate of the number of shares expected to be allocated by the ESOP. Unearned compensation applicable to the ESOP was reflected as a reduction of stockholders' equity in the consolidated balance sheets. The difference between the average fair market value and the cost of the shares allocated by the ESOP was recorded as an adjustment

to additional paid-in capital. Cash dividends received on shares held in suspense were applied to the scheduled annual debt payment.

F-19

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued****Treasury Stock**

Common stock shares repurchased are recorded as treasury stock at cost.

**Comprehensive Income**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of stockholders' equity, such items, along with net income, are components of comprehensive income.

The components of accumulated other comprehensive income (loss) are as follows:

	<b>Gross Amount</b>	<b>Tax Effect</b>	<b>Net of Tax</b>
<b>December 31, 2013:</b>			
Unrealized loss on securities available for sale	\$ (501)	\$ 213	\$ (288)
Pension liability	(1,358)	555	(803)
<b>Total accumulated other comprehensive loss</b>	<b>\$ (1,859)</b>	<b>\$ 768</b>	<b>\$ (1,091)</b>
<b>December 31, 2012:</b>			
Unrealized gain on securities available for sale	\$ 10,147	\$ (3,847)	\$ 6,300
Pension liability	(1,432)	533	(899)
<b>Total accumulated other comprehensive income</b>	<b>\$ 8,715</b>	<b>\$ (3,314)</b>	<b>\$ 5,401</b>

**Advertising Costs**



Advertising costs are expensed as incurred.

**Reclassifications**

Amounts reported for prior periods are reclassified as necessary to be consistent with the current-period presentation.

**Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This Update requires

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line item of net income. The Company adopted this ASU in the first quarter of 2013 and there was no impact on the Company's consolidated financial results as the amendments relate only to disclosures in the consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)*. This Update provides that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect that the adoption of this ASU will have an impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-01, *Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*. This update eliminates the effective yield election and permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Those not electing the proportional amortization method would account for the investment using the equity method or cost method. The amendments in this ASU should be applied retrospectively to all periods presented. The amendments in this ASU are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company is currently evaluating the impact of adopting this ASU, but does not expect that it will have a material

effect on the Company's consolidated financial statements.

F-21

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Concluded**

In January 2014, the FASB issued ASU No. 2014-04, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company is currently evaluating the impact if adopting this ASU, but does not expect that it will have a material effect on the Company's consolidated financial statements.

**NOTE B MERGERS**

On November 15, 2013, the Company and Rockville Financial, Inc. ( "Rockville Financial" ), the parent company of Rockville Bank ( "Rockville Bank" ), announced the signing of a definitive agreement under which Rockville Financial will acquire the Company in an all-stock transaction valued at \$369,000, based on the closing price of Rockville Financial common stock of \$13.62 on November 14, 2013.

Under the terms of the definitive merger agreement, the Company's shareholders will receive 1.3472 shares of Rockville Financial common stock for each share of the Company's common stock. Upon closing, Rockville Financial shareholders will own approximately 49% of stock in the combined company and United Financial Bancorp, Inc. shareholders will own approximately 51%.

The transaction, which has been approved by the boards of directors of both the Company and Rockville Financial, is expected to close by mid-year 2014. The transaction is subject to approval by shareholders from both companies, regulatory approval and other customary closing conditions.

On November 16, 2012, the Company acquired New England Bancshares, Inc. ( NEBS ), the holding company for New England Bank. The transaction qualified as a tax-free

F-22

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE B MERGERS Continued**

reorganization for federal income tax purposes. The final consideration paid in the transaction to stockholders of NEBS consisted of 5,559,495 shares of United Financial common stock and \$2,337 in cash, including \$2,318 paid to holders of options to purchase NEBS shares. Based upon the Company's \$14.24 per share closing price on November 16, 2012, the transaction was valued at approximately \$81,504.

The Company recorded merger and acquisition expenses associated with the aforementioned transactions of \$879 and \$4,952, during the years ended December 31, 2013 and 2012, respectively.

The Company accounted for the aforementioned NEBS transaction using the acquisition method pursuant to FASB ASC 805 Business Combinations (ASC 805). The Company's results of operations include NEBS from the date of acquisition. Additionally, ASC 805 requires an acquirer to recognize the assets acquired and the liabilities assumed at fair value as of the acquisition date.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition.

<b>Assets:</b>	
Cash	\$ 68,926
Investments	53,430
Loans	553,983
Premises and equipment	5,985
Goodwill	31,660
Core deposit intangible	3,730
Other real estate owned	1,471
Other assets	26,629
 Total Assets Acquired	 745,814
<b>Liabilities:</b>	
Deposits	596,994
Borrowings	63,533
Other liabilities	3,783

Total Liabilities Assumed	664,310
Net Assets Acquired	\$ 81,504

F-23

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE B MERGERS Concluded**

As noted above, the Company acquired loans with a fair value of \$553,983. Included in this amount was \$9,911 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. In accordance with the Loans and Debt Securities Acquired with Deteriorating Credit Quality section of FASB ASC 310 Receivables, the Company recorded a non-accretable credit discount of \$2,870, which is defined as the loan's 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 loan's credit quality at the acquisition date. As of December 31, 2013 and 2012, the carrying amount of these loans with evidence of credit deterioration at the acquisition date was \$4,457 and \$7,024 and the remaining non-accretable discount was \$1,243 and \$2,870, respectively.

**NOTE C RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS**

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2013 and 2012, these reserve balances amounted to \$4,012 and \$6,990, respectively.



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE D INVESTMENT SECURITIES**

The amortized cost and fair values of securities classified as available for sale and held to maturity are as follows:

	Amortized Cost	Gain	Unrealized Losses	Fair Value
<b>Securities Available for Sale</b>				
<b>December 31, 2013:</b>				
Debt Securities:				
Government-sponsored enterprises	\$ 2,099	\$ -	\$ (248)	\$ 1,851
Government-sponsored and government- guaranteed mortgage-backed securities	236,004	4,836	(4,386)	236,454
Municipal bonds	25,902	269	(1,453)	24,718
Corporate bonds	1,125	481	-	1,606
Total	\$ 265,130	\$ 5,586	\$ (6,087)	\$ 264,629
<b>Securities Available for Sale</b>				
<b>December 31, 2012:</b>				
Debt Securities:				
Government-sponsored enterprises	\$ 3,234	\$ 2	\$ (3)	\$ 3,233
Government-sponsored and government- guaranteed mortgage-backed securities	248,370	9,836	(444)	257,762
Private label mortgage-backed securities	2,568	54	(56)	2,566
Municipal bonds	28,713	595	(481)	28,827
Corporate bonds	1,290	644	-	1,934
Total	\$ 284,175	\$ 11,131	\$ (984)	\$ 294,322

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE D INVESTMENT SECURITIES Continued**

	Amortized Cost	Unrealized		Fair Value
		Gain	Losses	
<b><u>Securities Held to Maturity</u></b>				
<b>December 31, 2013:</b>				
Government-sponsored and government- guaranteed mortgage-backed securities	\$ 78,686	\$ 1,130	\$ (767)	\$ 79,049
Private label mortgage-backed securities	50	1	-	51
Industrial revenue bonds	26,361	-	-	26,361
State of Israel bonds	175	-	-	175
Municipal bonds	5,913	166	-	6,079
Total	\$ 111,185	\$ 1,297	\$ (767)	\$ 111,715
<b><u>Securities Held to Maturity</u></b>				
<b>December 31, 2012:</b>				
Government-sponsored and government- guaranteed mortgage-backed securities	\$ 57,986	\$ 2,214	\$ -	\$ 60,200
Private label mortgage-backed securities	79	2	-	81
Industrial revenue bonds	18,847	-	-	18,847
State of Israel bonds	150	-	-	150
Municipal bonds	5,924	472	-	6,396
Total	\$ 82,986	\$ 2,688	\$ -	\$ 85,674

The Company's portfolio of mortgage-backed securities, which represent interests in pools of residential mortgage loans, consists of securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), and the Government National Mortgage Association (Ginnie Mae), all of which are federal government owned or sponsored agencies.

As of December 31, 2013, the Bank has pledged securities with an amortized cost of \$124,699 and a fair value of \$126,347 to secure municipal deposits, reverse repurchase agreements, treasury, tax and loan deposits at the Federal Reserve Bank of Boston and customers' repurchase agreements. Additionally, there is a blanket lien on certain securities to collateralize borrowings from the FHLBB, as discussed further in Note H.

Gross unrealized losses and fair values at December 31, 2013 and 2012 aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position follow:

F-26

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE D INVESTMENT SECURITIES Continued**

	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Number of Securities	Total Fair Value	Unrealized Losses
<b>2013:</b>							
<b>Securities Available for Sale</b>							
Debt Securities:							
Government-sponsored enterprises	\$ 1,851	\$ (248)	\$ -	\$ -	5	\$ 1,851	\$ (248)
Government-sponsored and government-guaranteed mortgage-backed securities	101,067	(3,206)	32,066	(1,180)	132	133,133	(4,386)
Municipal bonds	8,208	(476)	10,963	(977)	47	19,171	(1,453)
Total	\$ 111,126	\$ (3,930)	\$ 43,029	\$ (2,157)	184	\$ 154,155	\$ (6,087)

**Securities Held to Maturity**

Government-sponsored and government-guaranteed mortgage-backed securities	\$ 36,488	\$ (767)	\$ -	\$ -	10	\$ 36,488	\$ (767)
Total	\$ 36,488	\$ (767)	\$ -	\$ -	10	\$ 36,488	\$ (767)

	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Number of Securities	Total Fair Value	Unrealized Losses
<b>2012:</b>							
<b>Securities Available for Sale</b>							
Debt Securities:							
Government-sponsored enterprises	\$ 1,998	\$ (3)	\$ -	\$ -	5	\$ 1,998	\$ (3)
Government-sponsored and government-guaranteed mortgage-backed securities	41,537	(444)	-	-	81	41,537	(444)
Private label mortgage-backed securities	1,671	(56)	-	-	9	1,671	(56)
Municipal bonds	16,293	(481)	-	-	38	16,293	(481)
Total	\$ 61,499	\$ (984)	\$ -	\$ -	133	\$ 61,499	\$ (984)

There were no securities classified as held to maturity in an unrealized loss position as of December 31, 2012.

Management evaluated the securities in the preceding tables and has determined that no declines in the fair value of the Company's security portfolio are deemed to represent other-than-temporary impairment ( OTTI ) as of December 31, 2013. In 2012, management recognized a pre-tax, non-cash OTTI charge of \$165 for on a corporate bond. Management based its assessment on the issuer's credit rating, credit outlook, payment status and financial condition, the length of time the bond had been in a loss position, the size of the loss position and other meaningful information. The OTTI charge was credit related and charged to

F-27

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE D INVESTMENT SECURITIES Concluded**

earnings, with no amount recognized in other comprehensive income. Management has concluded that no other securities have experienced impairments that are other-than-temporary.

In its evaluation, management considered the types of securities, including if the securities were U.S. Government issued, the credit rating on the securities, credit outlook, payment status and financial condition, the length of time the bond has been in a loss position, the size of the loss position, our intent and ability to hold the securities to expected recovery of value and other meaningful information. The Company does not intend to sell any impaired debt securities and is unlikely to be required to sell any impaired security before its maturity or market price recovery.

Realized gains and losses and the proceeds from sales of securities available for sale are as follows for the years ended December 31:

	2013	2012	2011
Proceeds from sales/calls	\$ 6,262	\$ 7,846	\$ 2,500
Gross gains	309	267	1
Gross losses	(82)	(13)	-

The scheduled maturities of debt securities held to maturity and available for sale at December 31, 2013, are shown below. Actual maturities will differ from contractual maturities because issuers generally have the right to call or prepay obligations with or without call or prepayment penalties.

	At December 31, 2013			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ -	\$ -	\$ 125	\$ 125
Due from one year to five years	2,096	2,155	810	843
Due from five years to ten years	15,870	15,237	1,534	1,582

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Due after ten years	11,160	10,783	29,980	30,065
	29,126	28,175	32,449	32,615
Mortgage-backed securities	236,004	236,454	78,736	79,100
	\$ 265,130	\$ 264,629	\$ 111,185	\$ 111,715

Maturities are based on the final contractual payment dates, and do not reflect the impact of potential prepayments or early redemptions. Such securities have been classified within the category that represents the final maturity date.

F-28

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET**

The components of loans are as follows at December 31:

	<b>2013</b>	<b>2012</b>
<b><u>Commercial:</u></b>		
Commercial and industrial	\$ 293,094	\$ 306,192
Commercial real estate	862,596	814,692
Construction	62,811	52,778
<b><u>Consumer:</u></b>		
Residential real estate	466,604	441,874
Home equity	179,502	179,039
Consumer	17,232	21,501
Total loans	1,881,839	1,816,076
Net deferred loan costs and fees	2,640	3,414
Allowance for loan losses	(13,413)	(12,089)
Loans, net	\$ 1,871,066	\$ 1,807,401

The Company's lending activities are conducted principally in Hampden, Hampshire and Worcester counties of Massachusetts and Hartford, Tolland and New Haven counties of Connecticut. The Company originates single family and multi-family residential loans, commercial real estate loans, commercial loans, and a variety of consumer loans. In addition, the Company grants loans for the construction of residential homes, multi-family properties and commercial real estate properties. Most loans originated by the Company are collateralized by real estate. The Company also from time-to-time purchases commercial loans secured by real estate. The ability and willingness of the single family residential, commercial and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the borrowers' geographic areas and real estate values. The ability and willingness of commercial real estate and construction loan borrowers to honor their repayment commitments is generally dependent on the health of the real estate economic sector in the borrowers' geographic areas and the general economy.

The Company has transferred a portion of its originated commercial real estate, construction and commercial and industrial loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore



not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2013 and 2012, the Company was servicing loans for participants aggregating \$81,036 and \$57,722, respectively.

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

As of December 31, 2013 and 2012, there were two transfers of financial assets that do not meet the requirement of a participating interest and are accounted for as secured borrowings in the amount of \$2,589 and \$2,444, respectively. Secured borrowings are accounted for as long-term debt on the consolidated balance sheets.

Certain officers and directors of the Company and certain corporations and individuals related to such persons, incurred indebtedness, in the form of loans, as customers. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers unrelated to the Company and did not involve more than the normal risk of collectibility.

The following table summarizes the Company's lending activity with its directors and executive officers all of which was conducted with terms consistent with those offered to unrelated parties:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Beginning balance	\$ 3,305	\$ 2,230
New loans	361	1,670
Repayments	(487)	(595)
Ending balance	\$ 3,179	\$ 3,305

In 2013 and 2012, the Company recognized proceeds of \$8,343 and \$18,193, respectively, from sales of residential mortgage loans originated for the purpose of selling them in the secondary market. Loans serviced by the Company for others totaled \$87,372 and \$98,155 at December 31, 2013 and 2012, respectively. The balances of mortgage servicing rights related to such loans were not material to the consolidated financial statements at December 31, 2013 and 2012.

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

A summary of the activity pertaining to the allowance for loan losses for the years ended December 31, 2013, 2012 and 2011 is as follows:

	Commercial and Industrial	Commercial Real Estate	Construction	Business Banking Commercial and Industrial	Commercial Real Estate	Residential	Home Equity	Consumer	Unallocated	Total
<b>Balance at December 31, 2010</b>	\$ 2,801	\$ 5,000	\$ 668	\$ -	\$ -	\$ 740	\$ 623	\$ 155	\$ -	\$ 9,987
Charge-offs	(1,556)	(589)	(78)	-	-	(139)	(24)	(6)	-	(2,392)
Recoveries	235	52	3	-	-	-	-	5	-	295
Provision (credit)	1,966	1,109	267	-	-	65	(125)	(40)	-	3,242
<b>Balance at December 31, 2011</b>	3,446	5,572	860	-	-	666	474	114	-	11,132
Charge-offs	(637)	(870)	(127)	(128)	(52)	(246)	(225)	(79)	-	(2,364)
Recoveries	125	45	1	2	-	-	-	9	-	182
Provision (credit)	(254)	750	(24)	914	758	182	134	39	640	3,139
<b>Balance at December 31, 2012</b>	2,680	5,497	710	788	706	602	383	83	640	12,089
Charge-offs	(839)	(1,349)	-	(123)	(122)	(389)	(89)	(67)	-	(2,978)
Recoveries	25	90	-	-	-	60	6	29	-	210
Provision (credit)	1,189	2,070	385	(11)	(51)	532	74	18	(114)	4,092
<b>Balance at December 31, 2013</b>	\$ 3,055	\$ 6,308	\$ 1,095	\$ 654	\$ 533	\$ 805	\$ 374	\$ 63	\$ 526	\$ 13,413

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

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

	Commercial and Industrial	Commercial Real Estate	Construction	Business Banking Commercial and Real Estate		Residential	Home Equity	Consumer	Unallocated	Total
<b>At December 31, 2013:</b>										
Amount of allowance for loan losses for loans individually evaluated for impairment and deemed to be impaired	\$ 28	\$ -	\$ 99	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127
Amount of allowance for loan losses for loans not deemed to be impaired and collectively evaluated for impairment	\$ 3,027	\$ 6,308	\$ 996	\$ 654	\$ 533	\$ 805	\$ 374	\$ 63	\$ 526	\$ 13,286
<b>Financing Receivables:</b>										
Total loans	\$ 261,692	\$ 787,103	\$ 62,811	\$ 31,402	\$ 75,493	\$ 466,604	\$ 179,502	\$ 17,232	\$ -	\$ 1,881,839
Loans individually evaluated for impairment and deemed to be impaired	\$ 4,107	\$ 8,212	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,319
Loans not deemed to be impaired and collectively evaluated for impairment	\$ 257,353	\$ 777,660	\$ 62,532	\$ 31,402	\$ 75,493	\$ 466,604	\$ 179,502	\$ 17,232	\$ -	\$ 1,867,778
Loans acquired with deteriorated credit quality and deemed to be impaired	\$ 232	\$ 1,231	\$ 279	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,742



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

	Commercial and Industrial	Commercial Real Estate	Construction	Business Banking Commercial and Industrial	Commercial Real Estate	Residential	Home Equity	Consumer	Unallocated	Total
<b>At December 31, 2012:</b>										
Amount of allowance for loan losses for loans individually evaluated for impairment and deemed to be impaired	\$ 32	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32
Amount of allowance for loan losses for loans not deemed to be impaired and collectively evaluated for impairment	\$ 2,648	\$ 5,497	\$ 710	\$ 788	\$ 706	\$ 602	\$ 383	\$ 83	\$ 640	\$ 12,057
<b>Financing Receivables:</b>										
Total loans	\$ 272,789	\$ 732,272	\$ 52,778	\$ 33,403	\$ 82,420	\$ 441,874	\$ 179,039	\$ 21,501	\$ -	\$ 1,816,076
Loans individually evaluated for impairment and deemed to be impaired	\$ 5,943	\$ 3,882	\$ 591	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,416
Loans not deemed to be impaired and collectively evaluated for impairment	\$ 266,091	\$ 722,470	\$ 51,838	\$ 33,403	\$ 82,420	\$ 441,874	\$ 179,039	\$ 21,501	\$ -	\$ 1,798,636
Loans acquired with deteriorated credit quality and deemed to be impaired	\$ 755	\$ 5,920	\$ 349	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,024



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

The following is a summary of past due loans at December 31, 2013 and 2012:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Financing Receivables	90 Days or More Past Due and Accruing
<b>At December 31, 2013:</b>							
<b>Commercial:</b>							
Commercial and industrial	\$ 2,696	\$ 753	\$ 2,431	\$ 5,880	\$ 287,214	\$ 293,094	\$ -
Commercial real estate	6,169	2,841	4,909	13,919	848,677	862,596	-
Construction	160	116	279	555	62,256	62,811	-
<b>Consumer:</b>							
Residential real estate	8,292	2,525	3,180	13,997	452,607	466,604	-
Home equity	1,074	239	1,157	2,470	177,032	179,502	-
Consumer	329	129	64	522	16,710	17,232	-
Total	\$ 18,720	\$ 6,603	\$ 12,020	\$ 37,343	\$ 1,844,496	\$ 1,881,839	\$ -
<b>At December 31, 2012:</b>							
<b>Commercial:</b>							
Commercial and industrial	\$ 3,974	\$ 1,155	\$ 4,442	\$ 9,571	\$ 296,621	\$ 306,192	\$ -
Commercial real estate	6,326	1,136	5,351	12,813	801,879	814,692	-
Construction	2,853	-	-	2,853	49,925	52,778	-
<b>Consumer:</b>							
Residential real estate	11,760	2,450	2,615	16,825	425,049	441,874	-
Home equity	1,044	161	137	1,342	177,697	179,039	-
Consumer	329	35	120	484	21,017	21,501	-
Total	\$ 26,286	\$ 4,937	\$ 12,665	\$ 43,888	\$ 1,772,188	\$ 1,816,076	\$ -



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

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

	At December 31, 2013			At December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>With no related allowance recorded:</b>						
<b>Commercial:</b>						
Commercial and industrial	\$ 3,449	\$ 3,471		\$ 6,666	\$ 6,997	
Commercial real estate	9,443	10,842		9,802	10,736	
Construction	-	-		940	940	
<b>Consumer:</b>						
Residential real estate	-	-		-	-	
Home Equity	-	-		-	-	
Consumer	-	-		-	-	
<b>Total</b>	<b>\$ 12,892</b>	<b>\$ 14,313</b>		<b>\$ 17,408</b>	<b>\$ 18,673</b>	
<b>With an allowance recorded:</b>						
Commercial and industrial	890	890	\$ 28	32	32	\$ 32
Commercial real estate	-	-	-	-	-	-
Construction	279	279	99	-	-	-
<b>Total</b>	<b>\$ 1,169</b>	<b>\$ 1,169</b>	<b>\$ 127</b>	<b>\$ 32</b>	<b>\$ 32</b>	<b>\$ 32</b>
<b>Total impaired loans</b>	<b>\$ 14,061</b>	<b>\$ 15,482</b>	<b>\$ 127</b>	<b>\$ 17,440</b>	<b>\$ 18,705</b>	<b>\$ 32</b>

Loans acquired from NEBS and CNB Financial Corp. ( CNB Financial ) that are impaired at December 31, 2013 and 2012, are included in the above table.



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

The following summaries of information pertaining to impaired and non-accrual loans:

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Average Recorded Investment on Impaired Loans	Interest Income  Recognized	Recognized on a Cash Basis	Average Recorded Investment on Impaired Loans	Interest Income  Recognized	Recognized on a Cash Basis
<b>Commercial:</b>						
Commercial and industrial	\$ 5,985	\$ 512	\$ 332	\$ 4,725	\$ 21	\$ 21
Commercial real estate	6,864	181	10	4,158	72	17
Construction	693	7	-	735	25	-
<b>Consumer:</b>						
Residential real estate	-	39	39	-	5	5
Home Equity	-	9	9	-	-	-
Consumer	-	2	2	-	1	1
Total	\$ 13,542	\$ 750	\$ 392	\$ 9,618	\$ 124	\$ 44

	Year Ended December 31, 2011		
	Average Recorded Investment on Impaired Loans	Interest Income  Recognized	Recognized on a Cash Basis
<b>Commercial:</b>			
Commercial and industrial	\$ 3,580	\$ 36	\$ 36
Commercial real estate	4,370	152	147
Construction	1,011	40	28

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<b>Consumer:</b>			
Residential real estate	1,536	63	63
Home Equity	82	7	7
Consumer	94	7	7
<b>Total</b>	<b>\$ 10,673</b>	<b>\$ 305</b>	<b>\$ 288</b>

No additional funds are committed to be advanced in connection with impaired and non-accrual loans.

F-36

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

The following is a summary of non-accrual loans as of December 31, 2013 and 2012:

	December 31,	
	2013	2012
<b>Commercial:</b>		
Commercial and industrial	\$ 2,663	\$ 5,538
Commercial real estate	8,640	5,596
Construction	279	349
<b>Consumer:</b>		
Residential real estate	3,212	2,970
Home equity	1,157	137
Consumer	64	120
<b>Total</b>	<b>\$ 16,015</b>	<b>\$ 14,710</b>

The following represents modifications that were deemed to be troubled debt restructures for the years ended December 31, 2013 and 2012:

	Number of Contracts	Outstanding Recorded Investment Pre-Modification	Post-Modification
<b>Troubled Debt Restructurings</b>			
<b>For the Year Ended December 31, 2013:</b>			
Commercial and industrial	3	\$ 2,013	\$ 1,580
Commercial real estate	2	2,452	2,742
<b>Total</b>	<b>5</b>	<b>\$ 4,465</b>	<b>\$ 4,322</b>
<b>For the Year Ended December 31, 2012:</b>			
Commercial and industrial	1	\$ 140	\$ 140
Commercial real estate	4	1,211	1,211

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Construction	2	613	613
Total	7	\$ 1,964	\$ 1,964

F-37

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

In 2013, the modifications provided are to three unrelated commercial borrowers. One of the restructures was part of an agreement with the customer whereby the Bank received a cash paydown, the maturity was extended and the interest rate was lowered. In the second restructure, the maturity was extended and the interest rate was lowered. In the third restructure, debt was consolidated, new monies were extended to pay taxes and the maturity was extended.

In 2012, the modifications provided on one commercial and industrial loan and four commercial real estate loans are related to one borrower relationship. The modification extended the maturity of demand notes that had reached maturity. The modifications provided on the two construction loans are related to one borrower relationship. The modification extended the maturity of demand notes that had reached maturity. Management performs a discounted cash flow calculation to determine the amount of impaired reserve required on each of the troubled debt restructures. Any reserve required is recorded through the provision for loan losses.

As of December 31, 2013 and 2012, there have been no TDRs that have subsequently defaulted (defined as thirty or more days past due) within one year of modification.

At December 31, 2013, the Bank was committed to advance an additional \$41 on TDR loans.

**CREDIT QUALITY INFORMATION**

The Company utilizes a nine grade risk rating system for commercial and industrial, commercial real estate and construction loans as follows:

Pass: Loans in these five categories are considered low to average risk.

Special Mention: Loans in this category portray one or more weaknesses that may be tolerated in the short run. Assets in this category are currently protected but show signs of potential weakness and are being closely monitored by management.

Substandard: Loans in this category are considered inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. There is a distinct possibility that the Company will sustain some

loss if the weakness is not corrected.

Doubtful: Loans in this category have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly

F-38



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

questionable and improbable. The possibility of loss is extremely high, however, its classification as an estimated loss is deferred until a more exact determination of the extent of the loss is ascertained.

Loss: Loans in this category are considered uncollectible and of such little value that their continuance as loans is not warranted.

The Company does not assign risk ratings to residential real estate, home equity and consumer loans unless they are contractually past due 90 days or more or where legal action has commenced against the borrower. All other consumer loans are charged off when they become contractually past due 120 days. Those loans not assigned a rating are considered pass .

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial and industrial, commercial real estate and construction loans. Semi-annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

The following table presents the Company's loan class by internally assigned grades:

	At December 31, 2013			Total
	Commercial & Industrial	Commercial Real Estate	Construction	
<b>Commercial:</b>				
Grade:				
Pass	\$ 268,359	\$ 811,192	\$ 58,263	\$ 1,137,814
Special Mention	6,175	24,185	1,428	31,788
Substandard	18,495	27,219	3,120	48,834
Doubtful	65	-	-	65
<b>Total</b>	<b>\$ 293,094</b>	<b>\$ 862,596</b>	<b>\$ 62,811</b>	<b>\$ 1,218,501</b>

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	Residential	Home Equity	Consumer	Total
<b>Consumer:</b>				
Grade:				
Pass	\$ 463,392	\$ 178,344	\$ 17,168	\$ 658,904
Special Mention	-	-	-	-
Substandard	3,212	1,158	64	4,434
Doubtful	-	-	-	-
Total	\$ 466,604	\$ 179,502	\$ 17,232	\$ 663,338

F-39

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Continued**

	At December 31, 2012			
	Commercial & Industrial	Commercial Real Estate	Construction	Total
<b>Commercial:</b>				
Grade:				
Pass	\$ 275,279	\$ 762,240	\$ 46,196	\$ 1,083,715
Special Mention	14,788	29,092	1,632	45,512
Substandard	15,472	23,360	4,950	43,782
Doubtful	653	-	-	653
Total	\$ 306,192	\$ 814,692	\$ 52,778	\$ 1,173,662
	Residential	Home Equity	Consumer	Total
<b>Consumer:</b>				
Grade:				
Pass	\$ 439,201	\$ 178,920	\$ 21,382	\$ 639,503
Special Mention	-	-	-	-
Substandard	2,673	119	119	2,911
Doubtful	-	-	-	-
Total	\$ 441,874	\$ 179,039	\$ 21,501	\$ 642,414

The following is a summary of loans acquired with evidence of credit deterioration from NEBS as of December 31, 2013:

	Contractual Required Payments Receivable	Cash Expected To Be Collected <sup>(1)</sup>	Non- Accretable Discount	Accretable Yield <sup>(2)</sup>	Loans Receivable
Balance at acquisition date of November 16, 2012	\$ 9,911	\$ 7,041	\$ 2,870	\$ -	\$ 7,041

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2012 Collections	(17)	(17)	-	-	(17)
Balance as of December 31, 2012	9,894	7,024	2,870	-	7,024
2013 Collections	(2)	(2)	-	-	(2)
Impairment	-	(329)	329	-	(329)
Transfer to accretable yield	-	1,264	(1,268)	1,268	1,264
Transfer to business banking unit	(421)	(421)	-	-	(421)
Paid off	(2,934)	(2,242)	(688)	-	(2,242)
Transfer to OREO	(637)	(637)	-	-	(637)
Charged off	(200)	(200)	-	-	(200)
Balance as of December 31, 2013	\$ 5,700	\$ 4,457	\$ 1,243	\$ 1,268	\$ 4,457

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

(2) The Company has not yet recognized any of the accretable yield in earnings.

F-40

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE E LOANS, NET Concluded**

The following is a summary of acquired impaired loan information for CNB Financial as of December 31, 2013:

	<b>Contractual Required Payments Receivable</b>	<b>Cash Expected To Be Collected <sup>(1)</sup></b>	<b>Non- Accretable Difference</b>	<b>Accretable Yield</b>	<b>Loans Receivable</b>
Balance as of December 31, 2010	\$ 1,140	\$ 172	\$ 968	\$ -	\$ 172
2011 Collections	(37)	(37)	-	-	(37)
Impairment	-	(135) <sup>(2)</sup>	-	-	(135)
Transfer to accretable yield	-	-	(100)	100	-
Accretable yield recognized in earnings	-	-	-	(100)	-
Disposition	(1,103)	-	(868)	-	-
Balance as of December 31, 2011, 2012 and 2013	\$ -	\$ -	\$ -	\$ -	\$ -

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

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

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

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

F-41

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE F BANKING PREMISES AND EQUIPMENT**

The composition of banking premises and equipment is as follows at December 31:

	2013	2012	Estimated Useful Lives
Land and improvements	\$ 4,182	\$ 3,642	
Buildings and improvements	17,864	15,140	25-40 Years
Leasehold improvements	2,598	3,078	Lesser of useful life or term of lease
Furniture and equipment	7,343	7,320	3-10Years
Assets under capitalized leases	5,359	5,359	Lesser of lease term or useful life
	37,346	34,539	
Less accumulated depreciation and amortization	(11,760)	(9,475)	
	\$ 25,586	\$ 25,064	

Depreciation and amortization expense, including amortization for capitalized leases, totaled \$2,854, \$1,865 and \$1,320 for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company leases twenty-one of its branches, two ATM facilities, two loan production offices, one financial services office and a new wing added to the main office. These premises and eighteen of the branches are all categorized as operating leases. The Company also entered into capital lease obligations for three of its branches. Rent expense for the years ended December 31, 2013, 2012 and 2011 amounted to \$2,362, \$1,474 and \$1,302, respectively. The leases, which are non-cancelable, expire at various dates through 2034.

Future minimum rental commitments under the terms of these leases are as follows:

Years ending December 31,	Operating Leases	Capital Leases	Total
2014	\$ 2,182	\$ 423	\$ 2,605
2015	2,145	424	2,569
2016	1,935	424	2,359

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2017	1,600	424	2,024
2018	1,404	424	1,828
Thereafter	10,468	4,804	15,272
Total minimum lease payments	\$ 19,734	6,923	\$ 26,657
Less interest included above		(2,384)	
Capitalized lease obligations		\$ 4,539	

F-42



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE G DEPOSITS**

Deposit accounts by type are summarized as follows at December 31:

	<b>2013</b>	<b>2012</b>
Demand	\$ 342,000	\$ 307,302
NOW	92,696	87,983
Savings	342,605	350,188
Money market	435,171	395,293
Certificates of deposit	734,012	707,409
	\$ 1,946,484	\$ 1,848,175

At December 31, 2013, the scheduled maturities of time deposits are as follows:

	<b>Time Deposits</b>		
	<sup>3</sup> <b>\$100</b>	<b>&lt; \$100</b>	<b>Total (1)</b>
2014	\$ 231,928	\$ 196,164	\$ 428,092
2015	90,908	77,119	168,027
2016	32,794	16,844	49,638
2017	28,732	24,720	53,452
2018	22,015	9,828	31,843
Total	\$ 406,377	\$ 324,675	\$ 731,052

(1) Includes brokered deposits in the amount of \$20,045 and excludes the unamortized fair value adjustment balance of \$2,960 recorded in connection with the acquisition of NEBS.

Interest expense on deposits, classified by type, is as follows:

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	Years Ended December 31,		
	2013	2012	2011
NOW	\$ 277	\$ 204	\$ 159
Regular savings	1,196	1,328	1,694
Money market	1,603	1,501	1,963
Certificates of deposit	8,320	7,433	8,633
Total	\$ 11,396	\$ 10,466	\$ 12,449

F-43

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE H SHORT-TERM BORROWINGS****Federal Home Loan Bank of Boston Advances**

There was one FHLBB advance with an original maturity of less than one year in the amount of \$20,000 with a rate of 0.16% at December 31, 2013. At December 31, 2012, there were two FHLBB advances with an original maturity of less than one year that totaled \$30,000 with a weighted average rate of 0.32%. The Company has an available line of credit with the FHLBB at an interest rate that adjusts daily. There were no borrowings against the line of credit at December 31, 2013 and 2012. All borrowings from the FHLBB are secured by a blanket security agreement on qualified collateral, principally mortgage loans and U.S. Government and federal agency securities in an aggregate amount equal to outstanding advances. The Company's unused borrowing capacity with the FHLBB, excluding its available line of credit balance of \$12,000, at December 31, 2013 was approximately \$217,041.

**Repurchase Agreements**

Securities sold under agreements to repurchase include funds borrowed from customers on an overnight basis. These customer repurchase agreements amounted to \$41,555 and \$49,229 at December 31, 2013 and 2012, respectively, at a weighted average rate of 0.33% and 0.57%, respectively. Interest expense for 2013, 2012 and 2011 was \$42, \$55 and \$121, respectively. All of the repurchase agreements are secured by government-sponsored and government-guaranteed mortgage-backed securities.

**NOTE I LONG-TERM DEBT****Federal Home Loan Bank of Boston Advances**

Advances outstanding (together with year of maturity) at December 31, 2013 and 2012 consisted of the following:

	2013		2012	
	Amount (1)	Weighted Average Rate	Amount (1)	Weighted Average Rate
2013	\$ -	-	\$ 39,914	4.05%
2014	13,000	2.90%	13,000	2.90%
2015	8,756	0.55%	-	-

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2016	18,827	1.28%	9,689	1.56%
2017	33,000	2.89%	33,000	2.89%
2018	17,758	2.15%	5,000	3.75%
Thereafter	27,722	1.96%	10,000	1.50%
	\$ 119,063	2.14%	\$ 110,603	3.11%

(1) Excludes the fair value adjustment of \$600 and \$922 at December 2013 and 2012, respectively, recorded in connection with the acquisition of CNB Financial.

F-44

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE I LONG-TERM DEBT Continued**

At December 31, 2013, advances in the amount of \$21,000 are callable at the option of the FHLBB at various dates through 2014.

Subsequent to the acquisition of NEBS in the 2012 period, the Company paid off all of the FHLBB advances that it had acquired. No prepayment expense was recorded on these payoffs as the Company released the fair value adjustment of \$2,299 on these advances to offset the prepayment penalties charged by the FHLBB.

**Secured Borrowings**

As of December 31, 2013 and 2012, there were two transfers of financial assets that do not meet the definition of a participating interest and are accounted for as secured borrowings in the amount of \$2,589 and \$2,444, respectively. Secured borrowings are accounted for as long-term debt on the consolidated balance sheets.

**Reverse Repurchase Agreements**

The Company secured two structured term reverse repurchase agreements in the amount of \$10,000 each through another financial institution in 2008 and 2009. The reverse repurchase agreement entered into in 2008 for \$10,000 matures in 2018, is callable on any quarterly payment date and has a rate of 2.73%. The reverse repurchase agreement entered into in 2009 for \$10,000 matures in 2019, is callable in 2014 and has a rate of 2.44%. Interest expense for 2013, 2012 and 2011 was \$526, \$526 and \$538, respectively. All of the repurchase agreements are secured by government-sponsored and government-guaranteed mortgage-backed securities.

**Subordinated Debentures**

The Company assumed subordinated debt as a result of the acquisition of CNB Financial in 2009 in the form of trust preferred securities issued through a private placement offering with a face amount of \$7,732. The Company recorded a fair value acquisition discount of \$2,383 on November 30, 2009. The remaining unamortized discount was \$1,773 at December 31, 2013. This issue has a maturity date of March 15, 2036 and bears a floating rate of interest that reprices quarterly at the 3-month LIBOR rate plus 1.85%. The interest rate at December 31, 2013 was 2.09%. A special redemption provision allows the Company to redeem this issue at par on March 15, June 15, September 15, or

December 15 of any year subsequent to March 15, 2011.

The Company assumed subordinated debt as a result of the acquisition of NEBS in 2012 in the form of trust preferred securities issued through a private placement offering with a face

F-45

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE I LONG-TERM DEBT Concluded**

amount of \$4,124. The subordinated debt bore a floating rate of interest that repriced quarterly at the 3-month LIBOR rate plus 1.90%. The interest rate at December 31, 2012 was 2.21%. The Company redeemed this issue at par on February 23, 2013.

**NOTE J INCOME TAXES**

The provision for federal and state income taxes is as follows:

	Years Ended December 31,		
	2013	2012	2011
<b>Current tax (benefit) provision:</b>			
Federal	\$ (2,880)	\$ 3,188	\$ 6,177
State	43	1,793	1,700
	(2,837)	4,981	7,877
<b>Deferred tax provision (benefit):</b>			
Federal	7,169	(177)	(3,293)
State	2,130	(1,009)	(906)
	9,299	(1,186)	(4,199)
<b>Provision for income taxes</b>	<b>\$ 6,462</b>	<b>\$ 3,795</b>	<b>\$ 3,678</b>

The following table summarizes the difference between the statutory federal income tax rate and the effective rate:

	Years Ended December 31,		
	2013	2012	2011
Statutory federal income tax rate	35.0%	35.0%	35.0%

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Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	5.9	6.9	3.5
Stock-based compensation	0.5	1.9	0.9
Tax-exempt obligations	(3.5)	(8.5)	(4.1)
Tax credits	(8.1)	(21.6)	(8.0)
Bank owned life insurance	(3.0)	(7.6)	(3.5)
Non-deductible acquisition expenses	0.7	11.9	-
ESOP termination expense	-	28.3	-
Other, net	(0.4)	4.8	0.9
Effective tax rate	27.1%	51.1%	24.7%

F-46



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE J INCOME TAXES Continued**

The components of the net deferred tax asset are as follows:

	December 31,	
	2013	2012
<b>Deferred tax asset:</b>		
Federal	\$ 16,477	\$ 22,632
State	5,084	6,072
	21,561	28,704
<b>Deferred tax liability:</b>		
Federal	(4,416)	(6,989)
State	(2,184)	(1,537)
	(6,600)	(8,526)
Net deferred tax asset:	\$ 14,961	\$ 20,178

The tax effects of each type of income and expense item that give rise to deferred taxes are as follows:

	At December 31,	
	2013	2012
Cash basis of accounting	\$ 232	\$ (410)
Investments:		
Net unrealized loss (gain) on securities available for sale	213	(3,847)
Impairment losses	622	1,056
Partnerships and other investments	(975)	(388)
Retirement benefits	555	533
Depreciation	219	148
Purchase accounting adjustments	373	2,812

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Allowance for loan losses	5,896	4,938
Employee benefit plans	3,582	3,726
Market value adjustment on loans	3,183	10,446
Net operating loss carryforward	1,162	1,162
Other	(101)	2
Net deferred tax asset	\$ 14,961	\$ 20,178

F-47

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE J INCOME TAXES Concluded**

A summary of the change in the net deferred tax asset is as follows:

	At December 31,	
	2013	2012
Balance at beginning of year	\$ 20,178	\$ 14,006
Expense (benefit)	(9,299)	1,186
Recorded due to acquisition of NEBS	-	4,256
Tax effect of changes in accumulated other comprehensive income (loss)	4,082	730
<b>Balance at end of year</b>	<b>\$ 14,961</b>	<b>\$ 20,178</b>

The Bank's base year reserve for loan losses (as of December 31, 1995) will not be recaptured unless the reserve is used for purposes other than for loan losses, such as in a distribution in liquidation or otherwise. Accordingly, the Bank has not recorded a deferred tax liability of approximately \$2,400 relating to approximately \$5,900 of cumulative tax deductions related to loans generated prior to December 31, 1995.

**NOTE K EARNINGS PER SHARE**

The calculation of basic earnings per common share (EPS) and diluted earnings per common share for the years ended December 31, 2013, 2012 and 2011 is presented below.

	Years Ended December 31,		
	2013	2012	2011
Net income	\$ 17,402	\$ 3,628	\$ 11,184
Weighted average common shares applicable to basic EPS (1)	19,779,667	15,234,896	14,929,714
Effect of dilutive potential common shares (2) (3)	293,552	186,881	268,988

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Weighted average common shares applicable to diluted EPS	20,073,219	15,421,777	15,198,702
<b>Earnings per share:</b>			
Basic	\$ 0.88	\$ 0.24	\$ 0.75
Diluted	\$ 0.87	\$ 0.24	\$ 0.74

- (1) Share-based compensation awards that qualify as participating securities (entitled to receive non-forfeitable dividends) are included in basic EPS.
  
- (2) For the years ended December 31, 2013, 2012 and 2011, options to purchase 131,764; 241,300 and 233,390 shares, respectively, were not included in the computation of diluted earnings per share because they were antidilutive.
  
- (3) Includes incremental shares related to dilutive stock options.

F-48

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE L STOCK-BASED INCENTIVE PLANS**

The Company's 2008 Equity Incentive Plan (the "2008 Incentive Plan") was approved by the shareholders at the Company's Annual Meeting held in June 2008. The 2008 Incentive Plan will remain in effect for a period of ten years and authorizes the issuance of up to 1,258,534 shares of Company common stock pursuant to grants of restricted stock awards, restricted stock unit awards, incentive stock options, non-statutory stock options and stock appreciation rights; provided, however, that no more than 898,953 shares may be issued or delivered in the aggregate pursuant to the exercise of stock options or stock appreciation rights, and no more than 359,581 shares may be issued or delivered pursuant to restricted stock awards or restricted stock unit awards.

Employees and outside directors of the Company are eligible to receive awards under the 2008 Incentive Plan. The holders of restricted stock awards have full voting rights beginning on the grant date. Upon the occurrence of an event constituting a change in control of the Company, as defined in the 2008 Incentive Plan, all outstanding stock options will become fully vested, and all stock awards then outstanding will vest free of restrictions.

The Company's 2006 Stock-Based Incentive Plan (the "2006 Incentive Plan") was approved by shareholders at the Company's Annual Meeting held in July 2006. The 2006 Incentive Plan will remain in effect for a period of ten years and provides for the issuance of up to 1,180,330 shares of Company common stock pursuant to grants of incentive and non-statutory stock options, stock appreciation rights and restricted stock awards, provided that no more than 337,237 shares may be issued as restricted stock awards, and no more than 843,093 shares may be issued pursuant to the exercise of stock options or stock appreciation rights. As of a result of the Company's second-step conversion and offering completed in December 2007 and in accordance with provisions in the 2006 Incentive Plan, the total number of shares authorized for grant, the number of stock options outstanding and the exercise prices for outstanding options were adjusted by an exchange ratio of 1.04079. Employees and outside directors of the Company are eligible to receive awards under the 2006 Incentive Plan. The holders of restricted stock awards have full voting rights beginning on the grant date. Upon the occurrence of an event constituting a change in control of the Company, as defined in the 2006 Incentive Plan, all outstanding stock options will become fully vested, and all stock awards then outstanding will vest free of restrictions.

Under the incentive plans, stock options are granted at an exercise price equal to the fair value of the underlying shares at the date of grant and have a contractual life of ten years. Stock options vest based on continued service with the Company over the five-year period following the grant date. The compensation cost related to stock options is based upon the fair value for each option as of the date of the grant determined using the Black-Scholes option pricing



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE L STOCK-BASED INCENTIVE PLANS Continued**

model. The Black-Scholes model requires the Company to provide estimates of the expected term, volatility of the underlying stock, the stock's dividend yield and the discount rate. The Company intends to utilize previously repurchased shares to satisfy stock option exercises.

The compensation cost related to restricted stock awards is based upon the Company's stock price at the grant date. Restricted stock awards generally vest based upon continuous service with the Company over the five year period following the grant date. During the vesting period, participants are entitled to dividends for all awards.

A combined summary of activity in the Company's incentive plans for the years ended December 31, 2013 and 2012 is presented in the following table:

	Shares Available for Grant	Stock Awards Outstanding Number of Shares	Weighted-Average Grant Value	Stock Options Outstanding Number of Shares	Weighted-Average Exercise Price
Balance at December 31, 2011	348,629	167,050	\$ 12.42	1,660,915	\$ 12.43
Granted	(108,500)	29,500	15.09	79,000	15.03
Stock options exercised	-	-	-	(99,251)	12.18
Shares vested	-	(74,950)	12.08	-	-
Forfeited	35,100	(7,000)	11.81	(28,100)	12.30
Cancelled	11,524	(1,000)	11.66	(10,524)	11.69
Balance at December 31, 2012	286,753	113,600	13.38	1,602,040	12.59
Granted	(7,500)	-	-	7,500	15.04
Stock options exercised	-	-	-	(532,949)	12.72
Shares vested	-	(74,850)	12.35	-	-
Cancelled	483	-	-	(483)	14.87
Balance at December 31, 2013	279,736	38,750	\$ 15.36	1,076,108	\$ 12.54

During 2013, the Company granted 7,500 stock options to certain employees under the 2008 Incentive Plan. The stock options had a weighted average value of \$3.27 per share, with a total grant date fair value of \$25. The Company did not grant any restricted shares during 2013.

During 2012, the Company granted 79,000 stock options and 29,500 restricted shares to certain employees under the 2008 Incentive Plan. The stock options had a weighted average value of \$3.37 per share, with a total grant date fair value of \$266. The restricted shares had a weighted average value of \$15.09 per share, with a total grant date fair value of \$445.



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE L STOCK-BASED INCENTIVE PLANS Concluded**

The Company's total compensation cost for shared-based payment arrangements was \$1,045, \$1,453 and \$1,891 for the years ended December 31, 2013, 2012 and 2011, respectively. The Company recorded excess tax benefits on stock compensation plans of \$73, \$29 and \$91 for the years ended December 31, 2013, 2012 and 2011, respectively, related to the recognition of the shared-based compensation expense. As of December 31, 2013, compensation costs related to non-vested stock awards and options totaling \$1,205 have not been recognized. These costs will be recognized over an estimated weighted average period of 2.7 years.

The following table presents the assumptions used to compute the fair value of options using the Black-Scholes option pricing model for stock options granted during 2013, 2012 and 2011.

	2013	2012	2011
Weighted average fair value	\$ 3.27	\$ 3.37	\$ 4.00
Expected term (short-cut method)	6.50 years	6.50 years	6.50 years
Volatility	29.03%	29.67%	28.76%
Expected dividend yield	2.66%	2.57%	2.25%
Weighted average risk-free interest rate	1.30%	1.20%	2.14%

A summary of stock options outstanding and exercisable at December 31, 2013 is as follows:

	Stock Options	
	Outstanding	Exercisable
Total number of shares	1,076,108	947,558
Weighted average exercise price	\$ 12.54	\$ 12.24
Aggregate intrinsic value	\$ 6,837	\$ 6,303
Weighted average remaining contractual term	4.4 years	3.9 years

**NOTE M EMPLOYEE BENEFIT PLANS****Senior Executive Retirement Plan**

The Company has entered into Executive Supplemental Compensation Agreements (the Agreements ) with certain of its current and former officers. The estimated amount to be paid under the Agreements is accrued over the executive s active employment from the time the agreement is signed to the date of full eligibility. Effective October 1, 2007, the Company consolidated the Agreements of current senior executives into a SERP. The Company continues to maintain the Agreements for certain former officers. The liability associated with the Agreements was \$828 and \$911 at December 31, 2013 and 2012, respectively, and is

F-51

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE M EMPLOYEE BENEFIT PLANS Continued**

included in accrued expenses and other liabilities in the consolidated balance sheets. Included in this liability at December 31, 2013 and 2012 is an additional \$224 and \$243, respectively, as a result of the NEBS acquisition. The expense for the Agreements was \$43, \$35 and \$36 for the years ended December 31, 2013, 2012 and 2011, respectively.

The SERP provides that each executive will receive supplemental benefits, to the extent vested, commencing 180 days following separation from service. The supplemental benefit will be equal to the percentage of the executive's final average compensation set forth in each executive's participation agreement, multiplied by a fraction, the numerator of which is the executive's years of credited service with the Company and the denominator of which is set forth in the executive's participation agreement. The supplemental benefit will commence on the executive's normal benefit date and will be payable in a lump sum, unless the executive has elected, at the time of execution of the participation agreement, to receive an annuity or other form of benefit. The SERP is unfunded and is considered a nonqualified plan under the Internal Revenue Code.

**Directors Fee Continuation Plan**

The Company sponsors a Directors Fee Continuation Plan under which a Director will annually receive \$15 (\$24 for former chairpersons) for ten years beginning upon attaining the normal retirement date. The benefit is reduced for directors serving fewer than 15 years. In the event of the participant's death prior to receiving the full benefits of the plan, any unpaid benefits will be paid to the beneficiary. The Company recognizes expense under this plan on a ratable basis such that the present value of the liability is fully accrued at each director's normal retirement date. Effective October 1, 2007, the Board of Directors adopted a Director Retirement Plan to replace the Directors Fee Continuation Plan. Current directors who are participants in the Directors Fee Continuation Plan, the predecessor plan, will participate in the plan from the effective date. Retired directors will continue to receive benefits under the Directors Fee Continuation Plan. At December 31, 2013 and 2012, the Company's recorded liability for this plan amounted to \$185 and \$235, respectively, and is included in accrued expenses and other liabilities in the consolidated balance sheets. The Company was not required to record an expense for the years ended December 31, 2013, 2012 and 2011.

**Director Retirement Plan**

The Director Retirement Plan will provide for the payment of normal retirement benefits upon the director's separation from service on or after attainment of his normal retirement age (age 72 or age 65 with 10 years of service). The normal retirement benefit will generally be equal

F-52

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE M EMPLOYEE BENEFIT PLANS Continued**

to 70% of the average annual director's fees over the highest three years during a director's final 10 years of service, and will be payable in 10 annual installments commencing within 60 days after the director's separation from service.

In the event a participant has a separation from service prior to his normal retirement date (other than due to termination for cause, disability or death), the participant will be entitled to a lesser benefit payable in ten annual installments commencing at age 65. The amount payable will be determined by multiplying the normal retirement benefit by the director's benefit percentage, which is 10% for each year of service, up to 100%. The supplemental benefit will commence on the director's normal benefit date and will be payable in a lump sum, unless the director has elected, at the time of execution of the participation agreement, to receive an annuity or other form of benefit. A director's benefit percentage will accelerate to 100% upon the director's separation from service due to death, disability or a change in control. Effective December 1, 2011, the Board of Directors elected to freeze the Director Retirement Plan to new members of the Board of Directors. The Director Retirement Plan is accounted for as a defined benefit plan.

The following table summarizes the changes in the projected benefit obligation (PBO), the funded status of the PBO and the weighted average assumptions used to determine the benefit obligation for the SERP and Director Retirement Plan at December 31, 2013 and 2012. These plans had no assets at December 31, 2013 and 2012. Amounts recognized at December 31, 2013 and 2012 are reflected in accrued expenses and other liabilities on the consolidated balance sheets.

	At or For the Years Ended December 31,			
	2013		2012	
	SERP	Director Retirement Plan	SERP	Director Retirement Plan
<b>Change in projected benefit obligation:</b>				
Beginning of period	\$ 5,072	\$ 1,149	\$ 3,870	\$ 1,205
Service cost	441	61	401	55
Interest cost	220	60	189	44
Actuarial (gain)/loss	(66)	297	3	25
Plan amendments	-	-	609	41

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Benefits paid	(55)	(26)	-	(221)
End of period	\$ 5,612	\$ 1,541	\$ 5,072	\$ 1,149
Accrued benefit cost	\$ 5,612	\$ 1,541	\$ 5,072	\$ 1,149

F-53

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE M EMPLOYEE BENEFIT PLANS Continued**

	At or For the Years Ended December 31,			
	2013	2012	2013	2012
	SERP	Director Retirement Plan	SERP	Director Retirement Plan
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>				
Prior service cost	\$ (975)	\$ (137)	\$ (1,174)	\$ (180)
Net gain/(losses)	182	(428)	116	(194)
Total	\$ (793)	\$ (565)	\$ (1,058)	\$ (374)

**Weighted-average assumptions used to determine benefit obligations:**

Discount rate	5.00%	5.00%	4.00%	4.00%
Rate of compensation increase	5.00%	2.00%	5.00%	2.00%

Components of the net periodic benefit cost are as follows:

	For the Years Ended December 31,			
	2013	2012	2013	2012
	SERP	Director Retirement Plan	SERP	Director Retirement Plan
<b>Periodic benefit cost:</b>				
Service cost	\$ 441	\$ 61	\$ 401	\$ 55
Interest cost	220	60	189	44
Total pension cost	661	121	590	99
Prior service cost amortization	200	43	200	43
Net loss amortization	-	62	-	48
Net periodic benefit cost	\$ 861	\$ 226	\$ 790	\$ 190

**Weighted-average assumptions used to determine net periodic benefit cost:**

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Discount rate	4.00%	4.00%	4.25%	4.25%
Rate of compensation increase	5.00%	2.00%	5.00%	2.00%

The unrecognized prior service cost for the SERP is being amortized over a period of approximately seven years (estimated employee service life). The unrecognized prior service cost and net loss for the Director Retirement Plan are being amortized over a period of approximately six years. In 2014, approximately \$200 and \$43 in prior service cost for the

F-54



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE M EMPLOYEE BENEFIT PLANS Continued**

SERP and the Director Retirement Plan, respectively, is expected to be recognized as a component of net periodic benefit cost. In 2014, approximately \$52 in unrecognized net loss for the Director Retirement Plan is expected to be recognized in net periodic benefit cost.

At December 31, 2013, the benefit payments expected to be paid in each of the next five years and the aggregate for the five fiscal years thereafter are as follows:

	SERP	Director Retirement Plan
<b><u>Years ending December 31,</u></b>		
2014	\$ 3,359	\$ 512
2015	56	26
2016	1,219	366
2017	55	26
2018	56	391
2019 through 2023	278	439
Total for the next ten years	\$ 5,023	\$ 1,760

Except for the benefit payments expected to be paid, the Company does not expect to make contributions to these plans in 2014.

**Employee Stock Ownership Plan**

In connection with the Company's 2005 initial public offering, the Bank established an ESOP. The Company issued 641,301 shares of common stock to the ESOP in exchange for a twenty-year note. In connection with the Company's second step conversion, the number of shares in the plan was adjusted by the exchange ratio of 1.04079 to total 667,458 shares. The loan amount was approximately \$6,413 and was recorded as Unearned Compensation within stockholders' equity. The loan bore interest equal to the prime rate in effect at January 1 of each year and provided for annual payments of principal and interest. Prior to January 2008, the Board of Directors voted to accelerate its

Employee Stock Ownership Plan benefit from a twenty-year to a fifteen-year allocation period.

As part of the Company's 2007 second step conversion and offering, an additional 753,834 shares of common stock were contributed to the ESOP in exchange for a twenty-year note. The loan amount was approximately \$7,538 and was recorded as Unearned Compensation within stockholders' equity. The loan bore interest equal to the prime rate in effect at January 1<sup>st</sup> of each year and provided for annual payments of principal and interest.

F-55

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE M EMPLOYEE BENEFIT PLANS Continued**

The Company terminated the ESOP plan effective December 31, 2012. A total of 357,053 shares were held in trust as of December 31, 2012 pending a favorable determination letter from the Internal Revenue Service prior to the distribution of these shares to participants. These shares were allocated to participants in 2013 and will be distributed to participants pending receipt of the aforementioned determination letter. As provided in the plan, the outstanding loans were repaid through the sale of 664,552 shares by the plan to the Company. Those shares were recorded as treasury shares at the December 31, 2012 closing price of \$15.72. The Company reported compensation expense, equal to the average daily market price of the shares, as they were committed to be released from the suspense account. Total compensation expense applicable to the ESOP amounted to \$0, \$1,089 and \$1,114 for the years ended December 31, 2013, 2012 and 2011, respectively. Total expense applicable to the termination of the ESOP was recorded in the amount of \$4,482 for the year ended December 31, 2012. This is the value of accelerating the vesting of shares remaining after the loan was paid. The effect on capital of this expense was offset by credits to unearned compensation and additional paid in capital in stockholders' equity.

Shares held by the ESOP Plans include the following:

	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Allocated	733,366	376,483	308,915
Committed to be released	-	357,053	71,709
Unallocated	-	-	1,021,504
	733,366	733,536	1,402,128

Cash dividends received on allocated shares were allocated to participants and cash dividends received on shares held in suspense were used to fund the scheduled annual debt payment. The fair value of unallocated shares at December 31, 2013, 2012 and 2011 was \$0, \$0 and \$16,436, respectively.

In connection with the acquisition of NEBS, the Company assumed the obligations of the New England Bank Employee Stock Ownership Plan ( NEB ESOP ). The NEB ESOP was terminated as of December 31, 2012 and all

outstanding loan obligations under the plan were repaid. The Company received 128,469 of its shares from the NEB ESOP in satisfaction of the loan, resulting in the recognition of \$284 in acquisition-related expenses for the year ended December 31, 2012. Those shares were recorded as treasury shares on the date of the payment. Participant shares in the plan totaled 220,245 shares at both December 31, 2013 and 2012. These shares were being held in trust at December 31, 2013 pending a positive determination from the Internal Revenue Service prior to distribution to participants.

F-56

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE M EMPLOYEE BENEFIT PLANS Concluded**

***Defined Benefit Plan***

As a result of the acquisition of NEBS, the Company participates in the Pentegra Defined Benefit Plan for Financial Institutions (the Pentegra DB Plan), a tax-qualified defined-benefit pension plan. The Pentegra DB Plan operates as a multi-employer plan for accounting purposes and as a multi-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan.

The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

The funded status (market value of plan assets divided by funding target) of the Pentegra DB Plan as of July 1, 2013 is 111.6% per the actuarial valuation reports. Market value of plan assets reflects contributions received through June 30, 2013.

The Company's contributions to the Pentegra DB Plan will not be more than 5% of the total contributions to the Pentegra DB Plan. A contribution of \$900 was accrued by the Company during the year ended December 31, 2012 with the payment made during January 2013 in order to fully fund the Pentegra DB Plan. The Company contributed an additional \$48 during 2013. There was no pension expense under the plan for the years ended December 31, 2013 or 2012. The Company will make the future required contributions and incur applicable pension expense going forward.

**NOTE N COMMITMENTS AND CONTINGENCIES**

***Financial Instruments With Off-Balance Sheet Risk***

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans and standby letters of credit. The Company does not record a liability for the fair value of the obligation undertaken in issuing

standby letters of credit unless it becomes probable that the Company would have to perform under the guarantee. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

F-57

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE N COMMITMENTS AND CONTINGENCIES Continued**

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual or notional amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Financial instruments with off-balance sheet risk at December 31, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Unused lines of credit	\$ 338,698	\$ 308,683
Amounts due mortgagors	102,126	36,365
Standby letters of credit	5,443	3,573
Commitments to originate loans	33,899	63,974

Included in commitments to originate loans at December 31, 2013 and 2012 are fixed rate commitments in the amount of \$5,251 and \$15,591, at interest ranges of 3.02% to 5.75% and 2.50% to 6.50%, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds residential or commercial real estate, accounts receivable, inventory and equipment as collateral supporting

those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 2013 and 2012 exceeds 100%.

During 2012, the Company established a reserve for these unfunded, off balance sheet commitments using similar methodology to that used for the allowance for loan and lease



**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE N COMMITMENTS AND CONTINGENCIES Continued**

losses. As of December 31, 2013 and 2012, the reserve for unfunded commitments had a balance of \$142 and \$213, respectively.

The Company has also committed to invest up to \$10,000, representing 25% of the Class A or senior investor balance, in low income housing tax credit funds by the end of 2015. At December 31, 2013, the Company has invested \$8,882 in the fund, which has been reduced by net operating losses of \$2,288. The net carrying balance of \$6,594 and \$6,871 is included in other assets in the consolidated balance sheets at December 31, 2013 and 2012, respectively. As a Class A investor, the Company has the right to transfer its investment to the fund's Class B investor at the end of 10 years at which time the Company would have no compliance requirements or interest in the fund. The fund structure contemplates that the Class A investors will receive 95% of the tax credits and net operating losses for a period of eight years or until the minimum investment return has been met. Net operating losses allocated to the Company are recognized as they are incurred and recorded in non-interest expense.

In 2012, the Company committed to and invested \$1,806, or 50% interest, in a new markets housing tax credit fund, which has been reduced by net operating losses of \$43. The net carrying value of \$1,763 and \$1,806 is included in other assets in the Company's consolidated balance sheets at December 31, 2013 and 2012, respectively.

In 2012, the Company committed to invest \$2,000 in another new markets housing tax credit fund by the end of 2015. In 2013, the Company invested \$1,138 in this fund, which has been reduced by net operating losses of \$265. The net carrying value of \$873 and \$275 is included in other assets on the Company's consolidated balance sheets at December 31, 2013 and 2012, respectively.

The Company committed to and invested \$979 in another new market tax credit fund in August 2013. The net carrying value of \$979 is included in other assets on the Company's consolidated balance sheets.

In 2013, the Company committed to invest \$3,000 in another new markets housing tax credit fund by the end of 2016. In 2013, the Company invested \$1,123 in this fund. The net carrying value of \$1,123 is included in other assets on the Company's consolidated balance sheets.

**Employment and Change in Control Agreements**

The Company has entered into a three-year employment agreement with its President and Chief Executive Officer which expires in 2014. This agreement generally provides for a base salary and the continuation of certain benefits currently received. Annually, the Company may

F-59

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE N COMMITMENTS AND CONTINGENCIES Concluded**

extend the agreement for an additional year. Under certain specified circumstances, the employment agreement requires certain payments to be made for certain reasons other than cause, including a change in control as defined in the agreement. However, such employment may be terminated for cause, as defined, without incurring any continuing obligations.

The Company also entered into three-year change in control agreements with certain executive officers, none of whom are covered by an employment agreement. The change in control agreements are renewable on an annual basis and generally provide a severance payment and the continuation of certain benefits currently received following a change in control as defined in the agreements.

**Litigation**

United Bank, as successor in interest to Commonwealth National Bank, is involved in litigation relating to its foreclosure on a certain loan property. The litigants claim that Commonwealth National Bank acted in bad faith and in violation of applicable law and that its actions resulted in a sale of the underlying property for less than its market value, thereby causing damage to the parties. During the third quarter of 2011, the judge issued a ruling in favor of United Bank. The litigants have appealed the decision. United Bank believes these claims and the appeal are without merit and is vigorously defending the litigation. No estimate of any reasonably possible loss or range of loss to United Bank can be made at this time.

In addition, the Company is subject to various legal actions arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

**NOTE O FAIR VALUES OF FINANCIAL INSTRUMENTS**

The Company groups its financial assets measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value.

Level 1 Valuations for assets traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and other U.S. government and government-sponsored enterprises that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets and are not adjusted by the Company.

F-60

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE O FAIR VALUES OF FINANCIAL INSTRUMENTS Continued**

Level 2 Valuations for assets traded in less active dealer or broker markets. Level 2 includes U.S. government and mortgage-backed securities issued by government-sponsored enterprises. Valuations are obtained from third party pricing services for identical or comparable assets and are not adjusted by the Company.

Level 3 Valuations for assets that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

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

	Level 1	Level 2	Level 3	Total Fair Value
<b><u>At December 31, 2013</u></b>				
Securities available for sale:				
Government-sponsored enterprises	\$ -	\$ 1,851	\$ -	\$ 1,851
Government-sponsored and government- guaranteed mortgage-backed securities	-	236,454	-	236,454
Private label mortgage-backed securities	-	-	-	-
Municipal bonds	-	24,718	-	24,718
Corporate bonds	-	-	1,606	1,606
Total	\$ -	\$ 263,023	\$ 1,606	\$ 264,629
<b><u>At December 31, 2012</u></b>				
Securities available for sale:				
Government-sponsored enterprises	\$ -	\$ 3,233	\$ -	\$ 3,233
Government-sponsored and government- guaranteed mortgage-backed securities	-	257,762	-	257,762
Private label mortgage-backed securities	-	2,566	-	2,566
Municipal bonds	-	28,827	-	28,827

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Corporate bonds	-	-	1,934	1,934
Total	\$ -	\$ 292,388	\$ 1,934	\$ 294,322

The Company has no liabilities measured at fair value on a recurring basis at December 31, 2013 and 2012.

F-61

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE O FAIR VALUES OF FINANCIAL INSTRUMENTS Continued**

The table below presents the changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2013 and 2012.

	<b>2013</b>	<b>2012</b>
Balance at beginning of year	\$ 1,934	\$ 1,566
Total realized/unrealized gains (losses) included in net income	277	(165)
Change in unrealized gain (loss)	(161)	533
Sales	(444)	-
Balance at end of year	\$ 1,606	\$ 1,934

The Company may 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 application of lower-of-cost-or-fair value accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine the adjustment and the carrying value of the related assets as of and for the years ended December 31, 2013 and 2012.

<b>December 31, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Gains/(Losses)</b>
<b>Assets:</b>				
Loans	\$ -	\$ -	\$ 1,235	\$ (1,061)
Other real estate owned	-	-	399	(177)
Total assets	\$ -	\$ -	\$ 1,634	\$ (1,238)
<b>December 31, 2012</b>				
<b>Assets:</b>				
Loans	\$ -	\$ -	\$ 546	\$ (748)

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Other real estate owned	-	-	825	(429)
Other assets	-	-	595	(37)
Total assets	\$ -	\$ -	\$ 1,966	\$ (1,214)

The amount of loans represents the carrying value and related write-down and valuation allowance of impaired loans for which adjustments are based on the estimated fair value of the underlying collateral. The other real estate owned amount represents the carrying value for which adjustments are also based on the estimated fair value of the property. Included in other assets in the 2012 period is a venture capital investment carried at cost. In the third quarter of 2012 management determined that an impairment indicator existed and that the investment suffered impairment that was considered other- than- temporary. The cost basis of the



**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE O FAIR VALUES OF FINANCIAL INSTRUMENTS   Continued**

investment was written down by \$37 in the third quarter of 2012 to fair value as a new cost basis and the write down was accounted for as a realized loss and was included in earnings.

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

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

**Cash and Cash Equivalents and Short-term Investments**

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

**Investment Securities and FHLBB Stock**

The fair value of securities to be held to maturity and securities available for sale is estimated based on quoted market prices, where available, and are not adjusted by management. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Ownership of FHLBB stock is restricted to member banks; therefore, the stock is not traded. The estimated fair value of FHLBB stock is equal to its carrying value, which represents the price at which the FHLBB is obligated to redeem its stock.

**Loans**

For valuation purposes, the loan portfolio was segregated into its significant categories, which are residential mortgage, commercial real estate, commercial and consumer. 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.

F-63

**Table of Contents**

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

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE O FAIR VALUES OF FINANCIAL INSTRUMENTS   Continued**

The fair values of residential mortgage, commercial real estate, commercial and consumer loans were estimated by discounting the anticipated cash flows from the respective portfolios. Estimates of the timing and amount of these cash flows considered factors such as future loan prepayments. The discount rates reflected current market rates for loans with similar terms to borrowers of similar credit quality. The fair value of home equity lines of credit was based on the outstanding loan balances. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

**Loans Held for Sale**

Fair values are based on commitments in effect from investors or prevailing market rates.

**Deposits**

The fair value of deposits with no stated maturity, such as demand deposits, NOW, regular savings, and money market deposit accounts, is equal to the amount payable on demand. The fair value estimates do not include the benefit that results from the generally lower cost of funding provided by the deposit liabilities compared to the cost of borrowing funds in the market. The fair value estimate of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits having similar remaining maturities.

**Short-term Borrowings**

For short-term borrowings maturing within ninety days, carrying values approximate fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

**Long-term Debt**

The fair values of the Company's long-term debt are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

**Repurchase Agreements**

The Company enters into overnight repurchase agreements with its customers. Since these agreements are short-term instruments, the fair value of these agreements approximates their recorded balance. The Company also secures term repurchase agreements through other financial institutions. The fair value of these agreements are determined by discounting the

F-64

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE O FAIR VALUES OF FINANCIAL INSTRUMENTS Continued**

anticipated future cash payments using rates currently available to the Bank for debt with similar terms and remaining maturities.

**Subordinated Debentures**

The Company has outstanding subordinated debt in the form of trust preferred securities issued through a private placement offering. The fair value estimate is determined by discounting the anticipated future cash payments by using the rates currently available to the Company for debt with similar terms and remaining maturities.

**Off-Balance-Sheet Instruments**

Fair value of off-balance-sheet mortgage lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. In the case of the commitments discussed in Note N, the fair value equals the carrying amounts which are not significant.

**Summary of Fair Values of Financial Instruments**

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments are as follows. Certain financial instruments and all nonfinancial instruments are exempt from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein do not represent the underlying fair value of the Company.

	Carrying Value	At December 31, 2013			Estimated Fair Value
		Level 1	Level 2	Level 3	
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 47,241	\$ 47,241	\$ -	\$ -	\$ 47,241
Securities available for sale	264,629	-	263,023	1,606	264,629

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Securities held to maturity	111,185	-	111,715	-	111,715
Stock in Federal Home Loan Bank of Boston	17,334	-	-	17,334	17,334
Net loans and loans held for sale	1,871,066	-	-	1,865,807	1,865,807
<b>Financial Liabilities:</b>					
Deposits (with no stated maturity)	1,212,472	-	-	1,212,472	1,212,472
Time deposits	734,012	-	-	740,723	740,723
Federal Home Loan Bank of Boston advances	139,663	-	-	140,778	140,778
Repurchase agreements	61,555	-	-	61,788	61,788
Subordinated debentures	5,959	-	5,959	-	5,959

F-65

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE O FAIR VALUES OF FINANCIAL INSTRUMENTS Concluded**

	Carrying Value	At December 31, 2012			Estimated Fair Value
		Level 1	Level 2	Level 3	
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 30,679	\$ 30,679	\$ -	\$ -	\$ 30,679
Securities available for sale	294,322	-	292,388	1,934	294,322
Securities held to maturity	82,986	-	85,674	-	85,674
Stock in Federal Home Loan Bank of Boston	18,554	-	-	18,554	18,554
Net loans and loans held for sale	1,808,033	-	-	1,846,519	1,846,519
<b>Financial Liabilities:</b>					
Deposits (with no stated maturity)	1,140,766	-	-	1,140,766	1,140,766
Time deposits	707,409	-	-	711,845	711,845
Federal Home Loan Bank of Boston advances	141,525	-	-	145,543	145,543
Repurchase agreements	69,229	-	-	70,082	70,082
Subordinated debentures	9,630	-	9,630	-	9,630

**NOTE P STOCKHOLDERS EQUITY****Regulatory Capital**

The Bank is subject to various minimum regulatory capital standards promulgated by the Office of the Comptroller of the Currency (the OCC). 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 Bank's 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. The Company is not separately subject to capital guidelines.

The minimum capital standards of the OCC generally require the maintenance of regulatory capital sufficient to meet each of three tests, hereinafter described as the total risk-based capital requirement, the Tier I risk-based capital requirement and the Tier I or leverage capital requirement. The Tier I risk-based and Tier I leverage capital

requirements provide for minimum core capital (tangible capital plus certain forms of supervisory goodwill and other qualifying intangible assets) generally equal to 4.0% of risk-weighted assets and to 4.0% of adjusted total assets, respectively, except for those banks with the highest examination rating

F-66



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE P STOCKHOLDERS EQUITY Continued**

and acceptable levels of risk. The risk-based capital requirement provides for the maintenance of core capital plus general loss allowances equal to 8.0% of risk-weighted assets. In computing risk-weighted assets, the Bank multiplies the value of each asset on its balance sheet by a defined risk-weighting factor, e.g., one- to four-family residential loans carry a risk-weighted factor of 50%.

The OCC capital rules also require savings associations to hold a ratio of 1.5% tangible capital to tangible assets. Tangible equity is defined as core capital less intangible assets. Tangible assets are defined as adjusted total assets less intangible assets.

As of December 31, 2013, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum ratios as set forth in the accompanying table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios, as well as minimum amounts and ratios required for capital adequacy are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Regulatory Framework	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2013:</b>						
Total Risk-based Capital (to Risk Weighted Assets)	\$ 264,058	13.1%	\$ 161,376	8.0%	\$ 201,720	10.0%
Tier I Risk-based Capital (to Risk Weighted Assets)	250,645	12.4%	80,688	4.0%	121,032	6.0%
Tier I (Core) Capital (to Adjusted Total Assets)	250,645	10.3%	97,633	4.0%	122,042	5.0%
Tangible Equity (to Tangible Assets)	250,645	10.3%	36,612	1.5%	N/A	

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**As of December 31, 2012:**

Total Risk-based Capital						
(to Risk Weighted Assets)	\$ 263,712	13.6%	\$ 155,028	8.0%	\$ 193,786	10.0%
Tier I Risk-based Capital						
(to Risk Weighted Assets)	251,623	13.0%	77,514	4.0%	116,271	6.0%
Tier I (Core) Capital						
(to Adjusted Total Assets)	251,623	10.7%	94,117	4.0%	117,646	5.0%
Tangible Equity						
(to Tangible Assets)	251,623	10.7%	35,294	1.5%	N/A	

F-67

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE P STOCKHOLDERS EQUITY Concluded**

The following table provides a reconciliation of the Company's total consolidated equity to the capital amounts for the Bank reflected in the preceding table:

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
Total consolidated equity	\$ 302,779	\$ 307,189
Adjustments:		
Additional equity capital of United Financial Bancorp, Inc.	(8,954)	(6,302)
Accumulated other comprehensive income	1,091	(5,401)
Disallowed goodwill and intangible assets	(44,271)	(43,863)
Tangible, Tier I and Core Capital	250,645	251,623
Allowance for loan losses	13,413	12,089
Total risk-based capital	\$ 264,058	\$ 263,712

**Common Stock Repurchase Plans**

On August 15, 2013, the Board of Directors approved a plan to repurchase up to 5%, or approximately 970,000 shares, of the Company's common stock through open market purchases or privately negotiated transactions. Stock repurchases are accounted for as treasury stock, carried at cost, and reflected as a reduction in stockholders' equity. This repurchase program will commence immediately upon completion of the previous plan approved on October 18, 2012, under which the Company intends to repurchase shares from time to time, depending on market conditions until it is completed.

On October 18, 2012, the Board of Directors approved a plan to repurchase up to 5%, or approximately 769,000 shares, of the Company's common stock through open market purchases or privately negotiated transactions. As of December 31, 2013, the Company repurchased 516,663 shares at a cost of approximately \$7,687 and an average price of \$14.88 under this plan.

On October 26, 2010, the Board of Directors approved a plan to repurchase up to 5%, or approximately 807,803 shares, of the Company's common stock through open market purchases or privately negotiated transactions. The Company completed its repurchase of 807,803 shares of its outstanding common stock, at a cost of approximately \$12,134 and at an average price of \$15.02, on November 19, 2012.

F-68

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE Q CONDENSED FINANCIAL STATEMENTS OF UNITED FINANCIAL BANCORP, INC.**

The following are the condensed financial statements for United Financial Bancorp, Inc. (parent company only).

**BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15,689	\$ 16,642
Investment in Bank	293,825	300,887
Other assets	5,720	4,385
<b>TOTAL ASSETS</b>	<b>\$ 315,234</b>	<b>\$ 321,914</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Subordinated debentures	\$ 5,959	\$ 9,630
Other liabilities	6,496	5,095
Stockholders equity	302,779	307,189
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 315,234</b>	<b>\$ 321,914</b>

**STATEMENTS OF INCOME**

	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Income:</b>			
Investment interest	\$ 48	\$ 82	\$ 111
ESOP loan interest	-	360	379
Gain on sale of other assets	204	-	-
Impairment charges on securities	-	(37)	(99)
Other income	-	22	-
<b>Total income</b>	<b>252</b>	<b>427</b>	<b>391</b>

Expense:

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Subordinated debentures interest	276	276	255
Professional services	1,369	1,293	1,295
Merger related expenses	612	1,881	-
Other expenses	169	24	102
<b>Total expense</b>	<b>2,426</b>	<b>3,474</b>	<b>1,652</b>
Loss before income tax benefit	(2,174)	(3,047)	(1,261)
Income tax benefit	(308)	(498)	(510)
Loss before equity in undistributed earnings of the Bank	(1,866)	(2,549)	(751)
Equity in undistributed earnings of the Bank	19,268	6,177	11,935
<b>NET INCOME</b>	<b>\$ 17,402</b>	<b>\$ 3,628</b>	<b>\$ 11,184</b>

F-69

**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE Q CONDENSED FINANCIAL STATEMENTS OF UNITED FINANCIAL BANCORP, INC.  
Concluded****STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2013	2012	2011
<b>Cash flows from operating activities:</b>			
Net income	\$ 17,402	\$ 3,628	\$ 11,184
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Equity in undistributed earnings of the bank	(19,268)	(6,177)	(11,935)
Impairment charges on securities	-	37	99
Decrease in accrued interest receivable	1	-	1
(Increase) decrease in other assets	(1,302)	1,786	(1,820)
Increase (decrease) in intercompany payables and other liabilities	1,401	4,886	(57)
Net cash (used in) provided by operating activities	(1,766)	4,160	(2,528)
<b>Cash flows from investing activities:</b>			
Net cash from acquisition of NEBS	-	118	-
Capital contributions to venture capital fund	(34)	(131)	(100)
Principal payments on ESOP loans	-	624	605
Net cash (used in) provided by investing activities	(34)	611	505
<b>Cash flows from financing activities:</b>			
Return of capital from United Bank	17,212	17,844	84
Tax benefit from MRP vesting	73	29	91
Tax withheld on options exercised	(685)	(102)	(55)
Treasury stock purchases	(7,550)	(5,660)	(6,780)
Reissuance of treasury shares in connection with restricted stock warrants	-	-	426
Reissuance of treasury shares in connection with stock options exercised	293	97	89
Cash paid for in the money stock options exercised	-	-	(2)
Cash dividends paid	(8,496)	(5,521)	(5,067)
Net cash provided by (used in) financing activities	847	6,687	(11,214)
(Decrease) increase in cash and cash equivalents	(953)	11,458	(13,237)
Cash and cash equivalents at beginning of period	16,642	5,184	18,421

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Cash and cash equivalents at end of period	\$ 15,689	\$ 16,642	\$ 5,184
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**Supplemental Disclosure of Cash Flow Information:**

Cash paid during the period:

Income taxes net	\$ 5,500	\$ 5,775	\$ 4,850
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Non-cash item:

Transfer of treasury shares to pay-off ESOP loan	\$ -	\$ 10,447	\$ -
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F-70



**Table of Contents****UNITED FINANCIAL BANCORP, INC. AND SUBSIDIARY**

## Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

**NOTE R QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

The following table summarizes the operating results on a quarterly basis for the years ended December 31, 2013 and 2012.

	<b>Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
<b>2013:</b>				
Interest income	\$ 24,387	\$ 23,549	\$ 23,226	\$ 23,131
Interest expense	3,894	3,850	3,880	3,779
Net interest income	20,493	19,699	19,346	19,352
Provision for loan losses	950	892	1,125	1,125
Non-interest income	2,798	3,015	2,976	3,239
Non-interest expense	15,850 <sup>(1)</sup>	16,269 <sup>(1)</sup>	14,836	16,007 <sup>(1)</sup>
Income before income taxes	6,491	5,553	6,361	5,459
Income tax expense	1,790	1,504	1,714	1,454
Net income	\$ 4,701	\$ 4,049	\$ 4,647	\$ 4,005
Basic earnings per share	\$ 0.23	\$ 0.21	\$ 0.24	\$ 0.20
Diluted earnings per share	\$ 0.23	\$ 0.20	\$ 0.23	\$ 0.20
Dividends paid per share	\$ 0.10	\$ 0.11	\$ 0.11	\$ 0.11
<b>2012:</b>				
Interest income	\$ 16,971	\$ 16,999	\$ 17,070	\$ 20,131
Interest expense	3,871	3,705	3,520	3,896
Net interest income	13,100	13,294	13,550	16,235
Provision for loan losses	650	750	1,050	689
Non-interest income	2,573	2,570	2,511	2,969
Non-interest expense	11,275	11,468 <sup>(1)</sup>	11,192 <sup>(1)</sup>	22,305 <sup>(1)</sup>
Income (loss) before income taxes	3,748	3,646	3,819	(3,790)
Income tax expense	899	1,064	890	942
Net income (loss)	\$ 2,849	\$ 2,582	\$ 2,929	\$ (4,732)

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Basic earnings per share	\$	0.19	\$	0.18	\$	0.20	\$	(0.28)
Diluted earnings per share	\$	0.19	\$	0.17	\$	0.20	\$	(0.28)
Dividends paid per share	\$	0.09	\$	0.09	\$	0.10	\$	0.10

- (1) Includes merger-related expenses of \$158, \$123 and \$598 for the quarters ended March 31, June 30 and December 31, 2013 and \$592, \$366 and \$3,994 for the quarters ended June 30, September 30 and December 31, 2012, respectively, branch closing costs of \$510 and \$477 for the quarters ended March and June 30, 2013, respectively, an ESOP plan termination expense of \$4,482 and FHLBB prepayment penalties of \$207 for the quarter ended December 31, 2012.

F-71

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**Table of Contents**

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal year (the Evaluation Date ). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

(b) Management's report on internal control over financial reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (1992)*. Based on that assessment, management concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective based on the criteria established in *Internal Control - Integrated Framework (1992)*.

Our internal control over financial reporting as of December 31, 2013 has been audited by Wolf & Company, P.C., an independent registered public accounting firm, as stated in their report which is included herein.

(c) Attestation report

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

United Financial Bancorp, Inc.

We have audited United Financial Bancorp, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. United Financial Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Also, because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of United Financial Bancorp, Inc.'s internal control over financial reporting included controls over the preparation of financial statements in accordance with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) and the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, United Financial Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the December 31, 2013 consolidated financial statements of United Financial Bancorp, Inc. and our report, dated March 13, 2014, expressed an unqualified opinion.

/s/ Wolf & Company, P.C.

Boston, Massachusetts

March 13, 2014



**Table of Contents**

(d) Changes to internal controls

There were no changes made in our internal controls over financial reporting that occurred during the quarter ended December 31, 2013 that could materially affect, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

Not Applicable.

**PART III**

**ITEM 10. DIRECTORS , EXECUTIVE OFFICERS AND COPORATE GOVERNANCE**

Except as set forth below, the information required by this Item 10 will be filed as an amendment to our Annual Report on Form 10-K within 120 days of our fiscal year end.

**Code of Ethics and Business Conduct**

The Company has adopted a Code of Ethics that is applicable to the officers, directors and employees of the Company, including the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Ethics is available on the Company's web site at [www.bankatunited.com](http://www.bankatunited.com). Amendments to and waivers from the Code of Ethics will also be disclosed on the Company's website.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 will be filed as an amendment to our Annual Report on Form 10-K within 120 days of our fiscal year end.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

(a) Security Ownership of Certain Beneficial Owners and Management

The information required by this Item 12(a) will be filed as an amendment to our Annual Report on Form 10-K within 120 days of our fiscal year end.

(b) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person or securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

**Table of Contents**

(d) Equity Compensation Plan Information

The following table sets forth information as of December 31, 2013 about Company common stock that may be issued under the Company's equity compensation plans. All plans were approved by the Company's stockholders.

Plan Category	(a) Number of securities to be issued upon the exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,076,108	\$ 12.54	279,736
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>1,076,108</b>	<b>\$ 12.54</b>	<b>279,736</b>

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, DIRECTOR INDEPENDENCE**

The information required by this Item 13 will be filed as an amendment to our Annual Report on Form 10-K within 120 days of our fiscal year end.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item 14 will be filed as an amendment to our Annual Report on Form 10-K within 120 days of our fiscal year end.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1) Financial Statements

The following documents are filed under Item 8 of this Form 10-K.

Reports of Independent Registered Public Accounting Firms on Financial Statements

Consolidated Balance Sheets at December 31, 2013 and 2012

Consolidated Statements of Income Years Ended December 31, 2013, 2012 and 2011

Consolidated Statements of Comprehensive Income Years Ended December 31, 2013, 2012 and 2011

Consolidated Statements of Stockholders' Equity Years Ended December 31, 2013, 2012 and 2011

Consolidated Statements of Cash Flows Years ended December 31, 2013, 2012 and 2011

Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

74



**Table of Contents**

All schedules are omitted as required information is either not applicable, or is presented in the consolidated financial statements.

(a)(3) Exhibits

2.1	Merger Agreement dated November 14, 2013 (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (1)
3.1	Articles of Incorporation of United Financial Bancorp, Inc. (2)
3.2	Amended and Restated Bylaws of United Financial Bancorp, Inc. (3)
4	Form of Common Stock Certificate of United Financial Bancorp, Inc. (2)
10.1	Employment Agreement by and between United Bank and Richard B. Collins (4)*
10.2	Amendment to Employment Agreement by and between United Bank and Richard B. Collins (5)*
10.3	Change in Control Agreement by and between United Bank and J. Jeffrey Sullivan (4)*
10.4	Change in Control Agreement by and between United Bank and Mark A. Roberts (4)*
10.5	Change in Control Agreement by and between United Bank and Charles R. Valade (6)*
10.6	Amendment to the Change in Control Agreement by and between United Bank and Charles R. Valade (6)*
10.7	United Bank 2007 Supplemental Retirement Plan for Senior Executives (3)*
10.8	Split Dollar Life Insurance Agreement by and between United Bank and Richard B. Collins (7)*
10.9	Split Dollar Life Insurance Agreement by and between United Bank and John J. Patterson (7)*
10.10	United Bank 2006 Stock-Based Incentive Plan (8)*
10.11	United Bank 2014 Annual Incentive Plan *
10.12	United Bank 2007 Director Retirement Plan (9)*
10.13	Directors Fee Continuation Plan (10)*
10.14	United Financial Bancorp, Inc. 2008 Equity Incentive Plan (11)*
10.15	Retention Agreement by and between United Bank and Charles R. Valade (6)*
10.16	CNB Financial Corp. 2008 Equity Incentive Plan (12)*
10.17	CNB Financial Corp. Amended and Restated Stock Option Plan (13)*
10.18	Form of Award Agreement under the CNB Financial Corp. 2008 Equity Incentive Plan (14)*
10.19	Form of Award Agreement under the CNB Financial Corp. Amended and Restated Stock Option Plan (13)*
21	Subsidiaries of Registrant
23	Consent of Independent Registered Public Accounting Firm, Wolf & Company, P.C.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer
101.0	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Net Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statement of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.

\* Management contract or compensatory plan, contract or arrangement

- (1) Incorporated by reference to the Form 8-K of United Financial Bancorp, Inc. filed with the Securities and Exchange Commission on November 20, 2013.
- (2) Incorporated by reference to the Registration Statement on Form S-1 of United Financial Bancorp, Inc. (File No. 333-144245), originally filed with the Securities and Exchange Commission on June 29, 2007.
- (3) Incorporated by reference to the Form 10-K of United Financial Bancorp, Inc. filed with the Securities and Exchange Commission on March 13, 2009.
- (4) Incorporated by reference to the Form 8-K of United Financial Bancorp, Inc. filed with the Securities and Exchange Commission on November 29, 2007.
- (5) Incorporated by reference to the Form 10-Q of United Financial Bancorp, Inc. on November 8, 2012.

**Table of Contents**

- (6) Incorporated by reference to the Annual Report on Form 10-K of United Financial Bancorp, Inc. filed with the Securities Exchange Commission on March 14, 2011.
- (7) Incorporated by reference to the Form 8-K of United Financial Bancorp, Inc. filed with the Securities and Exchange Commission on January 2, 2008.
- (8) Incorporated by reference to Appendix B to the proxy statement for the 2006 Annual Meeting of Stockholders of United Financial Bancorp, Inc. (File No. 000-51369), filed by United Financial Bancorp, Inc. under the Securities Exchange Act of 1934, on June 12, 2006.
- (9) Incorporated by reference to the Form 8-K of United Financial Bancorp, Inc. filed with the Securities and Exchange Commission on November 21, 2007.
- (10) Incorporated by reference to the Registration Statement on Form S-1 of United Financial Bancorp, Inc. (File No. 333-123371), originally filed with the Securities and Exchange Commission on March 16, 2005.
- (11) Incorporated by reference to Appendix A of the Company's Definitive Proxy Statement for the 2008 Annual Meeting of Stockholders (File No. 000-52947), as filed with the SEC on April 29, 2008).
- (12) Incorporated by reference to Appendix A to the Proxy Statement filed by CNB Financial Corp. with the Commission on April 11, 2008.
- (13) Incorporated by reference to the Registration Statement on Form S-8 filed by CNB Financial Corp. with the Commission on March 27, 2007.
- (14) Incorporated by reference to the Registration Statement on Form S-8 filed by CNB Financial Corp. with the Commission on August 7, 2008.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 authorized.

**UNITED FINANCIAL BANCORP, INC.**

Date: March 13, 2014

By: /s/ Richard B. Collins  
 Richard B. Collins  
 Chairman, President and Chief Executive Officer  
 (Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Richard B. Collins	Chief Executive Officer, President and Chairman (Principal Executive Officer)	March 13, 2014
Richard B. Collins		
/s/ Mark A. Roberts	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 13, 2014
Mark A. Roberts		
/s/ Paula A. Aiello	Director	March 13, 2014
Paula A. Aiello		
/s/ Michael F. Crowley	Director	March 13, 2014
Michael F. Crowley		
/s/ Carol Moore Cutting	Director	March 13, 2014
Carol Moore Cutting		
/s/ Carol A. Leary	Director	March 13, 2014
Carol A. Leary		
/s/ Kevin E. Ross	Director	March 13, 2014
Kevin E. Ross		
/s/ Robert A. Stewart, Jr.	Director	March 13, 2014
Robert A. Stewart, Jr.		
/s/ Michael F. Werenski	Director	March 13, 2014
Michael F. Werenski		

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/s/ Thomas P. O Brien

Director

March 13, 2014

Thomas P. O Brien

/s/ David J. O Connor

Director

March 13, 2014

David J. O Connor

77