

MERIDIAN INTERSTATE BANCORP INC

Form 10-Q

May 10, 2012

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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, 2012

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 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 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
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

At May 3, 2012, the registrant had 22,140,028 shares of no par value common stock outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	March 31, 2012	December 31, 2011
	<i>(Dollars in thousands)</i>	
ASSETS		
Cash and due from banks	\$ 162,586	\$ 156,622
Federal funds sold	63	63
Total cash and cash equivalents	162,649	156,685
Certificates of deposit - affiliate bank	2,500	2,500
Securities available for sale, at fair value	323,510	335,230
Federal Home Loan Bank stock, at cost	12,064	12,538
Loans held for sale	2,267	4,192
Loans	1,425,324	1,354,354
Less allowance for loan losses	(14,097)	(13,053)
Loans, net	1,411,227	1,341,301
Bank-owned life insurance	35,351	35,050
Foreclosed real estate, net	3,023	3,853
Investment in affiliate bank	12,850	12,607
Premises and equipment, net	38,638	36,991
Accrued interest receivable	6,646	7,282
Prepaid deposit insurance	855	1,257
Deferred tax asset, net	6,014	7,434
Goodwill	13,687	13,687
Other assets	2,457	3,773
Total assets	\$ 2,033,738	\$ 1,974,380
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Non interest-bearing	\$ 162,780	\$ 145,274
Interest-bearing	1,482,985	1,459,214
Total deposits	1,645,765	1,604,488
Short-term borrowings - affiliate bank	3,473	6,471
Short-term borrowings - other	10,060	10,056
Long-term debt	124,714	114,923
Accrued expenses and other liabilities	25,113	18,498
Total liabilities	1,809,125	1,754,436
Stockholders' equity:		
Common stock, no par value, 50,000,000 shares authorized; 23,000,000 shares issued		

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Additional paid-in capital	97,844	97,669
Retained earnings	136,689	134,533
Accumulated other comprehensive income	6,199	3,985
Treasury stock, at cost, 594,208 and 584,881 shares at March 31, 2012 and December 31, 2011, respectively	(7,439)	(7,317)
Unearned compensation - ESOP, 652,050 and 662,400 shares at March 31, 2012 and December 31, 2011, respectively	(6,520)	(6,624)
Unearned compensation - restricted shares, 260,450 and 265,710 at March 31, 2012 and December 31, 2011, respectively	(2,160)	(2,302)
Total stockholders' equity	224,613	219,944
Total liabilities and stockholders' equity	\$ 2,033,738	\$ 1,974,380

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended March 31,	
	2012	2011
	<i>(Dollars in thousands, except per share amounts)</i>	
Interest and dividend income:		
Interest and fees on loans	\$ 17,988	\$ 16,560
Interest on debt securities	2,198	3,105
Dividends on equity securities	361	244
Interest on certificates of deposit	9	8
Interest on other interest-earning assets	66	85
Other interest and dividend income	15	9
Total interest and dividend income	20,637	20,011
Interest expense:		
Interest on deposits	4,003	4,573
Interest on short-term borrowings	5	10
Interest on long-term debt	778	879
Total interest expense	4,786	5,462
Net interest income	15,851	14,549
Provision for loan losses	1,264	342
Net interest income, after provision for loan losses	14,587	14,207
Non-interest income:		
Customer service fees	1,579	1,298
Loan fees	62	116
Mortgage banking gains, net	625	436
Gain on sales of securities, net	1,083	867
Income from bank-owned life insurance	301	317
Equity income on investment in affiliate bank	243	485
Other income		11
Total non-interest income	3,893	3,530
Non-interest expenses:		
Salaries and employee benefits	9,301	7,101
Occupancy and equipment	2,037	2,216
Data processing	832	809
Marketing and advertising	559	541
Professional services	833	630
Foreclosed real estate	183	37
Deposit insurance	431	625
Other general and administrative	1,090	678
Total non-interest expenses	15,266	12,637

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Income before income taxes		3,214		5,100
Provision for income taxes		1,058		1,889
Net income		\$ 2,156	\$	3,211
Income per share:				
Basic		\$ 0.10	\$	0.15
Diluted		\$ 0.10	\$	0.15
Weighted average shares:				
Basic		21,662,471		21,982,714
Diluted		21,826,307		22,095,617

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,	
	2012	2011
	<i>(In thousands)</i>	
Net income	\$ 2,156	\$ 3,211
Other comprehensive income (loss), net of taxes:		
Unrealized holding gain (loss) on securities available for sale	4,723	(146)
Reclassification adjustments for gain realized in income	(1,083)	(867)
Unrealized gain (loss)	3,640	(1,013)
Tax effect	(1,426)	417
Total other comprehensive income (loss)	2,214	(596)
Total comprehensive income	\$ 4,370	\$ 2,615

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****Three Months Ended March 31, 2012 and 2011****(Unaudited)**

	Shares of No Par Common Stock Outstanding	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income <i>(Dollars in thousands)</i>	Treasury Stock	Unearned Compensation - ESOP	Unearned Compensation - Restricted Shares	Total
<i>Three Months Ended March 31, 2011</i>								
Balance at December 31, 2010	22,480,877	\$ 97,005	\$ 122,563	\$ 8,038	\$ (2,121)	\$ (7,038)	\$ (2,836)	\$ 215,611
Net income			3,211					3,211
Other comprehensive loss				(596)				(596)
Purchase of treasury stock	(23,336)				(304)			(304)
ESOP shares earned (10,350 shares)		29				104		133
Share-based compensation expense	5,260	131					130	261
Balance at March 31, 2011	22,462,801	\$ 97,165	\$ 125,774	\$ 7,442	\$ (2,425)	\$ (6,934)	\$ (2,706)	\$ 218,316
<i>Three Months Ended March 31, 2012</i>								
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

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Three Months Ended March 31,	
	2012	2011
	<i>(In thousands)</i>	
Cash flows from operating activities:		
Net income	\$ 2,156	\$ 3,211
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of acquisition fair value adjustments	(193)	(574)
Earned ESOP shares	136	133
Provision for loan losses	1,264	342
Amortization (accretion) of net deferred loan origination fees/costs	(21)	181
Net amortization of securities available for sale	130	221
Depreciation and amortization expense	532	597
Gain on sales of securities, net	(1,083)	(867)
(Gain) loss and provision for foreclosed real estate	65	(118)
Deferred income tax provision (benefit)	(6)	66
Income from bank-owned life insurance	(301)	(317)
Equity income on investment in affiliate bank	(243)	(485)
Share-based compensation expense	289	261
Net changes in:		
Loans held for sale	1,925	10,198
Accrued interest receivable	636	379
Prepaid deposit insurance	402	587
Other assets	1,316	2,192
Accrued expenses and other liabilities	6,615	9,509
Net cash provided by operating activities	13,619	25,516
Cash flows from investing activities:		
Purchases of certificates of deposit		(2,508)
Activity in securities available for sale:		
Proceeds from maturities, calls and principal payments	54,032	32,135
Redemption (purchase) of mutual funds, net	315	(10,435)
Proceeds from sales	7,810	3,901
Purchases	(45,774)	(60,245)
Redemption of Federal Home Loan Bank stock	474	
Loans originated, net of principal payments received	(71,442)	(8,327)
Purchases of premises and equipment	(2,158)	(1,411)
Capitalized costs on foreclosed real estate		(13)
Proceeds from sales of foreclosed real estate	922	305
Net cash used in investing activities	(55,821)	(46,598)

(continued)

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**MERIDIAN INTERSTATE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended March 31,	
	2012	2011
	<i>(In thousands)</i>	
Cash flows from financing activities:		
Net increase in deposits	41,286	43,642
Net change in borrowings with maturities less than three months	(2,994)	9,511
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	27,500	
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(17,500)	
Stock option exercise	8	
Purchase of treasury stock	(134)	(304)
 Net cash provided by financing activities	 48,166	 52,849
 Net change in cash and cash equivalents	 5,964	 31,767
Cash and cash equivalents at beginning of period	156,685	155,493
 Cash and cash equivalents at end of period	 \$ 162,649	 \$ 187,260
 Supplemental cash flow information:		
Interest paid on deposits	\$ 4,063	\$ 4,720
Interest paid on borrowings	1,029	1,235
Income taxes paid, net of refunds	286	40
Non-cash investing and financing activities:		
Transfers from loans to foreclosed real estate	157	1,060

See accompanying notes to unaudited consolidated financial statements.

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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. and all other entities in which it has a controlling financial interest (collectively referred to as the Company), a 59.4%-owned subsidiary of Meridian Financial Services, Incorporated (Meridian), a mutual holding company. The Company was formed in a corporate reorganization in 2006 and owns East Boston Savings Bank and its subsidiaries (the Bank). The Company also holds approximately a 43% share in Hampshire First Bank, a New Hampshire chartered bank, organized and headquartered in Manchester, New Hampshire, which is accounted for using the equity method. On November 16, 2011, Hampshire First Bank entered into an Agreement and Plan of Merger with NBT Bancorp, Inc. (NBT) and NBT Bank, N.A. The merger of Hampshire First Bank into NBT is expected to be completed in the second quarter of 2012, with a gain on sale to be recognized by the Company based on the terms of the Agreement and Plan of Merger and the price of NBT stock on the expected merger date.

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, 2012 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, 2011 which was filed with the Securities and Exchange Commission (SEC) on March 15, 2012, 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 May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-04 clarifies and expands the disclosures pertaining to unobservable inputs used in Level 3 fair value measurements, including the disclosure of quantitative information related to (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset's highest and best use. ASU 2011-04 also requires, for public companies, disclosure of the level within the fair value hierarchy for assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed. The amendments in ASU 2011-04 are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 during the first quarter of 2012 resulted in additional disclosures – see Note 7.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220), Presentation of Comprehensive Income*. ASU No. 2011-05 amends the disclosure requirements for the presentation of comprehensive income. The amended guidance eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. Under the amended guidance, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. The changes are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-05 during the first quarter of 2012 resulted in an additional financial statement – see Consolidated Statements of Comprehensive Income.

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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,	
	2012	2011
	<i>(Dollars in thousands, except per share amounts)</i>	
Net income available to common stockholders	\$ 2,156	\$ 3,211
Average number of common shares outstanding	21,490,691	21,773,621
Effect of unvested stock awards	171,780	209,093
Basic weighted average shares outstanding	21,662,471	21,982,714
Effect of dilutive stock options	163,836	112,903
Diluted weighted average shares outstanding	21,826,307	22,095,617
Earnings per share:		
Basic	\$ 0.10	\$ 0.15
Diluted	\$ 0.10	\$ 0.15

Options of 58,600 and 7,500 shares for the three months ended March 31, 2012 and 2011, respectively, were not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive.

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
	<i>(In thousands)</i>			
March 31, 2012				
Debt securities:				
Corporate bonds:				
Financial services	\$ 81,160	\$ 1,533	\$ (732)	\$ 81,961
Industry and manufacturing	21,863	759	(3)	22,619
Consumer products and services	20,348	1,025		21,373
Technology	7,008	144		7,152
Healthcare	18,600	848		19,448
Other	2,528	80		2,608
Total corporate bonds	151,507	4,389	(735)	155,161

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Government-sponsored enterprises	81,856	141	(239)	81,758
Municipal bonds	7,400	189	(1)	7,588
Residential mortgage-backed securities:				
Government-sponsored enterprises	23,273	1,284	(1)	24,556
Private label	6,739	126	(148)	6,717
Total debt securities	270,775	6,129	(1,124)	275,780
Marketable equity securities:				
Common stocks:				
Financial services	4,868	968	(24)	5,812
Industry and manufacturing	6,881	1,530	(74)	8,337
Consumer products and services	12,089	1,961	(81)	13,969
Technology	2,069	949	(1)	3,017
Healthcare	2,581	454		3,035
Other	4,175	670	(3)	4,842
Total common stocks	32,663	6,532	(183)	39,012
Money market mutual funds	8,734		(16)	8,718
Total marketable equity securities	41,397	6,532	(199)	47,730
Total securities available for sale	\$ 312,172	\$ 12,661	\$ (1,323)	\$ 323,510

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	<i>(In thousands)</i>			
December 31, 2011				
Debt securities:				
Corporate bonds:				
Financial services	\$ 75,235	\$ 871	\$ (2,012)	\$ 74,094
Industry and manufacturing	27,023	911	(11)	27,923
Consumer products and services	26,087	1,092	(15)	27,164
Technology	12,762	177	(22)	12,917
Healthcare	20,104	885		20,989
Other	2,535	82		2,617
Total corporate bonds	163,746	4,018	(2,060)	165,704
Government-sponsored enterprises	82,898	299	(2)	83,195
Municipal bonds	7,401	173		7,574
Residential mortgage-backed securities:				
Government-sponsored enterprises	25,296	1,369	(1)	26,664
Private label	7,322	77	(344)	7,055
Total debt securities	286,663	5,936	(2,407)	290,192
Marketable equity securities:				
Common stocks:				
Financial services	4,808	304	(547)	4,565
Industry and manufacturing	5,215	862	(36)	6,041
Consumer products and services	13,553	1,812	(113)	15,252
Technology	2,479	687	(23)	3,143
Healthcare	2,461	432		2,893
Other	3,304	809		4,113
Total common stocks	31,820	4,906	(719)	36,007
Money market mutual funds	9,049		(18)	9,031
Total marketable equity securities	40,869	4,906	(737)	45,038
Total securities available for sale	\$ 327,532	\$ 10,842	\$ (3,144)	\$ 335,230

The amortized cost and fair value of debt securities by contractual maturity at March 31, 2012 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
	<i>(In thousands)</i>							
Corporate bonds:								
Financial services	\$ 6,994	\$ 7,033	\$ 64,666	\$ 65,621	\$ 9,500	\$ 9,307	\$ 81,160	\$ 81,961
Industry and manufacturing	5,034	5,148	16,829	17,471			21,863	22,619
Consumer products and services			20,348	21,373			20,348	21,373
Technology	3,500	3,594	3,508	3,558			7,008	7,152
Healthcare	5,524	5,661	13,076	13,787			18,600	19,448
Other	1,506	1,518	1,022	1,090			2,528	2,608

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Total corporate bonds	22,558	22,954	119,449	122,900	9,500	9,307	151,507	155,161
Government-sponsored enterprises	74	75	8,133	8,170	73,649	73,513	81,856	81,758
Municipal bonds			4,935	5,016	2,465	2,572	7,400	7,588
Residential mortgage-backed securities:								
Government-sponsored enterprises			5	5	23,268	24,551	23,273	24,556
Private label					6,739	6,717	6,739	6,717
Total	\$ 22,632	\$ 23,029	\$ 132,522	\$ 136,091	\$ 115,621	\$ 116,660	\$ 270,775	\$ 275,780

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For the three months ended March 31, 2012 and 2011, proceeds from sales of securities available for sale amounted to \$7.8 million and \$3.9 million, respectively. Gross gains of \$1.1 million and \$867,000, respectively, were realized on those sales.

Information pertaining to securities available for sale as of March 31, 2012 and December 31, 2011, 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
March 31, 2012				
Debt securities:				
Corporate bonds:				
Financial services	\$ 640	\$ 27,570	\$ 92	\$ 907
Industry and manufacturing	3	1,868		
Total corporate bonds	643	29,438	92	907
Government-sponsored enterprises	239	40,745		
Municipal bonds	1	999		
Residential mortgage-backed securities:				
Government-sponsored enterprises	1	193		
Private label	54	2,832	94	320
Total debt securities	938	74,207	186	1,227
Marketable equity securities:				
Common stocks:				
Financial services	6	233	18	766
Industry and manufacturing	74	521		
Consumer products and services	81	1,669		
Technology	1	337		
Other	3	204		
Total common stocks	165	2,964	18	766
Money market mutual funds			16	992
Total marketable equity securities	165	2,964	34	1,758
Total temporarily impaired securities	\$ 1,103	\$ 77,171	\$ 220	\$ 2,985
December 31, 2011				
Debt securities:				
Corporate bonds:				
Financial services	\$ 1,937	\$ 39,418	\$ 75	\$ 923
Industry and manufacturing	11	1,937		
Consumer products and services	15	1,695		
Technology	22	2,488		
Total corporate bonds	1,985	45,538	75	923
Government-sponsored enterprises	2	998		
Residential mortgage-backed securities:				
Government-sponsored enterprises	1	212		

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Private label	231	5,736	113	322
Total debt securities	2,219	52,484	188	1,245
Marketable equity securities:				
Common stocks:				
Financial services	443	2,126	104	620
Industry and manufacturing	36	688		
Consumer products and services	113	1,880		
Technology	23	737		
Total common stocks	615	5,431	104	620
Money market mutual funds			18	985
Total marketable equity securities	615	5,431	122	1,605
Total temporarily impaired securities	\$ 2,834	\$ 57,915	\$ 310	\$ 2,850

The Company determined no securities were other-than-temporarily impaired for the three months ended March 31, 2012. 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.

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As of March 31, 2012, the net unrealized gain on the total debt securities portfolio was \$5.0 million. At March 31, 2012, 54 debt securities had unrealized losses with aggregate depreciation of 1.5% 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, 2012.

As of March 31, 2012, the net unrealized gain on the total marketable equity portfolio was \$6.3 million. At March 31, 2012, 11 marketable equity securities have unrealized losses with aggregate depreciation of 4.0% from the Company's cost basis. One equity security had a market value decline of 25.0% or more, with net unrealized losses of \$64,000. 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 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 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, 2012		December 31, 2011	
	Amount	%	Amount	%
	<i>(Dollars in thousands)</i>			
Real estate loans:				
Residential real estate:				
One-to four-family	\$ 435,279	30.5%	\$ 417,889	30.9%
Multi-family	187,655	13.2	176,668	13.0
Home equity lines of credit	59,341	4.2	60,989	4.5
Commercial real estate	537,842	37.7	528,585	39.0
Construction	121,393	8.5	93,158	6.9
Total real estate loans	1,341,510	94.1	1,277,289	94.3
Commercial business loans	78,129	5.5	71,544	5.3
Consumer	5,409	0.4	5,195	0.4
Total loans	1,425,048	100.0%	1,354,028	100.0%
Allowance for loan losses	(14,097)		(13,053)	
Net deferred loan origination costs	276		326	

Loans, net	\$ 1,411,227	\$ 1,341,301
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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, 2012 and December 31, 2011, the Company was servicing loans for participants aggregating \$27.1 million and \$25.6 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.

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

	March 31, 2012	December 31, 2011
	<i>(In thousands)</i>	
Real estate loans:		
Residential real estate:		
One		