MERIDIAN INTERSTATE BANCORP INC
Form 10-Q
May 10, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 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 number 001-33898

Meridian Interstate Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts **(State or other jurisdiction of** **incorporation or organization)**	**20-4652200** **(I.R.S. Employer** **Identification No.)**
10 Meridian Street, **East Boston, Massachusetts** **(Address of Principal Executive Offices)**	**02128** **Zip Code**

(617) 567-1500

(Registrant s telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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	x
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 Act). Yes ¨ No x

At May 3, 2013, the registrant had 22,126,353 shares of no par value common stock outstanding.

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FORM 10-Q

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PART I FINANCIAL INFORMATION

ITEM 1. *FINANCIAL STATEMENTS*

MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
ASSETS		
Cash and due from banks	$ 183,301	$ 93,129
Federal funds sold	63	63
Total cash and cash equivalents	183,364	93,192
Securities available for sale, at fair value	236,039	262,785
Federal Home Loan Bank stock, at cost	11,907	12,064
Loans held for sale	9,613	14,502
Loans	1,870,071	1,806,843
Less allowance for loan losses	(20,883)	(20,504)
Loans, net	1,849,188	1,786,339
Bank-owned life insurance	36,542	36,251
Foreclosed real estate, net	2,080	2,604
Premises and equipment, net	39,927	38,719
Accrued interest receivable	6,807	6,745
Deferred tax asset, net	8,631	9,710
Goodwill	13,687	13,687
Other assets	2,444	2,173
Total assets	$ 2,400,229	$ 2,278,771
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Non interest-bearing	$ 215,271	$ 204,079
Interest-bearing	1,742,236	1,661,354
Total deposits	1,957,507	1,865,433
Long-term debt	186,721	161,254
Accrued expenses and other liabilities	16,904	18,141
Total liabilities	2,161,132	2,044,828
Stockholders equity:		
Common stock, no par value, 50,000,000 shares authorized; 23,000,000 shares issued		
Additional paid-in capital	98,531	98,338
Retained earnings	150,027	146,959
Accumulated other comprehensive income	6,569	4,915
Treasury stock, at cost, 660,310 and 660,800 shares at March 31, 2013 and December 31, 2012, respectively	(8,342)	(8,331)

Unearned compensation - ESOP, 610,650 and 621,000 shares at March 31, 2013 and December 31, 2012, respectively	(6,106)	(6,210)
Unearned compensation - restricted shares, 198,285 and 203,345 at March 31, 2013 and December 31, 2012, respectively	(1,582)	(1,728)
Total stockholders equity	239,097	233,943
Total liabilities and stockholders equity	$ 2,400,229	$ 2,278,771

See accompanying notes to unaudited consolidated financial statements.

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MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INCOME

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(Dollars in thousands, except per share amounts)	
Interest and dividend income:		
Interest and fees on loans	$ 20,794	$ 17,988
Interest on debt securities	1,209	2,198
Dividends on equity securities	349	361
Interest on certificates of deposit		9
Other interest and dividend income	64	81
Total interest and dividend income	22,416	20,637
Interest expense:		
Interest on deposits	3,948	4,003
Interest on borrowings	842	783
Total interest expense	4,790	4,786
Net interest income	17,626	15,851
Provision for loan losses	1,260	1,264
Net interest income, after provision for loan losses	16,366	14,587
Non-interest income:		
Customer service fees	1,586	1,579
Loan fees	56	62
Mortgage banking gains, net	155	625
Gain on sales of securities, net	2,273	1,083
Income from bank-owned life insurance	291	301
Equity income on investment in affiliate bank		243
Total non-interest income	4,361	3,893
Non-interest expenses:		
Salaries and employee benefits	10,075	9,301
Occupancy and equipment	2,334	2,037
Data processing	991	832
Marketing and advertising	691	559
Professional services	601	833
Foreclosed real estate	106	183
Deposit insurance	475	431
Other general and administrative	1,019	1,090
Total non-interest expenses	16,292	15,266
Income before income taxes	4,435	3,214
Provision for income taxes	1,367	1,058

Net income	$	3,068	$	2,156
Income per share:				
Basic	$	0.14	$	0.10
Diluted	$	0.14	$	0.10
Weighted average shares:				
Basic		21,639,122		21,662,471
Diluted		21,952,607		21,826,307

See accompanying notes to unaudited consolidated financial statements.

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MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31, 2013	2012
	(In thousands)	
Net income	$ 3,068	$ 2,156
Other comprehensive income, net of taxes:		
Unrealized holding gain on securities available for sale	5,029	4,723
Reclassification adjustments for gain realized in income	(2,273)	(1,083)
Unrealized gain	2,756	3,640
Tax effect	(1,102)	(1,426)
Total other comprehensive income	1,654	2,214
Total comprehensive income	$ 4,722	$ 4,370

See accompanying notes to unaudited consolidated financial statements.

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MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Three Months Ended March 31, 2013 and 2012

(Unaudited)

	Shares of Common Stock Outstanding	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Unearned Compensation ESOP	Unearned Compensation - Restricted Shares	Total
				(Dollars in thousands)				
Three Months Ended March 31, 2012								
Balance at December 31, 2011	22,149,409	$ 97,669	$ 134,533	$ 3,985	$ (7,317)	$ (6,624)	$ (2,302)	$ 219,944
Net income			2,156					2,156
Other comprehensive income				2,214				2,214
Stock option exercise	1,000	(4)			12			8
Purchase of treasury stock	(10,327)				(134)			(134)
ESOP shares earned (10,350 shares)		32				104		136
Share-based compensation expense	5,260	147					142	289
Balance at March 31, 2012	22,145,342	$ 97,844	$ 136,689	$ 6,199	$ (7,439)	$ (6,520)	$ (2,160)	$ 224,613
Three Months Ended March 31, 2013								
Balance at December 31, 2012	22,135,855	$ 98,338	$ 146,959	$ 4,915	$ (8,331)	$ (6,210)	$ (1,728)	$ 233,943
Net income			3,068					3,068
Other comprehensive income				1,654				1,654
Stock option exercise	3,674	(41)			46			5
Purchase of treasury stock	(3,184)				(57)			(57)
ESOP shares earned (10,350 shares)		81				104		185
Share-based compensation expense	5,060	153					146	299
Balance at March 31, 2013	22,141,405	$ 98,531	$ 150,027	$ 6,569	$ (8,342)	$ (6,106)	$ (1,582)	$ 239,097

See accompanying notes to unaudited consolidated financial statements.

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MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 3,068	$ 2,156
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of acquisition fair value adjustments	(75)	(193)
Earned ESOP shares	185	136
Provision for loan losses	1,260	1,264
Amortization (accretion) of net deferred loan origination fees/costs	31	(21)
Net (accretion) amortization of securities available for sale	(15)	130
Capitalization of mortgage servicing rights	(63)	(154)
Amortization of mortgage servicing rights	100	72
Depreciation and amortization expense	553	532
Gain on sales of securities, net	(2,273)	(1,083)
Loss and provision for foreclosed real estate, net	6	65
Deferred income tax benefit	(23)	(6)
Income from bank-owned life insurance	(291)	(301)
Equity income on investment in affiliate bank		(243)
Share-based compensation expense	299	289
Net changes in:		
Loans held for sale	4,889	1,925
Accrued interest receivable	(62)	636
Prepaid deposit insurance		402
Other assets	(308)	1,398
Accrued expenses and other liabilities	(1,237)	6,615
Net cash provided by operating activities	6,044	13,619
Cash flows from investing activities:		
Activity in securities available for sale:		
Proceeds from maturities, calls and principal payments	15,453	54,032
Redemption of mutual funds, net	4,018	315
Proceeds from sales	19,754	7,810
Purchases	(7,447)	(45,774)
Redemption of Federal Home Loan Bank stock	157	474
Loans originated, net of principal payments received	(64,385)	(71,442)
Purchases of premises and equipment	(1,740)	(2,158)
Proceeds from sales of foreclosed real estate	718	922
Net cash used in investing activities	(33,472)	(55,821)

(continued)

See accompanying notes to unaudited consolidated financial statements.

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MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2013	2012
	(In thousands)	
Cash flows from financing activities:		
Net increase in deposits	92,083	41,286
Net change in borrowings with maturities less than three months		(2,994)
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	30,000	27,500
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(4,431)	(17,500)
Stock option exercise	5	8
Purchase of treasury stock	(57)	(134)
Net cash provided by financing activities	117,600	48,166
Net change in cash and cash equivalents	90,172	5,964
Cash and cash equivalents at beginning of period	93,192	156,685
Cash and cash equivalents at end of period	$ 183,364	$ 162,649
Supplemental cash flow information:		
Interest paid on deposits	$ 3,929	$ 4,063
Interest paid on borrowings	924	1,029
Income taxes paid, net of refunds	1,225	286
Non-cash investing and financing activities:		
Transfers from loans to foreclosed real estate	200	157

See accompanying notes to unaudited consolidated financial statements.

MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Meridian Interstate Bancorp, Inc., a 59.5%-owned subsidiary of Meridian Financial Services, Incorporated (Meridian), a mutual holding company, and all other entities in which it has a controlling financial interest (collectively referred to as the Company). The Company was formed in a corporate reorganization in 2006 and owns East Boston Savings Bank and its subsidiaries (the Bank) and Meridian Interstate Funding Corporation, which was established in 2008 to fund a loan to the Company s Employee Stock Ownership Plan (ESOP). The Bank s subsidiaries include Prospect, Inc., which engages in securities transactions on its own behalf, EBOSCO, LLC and Berkeley Riverbend Estates LLC, both of which hold foreclosed real estate; and East Boston Investment Services, Inc., which is authorized for third-party investment sales and is currently inactive. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company held a 43% share in Hampshire First Bank, a New Hampshire chartered bank, organized and headquartered in Manchester, New Hampshire, which was accounted for using the equity method, under which the Company s share of the net income or loss of the affiliate was recognized as income or loss in the Company s consolidated statement of income. On November 16, 2011, Hampshire First Bank entered into an Agreement and Plan of Merger with NBT Bancorp, Inc. (NBTB) and NBT Bank, N.A. which merger was completed on June 8, 2012, with the Company recognizing a pre-tax gain of $4.8 million and receiving $6.6 million of cash and 547,481 NBTB shares with a fair value of $11.1 million as proceeds from the sale.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Such adjustments were of a normal recurring nature. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the entire year or any other interim period. For additional information, refer to the financial statements and footnotes thereto of the Company included in the Company s Form 10-K for the year ended December 31, 2012 which was filed with the Securities and Exchange Commission (SEC) on March 15, 2013, and is available through the SEC s website at www.sec.gov.

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated 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 in the near term relate to the determination of the allowance for loan losses, the evaluation of goodwill for impairment, other-than-temporary impairment of securities and the valuation of deferred tax assets.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-02, *Intangibles Goodwill and Other (Topic 350); Testing Indefinite Lived Intangible Assets for Impairment.* ASU No. 2012-02 simplifies the guidance for testing the decline in the realizable value of indefinite-lived intangible assets other than goodwill. This amendment allows an organization the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An organization electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that is more likely than not that the asset is impaired. The amendments in ASU 2012-02 are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company adopted this pronouncement and it had no effect on the Company s consolidated financial statements.

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In October 2012, the FASB issued ASU No. 2012-04, *Technical Corrections and Improvements.* ASU No. 2012-04 clarifies the FASB Accounting Standards Codification (the Codification) or corrects unintended application of guidance and includes amendments identifying when the use of fair value should be linked to the definition of fair value in *Fair Value Measurement (Topic 820)*. Amendments to the Codification without transition guidance are effective upon issuance; amendments subject to transitions guidance will be effective the fiscal periods beginning after December 15, 2012. The adoption did not have a material impact on the Company s consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220), Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income.* The update generally requires the Company to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income, effective prospectively for reporting periods beginning after December 15, 2012. The update had no material impact on the Company s consolidated financial statements for the three months ended March 31, 2013.

3. EARNINGS PER SHARE

Basic earnings per share excludes dilution and is calculated by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. If rights to dividends on unvested stock awards are non-forfeitable, these unvested stock awards are considered outstanding in the computation of basic earnings per share. Diluted earnings per share is computed in a manner similar to that of basic earnings per share except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares (computed using the treasury method) that would have been outstanding if all potentially dilutive common stock equivalents (such as options) were issued during the period. Unallocated common shares held by the ESOP are shown as a reduction in stockholders equity and are not included in the weighted-average number of common shares outstanding for either basic or diluted earnings per share calculations.

Basic and diluted earnings per share have been computed based on the following:

	Three Months Ended March 31, 2013	2012
	(Dollars in thousands, except per share amounts)	
Net income available to common stockholders	$ 3,068	$ 2,156
Average number of common shares outstanding	21,521,944	21,490,691
Effect of unvested stock awards	117,178	171,780
Basic weighted average shares outstanding	21,639,122	21,662,471
Effect of dilutive stock options	313,485	163,836
Diluted weighted average shares outstanding	21,952,607	21,826,307
Earnings per share:		
Basic	$ 0.14	$ 0.10
Diluted	$ 0.14	$ 0.10

Options for the exercise of 58,600 shares for the three months ended March 31, 2012 were not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive. There were no anti-dilutive options for the three months ended March 31, 2013.

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4. SECURITIES

The following table sets forth the amortized cost and fair value of securities available for sale.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
March 31, 2013				
Debt securities:				
Corporate bonds:				
Financial services	$ 66,414	$ 1,836	$ (23)	$ 68,227
Industry and manufacturing	13,858	415	(2)	14,271
Consumer products and services	12,255	277		12,532
Technology	2,506	19		2,525
Healthcare	11,034	417		11,451
Other	1,016	64		1,080
Total corporate bonds	107,083	3,028	(25)	110,086
Government-sponsored enterprises	38,581	27	(69)	38,539
Municipal bonds	7,235	216		7,451
Residential mortgage-backed securities:				
Government-sponsored enterprises	15,059	957		16,016
Private label	2,929	132		3,061
Total debt securities	170,887	4,360	(94)	175,153
Marketable equity securities:				
Common stocks:				
Financial services	11,882	1,704	(16)	13,570
Industry and manufacturing	13,317	1,884	(118)	15,083
Consumer products and services	9,919	2,295	(22)	12,192
Technology	2,430	129	(25)	2,534
Healthcare	3,293	958		4,251
Other	2,677	785		3,462
Total common stocks	43,518	7,755	(181)	51,092
Money market mutual funds	9,815		(21)	9,794
Total marketable equity securities	53,333	7,755	(202)	60,886
Total securities available for sale	$ 224,220	$ 12,115	$ (296)	$ 236,039
December 31, 2012				
Debt securities:				
Corporate bonds:				
Financial services	$ 76,044	$ 2,480	$ (71)	$ 78,453
Industry and manufacturing	14,846	449		15,295
Consumer products and services	12,259	355		12,614
Technology	2,506		(29)	2,477
Healthcare	11,041	461		11,502
Other	1,018	61		1,079
Total corporate bonds	117,714	3,806	(100)	121,420

Government-sponsored enterprises	53,084	94	(29)	53,149
Municipal bonds	7,236	225		7,461
Residential mortgage-backed securities:				
Government-sponsored enterprises	16,280	1,019	(1)	17,298
Private label	3,169	140		3,309
Total debt securities	197,483	5,284	(130)	202,637
Marketable equity securities:				
Common stocks:				
Financial services	11,354	622	(67)	11,909
Industry and manufacturing	10,922	1,329	(157)	12,094
Consumer products and services	11,849	1,284	(59)	13,074
Technology	1,847	11	(8)	1,850
Healthcare	3,757	560	(9)	4,308
Other	2,677	422		3,099
Total common stocks	42,406	4,228	(300)	46,334
Money market mutual funds	13,833		(19)	13,814
Total marketable equity securities	56,239	4,228	(319)	60,148
Total securities available for sale	$ 253,722	$ 9,512	$ (449)	$ 262,785

At March 31, 2013, securities with an amortized cost of $30.9 million and $3.5 million, respectively, were pledged as collateral for Federal Home Loan Bank of Boston borrowings and Federal Reserve Bank discount window borrowings.

The amortized cost and fair value of debt securities by contractual maturity at March 31, 2013 are as follows. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties.

	Within 1 year		Over 1 year to 5 years		Over 5 years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
				(In thousands)				
Corporate bonds:								
Financial services	$ 8,765	$ 8,890	$ 53,649	$ 55,318	$ 4,000	$ 4,019	$ 66,414	$ 68,227
Industry and manufacturing			13,858	14,271			13,858	14,271
Consumer products and services	7,512	7,698	4,743	4,834			12,255	12,532
Technology			2,506	2,525			2,506	2,525
Healthcare	5,020	5,170	6,014	6,281			11,034	11,451
Other			1,016	1,080			1,016	1,080
Total corporate bonds	21,297	21,758	81,786	84,309	4,000	4,019	107,083	110,086
Government-sponsored enterprises			86	89	38,495	38,450	38,581	38,539
Municipal bonds	1,460	1,463	4,376	4,510	1,399	1,478	7,235	7,451
Residential mortgage-backed securities:								
Government-sponsored enterprises			4	4	15,055	16,012	15,059	16,016
Private label					2,929	3,061	2,929	3,061
Total	$ 22,757	$ 23,221	$ 86,252	$ 88,912	$ 61,878	$ 63,020	$ 170,887	$ 175,153

For the three months ended March 31, 2013 and 2012, proceeds from sales of securities available for sale amounted to $19.8 million and $7.8 million, respectively. Gross gains of $2.3 million and $1.1 million and gross losses of $10,000 and $0, respectively, were realized on those sales.

Information pertaining to securities available for sale as of March 31, 2013 and December 31, 2012, with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
		(In thousands)		
March 31, 2013				
Debt securities:				
Corporate bonds:				
Financial services	$ 8	$ 1,992	$ 15	$ 6,485
Industry and manufacturing	2	998		
Total corporate bonds	10	2,990	15	6,485
Government-sponsored enterprises	69	18,927		
Total debt securities	79	21,917	15	6,485
Marketable equity securities:				
Common stocks:				

Financial services	10	561	6	229
Industry and manufacturing	63	2,124	55	256
Consumer products and services	22	729		
Technology	25	422		
Total common stocks	120	3,836	61	485
Money market mutual funds			21	1,006
Total marketable equity securities	120	3,836	82	1,491
Total temporarily impaired securities	$ 199	$ 25,753	$ 97	$ 7,976

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2012				
Debt securities:				
Corporate bonds:				
Financial services	$ 14	$ 2,986	$ 57	$ 4,442
Technology	29	2,477		
Total corporate bonds	43	5,463	57	4,442
Government-sponsored enterprises	29	8,962		
Residential mortgage-backed securities:				
Government-sponsored enterprises	1	8		
Total debt securities	73	14,433	57	4,442
Marketable equity securities:				
Common stocks:				
Financial services	46	7,193	21	217
Industry and manufacturing	157	2,654		
Consumer products and services	59	1,077		
Technology	8	936		
Healthcare	9	612		
Total common stocks	279	12,472	21	217
Money market mutual funds			19	1,004
Total marketable equity securities	279	12,472	40	1,221
Total temporarily impaired securities	$ 352	$ 26,905	$ 97	$ 5,663

The Company determined no securities were other-than-temporarily impaired for the three months ended March 31, 2013. Management evaluates securities for other-than-temporary impairment on a quarterly basis, with more frequent evaluation for selected issuers or when economic or market concerns warrant such evaluations.

As of March 31, 2013, the net unrealized gain on the total debt securities portfolio was $4.3 million. At March 31, 2013, 22 debt securities had unrealized losses with aggregate depreciation of 0.3% from the Company s amortized cost basis. In analyzing a debt issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts reports and, to a lesser extent given the relatively insignificant levels of depreciation in the Company s debt portfolio, spread differentials between the effective rates on instruments in the portfolio compared to risk-free rates. The unrealized losses are primarily caused by (a) recent declines in profitability and near-term profit forecasts by industry analysts resulting from a decline in the level of business activity and (b) recent downgrades by several industry analysts. The contractual terms of these investments do not permit the companies to settle the security at a price less than the par value of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that the bonds would not be settled at a price less than the par value of the investment. Because (1) the Company does not intend to sell the securities; (2) the Company does not believe it is more likely than not that the Company will be required to sell the securities before recovery of its amortized cost basis; and (3) the present value of expected cash flows is sufficient to recover the entire amortized cost basis of the securities, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2013.

As of March 31, 2013, the net unrealized gain on the total marketable equity portfolio was $7.6 million. At March 31, 2013, 11 marketable equity securities have unrealized losses with aggregate depreciation of 3.7% from the Company s cost basis. One equity security had a market value decline of 15.0% or more for more than twelve months, with a net unrealized loss of $55,000. Although the issuers have shown declines in earnings as a result of the weakened economy, no credit issues have been identified that cause management to believe the decline in market value is other than temporary, and the Company has the ability and intent to hold these investments until a recovery of fair value. In analyzing an equity issuer s financial condition, management considers industry

analysts reports, financial performance and projected target prices of investment analysts within a one-year time frame. A decline of 10% or more in the value of an acquired equity security is generally the triggering event for management to review individual securities for liquidation and/or classification as other-than-temporarily impaired. Impairment losses are recognized when management concludes that declines in the value of equity securities are other than temporary, or when they can no longer assert that they have the intent and ability to hold depreciated equity securities for a period of time sufficient to allow for any anticipated recovery in fair value. Unrealized losses on marketable equity securities that are in excess of 25% of cost and that have been sustained for more than twelve months are generally considered-other-than temporary and charged to earnings as impairment losses, or realized through sale of the security.

5. LOANS

The Company s loan portfolio consists primarily of residential real estate, commercial real estate, construction, commercial business and consumer segments. The residential real estate loans include classes for one-to four-family, multi-family and home equity lines of credit. There are no foreign loans outstanding. Interest rates charged on loans are affected principally by the demand for such loans, the supply of money available for lending purposes and the rates offered by our competitors. A summary of loans follows:

	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
	(Dollars in thousands)			
Real estate loans:				
Residential real estate:				
One-to four-family	$ 429,875	22.8%	$ 443,228	24.5%
Multi-family	175,987	9.4	178,948	9.9
Home equity lines of credit	59,058	3.2	60,907	3.4
Commercial real estate	833,353	44.6	795,642	44.0
Construction	208,621	11.2	173,255	9.6
Total real estate loans	1,706,894	91.2	1,651,980	91.4
Commercial business loans	156,899	8.4	147,814	8.2
Consumer	6,579	0.4	7,143	0.4
Total loans	1,870,372	100.0%	1,806,937	100.0%
Allowance for loan losses	(20,883)		(20,504)	
Net deferred loan origination fees	(301)		(94)	
Loans, net	$ 1,849,188		$ 1,786,339	

The Company has transferred a portion of its originated commercial real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company s accompanying 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 to participating lenders and disburses required escrow funds to relevant parties. At March 31, 2013 and December 31, 2012, the Company was servicing loans for participants aggregating $40.3 million and $41.1 million, respectively.

As a result of the Mt. Washington Co-operative Bank (Mt. Washington) acquisition in January 2010, the Company acquired loans at fair value of $345.3 million. Included in this amount was $27.7 million of loans with evidence of deterioration of credit quality since origination for which it was probable, at the time of the acquisition, that the Company would be unable to collect all contractually required payments receivable. The Company s evaluation of loans with evidence of credit deterioration as of the acquisition date resulted in a nonaccretable discount of $7.6 million, 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 the loan s credit quality at the acquisition date.

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The following is a summary of the outstanding balance of the acquired loans with evidence of credit deterioration:

	March 31, 2013	December 31, 2012
	(In thousands)	
Real estate loans:		
Residential real estate:		
One-to four-family	$ 7,524	$ 7,581
Multi-family	1,182	1,280
Home equity lines of credit	567	568
Commercial real estate	739	1,646
Total real estate loans	10,012	11,075
Commercial business loans	78	78
Consumer	4	4
Outstanding principal balance	10,094	11,157
Discount	(2,514)	(2,595)
Carrying amount	$ 7,580	$ 8,562

A rollforward of accretable yield follows:

	Three Months Ended March 31, 2013	2012
	(In thousands)	
Beginning balance	$ 1,047	$ 1,181
Accretion	(7)	(19)
Ending balance	$ 1,040	$ 1,162

An analysis of the allowance for loan losses and related information follows:

	For the Three Months Ended March 31, 2013								
	One-to four-family	Multi-family	Home equity lines of credit	Commercial real estate	Construction	Commercial business	Consumer	Unallocated	Total
					(In thousands)				
Beginning balance	$ 2,507	$ 1,431	$ 226	$ 10,405	$ 3,656	$ 2,174	$ 105	$	$ 20,504
Provision (credit) for loan loss	(281)	(26)	(49)	215	1,425	(99)	75		1,260
Charge-offs	(108)	(90)			(627)		(132)		(957)
Recoveries	32				5	3	36		76
Ending balance	$ 2,150	$ 1,315	$ 177	$ 10,620	$ 4,459	$ 2,078	$ 84	$	$ 20,883

	For the Three Months Ended March 31, 2012								
	One-to four-family	Multi-family	Home equity lines	Commercial real estate	Construction	Commercial business	Consumer	Unallocated	Total

			of credit						
					(In thousands)				
Beginning balance	$ 1,861	$ 1,361	$ 245	$ 6,980	$ 1,430	$ 1,061	$ 115	$	$ 13,053
Provision (credit) for loan loss	420	150	(35)	(73)	730	66	6		1,264
Charge-offs	(199)	(72)	(52)	(9)	(80)		(59)		(471)
Recoveries	8			227	2	4	10		251
Ending balance	$ 2,090	$ 1,439	$ 158	$ 7,125	$ 2,082	$ 1,131	$ 72	$	$ 14,097

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	At March 31, 2013								
	One-to four-family	Multi-family	Home equity lines of credit	Commercial real estate	Construction	Commercial business	Consumer	Unallocated	Total
					(In thousands)				
Amount of allowance for loan losses for loans deemed to be impaired	$ 237	$	$	$ 284	$ 239	$	$	$	$ 760
Amount of allowance for loan losses for loans not deemed to be impaired	1,913	1,315	177	10,336	4,220	2,078	84		20,123
	$ 2,150	$ 1,315	$ 177	$ 10,620	$ 4,459	$ 2,078	$ 84	$	$ 20,883
Amount of allowance for loan losses for loans acquired with deteriorated credit quality included above	$ 42	$	$	$ 21	$	$	$	$	$ 63
Loans deemed to be impaired	$ 4,733	$ 5,647	$ 22	$ 10,788	$ 17,367	$ 401	$		$ 38,958
Loans not deemed to be impaired	425,142	170,340	59,036	822,565	191,254	156,498	6,579		1,831,414
	$ 429,875	$ 175,987	$ 59,058	$ 833,353	$ 208,621	$ 156,899	$ 6,579		$ 1,870,372

	At December 31, 2012								
	One-to four-family	Multi-family	Home equity lines of credit	Commercial real estate	Construction	Commercial business	Consumer	Unallocated	Total
					(In thousands)				
Amount of allowance for loan losses for loans deemed to be impaired	$ 128	$ 90	$	$ 204	$ 227	$	$	$	$ 649
Amount of allowance for loan losses for loans not deemed to be impaired	2,379	1,341	226	10,201	3,429	2,174	105		19,855
	$ 2,507	$ 1,431	$ 226	$ 10,405	$ 3,656	$ 2,174	$ 105	$	$ 20,504
Amount of allowance for loan losses for loans acquired with deteriorated credit quality included above	$ 31	$ 90	$	$ 9	$	$	$	$	$ 130
Loans deemed to be impaired	$ 4,486	$ 5,784	$ 22	$ 12,146	$ 18,319	$ 424	$		$ 41,181
Loans not deemed to be impaired	438,742	173,164	60,885	783,496	154,936	147,390	7,143		1,765,756
	$ 443,228	$ 178,948	$ 60,907	$ 795,642	$ 173,255	$ 147,814	$ 7,143		$ 1,806,937

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The following table provides information about the Company s past due and non-accrual loans at the dates indicated.

	March 31, 2013				
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans on Non-accrual
			(In thousands)		
Real estate loans:					
Residential real estate:					
One-to four-family	$ 5,161	$ 1,812	$ 6,951	$ 13,924	$ 18,298
Multi-family			274	274	879
Home equity lines of credit	1,526	796	741	3,063	2,754
Commercial real estate	2,208	1,069	3,460	6,737	8,082
Construction	502		6,553	7,055	15,770
Total real estate loans	9,397	3,677	17,979	31,053	45,783
Commercial business loans	15		315	330	401
Consumer	428	249		677	
Total	$ 9,840	$ 3,926	$ 18,294	$ 32,060	$ 46,184

	December 31, 2012				
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans on Non-accrual
			(In thousands)		
Real estate loans:					
Residential real estate:					
One-to four-family	$ 3,996	$ 2,476	$ 8,990	$ 15,462	$ 18,870
Multi-family			364	364	976
Home equity lines of credit	767	674	754	2,195	2,674
Commercial real estate	1,722	379	3,671	5,772	8,844
Construction	496		6,553	7,049	7,785
Total real estate loans	6,981	3,529	20,332	30,842	39,149
Commercial business loans	201		318	519	424
Consumer	479	132		611	
Total	$ 7,661	$ 3,661	$ 20,650	$ 31,972	$ 39,573

At March 31, 2013 and December 31, 2012, the Company did not have any accruing loans past due 90 days or more. Delinquent loans at March 31, 2013 and December 31, 2012 included $1.6 million and $2.3 million of loans acquired with evidence of credit deterioration. At March 31, 2013 and December 31, 2012, non-accrual loans included $3.0 million and $3.9 million of loans acquired with evidence of credit deterioration.

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The following tables provide information with respect to the Company s impaired loans:

	March 31, 2013			December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
			(In thousands)			
Impaired loans without a valuation allowance:						
One-to four-family	$ 2,075	$ 2,284		$ 2,157	$ 2,465	
Multi-family	5,647	6,329		5,419	5,893	
Home equity lines of credit	22	22		22	22	
Commercial real estate	7,823	8,050		9,752	10,054	
Construction	15,774	17,493		16,726	17,818	
Commercial business loans	401	480		424	502	
Total	31,742	34,658		34,500	36,754	
Impaired loans with a valuation allowance:						
One-to four-family	2,658	2,759	$ 237	2,329	2,330	$ 128
Multi-family				365	482	90
Commercial real estate	2,965	2,965	284	2,394	2,394	204
Construction	1,593	1,787	239	1,593	1,787	227
Total	7,216	7,511	760	6,681	6,993	649
Total impaired loans	$ 38,958	$ 42,169	$ 760	$ 41,181	$ 43,747	$ 649

	Three Months Ended March 31, 2013			Three Months Ended March, 2012		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
			(In thousands)			
Impaired loans:						
One-to four-family	$ 4,610	$ 59	$ 48	$ 3,744	$ 56	$ 43
Multi-family	5,715	109	109	6,113	135	122
Home equity lines of credit	22			23		
Commercial real estate	11,466	165	74	12,051	212	168
Construction	17,843	269	158	34,518	610	254
Commercial business loans	413	8	5	1,103	23	23
Total impaired loans	$ 40,069	$ 610	$ 394	$ 57,552	$ 1,036	$ 610

At March 31, 2013, additional funds of $2.0 million are committed to be advanced in connection with impaired construction loans.

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The following table summarizes the troubled debt restructurings (TDRs) at the dates indicated:

	March 31, 2013	December 31, 2012
	(In thousands)	
TDRs on accrual status:		
One-to four-family	$ 1,981	$ 1,992
Multi-family	110	110
Home equity lines of credit	22	22
Commercial real estate	1,386	1,393
Construction		3,319
Total TDRs on accrual status	3,499	6,836
TDRs on non-accrual status:		
One-to four-family	2,752	2,493
Commercial real estate	4,428	4,466
Construction	7,313	3,838
Total TDRs on non-accrual status	14,493	10,797
Total TDRs	$ 17,992	$ 17,633

The following is a summary of troubled debt restructurings during the periods indicated.

	Three Months Ended March 31, 2013			2012		
	Number of Loans	Pre-Modification Balance	Post-Modification Balance	Number of Loans	Pre-Modification Balance	Post-Modification Balance
	(Dollars in thousands)					
Real estate loans:						
One-to four-family	1	$ 265	$ 265	2	$ 474	$ 474
Total	1	$ 265	$ 265	2	$ 474	$ 474

The following provides information on how loans were modified as TDRs for the periods indicated.

	Three Months Ended March 31, 2013	2012
	(In thousands)	
Adjusted interest rates	$ 265	$ 474
Total	$ 265	$ 474

The Company generally places loans modified as TDRs on non-accrual status for a minimum period of six months. Loans modified as TDRs qualify for return to accrual status once they have demonstrated performance with the modified terms of the loan agreement for a minimum of six months and future payments are reasonably assured. TDRs are reported as impaired loans with an allowance established as part of the allocated component of the allowance for loan losses when the discounted cash flows of the impaired loan is lower than the carrying value of that loan. TDRs may be removed from impairment disclosures in the year following the restructure if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar credit at the time of restructuring. At March 31, 2013 and 2012, the allowance for loan losses included an allocated component of $62,000 and $230,000, respectively, with no charge-offs related to the TDRs modified during the quarter.

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The following table is a summary of TDRs that defaulted or became 90 days past due in the first twelve months after restructure during the periods presented:

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in thousands)			
Real estate loans:				
One-to four-family	2	$ 469	2	$ 435
Total	2	$ 469	2	$ 435

Loans modified as TDRs with payment defaults are considered in the allocated component of the allowance for loan losses for each of the Company s loan portfolio segments. The Company s historical loss experience factors include charge-offs on loans modified as TDRs, if any, as adjusted for additional qualitative factors such as levels/trends in delinquent and non-accrual loans.

The Company utilizes a nine grade internal loan rating system for multi-family residential, commercial real estate, construction and commercial loans as follows:

Loans rated 1, 2, 3 and 3A: Loans in these categories are considered pass rated loans with low to average risk.

Loans rated 4 and 4A: Loans in this category are considered special mention. These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 5: Loans in this category are considered substandard. Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 6: Loans in this category are considered doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 7: Loans in this category are considered uncollectible (loss) and of such little value that their continuance as loans is not warranted.

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

The following tables provide information with respect to the Company s risk rating at the dates indicated.

	March 31, 2013			
	Multi-family residential real estate	Commercial real estate	Construction	Commercial business

		(In thousands)		
Loans rated 1 - 4A	$ 170,249	$ 822,797	$ 191,284	$ 156,327
Loans rated 5	5,738	10,556	17,337	572
Loans rated 6				
Loans rated 7				
Total	$ 175,987	$ 833,353	$ 208,621	$ 156,899

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	December 31, 2012			
	Multi-family residential real estate	Commercial real estate	Construction	Commercial business
	(In thousands)			
Loans rated 1 - 4A	$ 172,825	$ 784,060	$ 154,969	$ 147,258
Loans rated 5	6,123	11,582	18,286	556
Loans rated 6				
Loans rated 7				
Total	$ 178,948	$ 795,642	$ 173,255	$ 147,814

For one-to four-family real estate loans, home equity lines of credit and consumer loans, management uses delinquency reports as the key credit indicator.

6. COMMITMENTS AND DERIVATIVES

In the normal course of business, there are outstanding commitments which are not reflected in the accompanying consolidated financial statements.

Loan Commitments

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 and to reduce its own exposure to fluctuations in interest rates. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

A summary of outstanding financial instruments whose contract amounts represent credit risk is as follows:

	March 31, 2013	December 31, 2012
	(In thousands)	
Unadvanced portion of existing loans:		
Construction	$ 116,951	$ 166,482
Home equity line of credit	36,953	39,698
Other lines and letters of credit	38,384	56,174
Commitments to originate:		
One-to four-family	21,617	17,752
Commercial real estate	40,864	51,540
Construction	46,553	83,078
Commercial business loans	36,745	24,355
Other loans	1,064	205
Total loan commitments outstanding	$ 339,131	$ 439,284

Commitments to originate loans are agreements to lend to a customer provided 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 a portion of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The Company evaluates each customer s credit worthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Company for the extension of credit, is based upon management s credit evaluation of the borrower. Collateral held includes, but is not limited to, residential real estate and deposit accounts.

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized if deemed necessary and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Derivative Loan Commitments

Residential real estate loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential real estate loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A residential loan commitment requires the Company to originate a loan at a specific interest rate upon the completion of various underwriting requirements. Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from the exercise of the loan commitment might decline from the inception of the rate lock to funding of the loan due to increases in loan interest rates. If interest rates increase, the value of these commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increase. Derivative loan commitments with a notional amount of $39.2 million and $35.9 million were outstanding at March 31, 2013 and December 31, 2012, respectively. The fair value of such commitments was an asset of $239,000 and $288,000 at March 31, 2013 and December 31, 2012, respectively, and is included in other assets.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Company utilizes both mandatory delivery and best efforts forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Under a mandatory delivery contract, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Company fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay the investor a pair-off fee, based then-current market prices, to compensate the investor for the shortfall. Under a best efforts contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor and the investor commits to a price that it will purchase the loan from the Company if the loan to the underlying borrower closes. The Company generally enters into forward sale contracts on the same day it commits to lend funds to a potential borrower. The Company expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. Forward loan sale commitments with a notional amount of $34.4 million and $44.4 million were outstanding at March 31, 2013 and December 31, 2012, respectively. The fair value of such commitments was a liability of $20,000 and $12,000 at March 31, 2013 and December 31, 2012, respectively, and is included in other liabilities.

The following table presents the fair values of derivative instruments in the balance sheet.

	March 31, 2013			
	Assets		Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		
Derivative loan commitments	Other assets	$ 353	Other liabilities	$ 134
Forward loan sale commitments	Other assets	99	Other liabilities	119
Total		$ 452		$ 253

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	December 31, 2012			
	Assets		Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
		(In thousands)		
Derivative loan commitments	Other assets	$ 288	N/A	$
Forward loan sale commitments	N/A		Other liabilities	12
Total		$ 288		$ 12

The following table presents information pertaining to the Company s derivative instruments included in the consolidated statement of net income:

		Amount of Gain/(Loss) For the Three Months Ended March 31,	
Derivative Instrument	Location of Gain/(Loss)	2013	2012
		(In thousands)	
Derivative loan commitments	Mortgage banking gains, net	$ (69)	$ (214)
Forward loan sale commitments	Mortgage banking gains, net	(8)	82
Total		$ (77)	$ (132)

For the three months ended March 31, 2013, the Company recognized net mortgage banking gains of $155,000, consisting of $232,000 in net gains on sale of loans and $77,000 in net derivative mortgage banking losses. For the three months ended March 31, 2012, the Company recognized net mortgage banking gains of $625,000, consisting of $757,000 in net gains on sale of loans and $132,000 in net derivative mortgage banking losses.

Other Commitments

In July 2010, we extended the contract with our core data processing provider through December 2017. This contract extension resulted in an outstanding commitment of $10.6 million as of March 31, 2013, with total annual payments of $2.2 million.

7. FAIR VALUE OF ASSETS AND LIABILITIES

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

The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 Valuation is based on quoted prices in active markets for identical assets or liabilities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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

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

Transfers between levels are recognized at the end of a reporting period, if applicable.

The following methods and assumptions were used by the Company in estimating fair value disclosures:

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

Securities available for sale All fair value measurements are obtained from a third party pricing service and are not adjusted by management. Marketable equity securities are measured at fair value utilizing quoted market prices (Level 1). Corporate bonds, obligations of government-sponsored enterprises, municipal bonds and mortgage-backed securities are determined by pricing models that consider standard input factors such as observable market data, benchmark yields, reported trades, broker/dealer quotes, credit spreads, benchmark securities, as well as new issue data, monthly payment information, and collateral performance, among others (Level 2).

Federal Home Loan Bank stock The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Loans held for sale The fair value is based on commitments in effect from investors or prevailing market prices.

Loans For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-accrual loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits The fair values disclosed for non-certificate accounts, by definition, equal to the amount payable on demand at the reporting date which is their carrying amounts. Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings The fair value is estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Accrued interest The carrying amounts of accrued interest approximate fair value.

Forward loan sale commitments and derivative loan commitments Forward loan sale commitments and derivative loan commitments are based on fair values of the underlying mortgage loans and the probability of such commitments being exercised. Management judgment and estimation is required in determining these fair value measurements.

Off-balance sheet credit-related instruments Fair values for off-balance-sheet, credit-related financial instruments 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. The fair value of these instruments is considered immaterial.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Debt securities	$	$ 175,153	$	$ 175,153
Marketable equity securities	60,886			60,886
Derivative loan commitments			353	353
Forward loan sale commitments			99	99
Total assets	$ 60,886	$ 175,153	$ 452	$ 236,491
Liabilities				
Derivative loan commitments	$	$	$ 134	$ 134
Forward loan sale commitments			119	119
Total liabilities	$	$	$ 253	$ 253

	December 31, 2012			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Debt securities	$	$ 202,637	$	$ 202,637
Marketable equity securities	60,148			60,148
Derivative loan commitments			288	288
Total assets	$ 60,148	$ 202,637	$ 288	$ 263,073
Liabilities				
Forward loan sale commitments	$	$	$ 12	$ 12
Total liabilities	$	$	$ 12	$ 12

For the three months ended March 31, 2013 and 2012, there were no transfers in or out of Levels 1 and 2 and the changes in Level 3 assets and liabilities that are measured at fair value on a recurring basis are as follows:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Derivative loan commitments and forward sale commitments, net:		
Beginning balance	$ 276	$ 508
Total realized and unrealized losses included net income	(77)	(132)
Ending balance	$ 199	$ 376
Total realized gain relating to instruments still held at period end	$ 199	$ 376

Assets Measured at Fair Value on a Non-recurring Basis

The Company may also be required, from time to time, to measure certain other assets on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of lower-of-cost-or market accounting or write-downs of individual assets.

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The following tables summarize the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets. The gain/loss represents the amount of write-down, charge-off or specific reserve recorded during the periods noted on the assets held at period end. There were no liabilities measured at fair value on a non-recurring basis.

	March 31, 2013			Three Months Ended March 31, 2013
	Level 1	Level 2	Level 3	Total Loss
			(In thousands)	
Impaired loans	$	$	$ 4,509	$ (780)
Foreclosed real estate			2,080	(16)
	$	$	$ 6,589	$ (796)

	December 31, 2012			Three Months Ended March 31, 2012
	Level 1	Level 2	Level 3	Total Loss
			(In thousands)	
Impaired loans	$	$	$ 7,867	$ (80)
Foreclosed real estate			2,604	(102)
	$	$	$ 10,471	$ (182)

Certain impaired loans were adjusted to fair value, less cost to sell, of the underlying collateral securing these loans resulting in losses. The loss is not recorded directly as an adjustment to current earnings, but rather as a component in determining the allowance for loan losses. Fair value was measured using appraised values of collateral and adjusted as necessary by management based on unobservable inputs for specific properties.

Certain properties in foreclosed real estate were adjusted to fair value using appraised values of collateral, less cost to sell, and adjusted as necessary by management based on unobservable inputs for specific properties. The loss on foreclosed assets represents adjustments in valuation recorded during the time period indicated and not for losses incurred on sales.

Summary of Fair Values of Financial Instruments

The estimated fair values, and related carrying 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.

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	March 31, 2013				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
			(In thousands)		
Financial assets:					
Cash and cash equivalents	$ 183,364	$ 183,364	$	$	$ 183,364
Securities available for sale	236,039	60,886	175,153		236,039
Federal Home Loan Bank stock	11,907			11,907	11,907
Loans and loans held for sale, net	1,858,801			1,895,976	1,895,976
Accrued interest receivable	6,807			6,807	6,807
Financial liabilities:					
Deposits	1,957,507			1,965,678	1,965,678
Borrowings	186,721		188,212		188,212
Accrued interest payable	897			897	897
On-balance sheet derivative financial instruments:					
Derivative loan commitments:					
Assets	353			353	353
Liabilities	134			134	134
Forward loan sale commitments:					
Assets	99			99	99
Liabilities	119			119	119

	December 31, 2012				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
			(In thousands)		
Financial assets:					
Cash and cash equivalents	$ 93,192	$ 93,192	$	$	$ 93,192
Securities available for sale	262,785	60,148	202,637		262,785
Federal Home Loan Bank stock	12,064			12,064	12,064
Loans and loans held for sale, net	1,800,841			1,843,529	1,843,529
Accrued interest receivable	6,745			6,745	6,745
Financial liabilities:					
Deposits	1,865,433			1,874,226	1,874,226
Borrowings	161,254		164,176		164,176
Accrued interest payable	849			849	849
On-balance sheet derivative financial instruments:					
Derivative loan commitments:					
Assets	288			288	288
Forward loan sale commitments:					
Liabilities	12			12	12

ITEM 2. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

Management s discussion and analysis of the financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of Meridian Interstate Bancorp, Inc. The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the Securities and Exchange Commission.

Forward Looking Statements

This report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words believe, expect, intend, anticipate, estimate, proje similar expressions. The Company s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to:

- general economic conditions, either nationally or in our market area, that are worse than expected;
- inflation and changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- our ability to enter new markets successfully and take advantage of growth opportunities, and the possible dilutive effect of potential acquisitions or *de novo* branches, if any;
- legislative or regulatory changes that adversely affect our business;
- adverse changes in the securities markets;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Securities and Exchange Commission;
- inability of third-party providers to perform their obligations to us; and
- changes in our organization, compensation and benefit plans.

Management s ability to predict results or the effect of future plans or strategies is inherently uncertain. These factors include, but are not limited to, general economic conditions, changes in the interest rate environment, legislative or regulatory changes that may adversely affect our business, changes in accounting policies and practices, changes in competition and demand for financial services, adverse changes in the securities markets and changes in the quality or composition of the Company s loan or investment portfolios. Additional factors that may affect our results are discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the Securities and Exchange Commission on March 15, 2013, under Risk Factors, which is available through the SEC s website at www.sec.gov, as updated by subsequent filings with the SEC. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

The Company s summary of significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in the 2012 Annual Report on Form 10-K for the year ended December 31, 2012. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Management has identified accounting for the allowance for loan losses, the valuation of goodwill and analysis for impairment, other-than-temporary impairment of securities and the valuation of deferred tax assets as the Company s critical accounting policies.

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

Assets

Total assets increased $121.5 million, or 5.3%, to $2.400 billion at March 31, 2013 from $2.279 billion at December 31, 2012. Net loans increased $62.8 million, or 3.5%, to $1.849 billion at March 31, 2013 from $1.786 billion at December 31, 2012. The net increase in loans for the quarter ended March 31, 2013 was primarily due to increases of $37.7 million in commercial real estate loans, $35.4 million in construction loans and $9.1 million in commercial business loans. Cash and cash equivalents increased $90.2 million, or 96.8%, to $183.4 million at March 31, 2013 from $93.2 million at December 31, 2012. Securities available for sale decreased $26.7 million, or 10.2%, to $236.0 million at March 31, 2013 from $262.8 million at December 31, 2012 primarily due to sales, maturities and calls of securities.

Asset Quality

Credit Risk Management

Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans.

When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status, including contacting the borrower by letter and phone at regular intervals. When the borrower is in default, we may commence collection proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. Management informs the Executive Committee monthly of the amount of loans delinquent more than 30 days. Management provides detailed information to the Board of Directors on loans 60 or more days past due and all loans in foreclosure and repossessed property that we own.

Delinquencies

Total past due loans increased $88,000, or 0.3%, to $32.1 million at March 31, 2013 from $32.0 million at December 31, 2012, reflecting an increase of $2.4 million in loans 30 to 89 days past due partially offset by a decrease of $2.3 million in loans 90 days or more past due. Delinquent loans at March 31, 2013 included $16.0 million of loans acquired in the Mt. Washington merger, including $4.7 million that were 30 to 59 days past due, $2.9 million that were 60 to 89 days past due and $8.5 million that were 90 days or more past due. At March 31, 2013, non-accrual loans exceed loans 90 days or more past due primarily due to loans which were placed on non-accrual status based on a determination that the ultimate collection of all principal and interest due was not expected and certain loans that remain on non-accrual status until they attain a sustained payment history of six months.

Non-performing Assets

Non-performing assets include loans that are 90 or more days past due or on non-accrual status and real estate and other loan collateral acquired through foreclosure and repossession. Loans 90 days or more past due may remain on an accrual basis if adequately collateralized and in the process of collection. At March 31, 2013, the Company did not have any accruing loans past due 90 days or more. For non-accrual loans, interest previously accrued but not collected is reversed and charged against income at the time a loan is placed on non-accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as foreclosed real estate until it is sold. When property is acquired, it is initially recorded at the fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value after acquisition of the property result in charges against income.

The following table provides information with respect to our non-performing assets at the dates indicated.

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
Loans accounted for on a non-accrual basis:		
Real estate loans:		
Residential real estate:		
One-to four-family	$ 18,298	$ 18,870
Multi-family	879	976
Home equity lines of credit	2,754	2,674
Commercial real estate	8,082	8,844
Construction	15,770	7,785
Total real estate loans	45,783	39,149
Commercial business loans	401	424
Total non-accrual loans (1)	46,184	39,573
Foreclosed assets	2,080	2,604
Total non-performing assets	$ 48,264	$ 42,177
Non-accrual loans to total loans	2.47%	2.19%
Non-accrual loans to total assets	1.92%	1.74%
Non-performing assets to total assets	2.01%	1.85%

(1) TDRs on accrual status not included above totaled $3.5 million at March 31, 2013 and $6.8 million at December 31, 2012.

Non-accrual loans increased $6.6 million, or 16.7%, to $46.2 million, or 2.47% of total loans outstanding, at March 31, 2013, from $39.6 million, or 2.19% of total loans outstanding, at December 31, 2012, primarily due to a net increase of $8.0 million in non-accrual construction loans. The increase in non-accrual construction loans resulted from two construction loan relationships totaling $9.2 million that were placed on non-accrual loan status due to loan performance changes during the quarter ended March 31, 2013. We are pursuing the resolution of one such loan relationship totaling $5.7 million following a charge-off of $626,000 recorded against the allowance for loan losses during the quarter ended March 31, 2013. The second of these loan relationships totaling $3.5 million is a TDR that we expect to collect in full. Foreclosed real estate decreased $524,000, or 20.1%, to $2.1 million at March 31, 2013 from $2.6 million at December 31, 2012. Non-performing assets increased $6.1 million, or 14.4%, to $48.3 million, or 2.01% of total assets, at March 31, 2013, from $42.2 million, or 1.85% of total assets, at December 31, 2012. Non-performing assets at March 31, 2013 included $17.7 million of assets acquired in the January 2010 Mt. Washington Co-operative Bank merger, comprised of $17.2 million of non-performing loans and $520,000 of foreclosed real estate. Interest income that would have been recorded for the three months ended March 31, 2013 had non-accruing loans been current according to their original terms amounted to $311,000.

Troubled Debt Restructurings

In the course of resolving non-accrual loans, the Bank may choose to restructure the contractual terms of certain loans, with terms modified to fit the ability of the borrower to repay in line with its current financial status. A loan is considered a troubled debt restructuring if, for reasons related to the debtor s financial difficulties, a concession is granted to the debtor that would not otherwise be considered.

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Total TDRs increased $359,000, or 2.0%, to $18.0 million at March 31, 2013 from $17.6 million at December 31, 2012, consisting of increase of $3.7 million in TDRs on non-accrual status partially offset by a decrease of $3.3 million in TDRs on accrual status. The increase in TDRs on non-accrual status was the result of a construction loan relationship totaling $3.3 million that was transferred to non-accrual status from accrual status during the quarter ended March 31, 2013. In addition, one-to four-family TDRs on non-accrual status increased $259,000 due to a residential loan modification that was completed during the quarter ended March 31, 2013. Modifications of one-to four-family TDRs consist of rate reductions, loan term extensions or provisions for interest-only payments for specified periods up to 12 months. The Company has generally been successful with the concessions it has offered to borrowers to date. The Company generally returns TDRs to accrual status when they have sustained payments for six months based on the restructured terms and future payments are reasonably assured. The decrease in commercial real estate TDRs on non-accrual status were due to contractual payments received during the quarter ending March 31, 2013. Interest income that would have been recorded for the quarter ended March 31, 2013 had TDRs been current according to their original terms amounted to $61,000.

Potential Problem Loans

Certain loans are identified during the Company s loan review process that are currently performing in accordance with their contractual terms and we expect to receive payment in full of principal and interest, but it is deemed probable that we will be unable to collect all the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. This may result from deteriorating conditions, such as cash flows, collateral values or creditworthiness of the borrower. These loans are classified as impaired but are not accounted for on a non-accrual basis. There were no potential problem loans identified at March 31, 2013 other than those already classified as non-accrual, impaired or troubled debt restructurings.

Allowance for Loan Losses

The allowance for loan losses is maintained at levels considered adequate by management to provide for probable loan losses inherent in the loan portfolio as of the consolidated balance sheet reporting dates. The allowance for loan losses is based on management s assessment of various factors affecting the loan portfolio, including portfolio composition, delinquent and non-accrual loans, national and local business conditions and loss experience and an overall evaluation of the quality of the underlying collateral.

The following table sets forth the breakdown of the allowance for loan losses by loan category at the periods indicated:

	March 31, 2013			December 31, 2012		
	Amount	% of Allowance to Total Allowance	% of Loans in Category of Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category of Total Loans
	(Dollars in thousands)					
Real estate loans:						
Residential real estate:						
One-to four-family	$ 2,150	10.2%	22.8%	$ 2,507	12.2%	24.5%
Multi-family	1,315	6.3	9.4	1,431	7.0	9.9
Home equity lines of credit	177	0.8	3.2	226	1.1	3.4
Commercial real estate	10,620	50.9	44.6	10,405	50.8	44.0
Construction	4,459	21.4	11.2	3,656	17.8	9.6
Total real estate loans	18,721	89.6	91.2	18,225	88.9	91.4
Commercial business loans	2,078	10.0	8.4	2,174	10.6	8.2
Consumer	84	0.4	0.4	105	0.5	0.4
Total loans	$ 20,883	100.0%	100.0%	$ 20,504	100.0%	100.0%
Allowance to non-accrual loans	45.22%			51.81%		
Allowance to total loans outstanding	1.12%			1.13%		
Net charge-offs to average loans outstanding (annualized)	0.19%			0.07%		

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The Company s provision for loan losses was $1.3 million for each of the quarters ended March 31, 2013 and 2012. The provision for loan losses was based on management s assessment of loan portfolio growth and composition changes, an ongoing evaluation of credit quality and current economic conditions. The allowance for loan losses was $20.9 million or 1.12% of total loans outstanding at March 31, 2013, compared to $20.5 million or 1.13% of total loans outstanding at December 31, 2012. Net loan charge-offs against the allowance for loans losses totaled $881,000 for the three months ended March 31, 2013, or 0.19% of average loans outstanding, including $622,000 of net charge-offs on construction loans. The Company continues to assess the adequacy of its allowance for loan losses in accordance with established policies.

The allowance consists of general and allocated components. The general component relates to pools of non-impaired loans and is based on historical loss experience adjusted for qualitative factors. The allocated component relates to loans that are classified as impaired, whereby an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan.

The Company had impaired loans totaling $39.0 million and $41.2 million as of March 31, 2013 and December 31, 2012, respectively. At March 31, 2013, impaired loans totaling $7.2 million had an allocated allowance component of $760,000. Impaired loans totaling $6.7 million had an allocated allowance component of $649,000 at December 31, 2012. The Company s average investment in impaired loans was $40.1 million and $57.6 million for the three months ended March 31, 2013 and 2012, respectively.

A loan is considered impaired when, based on current information and events, it is probable that we 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. Impairment is measured on a loan by loan basis 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual one-to four-family residential and consumer loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring. 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 TDR. All TDRs are initially classified as impaired.

We review residential and commercial loans for impairment based on the fair value of collateral, if collateral-dependent, or the present value of expected cash flows. Management has reviewed the collateral value for all impaired and non-accrual loans that were collateral-dependent as of March 31, 2013 and considered any probable loss in determining the allowance for loan losses.

For residential loans measured for impairment based on the collateral value, we will do the following:

- When a loan becomes seriously delinquent, generally 60 days past due, internal valuations are completed by our in-house appraiser who is a Massachusetts certified residential appraiser. We obtain third party appraisals, which are generally the basis for charge-offs when a loss is indicated, prior to the foreclosure sale. We generally are able to complete the foreclosure process within nine to 12 months from receipt of the internal valuation.

- We make adjustments to appraisals based on updated economic information, if necessary, prior to the foreclosure sale. We review current market factors to determine whether, in management s opinion, downward adjustments to the most recent appraised values may be warranted. If so, we use our best estimate to apply an estimated discount rate to the appraised values to reflect current market factors.

- Appraisals we receive are based on comparable property sales.

For commercial loans measured for impairment based on the collateral value, we will do the following:

- We obtain a third party appraisal at the time a loan is deemed to be in a workout situation and there is no indication that the loan will return to performing status, generally when the loan is 90 days or more past due. One or more updated third party appraisals are obtained prior to foreclosure depending on the foreclosure timeline. In general we order new appraisals every 180 days on loans in the process of foreclosure.

We make downward adjustments to appraisals when conditions warrant. Adjustments are made by applying a discount to the appraised value based on occupancy, recent changes in condition to the property and certain other factors. Adjustments are also made to appraisals for construction projects involving residential properties based on recent sales of units. Losses are recognized if the appraised value less estimated costs to sell is less than our carrying value of the loan.

Appraisals we receive are generally based on a reconciliation of comparable property sales and income capitalization approaches. For loans on construction projects involving residential properties, appraisals are generally based on a discounted cash flow analysis assuming a bulk sale to a single buyer.

Loans that are partially charged off generally remain on non-accrual status until foreclosure or such time that they are performing in accordance with the terms of the loan and have a sustained payment history of at least six months. The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is confirmed, generally when appraised values (as adjusted values, if applicable) less estimated costs to sell, are less than the Company s carrying values.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with generally accepted accounting principles in the United States of America, there can be no assurance that regulators, in reviewing our loan portfolio, will not require us to increase our allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Securities Portfolio

The securities portfolio decreased $26.7 million, or 10.2% to $236.0 million, or 9.8% of total assets at March 31, 2013 as compared to $262.8 million, or 11.5% of total assets at December 31, 2012. At March 31, 2013, 46.6% of the securities portfolio, or $110.1 million, was invested in corporate bonds. The amortized cost and fair value of corporate bonds in the financial services sector was $66.4 million, and $68.2 million, respectively. The remainder of the corporate bond portfolio includes companies from a variety of industries. Refer to Note 4 *Securities Available for Sale* in Notes to the Consolidated Financial Statements within this report for more detail regarding the investments held in the Company s securities portfolio along with the Company s assessment of other-than-temporary impairment.

Deposits

Deposits are a major source of our funds for lending and other investment purposes. Deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Our deposit base is comprised of demand, NOW, money market, regular savings and other deposits, and certificates of deposit. We consider demand, NOW, money market, and regular and other deposits to be core deposits. Total deposits increased $92.1 million, or 4.9%, to $1.958 billion at March 31, 2013 from $1.865 billion at December 31, 2012. Our continuing focus on the acquisition and expansion of core deposit relationships resulted in net growth in those non-term balances of $41.3 million to $1.279 billion, or 65.3% of total deposits, at March 31, 2013.

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The following table summarizes the period end balance and the composition of deposits:

	March 31, 2013		December 31, 2012	
	Balance	Percent of Total Deposits	Balance	Percent of Total Deposits
	(Dollars in thousands)			
Demand deposits	$ 215,271	11.0%	$ 204,079	10.9%
NOW deposits	182,280	9.3	180,629	9.7
Money market deposits	628,190	32.1	606,861	32.5
Regular and other deposits	252,793	12.9	245,634	13.2
Certificates of deposit	678,973	34.7	628,230	33.7
Total	$ 1,957,507	100.0%	$ 1,865,433	100.0%

Borrowings

We use borrowings from the Federal Home Loan Bank of Boston to supplement our supply of funds for loans and investments. In addition, we may also purchase federal funds from local banking institutions as an additional short-term funding source for the Bank. Total borrowings increased $25.5 million, or 15.8%, to $186.7 million at March 31, 2013 from $161.3 million at December 31, 2012. The Bank entered into new advances with the Federal Home Loan Bank of Boston totaling $30.0 million with terms of three to five years and fixed interest rates of 0.65% to 1.20% during the three months ended March 31, 2013. At March 31, 2013, we also had an available line of credit of $9.4 million with the Federal Home Loan Bank of Boston at an interest rate that adjusts daily, none of which was outstanding at that date.

Stockholders Equity

Total stockholders equity increased $5.2 million, or 2.2%, to $239.1 million at March 31, 2013, from $233.9 million at December 31, 2012. The increase for the quarter ended March 31, 2013 was due primarily to $3.1 million in net income and a $1.7 million increase in accumulated other comprehensive income reflecting an increase in the fair value of available for sale securities, net of tax. Stockholders equity to assets was 9.96% at March 31, 2013, compared to 10.27% at December 31, 2012. Book value per share increased to $10.80 at March 31, 2013 from $10.57 at December 31, 2012. Tangible book value per share increased to $10.18 at March 31, 2013 from $9.95 at December 31, 2012. Market price per share increased $1.97, or 11.7%, to $18.75 at March 31, 2013 from $16.78 at December 31, 2012. At March 31, 2013, the Company and the Bank continued to exceed all regulatory capital requirements. For further information regarding regulatory capital requirements and the actual capital amounts and ratios for the Bank and the Company, refer to *Management s Discussion and Analysis of Results of Operations and Financial Condition Capital Management*.

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Average Balance Sheets and Related Yields and Rates

The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. For purposes of this table, average balances have been calculated using daily average balances, and non-accrual loans are included in average balances but are not deemed material. Loan fees are included in interest income on loans but are not material.

	For the Three Months Ended March 31,					
	2013			2012		
	Average Balance	Interest (1)	Yield/ Cost (6)	Average Balance	Interest (1)	Yield/ Cost (6)
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans (2)	$ 1,829,617	$ 21,050	4.67%	$ 1,389,924	$ 18,119	5.24%
Securities and certificates of deposits	252,626	1,713	2.75	323,699	2,728	3.39
Other interest-earning assets (3)	116,171	64	0.22	148,957	81	0.22
Total interest-earning assets	2,198,414	22,827	4.21	1,862,580	20,928	4.52
Noninterest-earning assets	121,645			131,498		
Total assets	$ 2,320,059			$ 1,994,078		
Liabilities and stockholders equity:						
Interest-bearing liabilities:						
NOW deposits	$ 175,732	231	0.53	$ 141,680	163	0.46
Money market deposits	616,801	1,355	0.89	460,113	960	0.84
Regular and other deposits	246,854	161	0.26	218,401	209	0.38
Certificates of deposit	648,882	2,201	1.38	643,500	2,671	1.67
Total interest-bearing deposits	1,688,269	3,948	0.95	1,463,694	4,003	1.10
Borrowings	177,006	842	1.93	134,629	783	2.34
Total interest-bearing liabilities	1,865,275	4,790	1.04	1,598,323	4,786	1.20
Noninterest-bearing demand deposits	200,162			153,608		
Other noninterest-bearing liabilities	18,762			16,949		
Total liabilities	2,084,199			1,768,880		
Total stockholders equity	235,860			225,198		
Total liabilities and stockholders equity	$ 2,320,059			$ 1,994,078		
Net interest-earning assets	$ 333,139			$ 264,257		
Fully tax-equivalent net interest income		18,037			16,142	
Less: tax-equivalent adjustments		(411)			(291)	
Net interest income		$ 17,626			$ 15,851	

Interest rate spread (4)			3.17%			3.32%
Net interest margin (5)			3.33%			3.49%
Average interest-earning assets to average interest-bearing liabilities	117.86%			116.53%		
Supplemental Information:						
Total deposits, including noninterest-bearing demand deposits	$ 1,888,431	$ 3,948	0.85%	$ 1,617,302	$ 4,003	1.00%
Total deposits and borrowings, including noninterest-bearing demand deposits	$ 2,065,437	$ 4,790	0.94%	$ 1,751,931	$ 4,786	1.10%

(1) Income on debt securities, equity securities and revenue bonds included in commercial real estate loans are presented on a tax- equivalent basis. The tax-equivalent adjustments are deducted from tax-equivalent net interest income to agree to amounts reported in the statement of net income.

(2) Loans on non-accrual status are included in average balances.

(3) Includes Federal Home Loan Bank stock and associated dividends.

(4) Interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.

(5) Net interest margin represents net interest income (tax-equivalent basis) divided by average interest-earning assets.

(6) Annualized.

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Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on our net interest income. 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 changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume.

	Three Months Ended March 31, 2013 Compared to 2012 Increase (Decrease) Due to		
	Volume	Rate	Total
		(In thousands)	
Interest Income:			
Loans	$ 5,109	$ (2,178)	$ 2,931
Securities and certificates of deposits	(546)	(469)	(1,015)
Other interest-earning assets	(19)	2	(17)
Total	4,544	(2,645)	1,899
Interest Expense:			
Deposits	421	(476)	(55)
Borrowings	213	(154)	59
Total	634	(630)	4
Change in fully tax-equivalent net interest income	$ 3,910	$ (2,015)	$ 1,895

Results of Operations for the Three Months Ended March 31, 2012 and 2011

Net Income

Our primary source of income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Changes in levels of interest rates affect our net interest income. A secondary source of income is non-interest income, which includes revenue that we receive from providing products and services. The majority of our non-interest income generally comes from customer service fees, loan fees, mortgage banking gains, gains on sales of securities and bank-owned life insurance.

The Company recorded net income of $3.1 million, or $0.14 per diluted share, for the quarter ended March 31, 2013 compared to $2.2 million, or $0.10 per diluted share, for the quarter ended March 31, 2012. Income before income tax expense increased $1.2 million to $4.4 million, the net result of increases in net interest income of $1.8 million and non-interest income of $468,000, partially offset by an increase in non-interest expenses of $1.0 million.

For the quarter ended March 31, 2013, return on average assets and return on average equity was 0.53% and 5.20%, respectively as compared to 0.43% and 3.83%, respectively, for the quarter ended March 31, 2012.

Net Interest Income

Net interest income increased $1.8 million, or 11.2%, to $17.6 million for the quarter ended March 31, 2013 from $15.9 million for the quarter ended March 31, 2012. The net interest rate spread and net interest margin were 3.17% and 3.33%, respectively, for the quarter ended March 31, 2013 compared to 3.32% and 3.49%, respectively, for the quarter ended March 31, 2012. The increase in net interest income was due primarily to loan growth along with declines in the cost of funds for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012.

The average balance of the Company s loan portfolio increased $439.7 million, or 31.6%, to $1.830 billion, which was partially offset by the decline in the yield on loans of 57 basis points to 4.67% for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012. The Company s cost of total deposits declined 15 basis points to 0.85%, which was partially offset by the increase in the average balance of total deposits of $271.1 million, or 16.8%, to $1.888 billion for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012. The Company s yield on interest-earning assets declined 31 basis points to 4.21% for the quarter ended March 31, 2013 compared to 4.52% for the quarter ended March 31, 2012, while the cost of funds declined 16 basis points to 0.94% for the quarter ended March 31, 2013 compared to 1.10% for the quarter ended March 31, 2012.

Provision for Loan Losses

The Company s provision for loan losses was $1.3 million for each of the quarters ended March 31, 2013 and 2012. For further analysis of the changes in the allowance for loan losses including the provision for loans losses refer to *Management s Discussion and Analysis of Results of Operations and Financial Condition Allowance for Loan Losses*.

Non-Interest Income

Non-interest income increased $468,000, or 12.0%, to $4.4 million for the quarter ended March 31, 2013 from $3.9 million for the quarter ended March 31, 2012, primarily due to an increase of $1.2 million in gain on sales of securities, net, partially offset by decreases of $470,000 in mortgage banking gains, net and $243,000 in equity income from the Hampshire First Bank affiliate that was sold in June 2012. The decrease in mortgage banking gains reflected reduced originations and sales of loans originated for sale during the first quarter ended March 31, 2013.

Non-Interest Expenses

Non-interest expenses increased $1.0 million, or 6.7%, to $16.3 million for the quarter ended March 31, 2013 from $15.3 million for the quarter ended March 31, 2012, primarily due to increases of $774,000 in salaries and employee benefits, $297,000 in occupancy and equipment, $159,000 in data processing and $132,000 in marketing and advertising, partially offset by decreases of $232,000 in professional services, $77,000 in foreclosed real estate and $71,000 in other non-interest expenses. The increases in salaries and employee benefits and occupancy and equipment expenses were primarily associated with the opening of new branches and costs associated with the expansion of residential and commercial lending capacity. The Company s efficiency ratio was 82.64% for the quarter ended March 31, 2013 compared to 81.81% for the quarter ended March 31, 2012. We expect improvement in our efficiency ratio as our net interest income continues to grow through utilization of our expanded lending and retail deposit funding capacity.

Provision for Income Taxes

The Company recorded a provision for income taxes of $1.4 million for the quarter ended March 31, 2013, reflecting an effective tax rate of 30.8%, compared to $1.1 million, or 32.9%, for the quarter ended March 31, 2012. The change in the effective tax rate was primarily due to changes in the components of pre-tax income.

Liquidity and Capital Management

Liquidity Management

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 of and payments on investment securities and borrowings from the Federal Home Loan Bank of Boston. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

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 policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At March 31, 2013, cash and cash equivalents totaled $183.4 million. In addition, at March 31, 2013, we had $29.2 million of available borrowing capacity with the Federal Home Loan Bank of Boston, including a $9.4 million line of credit. We also have the ability to pledge additional one-to four-family, multi-family and commercial real estate loans as collateral to increase our borrowing capacity with the Federal Home Loan Bank of Boston. On March 31, 2013, we had $186.7 million of advances outstanding.

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Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and Federal Home Loan Bank advances. 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. We generally manage the pricing of our deposits to be competitive. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

Capital Management

Both the Company and the Bank are subject to various regulatory capital requirements administered by the Federal Reserve Board and Federal Deposit Insurance Corporation, respectively, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2013, both the Company and the Bank exceeded all of their respective regulatory capital requirements.

The Company s and the Bank s actual capital amounts and ratios follow:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
March 31, 2013						
Total Capital (to Risk Weighted Assets):						
Company	$ 243,050	11.8%	$ 164,866	8.0%	N/A	N/A
Bank	211,243	10.4	163,174	8.0	$ 203,967	10.0%
Tier 1 Capital (to Risk Weighted Assets):						
Company	218,759	10.6	82,433	4.0	N/A	N/A
Bank	187,181	9.2	81,587	4.0	122,380	6.0
Tier 1 Capital (to Average Assets):						
Company	218,759	9.5	92,040	4.0	N/A	N/A
Bank	187,181	8.2	90,994	4.0	113,742	5.0
December 31, 2012						
Total Capital (to Risk Weighted Assets):						
Company	$ 237,527	11.9%	$ 159,344	8.0%	N/A	N/A
Bank	201,113	10.2	157,224	8.0	$ 196,531	10.0%
Tier 1 Capital (to Risk Weighted Assets):						
Company	215,255	10.8	79,672	4.0	N/A	N/A
Bank	178,852	9.1	78,612	4.0	117,918	6.0
Tier 1 Capital (to Average Assets):						
Company	215,255	9.7	88,858	4.0	N/A	N/A
Bank	178,852	8.2	87,742	4.0	109,678	5.0

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A reconciliation of the Company s and Bank s stockholders equity to regulatory capital follows:

	March 31, 2013		December 31, 2012	
	Consolidated	Bank	Consolidated	Bank
	(In thousands)			
Total stockholders equity per financial statements	$ 239,097	$ 207,098	$ 233,943	$ 197,399
Adjustments to Tier 1 capital:				
Accumulated other comprehensive income	(6,569)	(6,148)	(4,915)	(4,774)
Goodwill disallowed	(13,687)	(13,687)	(13,687)	(13,687)
Servicing assets disallowed	(82)	(82)	(86)	(86)
Total Tier 1 capital	218,759	187,181	215,255	178,852
Adjustments to total capital:				
Allowance for loan losses	20,883	20,883	20,504	20,504
45% of net unrealized gains on marketable equity securities	3,408	3,179	1,768	1,757
Total regulatory capital	$ 243,050	$ 211,243	$ 237,527	$ 201,113

We may use capital management tools such as cash dividends and common share repurchases. Pursuant to Federal Reserve Board approval conditions imposed in connection with the formation of the Company, the Company has committed (i) to seek the Federal Reserve Board s prior approval before repurchasing any equity securities from Meridian Financial Services and (ii) that any repurchases of equity securities from stockholders other than Meridian Financial Services will be at the current market price for such stock repurchases. The Company is also subject to the Federal Reserve Board s notice provisions for stock repurchases.

As of March 31, 2013, the Company had repurchased 199,750 shares of its stock at an average price of $12.93 per share, or 22.1% of the 904,224 shares authorized for repurchase under the Company s fourth repurchase program as adopted during 2011. The Company has repurchased 1,603,678 shares at an average price of $10.47 per share since December 2008.

Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles in the United States of America are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers requests for funding and take the form of loan commitments and lines of credit.

For the three months ended March 31, 2013, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

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ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Interest Rate Risk Management

Our earnings and the market value of our assets and liabilities are subject to fluctuations caused by changes in the level of interest rates. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: originating loans with adjustable interest rates; selling the residential real estate fixed-rate loans with terms greater than 10 years that we originate; promoting core deposit products; and gradually extending the maturity of funding sources, as borrowing and term deposit rates are historically low.

We have an Asset/Liability Management Committee to coordinate all aspects of asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Net Interest Income Simulation Analysis

We analyze our interest rate sensitivity position to manage the risk associated with interest rate movements through the use of interest income simulation. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest sensitive. An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income. Interest income simulations are completed quarterly and presented to the Asset/Liability Committee and the board of directors. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. The numerous assumptions used in the simulation process are reviewed by the Asset/Liability Committee and the Executive Committee on a quarterly basis. Changes to these assumptions can significantly affect the results of the simulation. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates. The simulation analysis incorporates management s current assessment of the risk that pricing margins will change adversely over time due to competition or other factors.

Simulation analysis is only an estimate of our interest rate risk exposure at a particular point in time. We continually review the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

The simulation uses projected repricing of assets and liabilities on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rates can have a significant impact on interest income simulation. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe such assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security and loan repayment activity.

The following table reflects changes in estimated net interest income for the Bank due to immediate non-parallel changes in interest rates at April 1, 2013 through March 31, 2014.

Increase (Decrease) in Market Interest Rates	**Net Interest Income**		
	Amount	**Change**	**Percent**
	(Dollars in thousands)		
300	$ 67,995	$ (5,034)	(6.89)%
Flat	73,029		
-50	74,792	1,763	2.41

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ITEM 4. *CONTROLS AND PROCEDURES*

(a) *Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures* The Company s management, including the Company s principal executive officer and principal financial officer, have evaluated the effectiveness of the Company s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (2) is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) *Internal Control over Financial Reporting* There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 1A. *RISK FACTORS*

For information regarding our risk factors, see Risk Factors, in our 2012 Annual Report on Form 10-K, filed with the SEC on March 15, 2013, which is available through the SEC s website at www.sec.gov. As of March 31, 2013, our risk factors have not changed materially from those reported in the annual report. The risks described in our annual report are not the only risks that we face. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations.

ITEM 2. *UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*

(a.) Not applicable.
(b.) Not applicable.
(c.) The following table sets forth information with respect to any purchase made by or on behalf of the Company during the indicated periods:

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 (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 31, 2013		$		707,658
February 1 28, 2013	3,184	$ 17.94	3,184	704,474
March 1 31, 2013		$		704,474
Total	3,184	$ 17.94	3,184	704,474

(1) In August 2011, the Company s Board of Directors voted to adopt a fourth stock repurchase program of up to 10% of its outstanding common stock not held by its mutual holding company parent, or 904,224 shares of its common stock.

ITEM 3. *DEFAULTS UPON SENIOR SECURITIES*

Not applicable.

ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

ITEM 5. *OTHER INFORMATION*

None.

ITEM 6. *EXHIBITS*

3.1	Amended and Restated Articles of Organization of Meridian Interstate Bancorp, Inc.*
3.2	Amended and Restated Bylaws of Meridian Interstate Bancorp, Inc.****
3.3	Articles of Correction of Meridian Interstate Bancorp, Inc.***
4	Form of Common Stock Certificate of Meridian Interstate Bancorp, Inc.*
10.1	Form of East Boston Savings Bank Employee Stock Ownership Plan*
10.2	Form of East Boston Savings Bank Employee Stock Ownership Plan Trust Agreement*
10.3	East Boston Savings Bank Employee Stock Ownership Plan Loan Agreement, Pledge Agreement and Promissory Note*
10.4	Form of Amended and Restated Employment Agreement*
10.5	Form of East Boston Savings Bank Employee Severance Compensation Plan*
10.6	Form of Supplemental Executive Retirement Agreements with certain directors*
10.7	[Reserved]
10.8	[Reserved]
10.9	[Reserved]
10.10	Form of Supplemental Executive Retirement Agreement with Richard J. Gavegnano filed as an exhibit to Form 10-Q filed on May 14, 2008
10.11	Form of Employment Agreement with Richard J. Gavegnano incorporated by reference to the Form 8-K filed on January 12, 2009
10.12	Form of Employment Agreement with Deborah J. Jackson incorporated by reference to the Form 8-K filed on January 22, 2009
10.13	Form of Supplemental Executive Retirement Agreement with Deborah J. Jackson incorporated by reference to the Form 8-K filed on January 22, 2009
10.14	2008 Equity Incentive Plan**
10.15	Amendment to Supplemental Executive Retirement Agreements with Certain Directors incorporated by reference to the Form 10-K/A filed on April 8, 2009
10.16	Agreement and Plan of Merger incorporated by reference to the Form 8-K filed on July 24, 2009
10.17	Employment Agreement between Edward J. Merritt and East Boston Savings Bank***
10.18	Supplemental Executive Retirement Agreement between East Boston Savings Bank and Edward J. Merritt***
10.19	Joint Beneficiary Designation Agreement between Edward J. Merritt and Mt. Washington Co-operative Bank***
10.20	First Amendment to Joint Beneficiary Designation Agreement between Edward J. Merritt and Mt. Washington Co-operative Bank***
10.21	Change in Control Agreement between Mark Abbate and East Boston Savings Bank incorporated by reference to the Form 8-K filed on December 15, 2009
10.22	Incentive Compensation Plan filed as an exhibit to Form 10-K filed on March 15, 2013
21	Subsidiaries of Registrant*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101	The following financial statements for the quarter ended March 31, 2013, formatted in XBRL, which are furnished, and not filed: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders Equity, (v) Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*	Incorporated by reference to the Registration Statement on Form S-1 of Meridian Interstate Bancorp, Inc. (File No. 333-146373), originally filed with the Securities and Exchange Commission on September 28, 2007.
**	Incorporated by reference to Appendix A to the Company s Definitive Proxy Statement for its 2008 Annual Meeting, as filed with the Securities and Exchange Commission on July 11, 2008.
***	Incorporated by reference to the Company s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 16, 2010.
****	Incorporated by reference to the Company s Form 8-K as filed with the Securities and Exchange Commission on May 17, 2012.

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.

	MERIDIAN INTERSTATE BANCORP, INC.
	(Registrant)
Dated: May 10, 2013	/s/ Richard J. Gavegnano Richard J. Gavegnano Chairman and Chief Executive Officer (Principal Executive Officer)
Dated: May 10, 2013	/s/ Mark L. Abbate Mark L. Abbate Senior Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)