RCKB 10-Q 6/30/2013

Section 1: 10-Q (FORM 10-Q)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

for the quarterly period ended June 30, 2013.

Commission File Number: 001-35028

ROCKVILLE FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Connecticut **(State or other jurisdiction of incorporation or organization)**	**27-3577029** **(I.R.S. Employer Identification No.)**
25 Park Street, Rockville, Connecticut **(Address of principal executive offices)**	**06066** **(Zip Code)**

(860) 291-3600
(Registrant's telephone number, including area code)

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

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

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12B-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☑
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12B-2 of the Act). Yes ☐ No ☑

As of July 31, 2013, there were 26,344,587 shares of Registrant's no par value common stock outstanding.

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Part 1—FINANCIAL INFORMATION

Item 1—Interim Financial Statements

Rockville Financial, Inc. and Subsidiaries
Consolidated Statements of Condition

(In thousands, except share data) (Unaudited)	June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 29,937	$ 19,966
Short-term investments	53,486	15,349
Total cash and cash equivalents	83,423	35,315
Available for sale securities—At fair value (note 5)	350,571	241,389
Held to maturity securities—At amortized cost (note 5)	4,555	6,084
Loans held for sale	3,691	5,292
Loans receivable (Net of allowance for loan losses of $18,345 at June 30, 2013 and $18,477 at December 31, 2012) (note 7)	1,599,537	1,586,985
Federal Home Loan Bank of Boston stock	15,053	15,867
Accrued interest receivable	6,032	4,862
Deferred tax asset, net	13,618	10,720
Premises and equipment, net	22,278	20,078
Goodwill	1,070	1,070
Cash surrender value of bank-owned life insurance	63,404	58,370
Other real estate owned	2,611	2,846
Prepaid FDIC assessments	—	2,089
Federal income tax receivable	2,150	—
Other assets	15,145	7,832
	$2,183,138	$ 1,998,799
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest-bearing	$ 248,144	$ 238,924
Interest-bearing	1,338,997	1,265,756
Total deposits	1,587,141	1,504,680
Mortgagors' and investors' escrow accounts	7,030	6,776
Federal Home Loan Bank advances and other borrowings (note 8)	272,070	143,106
Accrued expenses and other liabilities	19,905	23,626
Total liabilities	1,886,146	1,678,188
Commitments and contingencies (note 15)		
Stockholders' equity:		
Preferred stock (no par value; 2,000,000 authorized; no shares issued)	—	—
Common stock (no par value; authorized 60,000,000 shares; 29,480,659 and 29,487,363 shares issued and 26,325,811 and 28,156,897 outstanding at June 30, 2013 and December 31, 2012, respectively)	243,776	243,776
Additional paid-in capital	14,613	13,418
Unearned compensation—ESOP	(7,731)	(8,306)
Retained earnings	94,580	91,811
Accumulated other comprehensive loss, net of tax (note 12)	(8,316)	(4,047)
Treasury stock, at cost (3,154,848 and 1,330,466 shares at June 30, 2013 and December 31, 2012, respectively)	(39,930)	(16,041)
Total stockholders' equity	296,992	320,611
	$2,183,138	$ 1,998,799

See accompanying notes to unaudited consolidated financial statements.

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Rockville Financial, Inc. and Subsidiaries
Consolidated Statements of Net Income

(In thousands, except share data) (Unaudited)	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Interest and dividend income:				
Loans	$ 16,801	$ 17,930	$ 33,956	$ 35,494
Securities—taxable interest	1,640	1,145	2,864	2,333
Securities—non-taxable interest	650	558	1,300	676
Securities—dividends	72	41	107	85
Interest-bearing deposits	21	26	42	37
Total interest and dividend income	19,184	19,700	38,269	38,625
Interest expense:				
Deposits	1,878	2,246	3,862	4,497
Borrowed funds	605	563	1,199	1,111
Total interest expense	2,483	2,809	5,061	5,608
Net interest income	16,701	16,891	33,208	33,017
Provision for loan losses	403	1,181	794	1,885
Net interest income after provision for loan losses	16,298	15,710	32,414	31,132
Non-interest income:				
Service charges and fees	3,017	1,534	4,850	3,220
Net gain from sales of securities	329	118	556	121
Net gain from sales of loans	1,001	44	3,061	569
Bank-owned life insurance	524	524	1,034	830
Other (loss) income	(763)	39	(509)	189
Total non-interest income	4,108	2,259	8,992	4,929
Non-interest expense:				
Salaries and employee benefits (notes 9 and 10)	9,112	8,468	17,786	15,591
Service bureau fees	921	1,231	1,736	2,288
Occupancy and equipment	2,210	1,036	3,646	2,101
Professional fees	617	828	1,340	1,546
Marketing and promotions	98	103	168	217
FDIC insurance assessments	330	201	624	506
Other real estate owned	214	53	460	334
Other	2,356	1,895	4,768	3,575
Total non-interest expense	15,858	13,815	30,528	26,158
Income before income taxes	4,548	4,154	10,878	9,903
Provision for income taxes (note 11)	1,249	1,205	3,028	3,099
Net income	$ 3,299	$ 2,949	$ 7,850	$ 6,804
Net income per share (note 14):				
Basic	$ 0.13	$ 0.11	$ 0.29	$ 0.24
Diluted	$ 0.12	$ 0.11	$ 0.29	$ 0.24
Weighted-average shares outstanding:				
Basic	26,326,788	27,606,313	26,774,721	28,032,306
Diluted	26,677,589	27,773,365	27,115,459	28,200,158

See accompanying notes to unaudited consolidated financial statements.

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Rockville Financial, Inc. and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income

(In thousands) (Unaudited)	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Net income	$ 3,299	$ 2,949	$ 7,850	$6,804
Other comprehensive income (loss):				
Unrealized (losses) gains on securities:				
Unrealized holding (losses) gains on available for sale securities	(10,504)	998	(12,400)	494
Reclassification adjustment for gains realized in net income[1]	(329)	(118)	(556)	(121)
Net unrealized (losses) gains	(10,833)	880	(12,956)	373
Tax effect—benefit (expense)	3,792	(307)	4,535	(129)
Net-of-tax amount—(losses) gains on securities	(7,041)	573	(8,421)	244
Unrealized gains (losses) on interest rate swaps designated as cash flow hedges accruing during period	5,004	(33)	5,842	(33)
Tax effect—expense	(1,753)	—	(2,046)	—
Net-of-tax amount—interest rate swaps	3,251	(33)	3,796	(33)
Defined benefit pension plans:				
Reclassification adjustment for prior service costs (benefit) recognized in net periodic benefit cost[2]	196	—	392	—
Prior service cost arising during the period	—	(12)	—	(24)
Gains arising during the period	—	309	—	618
Change in gains or losses and prior service costs or credits	196	297	392	594
Tax effect—expense	(68)	(104)	(137)	(208)
Net-of-tax amount—pension plans	128	193	255	386
Post-retirement plans:				
Reclassification adjustment for prior service costs recognized in net periodic benefit cost[3]	6	7	13	14
Reclassification adjustment for losses recognized in net periodic benefit cost[4]	2	1	4	1
Prior service cost arising during the period	106	—	106	—
Gains arising during the period	16	20	32	39
Change in gains or losses and prior service costs or credits	130	28	155	54
Tax effect—expense	(46)	(10)	(54)	(19)
Net-of-tax amount—post-retirement plans	84	18	101	35
Net-of-tax amount—pension and post-retirement plans	212	211	356	421
Total other comprehensive (loss) income	(3,578)	751	(4,269)	632
Comprehensive (loss) income	$ (279)	$ 3,700	$ 3,581	$7,436

(1) Amounts are included in net gains on sales of securities in the unaudited Consolidated Statements of Net Income in total non-interest income. Income tax benefit associated with the reclassification adjustment for the three months ended June 30, 2013 and 2012 was $115 and $41, and $195 and $42 for the six months ended June 30, 2013 and 2012, respectively.

(2) Amounts are included in salaries and employee benefits in the unaudited Consolidated Statements of Net Income in total non-interest expense. Income tax expense associated with the reclassification adjustment for the three months ended June 30, 2013 was $68, and $137 for the six months ended June 30, 2013.

(3) Amounts are included in salaries and employee benefits in the unaudited Consolidated Statements of Net Income in total non-interest expense. Income tax expense associated with the reclassification adjustment for the three and six months ended June 30, 2013 was $2 and $5, respectively and $4 and $4 for the three and six months ended June 30, 2012, respectively.

(4) Amounts are included in salaries and employee benefits in the unaudited Consolidated Statements of Net Income in total non-interest expense. Income tax expense associated with the reclassification adjustment for the three and six months ended June 30, 2013 was $1 and $1, respectively. Income tax associated with the three and six months ended June 30, 2012 was $1 for each period.

See accompanying notes to unaudited consolidated financial statements.

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Rockville Financial, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity

(In thousands, except share data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation - ESOP	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
Balance at December 31, 2012	29,487,363	$ 243,776	$ 13,418	$ (8,306)	$ 91,811	$ (4,047)	1,330,466	$ (16,041)	$ 320,611
Comprehensive income	—	—	—	—	7,850	(4,269)	—	—	3,581
Adoption of MSR fair value accounting	—	—	—	—	502	—	—	—	502
Share-based compensation expense	—	—	1,652	—	—	—	—	—	1,652
ESOP shares released or committed to be released	—	—	263	575	—	—	—	—	838
Cancellation of shares for tax withholding	(2,038)	—	(26)	—	—	—	—	—	(26)
Reissuance of treasury shares in connection with restricted stock grants	—	—	(633)	—	(9)	—	(53,834)	633	(9)
Reissuance of treasury shares in connection with stock options exercised	—	—	(61)	—	—	—	(24,266)	285	224
Treasury stock purchased	—	—	—	—	—	—	1,902,482	(24,807)	(24,807)
Forfeited unvested restricted stock	(4,666)	—	—	—	—	—	—	—	—
Dividends paid ($0.20 per common share)	—	—	—	—	(5,574)	—	—	—	(5,574)
Balance at June 30, 2013	**29,480,659**	**$243,776**	**$ 14,613**	**$ (7,731)**	**$94,580**	**$ (8,316)**	**3,154,848**	**$(39,930)**	**$ 296,992**
Balance at December 31, 2011	29,514,468	$ 243,776	$ 15,189	$ (9,453)	$ 90,707	$ (6,748)	—	$ —	$ 333,471
Comprehensive income	—	—	—	—	6,804	632	—	—	7,436
Share-based compensation expense	—	—	1,327	—	—	—	—	—	1,327
ESOP shares released or committed to be released	—	—	156	573	—	—	—	—	729
Cancellation of shares for tax withholding	(5,164)	—	(32)	—	—	—	—	—	(32)
Reissuance of treasury shares in connection with restricted stock grants	—	—	(4,735)	—	—	—	(403,496)	4,735	—
Reissuance of treasury shares in connection with stock options exercised	—	—	(80)	—	—	—	(18,356)	214	134
Treasury stock purchased	—	—	—	—	—	—	1,328,379	(15,423)	(15,423)
Dividends paid ($0.17 per common share)	—	—	—	—	(4,937)	—	—	—	(4,937)
Balance at June 30, 2012	**29,509,304**	**$243,776**	**$ 11,825**	**$ (8,880)**	**$92,574**	**$ (6,116)**	**906,527**	**$(10,474)**	**$ 322,705**

See accompanying notes to unaudited consolidated financial statements.

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Rockville Financial, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(In thousands) (Unaudited)	For the Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 7,850	$ 6,804
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and discounts on investments, net	290	190
Share-based compensation expense	1,652	1,327
ESOP expense	838	729
Provision for loan losses	794	1,885
Net gain from sales of securities	(556)	(121)
Loans originated for sale	(99,233)	(19,059)
Proceeds from sales of loans held for sale	113,968	18,461
Net gain from sales of loans	(3,061)	(569)
Loss on sales of other real estate owned	69	55
Loss on disposal of equipment	—	2
Write-downs of other real estate owned	146	183
Depreciation and amortization	1,370	643
Deferred income tax benefit	(601)	(217)
Increase in cash surrender value of bank-owned life insurance	(1,034)	(830)
Net change in:		
Deferred loan fees and premiums	(939)	207
Accrued interest receivable	(1,170)	(981)
Prepaid FDIC assessment	2,089	465
Federal income tax receivable	(2,150)	(537)
Other assets	(6,428)	(2,001)
Accrued expenses and other liabilities	536	308
Net cash provided by operating activities	14,430	6,944
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	33,557	11,720
Proceeds from calls and maturities of available for sale securities	—	7,400
Principal payments on available for sale mortgage-backed securities	15,199	15,559
Principal payments on held to maturity securities	1,550	1,838
Purchases of available for sale securities	(170,620)	(104,876)
Redemption of FHLBB stock	814	1,140
Proceeds from sale of other real estate owned	2,301	1,358
Proceeds from portfolio loan sales	18,000	—
Purchases of loans	(6,127)	—
Net loan originations	(34,919)	(90,047)
Purchase of bank-owned life insurance	(4,000)	(25,000)
Purchases of premises and equipment	(3,570)	(2,477)
Proceeds from sale of other assets	—	3
Net cash used in investing activities	(147,815)	(183,382)
Cash flows from financing activities:		
Net increase in non-interest-bearing deposits	9,220	14,508
Net increase in interest-bearing deposits	73,241	114,400
Net decrease in mortgagors’ and investors’ escrow accounts	254	704
Net increase in short-term FHLBB advances	182,000	60,000
Repayments of long-term FHLBB advances	(72,035)	(11)
Net increase in repurchase agreements	18,999	—
Proceeds from exercise of stock options and stock purchase plan	224	134
Common stock repurchased	(24,807)	(15,423)
Cancellation of shares for tax withholding	(26)	(32)
Cancellation of treasury shares	(9)	—
Deposits forfeited on other real estate owned property	6	—
Cash dividend paid on common stock	(5,574)	(4,937)
Net cash provided by financing activities	181,493	169,343
Net increase (decrease) in cash and cash equivalents	48,108	(7,095)
Cash and cash equivalents, beginning of period	35,315	40,985
Cash and cash equivalents, end of period	$ 83,423	$ 33,890

See accompanying notes to unaudited consolidated financial statements.

Rockville Financial, Inc. and Subsidiaries
Consolidated Statements of Cash Flows—Concluded

(In thousands) (Unaudited)	For the Six Months Ended June 30, 2013	2012
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 5,032	$ 5,568
Income taxes, net	6,767	4,066
Transfer of loans to other real estate owned	2,287	672
Due on common stock repurchases	410	48

See accompanying notes to unaudited consolidated financial statements.

Rockville Financial, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of Operations. Rockville Financial, Inc**.** (the “Company”) is a bank holding company under the Bank Holding Company Act of 1956, as amended, headquartered in Rockville, Connecticut and incorporated under the laws of Connecticut in 2004. At June 30, 2013, the Company’s principal asset was all of the outstanding capital stock of Rockville Bank (the “Bank”), a wholly-owned subsidiary of the Company.

The Company, through Rockville Bank and various subsidiaries, delivers financial services to individuals, families and businesses primarily throughout Connecticut and the region through 22 banking offices, two loan production offices, 38 ATMs, telephone banking, mobile banking and its internet website (www.rockvillebank.com).

Basis of Presentation. The consolidated interim financial statements and the accompanying notes presented in this report include the accounts of Rockville Financial, Inc. and its wholly-owned subsidiary Rockville Bank, and the Bank’s wholly-owned subsidiaries, SBR Mortgage Company, SBR Investment Corp. Inc., Rockville Bank Commercial Properties, Inc., Rockville Bank Residential Properties, Inc., Rockville Financial Services, Inc. and Rockville Bank Investment Sub, Inc.

The consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to SEC Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in the interim unaudited consolidated financial statements. The results of operations for the three months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 or any future period. These interim unaudited consolidated financial statements should be read in conjunction with the Company’s 2012 consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Reclassifications. Certain reclassifications have been made in prior periods’ consolidated financial statements to conform to the 2013 presentation. These reclassifications had no impact on the Company’s consolidated financial position, results of operations or net change in cash equivalents. All significant intercompany transactions have been eliminated.

Use of Estimates. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results in the future could vary from the amounts derived from management’s estimates and assumptions. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, pension and other post-retirement benefits, share-based compensation expense, valuation of deferred tax assets, the evaluation of securities for other-than-temporary impairment and derivatives.

Note 2. Mutual Holding Company Reorganization and Minority Stock Issuance

On March 3, 2011, the Company completed the “second-step” conversion of the Bank from a mutual holding company structure to a stock holding company structure (the “Conversion”) pursuant to a Plan of Conversion and Reorganization (the “Plan”). As part of the Conversion, New Rockville Financial, Inc. succeeded Rockville Financial, Inc. as the stock holding company of Rockville Bank, and Rockville Financial MHC, Inc. was dissolved. Upon completion of the Conversion, the Company became the holding company for the Bank and acquired ownership of all the issued and outstanding shares of the Bank’s common stock. In connection with the Conversion, 17,109,886 shares of common stock of the Company (the “Common Stock”) were sold in a subscription offering to certain depositors of the Bank and its employee stock ownership plan for $10.00 per share, or $171,099,000 in the aggregate (the “Offering”) net of offering costs of $3,055,000. In accordance with the Plan, 1.5167 shares of Common Stock (without taking into consideration cash issued in lieu of fractional shares) were issued in exchange for each outstanding share of common stock of the Company’s predecessor, also named Rockville Financial, Inc. (“Old RFI”), the former state-chartered mid-tier holding company for the Bank, held by persons other than Rockville Financial MHC, Inc., the mutual holding company that owned the majority of Old RFI’s common stock. New Rockville Financial, Inc. changed its name to Rockville Financial, Inc. effective March 3, 2011.

In connection with the 2011 Plan, the Company contributed additional funds to Rockville Bank Foundation, Inc., a non-profit charitable organization dedicated to helping the communities that the Bank serves. The Foundation received $5.0 million, or 3.0%, of the net proceeds of the stock conversion offering.

The conversion was accounted for as a reorganization with no change to the historical basis of Rockville Financial, Inc.'s assets, liabilities, and equity. All number of shares outstanding and per share amounts are restated to give retroactive recognition to the exchange ratio (1.5167) applied in the conversion, where necessary.

Note 3. Recent Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. Adoption did not have a material impact on the Company's consolidated financial statements.

Technical Corrections and Improvements. On October 1, 2012, the FASB released ASU No. 2012-04, *Technical Corrections and Improvements*, which clarifies 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 Topic 820, *Fair Value Measurement.* Amendments to the Codification without transition guidance are effective upon issuance; amendments subject to transitions guidance will be effective for the fiscal periods beginning after December 15, 2012. Adoption did not have a material impact on the Company's consolidated financial statements.

Note 4. Fair Value Measurements

Fair value estimates are made as of a specific point in time based on the characteristics of the assets and liabilities and relevant market information. In accordance with FASB ASC 820, the fair value estimates are measured within the fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices are available in active markets for identical assets and liabilities as of the reporting date. The quoted price is not adjusted because of the size of the position relative to trading volume.

Level 2: Pricing inputs are observable for assets and liabilities, either directly or indirectly but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies.

Level 3: Pricing inputs are unobservable for assets and liabilities and include situations where there is little, if any, market activity and the determination of fair value requires significant judgment or estimation.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, the determination of which category within the fair value hierarchy is appropriate for any given asset and liability is based on the lowest level of input that is significant to the fair value of the asset and liability.

When available, quoted market prices are used. In other cases, fair values are based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and could be material. Derived fair value estimates may not be substantiated by comparison to independent markets and, in certain cases, could not be realized in an immediate sale of the instrument.

Fair value estimates for financial instrument fair value disclosures are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not financial instruments. Accordingly, the aggregate fair value amounts presented do not purport to represent the underlying market value of the Company.

Assets and Liabilities Measured at Fair Value on a Recurring Basis: The following tables detail the assets and liabilities carried at fair value on a recurring basis as of June 30, 2013 and December 31, 2012 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value. There were no transfers in and out of Level 1, Level 2 and Level 3 measurements during the three and six months ended June 30, 2013 and 2012.

(In thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Available for Sale Securities:				
U.S. Government and government-sponsored enterprise obligations	$ 11,644	$ —	$ 11,644	$ —
Government-sponsored residential mortgage-backed securities	90,310	—	90,310	—
Government-sponsored residential collateralized debt obligations	36,058	—	36,058	—
Government-sponsored commercial mortgage-backed securities	13,203	—	13,203	—
Government-sponsored commercial collateralized debt obligations	4,793	—	4,793	—
Asset-backed securities	84,873	—	31,456	53,417
Corporate debt securities	39,647	—	38,305	1,342
Obligations of states and political subdivisions	63,791	—	63,791	—
Marketable equity securities	6,252	3,202	2,990	60
Total available for sale securities	$350,571	$ 3,202	$ 292,550	$ 54,819
Mortgage loan derivative assets	$ 381	$ —	$ 381	$ —
Mortgage loan derivative liabilities	12	—	12	—
Mortgage servicing rights	3,336	—	—	3,336
Interest rate swap assets	5,891	—	5,891	—
Interest rate swap liabilities	412	—	412	—
December 31, 2012				
Available for Sale Securities:				
U.S. Government and government-sponsored enterprise obligations	$ 12,717	$ —	$ 12,717	$ —
Government-sponsored residential mortgage-backed securities	91,144	—	91,144	—
Government-sponsored residential collateralized-debt obligations	20,947	—	20,947	—
Government-sponsored commercial mortgage-backed securities	9,302	—	9,302	—
Government-sponsored commercial collateralized-debt obligations	5,135	—	5,135	—
Asset-backed securities	11,200	—	4,174	7,026
Corporate debt securities	18,818	—	17,610	1,208
Obligations of states and political subdivisions	68,804	—	68,804	—
Marketable equity securities	3,322	3,244	—	78
Total available for sale securities	$241,389	$ 3,244	$ 229,833	$ 8,312
Mortgage loan derivative assets	$ 464	$ —	$ 464	$ —
Mortgage loan derivative liabilities	101	—	101	—
Interest rate swap liabilities	148	—	148	—

The following table presents additional information about assets measured at fair value on a recurring basis for which the Company utilized Level 3 inputs to determine fair value.

(In thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Available for Sale Securities:				
Balance at beginning of period	$ 45,255	$ 1,230	$ 8,312	$1,290
Purchases	10,183	—	46,944	—
Total unrealized (losses) gains included in other comprehensive loss	(619)	370	(437)	310
Balance at end of period	$ 54,819	$ 1,600	$54,819	$1,600
Mortgage Servicing Rights:				
Balance at beginning of period	$ 2,066	$ —	$ —	$ —
Transfers to Level 3	—	—	1,554	—
Issuances	297	—	572	—
Settlements	(39)	—	(87)	—
Change in fair value recognized in net income	1,012	—	1,297	—
Balance at end of period	$ 3,336	$ —	$ 3,336	$ —

The following valuation methodologies are used for assets that are recorded at fair value on a recurring basis.

Available for Sale Securities: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using an independent pricing service. Level 1 securities are those traded on active markets for identical securities including U.S. treasury debt securities, equity securities and mutual funds. Level 2 securities include U.S. Government agency obligations, U.S. Government-sponsored enterprises, mortgage-backed securities, obligations of states and political subdivisions, corporate and other debt securities. Level 3 securities include asset-backed securities, a pooled trust preferred security and thinly traded equity securities. All fair value measurements are obtained from a third party pricing service and are not adjusted by management.

Matrix pricing is used for pricing most obligations of states and political subdivisions, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on securities relationships to other benchmark quoted securities. The grouping of securities is completed according to insurer, credit support, state of issuance and rating to incorporate additional spreads and municipal bond yield curves.

The valuation of the Company's asset-backed securities is obtained from a third party pricing provider and is determined utilizing an approach that combines advanced analytics with structural and fundamental cash flow analysis based upon observed market based yields. The third party provider's model analyzes each instrument's underlying collateral given observable collateral characteristics and credit statistics to extrapolate future performance and project cash flows, by incorporating expectations of default probabilities, recovery rates, prepayment speeds, loss severities and a derived discount rate. The Company has determined that due to the liquidity and significance of unobservable inputs, that asset-backed securities are classified in Level 3 of the valuation hierarchy.

The Company holds one pooled trust preferred security. The security's fair value is based on unobservable issuer-provided financial information and discounted cash flow models derived from the underlying structured pool and therefore is classified as Level 3.

Loans Held for Sale: Loans HFS are classified as Level 2 as the fair value is based on input factors such as quoted prices by government sponsored entities for similar loans in active markets.

Mortgage Servicing Rights: A mortgage servicing right asset represents the amount by which the present value of the estimated future net cash flows to be received from servicing loans are expected to more than adequately compensate the Company for performing the servicing. The fair value of servicing rights is provided by a third party and is estimated using a present value cash flow model. The most important assumptions used in the valuation model are the anticipated rate of the loan prepayments and discount rates. Adjustments are recorded monthly, effective January 1, 2013, (See Note 7, "Loans Receivable and Allowance for Loan Losses" in the Notes to the Unaudited Consolidated Financial Statements contained elsewhere in this report) as the cash flows derived from the valuation model change the fair value of the asset. Although some assumptions in determining fair value are based on standards used by market participants, some are based on unobservable inputs and therefore are classified in Level 3 of the valuation hierarchy.

Derivatives: Derivative instruments related to commitments for loans to be sold are carried at fair value. Fair value is determined through quotes obtained from actively traded mortgage markets. Any change in fair value for rate lock commitments to the borrower is based upon the change in market interest rates between making the rate lock commitment and the measurement date and, for forward loan sale commitments to the investor, is based upon the change in market interest rates from entering into the forward loan sales contract and the measurement date. Both the rate lock commitments to the borrowers and the forward loan sale commitments to investors are derivatives pursuant to the requirements of FASB ASC 815-10; however, the Company has not designated them as hedging instruments. Accordingly, they are marked to fair value through earnings.

At June 30, 2013, the effects of fair value measurements for interest rate lock commitment derivatives and forward loan sale commitments were as follows:

(In thousands)	Notional or Principal Amount	Fair Value Asset (Liability)
Rate Lock Commitments	$ 9,241	$ (12)
Forward Sales Commitments	10,179	381

The Company's intention is to sell the majority of its fixed rate mortgage loans with original terms of 30 years on a servicing retained basis as well as certain 10, 15 and 20 year loans. The servicing value has been included in the pricing of the rate lock commitments. The Company estimates a fallout rate of approximately 14% based upon historical averages in determining the fair value of rate lock commitments. Although the use of historical averages is based upon unobservable data, the Company believes that this input is insignificant to the valuation and, therefore, has concluded that the fair value measurements meet the Level 2 criteria. The Company continually reassesses the significance of the fallout rate on the fair value measurement and updates the fallout rate accordingly.

Hedging derivatives include interest rate swaps as part of management's strategy to manage interest rate risk. The valuation of the Company's interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis: The Company may also be required, from time to time, to measure certain other assets at fair value on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower of amortized cost or fair value accounting or write-downs of individual assets. The following tables detail the assets carried at fair value on a non-recurring basis at June 30, 2013 and December 31, 2012 and indicate the fair value hierarchy of the valuation technique utilized by the Company to determine fair value. There were no liabilities measured at fair value on a non-recurring basis at June 30, 2013 and December 31, 2012.

(In thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Impaired loans	$ 1,055	$ —	$ —	$ 1,055
Other real estate owned	2,611	—	—	2,611
Total	$ 3,666	$ —	$ —	$ 3,666
December 31, 2012				
Impaired loans	$ 1,211	$ —	$ —	$ 1,211
Other real estate owned	2,846	—	—	2,846
Total	$ 4,057	$ —	$ —	$ 4,057

The following is a description of the valuation methodologies used for certain assets that are recorded at fair value on a non-recurring basis.

Impaired Loans: Accounting standards require that a creditor recognize the impairment of a loan if the present value of expected future cash flows discounted at the loan's effective interest rate (or, alternatively, the observable market price of the loan or the fair value of the collateral) is less than the recorded investment in the impaired loan. Non-recurring fair value adjustments to collateral dependent loans are recorded, when necessary, to reflect partial write-downs and the specific reserve allocations based upon observable market price or current appraised value of the collateral less selling costs and discounts based on management's judgment of current conditions. Based on the significance of management's judgment, the Company records collateral dependent impaired loans as non-recurring Level 3 fair value measurements.

Other Real Estate Owned: The Company classifies property acquired through foreclosure or acceptance of deed-in-lieu of foreclosure, as other real estate owned ("OREO") in its financial statements. Upon foreclosure, the property securing the loan is recorded at fair value as determined by real estate appraisals less the estimated selling expense. Appraisals are based upon observable market data such as comparable sales within the real estate market. Assumptions are also made based on management's judgment of the appraisals and current real estate market conditions and therefore these assets are classified as non-recurring Level 3 assets in the fair value hierarchy.

Losses on assets recorded at fair value on a non-recurring basis are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2013	2012	2013	2012
Impaired loans	$ (173)	$ (127)	$ (612)	$ (337)
Other real estate owned	(89)	—	(69)	(183)
Total	$ (262)	$ (127)	$ (681)	$ (520)

There were no liabilities reported at fair value on a non-recurring basis on the balance sheet at June 30, 2013 or December 31, 2012.

Disclosures about Fair Value of Financial Instruments:

The following methods and assumptions were used by management to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and Cash Equivalents: Carrying value is assumed to represent fair value for cash and due from banks and short-term investments, which have original maturities of 90 days or less.

Securities: Refer to the above discussion on securities.

Loans Held for Sale: The fair value of residential mortgage loans held for sale is estimated using quoted market prices provided by government-sponsored entities as described above.

Loans Receivable – net: The fair value of the net loan portfolio is determined by discounting the estimated future cash flows using the prevailing interest rates and appropriate credit and prepayment risk adjustments as of period-end at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of nonperforming loans is estimated using the Bank's prior credit experience.

Federal Home Loan Bank of Boston ("FHLBB") stock: FHLBB stock is a non-marketable equity security which is assumed to have a fair value equal to its carrying value due to the fact that it can only be redeemed back to the FHLB of Boston at par value.

Accrued Interest Receivable: Carrying value is assumed to represent fair value.

Derivative Assets: Refer to the above discussion on derivatives.

Deposits and Mortgagors' and Investors' Escrow Accounts: The fair value of demand, non-interest-bearing checking, savings and certain money market deposits is determined as the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the estimated future cash flows using rates offered for deposits of similar remaining maturities as of period-end.

Federal Home Loan Bank Advances and Other Borrowings: The fair value of borrowed funds is estimated by discounting the future cash flows using market rates for similar borrowings.

Derivative Liabilities: Refer to the above discussion on derivatives.

As of June 30, 2013 and December 31, 2012, the carrying value and estimated fair values of the Company's financial instruments are as described below.

	Carrying	Fair Value			
(In thousands)	Value	Level 1	Level 2	Level 3	Total
June 30, 2013					
Financial assets:					
Cash and cash equivalents	$ 83,423	$83,423	$ —	$ —	$ 83,423
Available for sale securities	350,571	3,202	292,550	54,819	350,571
Held to maturity securities	4,555	—	4,957	—	4,957
Loans held for sale	3,691	—	3,691	—	3,691
Loans receivable-net	1,599,537	—	—	1,608,075	1,608,075
FHLBB stock	15,053	—	—	15,053	15,053
Accrued interest receivable	6,302	—	—	6,302	6,302
Mortgage loan derivative assets	381	—	381	—	381
Mortgage servicing rights	3,336	—	—	3,336	3,336
Interest rate swaps	5,891	—	5,891	—	5,891
Financial liabilities:					
Deposits	1,587,141	—	—	1,504,597	1,504,597
Mortgagors' and investors' escrow accounts	7,030	—	—	7,030	7,030
FHLBB advances and other borrowings	272,070	—	—	274,647	274,647
Mortgage loan derivative liabilities	12	—	12	—	12
Interest rate swaps	412		412		412
December 31, 2012					
Financial assets:					
Cash and cash equivalents	35,315	35,315	—	—	35,315
Available for sale securities	241,389	3,244	229,833	8,312	241,389
Held to maturity securities	6,084	—	6,681	—	6,681
Loans held for sale	5,292	—	5,292	—	5,292
Loans receivable-net	1,586,985	—	—	1,624,001	1,624,001
FHLBB stock	15,867	—	—	15,867	15,867
Accrued interest receivable	4,862	—	—	4,862	4,862
Mortgage loan derivative assets	464	—	464	—	464
Financial liabilities:					
Deposits	1,504,680	—	—	1,513,188	1,513,188
Mortgagors' and investors' escrow accounts	6,776	—	—	6,776	6,776
Advances from FHLBB	143,106	—	—	148,201	148,201
Mortgage loan derivative liabilities	101	—	101	—	101
Interest rate swaps	148	—	148	—	148

Certain financial instruments and all nonfinancial investments are exempt from disclosure requirements. Accordingly, the aggregate fair value of amounts presented above may not necessarily represent the underlying fair value of the Company.

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Note 5. Securities

The amortized cost, gross unrealized gains, gross unrealized losses and fair values of available for sale and held to maturity securities at June 30, 2013 and December 31, 2012 are as follows:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013				
Available for sale:				
Debt securities:				
U.S. Government and government-sponsored enterprise obligations	$ 11,806	$ 213	$ 375	$ 11,644
Government-sponsored residential mortgage-backed securities	90,381	1,753	1,824	90,310
Government-sponsored residential collateralized debt obligations	36,834	30	806	36,058
Government-sponsored commercial mortgage-backed securities	13,974	—	771	13,203
Government-sponsored commercial collateralized debt obligations	5,046	—	253	4,793
Asset-backed securities	86,386	172	1,685	84,873
Corporate debt securities	41,012	746	2,111	39,647
Obligations of states and political subdivisions	67,302	—	3,511	63,791
Total debt securities	352,741	2,914	11,336	344,319
Marketable equity securities, by sector:				
Banks	3,068	—	18	3,050
Industrial	109	55	—	164
Mutual funds	2,775	59	4	2,830
Oil and gas	131	77	—	208
Total marketable equity securities	6,083	191	22	6,252
Total available for sale securities	$ 358,824	$ 3,105	$ 11,358	$350,571
Held to maturity:				
Debt securities:				
Government-sponsored residential mortgage-backed securities	$ 4,555	$ 402	$ —	$ 4,957
December 31, 2012				
Available for sale:				
Debt securities:				
U.S. Government and government-sponsored enterprise obligations	$ 12,413	$ 304	$ —	$ 12,717
Government-sponsored residential mortgage-backed securities	87,769	3,445	70	91,144
Government-sponsored residential collateralized debt obligations	20,798	150	1	20,947
Government-sponsored commercial mortgage-backed securities	9,179	123	—	9,302
Government-sponsored commercial collateralized debt obligations	5,048	87	—	5,135
Asset-backed securities	11,193	26	19	11,200
Corporate debt securities	19,760	695	1,637	18,818
Obligations of states and political subdivisions	67,458	1,473	127	68,804
Total debt securities	233,618	6,303	1,854	238,067
Marketable equity securities, by sector:				
Banks	68	10	—	78
Industrial	109	50	—	159
Mutual funds	2,756	131	—	2,887
Oil and gas	135	63	—	198
Total marketable equity securities	3,068	254	—	3,322
Total available for sale securities	$ 236,686	$ 6,557	$ 1,854	$241,389
Held to maturity:				
Debt securities:				
Government-sponsored residential mortgage-backed				

securities	$ 6,084	$ 597	$ —	$ 6,681

At June 30, 2013, the net unrealized loss on securities available for sale of $8.3 million, net of an income tax benefit of $2.9 million, or $5.4 million, is included in accumulated other comprehensive loss.

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

(In thousands)	Available for Sale Amortized Cost	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value
Maturity:				
Within 1 year	$ 605	$ 611	$ —	$ —
After 1 year through 5 years	26,542	27,152	—	—
After 5 years through 10 years	20,542	19,906	—	—
After 10 years	72,431	67,413	—	—
	120,120	115,082	—	—
Mortgage-backed securities	90,381	90,310	4,555	4,957
Government-sponsored residential collateralized debt obligations	36,834	36,058	—	—
Government-sponsored commercial mortgage-backed securities	13,974	13,203	—	—
Government-sponsored commercial collateralized debt obligations	5,046	4,793	—	—
Asset-backed securities	86,386	84,873	—	—
Total debt securities	$352,741	$344,319	$ 4,555	$4,957

At June 30, 2013, the Company had four encumbered securities, with a fair value of $19.6 million pledged as collateral for reverse repurchase borrowings.

For the three months ended June 30, 2013 and 2012, gross gains of $329,000 and $146,000, respectively, were realized on the sales of available for sale securities. There were no gross realized losses on the sale of available for sale securities for the three months ended June 30, 2013. The gross losses realized on the sale of available for sale securities for the three months ended June 30, 2012 were $28,000. For the six months ended June 30, 2013 and 2012, gross gains of $620,000 and $149,000, respectively, were realized on the sales of available for sale securities. Gross losses realized on the sale of available for sale securities were $65,000 and $28,000 for the six months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, the Company did not own any investment or mortgage-backed securities of a single private label issuer, other than securities guaranteed by the U.S. Government or government-sponsored enterprises, which had an aggregate book value in excess of 10% of the Company's stockholders' equity.

The Company's investment committee reviews state exposure in the obligations of states and political subdivisions portfolio on an ongoing basis. As of June 30, 2013, the estimated fair value of this portfolio was $63.8 million, with no significant geographic exposure concentrations. Of the total revenue and general obligations of $63.8 million, $19.6 million were representative of general obligation bonds for which $13.9 million are obligations of political subdivisions of the respective state. For all municipal debt purchases, the Management Investment Committee under the direction of the ALCO committee approved various conditions prior to purchase and quarterly thereafter, including the requirement that underlying ratings be A/A2 or higher. Generally, the Company does not utilize enhanced National Recognized Statistical Rating Organizations ratings, which include credit support provided by a state credit enhancement program. The Company analyzes the issuers' credit trends and other factors that may impact the ability to service its debt and will proactively sell a position that shows potential weaknesses. At June 30, 2013, one security, with an estimated fair value of $1.0 million and an underlying rating of A2, was enhanced by the Texas Permanent School Fund, a AAA rated entity.

The following table summarizes gross unrealized losses and fair value, aggregated by category and length of time the securities have been in a continuous unrealized loss position, as of June 30, 2013 and December 31, 2012:

(In thousands)	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2013						
Available for sale:						
Debt Securities:						
U.S. Government and government sponsored enterprise obligations	$ 4,618	$ 375	$ —	$ —	$ 4,618	$ 375
Government-sponsored residential mortgage-backed securities	49,874	1,824	—	—	49,874	1,824
Government-sponsored residential collateralized debt obligations	29,884	806	—	—	29,884	806
Government-sponsored commercial mortgage-backed securities	13,203	771	—	—	13,203	771
Government-sponsored commercial collateralized debt obligations	4,793	253	—	—	4,793	253
Asset-backed securities	68,846	1,685	—	—	68,846	1,685
Corporate debt securities	17,679	607	1,342	1,504	19,021	2,111
Obligations of states and political subdivisions	63,791	3,511	—	—	63,791	3,511
Total debt securities	252,688	9,832	1,342	1,504	254,030	11,336
Marketable equity securities	3,223	22	—	—	3,223	22
	$255,911	$ 9,854	$1,342	$ 1,504	$257,253	$ 11,358
December 31, 2012						
Available for sale:						
Debt Securities:						
Government-sponsored residential mortgage-backed securities	$ 10,360	$ 70	$ —	$ —	$ 10,360	$ 70
Government-sponsored residential collateralized debt obligations	4,151	1	—	—	4,151	1
Asset-backed securities	4,173	19	—	—	4,173	19
Corporate debt securities	—	—	1,208	1,637	1,208	1,637
Obligations of states and political subdivisions	6,632	127	—	—	6,632	127
Total debt securities	$ 25,316	$ 217	$1,208	$ 1,637	$ 26,524	$ 1,854

Of the securities summarized above as of June 30, 2013, 152 issues had unrealized losses equaling 3.7% of the cost basis for less than twelve months and one issue had an unrealized loss of 52.9% of the amortized cost basis for twelve months or more. As of December 31, 2012, nineteen issues had unrealized losses equaling 0.85% of the cost basis for less than twelve months and one issue had losses equaling 57.54% of the cost basis for twelve months or more.

There were no held to maturity securities with unrealized losses at June 30, 2013 or December 31, 2012.

Management believes that no individual unrealized loss as of June 30, 2013 represents an other-than-temporary impairment, based on its detailed quarterly review of the securities portfolio. Among other things, the other-than-temporary impairment review of the investment securities portfolio focuses on the combined factors of percentage and length of time by which an issue is below book value as well as consideration of issuer specific (present value of cash flows expected to be collected, issuer rating changes and trends, credit worthiness and review of underlying collateral), broad market details and the Company’s intent to sell the security or if it is more likely than not that the Company will be required to sell the debt security before recovering its cost. The Company also considers whether the depreciation is due to interest rates or credit risk. The following paragraphs outline the Company’s position related to unrealized losses in its investment securities portfolio at June 30, 2013.

U.S. Government and government-sponsored enterprises and mortgage-backed securities. The unrealized losses on the Company's U.S. Government and government-sponsored securities were caused by increases in the rate spread to comparable government securities. The Company does not expect these securities to settle at a price less than the par value of the securities. Because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the recovery of their amortized cost basis, which may be at maturity, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2013.

U.S. Government and government-sponsored collateralized debt obligations and commercial mortgage backed securities. The unrealized losses on the Company's U.S. Government and government-sponsored collateralized debt obligations and commercial mortgage backed securities were caused by increases in the rate spread to comparable government securities. The Company does not expect these securities to settle at a price less than the par value of the securities. Because the Company does not intend to sell the securities before the recovery of their amortized cost basis, which may be at maturity, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2013.

Obligations of states and political subdivisions. The unrealized loss on obligations of states and political subdivisions relates to twenty securities, with no geographic concentration. The unrealized loss was due to a shift in the municipal bond curve that resulted in a negative impact to the respective bonds' pricing, relative to the time of purchase.

Corporate debt securities. The unrealized losses on corporate debt securities are related to one pooled trust preferred security, Preferred Term Security XXVIII, Ltd ("PRETSL XXVIII"). The unrealized loss on this security is caused by the low interest rate environment because it reprices quarterly to the three month LIBOR and market spreads on similar securities have increased. No loss of principal or break in yield is projected. Based on the existing credit profile, management does not believe that this security will suffer from any credit related losses. In addition, because the Company does not intend to sell the security and it is not probable that the Company will be required to sell the securities before recovery of its amortized cost basis, which may be at maturity, therefore the Company does not consider this security to be other-than-temporarily impaired at June 30, 2013.

Asset-Backed Securities. The unrealized losses on the Company's asset-backed securities were largely driven by increases in the spreads of the respective sectors' asset classes over comparable securities. The majority of these securities have resetting coupons that adjust on quarterly basis and the market spreads on similar securities have increased. Based on the credit profiles and asset qualities of the individual securities, management does not believe that the securities will suffer from any credit related losses. The Company does not expect these securities to settle at a price less than the par value of the securities. Because the Company does not intend to sell the securities before the recovery of their amortized cost basis, which may be at maturity, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2013.

The Company will continue to review its entire portfolio for other-than-temporarily impaired securities with additional attention being given to high risk securities such as the one pooled trust preferred security that the Company owns.

Note 6. Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposure to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings. The Company also has interest rate derivatives that result from a service provided to certain qualifying customers. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

Information about interest rate swap agreements and non-hedging derivative assets and liabilities as of June 30, 2013 and December 31, 2012 is as follows:

	Notional Amount (In thousands)	Weighted-Average Maturity (In years)	Weighted-Average Rate Received	Weighted-Average Rate Paid	Estimated Fair Value Asset (Liability) (In thousands)
June 30, 2013					
Cash flow hedge:					
Forward starting interest rate swaps on FHLBB advances	$ 100,000	7	TBD[1]	2.40%	$ 5,694
Fair value hedge:					
Interest rate swap	10,000	5	1.00%	0.20%[2]	(216)
Non-hedging derivatives:					
Forward loan sale commitments	10,179	0.1			381
Derivative loan commitments	9,241	0.1			(12)
Interest rate swaps	18,000	7	2.04%	4.15%	1
Total	$ 147,420				$ 5,848
December 31, 2012					
Cash flow hedge:					
Forward starting interest rate swaps on FHLBB advances	$ 75,000	7	TBD[1]	2.30%	$ (148)

(1) The receiver leg of the cash flow hedges is floating rate and indexed to the 3-month USD-LIBOR-BBA, as determined two London banking days prior to the first day of each calendar quarter, commencing with the earliest effective trade. The earliest effective trade date for the cash flow hedges is July 1, 2015.

(2) The paying leg is one month LIBOR plus 1.2 basis points.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2013, the Company did not record any hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company does not expect to reclassify any amounts from accumulated other comprehensive loss to interest expense during the next 12 months as the Company's earliest effective date is July 2015.

The Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 36 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

As of June 30, 2013, the Company had three outstanding interest rate derivatives with a notional value of $100.0 million that were designated as cash flow hedges of interest rate risk.

Fair Value Hedges of Interest Rate Risk

The Company is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in benchmark interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable rate payments over the life of the agreements without the exchange of the underlying notional amount.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and six months ended June 30, 2013, the Company recognized net gains of $109 in interest expense related to hedge ineffectiveness. The Company also recognized a net reduction to interest expense of $2,618 related to net settlements on the derivatives.

As of June 30, 2013, the Company had outstanding interest rate derivatives with a notional of $10.0 million that was designated as a fair value hedge of interest rate risk.

Non-Designated Hedges

Qualifying derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers, which the Company implemented during the second quarter of 2013. The Company executes interest rate derivatives with commercial banking customers to facilitate their respective risk management strategies. Those interest rate derivatives are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings.

As of June 30, 2013, the Company had two interest rate derivatives with an aggregate notional amount of $18.0 million related to this program.

Derivative Loan Commitments

Additionally, the Company enters into mortgage loan commitments that are also referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified rates and times in the future, with the intention that these loans will subsequently be sold in the secondary market.

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases.

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.

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

With a “best efforts” contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g., on the same day the lender 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.

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Statements of Condition as of June 30, 2013.

Fair Values of Derivative Instruments

(In thousands)	Balance Sheet Location	Fair Value June 30, 2013	Fair Value December 31, 2012
Derivatives designated as hedging instruments:			
Interest rate swap—cash flow hedge	Other Assets	$ 5,694	$ —
Interest rate swap—cash flow hedge	Other Liabilities	—	(148)
Interest rate swap—fair value hedge	Other Assets	3	—
Interest rate swap—fair value hedge	Other Liabilities	(219)	—
Total derivatives designated as hedging instruments		$ 5,478	$ (148)
Derivatives not designated as hedging instruments:			
Forward loan sale commitment	Other Assets	$ 381	$ 464
Derivative loan commitment	Other Liabilities	(12)	(101)
Interest rate swap—non designated hedge	Other Assets	194	—
Interest rate swap—non designated hedge	Other Liabilities	(193)	—
Total derivatives not designated as hedging instruments		$ 370	$ 363

Effect of Derivative Instruments on the Income Statement

The tables below presents information pertaining to the Company's derivatives on the Consolidated Statements of Net Income designated as hedging instruments for the three and six months ended June 30, 2013 and 2012.

Cash Flow Hedges

Derivatives in Cash Flow Hedging Relationships (In thousands)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest Rate Swaps	$ 5,004	$ (33)	$ 5,842	$ (33)
Total	$ 5,004	$ (33)	$ 5,842	$ (33)

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Fair Value Hedges

Derivatives in Fair Value Hedging Relationships (In thousands)	Location on Gain (Loss) Recognized in Income	Amount of Loss Recognized in Income on Derivatives: Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Interest Rate Swaps	Interest expense	$ (219)	$ —	$ (219)	$ —
Total		$ (219)	$ —	$ (219)	$ —

		Amount of Gain Recognized in Income on Derivatives: Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Interest Rate Swaps	Interest expense	$ 219	$ —	$ 219	$ —
Total		$ 219	$ —	$ 219	$ —

The table below presents information pertaining to the Company's derivatives not designated as hedging instruments on the Consolidated Statements of Net Income as of June 30, 2013.

(In thousands)	Amount of (Loss) Gain Recognized for the Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Derivatives not designated as hedging instruments:				
Derivative loan commitment	$ (689)	$ —	$ (337)	$ —
Forward loan sale commitments	188	(33)	343	(33)
Interest rate swaps	3	—	3	—
	$ (498)	$ (33)	$ 9	$ (33)

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness or fails to maintain a well-capitalized rating, then the Company could also be declared in default on its derivative obligations and could be required to terminate its derivative positions with the counterparty. As of June 30, 2013, the counterparty related to these agreements posted $6.1 million of collateral to the Company.

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well-capitalized institution, then the Company could be required to terminate its derivative positions with the counterparty.

As of June 30, 2013, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $217,000. As of June 30, 2013, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $260,000 against its obligations under these agreements. If the Company had breached any of these provisions at June 30, 2013, it could have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

Note 7. Loans Receivable and Allowance for Loan Losses

A summary of the Company's loan portfolio is as follows:

(In thousands)	June 30, 2013	December 31, 2012
Real estate loans:		
Residential	$ 636,869	$ 683,195
Commercial	735,739	697,133
Construction—residential	3,791	3,338
Construction—commercial	40,938	46,642
Total real estate loans	1,417,337	1,430,308
Commercial business loans	196,277	171,632
Installment loans	872	1,184
Collateral loans	1,686	1,567
Total loans	1,616,172	1,604,691
Net deferred loan costs and premiums	1,710	771
Allowance for loan losses	(18,345)	(18,477)
Loans—net	$1,599,537	$ 1,586,985

Allowance for Loan Losses: Management has established a methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. The allowance for loan losses is established as embedded losses are estimated to have occurred through the provisions for losses charged against operations and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Management's judgment in determining the adequacy of the allowance is inherently subjective and is based on past loan loss experience, known and inherent losses and size of the loan portfolios, an assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, review of regulatory authority examination reports and other relevant factors. An allowance is maintained for impaired loans to reflect the difference, if any, between the carrying value of the loan and the present value of the projected cash flows, observable fair value or collateral value. Loans are charged-off against the allowance for loan losses when management believes that the uncollectibility of principal is confirmed. Any subsequent recoveries are credited to the allowance for loan losses when received. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties, when considered necessary.

The allowance for loan losses and the reserve for unfunded credit commitments are maintained at a level estimated by management to provide for probable losses inherent within the loan portfolio. Probable losses are estimated based upon a quarterly review of the loan portfolio, which includes historic default and loss experience, specific problem loans, risk rating profile, economic conditions and other pertinent factors which, in management's judgment, warrant current recognition in the loss estimation process.

The adequacy of the allowance for loan losses is subject to considerable assumptions and judgment used in its determination. Therefore, actual losses could differ materially from management's estimate if actual conditions differ significantly from the assumptions utilized. These conditions include economic factors in the Company's market and nationally, industry trends and concentrations, real estate values and trends, and the financial condition and performance of individual borrowers.

The Company's general practice is to identify problem credits early and recognize full or partial charge-offs as promptly as practicable when it is determined that the collection of loan principal is unlikely. The Company recognized full or partial charge-offs on collateral dependent impaired loans when the collateral is deemed to be insufficient to support the carrying value of the loan. The Company does not recognize a recovery when an updated appraisal indicates a subsequent increase in value.

The Company has a loan loss allowance of $18.3 million, or 1.14% of total loans as compared to a loan loss allowance of $18.5 million, or 1.15% of total loans at December 31, 2012. Management believes that the allowance for loan losses is adequate and consistent with asset quality indicators and that it represents the best estimate of probable losses inherent in the loan portfolio. There are three components for the allowance for loan loss calculation:

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, construction, commercial and consumer. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels and trends in delinquencies; level and trend of charge-offs and recoveries; trends in volume and types of loans; effects of changes in risk selection and underwriting standards, changes in risk selection and underwriting standards; experience and depth of lending weighted-average risk rating; and national and local economic trends and conditions. The qualitative factors are determined based on the various risk characteristics of each loan segment.

Allocated component

The allocated component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 for commercial, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Residential and consumer loans are evaluated for impairment if payments are 90 days or more delinquent. Updated property evaluations are obtained at time of impairment and serve as the basis for the loss allocation if foreclosure is probable or the loan is collateral dependent.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Unallocated component

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

Credit Quality Information

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

Loans rated 1 – 5: Loans in these categories are considered “pass” rated loans with low to average risk.

Loans rated 6: Loans in this category are considered “special mention.” These loans reflect signs of potential weakness and are being closely monitored by management.

Loans rated 7: 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 obligor 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 8: Loans in this category are considered “doubtful.” Loans classified as doubtful have all the weaknesses inherent in those classified as 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 9: Loans in this category are considered uncollectible (“loss”) and of such little value that their continuance as loans is not warranted.

At the time of loan origination, a risk rating based on this nine point grading system is assigned to each loan based on the loan officer's assessment of risk. More complex loans, such as commercial business loans and commercial real estate loans require that our internal independent credit area further evaluate the risk rating of the individual loan, with the credit area and Chief Risk Officer having final determination of the appropriate risk rating. These more complex loans and relationships receive an in-depth analysis and periodic review to assess the appropriate risk rating on a post-closing basis with changes made to the risk rating as the borrower's and economic conditions warrant. The credit quality of the Company's loan portfolio is reviewed by a third-party risk assessment firm on a quarterly basis and by the Company's internal credit management function. The internal and external analysis of the loan portfolio is utilized to identify and quantify loans with higher than normal risk. Loans having a higher risk profile are assigned a risk rating corresponding to the level of weakness identified in the loan. All loans risk rated Special Mention, Substandard or Doubtful are reviewed by management not less than on a quarterly basis to assess the level of risk and to ensure that appropriate actions are being taken to minimize potential loss exposure. Loans identified as being a loss are normally fully charged off.

The following table presents the Company's loans by risk rating at June 30, 2013 and December 31, 2012.

(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Installment and Collateral
June 30, 2013					
Loans rated 1-5	$ 623,351	$ 714,338	$ 40,621	$ 183,437	$ 2,528
Loans rated 6	2,490	7,849	1,489	7,087	—
Loans rated 7	11,028	13,552	2,619	5,753	30
Loans rated 8	—	—	—	—	—
Loans rated 9	—	—	—	—	—
	$ 636,869	$ 735,739	$ 44,729	$ 196,277	$ 2,558
December 31, 2012					
Loans rated 1-5	$ 669,905	$ 673,844	$ 43,488	$ 158,576	$ 2,699
Loans rated 6	2,182	14,121	4,310	5,366	—
Loans rated 7	11,108	9,168	2,182	7,690	52
Loans rated 8	—	—	—	—	—
Loans rated 9	—	—	—	—	—
	$ 683,195	$ 697,133	$ 49,980	$ 171,632	$ 2,751

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Changes in the allowance for loan losses for the periods ended June 30, 2013 and 2012 are as follows:

(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Installment and Collateral	Unallocated	Total
Three Months Ended June 30,2013							
Balance, beginning of period	$ 6,117	$ 8,023	$ 1,012	$ 2,679	$ 73	$ 633	$18,537
Provision (credit) for loan losses	66	326	(24)	455	(47)	(373)	403
Loans charged off	(218)	(74)	(248)	(66)	(8)	—	(614)
Recoveries of loans previously charged off	9	—	—	—	10	—	19
Balance, end of period	$ 5,974	$ 8,275	$ 740	$ 3,068	$ 28	$ 260	$18,345
Three Months Ended June 30, 2012							
Balance, beginning of period	$ 5,348	$ 6,861	$ 1,229	$ 2,978	$ 47	$ 64	$16,527
Provision (credit) for loan losses	765	420	(141)	10	2	125	1,181
Loans charged off	(300)	(108)	—	—	(12)	—	(420)
Recoveries of loans previously charged off	5	—	—	3	7	—	15
Balance, end of period	$ 5,818	$ 7,173	$ 1,088	$ 2,991	$ 44	$ 189	$17,303
Six Months Ended June 30,2013							
Balance, beginning of period	$ 6,194	$ 8,051	$ 807	$ 2,916	$ 29	$ 480	$18,477
Provision (credit) for loan losses	227	369	182	229	7	(220)	794
Loans charged off	(468)	(145)	(249)	(86)	(23)	—	(971)
Recoveries of loans previously charged off	21	—	—	9	15	—	45
Balance, end of period	$ 5,974	$ 8,275	$ 740	$ 3,068	$ 28	$ 260	$18,345
Six Months Ended June 30, 2012							
Balance, beginning of period	$ 5,071	$ 6,694	$ 1,286	$ 2,515	$ 49	$ 410	$16,025
Provision (credit) for loan losses	1,284	587	(198)	429	4	(221)	1,885
Loans charged off	(547)	(108)	—	(2)	(19)	—	(676)
Recoveries of loans previously charged off	10	—	—	49	10	—	69
Balance, end of period	$ 5,818	$ 7,173	$ 1,088	$ 2,991	$ 44	$ 189	$17,303

Further information pertaining to the allowance for loan losses and impaired loans at June 30, 2013 and December 31, 2012 follows:

(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Installment and Collateral	Unallocated	Total
June 30, 2013							
Allowance related to loans deemed impaired	$ 109	$ —	$ —	$ —	$ —	$ —	$ 109
Allowance related to loans not deemed impaired	5,865	8,275	740	3,068	28	260	18,236
Total allowance for loan losses	$ 5,974	$ 8,275	$ 740	$ 3,068	$ 28	$ 260	$ 18,345
Loans deemed impaired	$ 9,896	$ 4,541	$ 2,301	$ 1,022	$ 30	$ —	$ 17,790
Loans not deemed impaired	626,973	731,198	42,428	195,255	2,528	—	1,598,382
Total loans	$ 636,869	$ 735,739	$ 44,729	$ 196,277	$ 2,558	$ —	$1,616,172
December 31, 2012							
Allowance related to loans deemed impaired	$ 97	$ —	$ 1	$ 220	$ —	$ —	$ 318
Allowance related to loans not deemed impaired	6,097	8,051	806	2,696	29	480	18,159
Total allowance for loan losses	$ 6,194	$ 8,051	$ 807	$ 2,916	$ 29	$ 480	$ 18,477
Loans deemed impaired	$ 9,867	$ 1,108	$ 3,034	$ 2,627	$ 45	$ —	$ 16,681
Loans not deemed impaired	673,328	696,025	46,946	169,005	2,706	—	1,588,010
Total loans	$ 683,195	$ 697,133	$ 49,980	$ 171,632	$ 2,751	$ —	$1,604,691

The following is a summary of past due and non-accrual loans at June 30, 2013 and December 31, 2012:

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Past Due 90 Days or More and Still Accruing	Loans on Non-accrual
June 30, 2013						
Real estate loans:						
Residential	$ 1,382	$ 382	$ 3,514	$ 5,278	$ —	$ 9,472
Commercial	813	—	656	1,469	—	1,126
Construction	—	—	727	727	—	1,687
Commercial business loans	572	45	815	1,432	—	1,022
Installment and collateral	4	—	—	4	—	30
Total	$ 2,771	$ 427	$ 5,712	$ 8,910	$ —	$ 13,337
December 31, 2012						
Real estate loans:						
Residential	$ 5,818	$ 3,087	$ 4,794	$13,699	$ —	$ 9,867
Commercial	8,235	466	1,230	9,931	—	1,108
Construction	1,046	121	1,497	2,664	—	2,409
Commercial business loans	301	3	62	366	—	2,626
Installment and collateral	16	5	46	67	—	46
Total	$ 15,416	$ 3,682	$ 7,629	$26,727	$ —	$ 16,056

The following is a summary of impaired loans with and without a valuation allowance as of June 30, 2013 and December 31, 2012.

	June 30, 2013			December 31, 2012		
(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans without a valuation allowance:						
Real estate loans:						
Residential	$ 8,732	$ 8,732		$ 9,170	$ 9,170	
Commercial	4,541	4,541		1,768	1,768	
Construction	2,301	2,301		2,184	2,184	
Commercial business loans	1,022	1,022		1,985	1,985	
Installment and collateral loans	30	30		45	45	
Total	16,626	16,626		15,152	15,152	
Impaired loans with a valuation allowance:						
Real estate loans:						
Residential	1,164	1,164	$ 109	697	697	$ 97
Construction	—	—	—	496	496	1
Commercial business loans	—	—	—	336	336	220
Total	1,164	1,164	109	1,529	1,529	318
Total	$ 17,790	$17,790	$ 109	$ 16,681	$16,681	$ 318

The following is a summary of average recorded investment in impaired loans with and without a valuation allowance and interest income recognized on those loans for the three and six months ended June 30, 2013 and 2012.

(In thousands)	For the Three Months Ended June 30, 2013			For the Three Months Ended June 30, 2012		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
Impaired loans without a valuation allowance:						
Real estate loans:						
Residential	$ 8,523	$ 87	$ 87	$ 8,274	$ 114	$ 114
Commercial	2,714	41	41	1,831	17	17
Construction	1,970	15	15	1,121	19	19
Commercial business loans	1,490	12	12	1,304	23	23
Installment and collateral loans	33	1	1	34	1	1
Total	14,730	156	156	12,564	174	174
Impaired loans with a valuation allowance:						
Real estate loans:						
Residential	1,514	23	23	1,703	18	18
Construction	394	—	—	—	—	—
Commercial business loans	166	—	—	187	1	1
Installment and collateral loans	5	—	—	—	—	—
Total	2,079	23	23	1,890	19	19
	$ 16,809	$ 179	$ 179	$ 14,454	$ 193	$ 193

(In thousands)	For the Six Months Ended June 30, 2013			For the Six Months Ended June 30, 2012		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
Impaired loans without a valuation allowance:						
Real estate loans:						
Residential	$ 8,739	$ 199	$ 199	$ 8,181	$ 190	$ 190
Commercial	2,399	45	45	1,489	46	46
Construction	2,041	17	17	1,113	28	28
Commercial business loans	1,655	31	31	1,427	41	41
Installment and collateral loans	37	1	1	32	2	2
Total	14,871	293	293	12,242	307	307
Impaired loans with a valuation allowance:						
Real estate loans:						
Residential	1,242	30	30	1,471	37	37
Construction	428	—	—	—	—	—
Commercial business loans	222	4	4	124	1	1
Installment and collateral loans	3	—	—	—	—	—
Total	1,895	34	34	1,595	38	38
	$ 16,766	$ 327	$ 327	$ 13,837	$ 345	$ 345

Management has established the allowance for loan loss in accordance with GAAP at June 30, 2013 based on the current risk assessment and level of loss that is believed to exist within the portfolio. This level of reserve is deemed an appropriate estimate of probable loan losses inherent in the loan portfolio as of June 30, 2013 based upon the analysis conducted and given the portfolio composition, delinquencies, charge offs and risk rating changes experienced during the first six months of 2013 and the three-year evaluation period utilized in the analysis. Based on the qualitative assessment of the portfolio and in thorough consideration of non-performing loans, management believes that the allowance for loan losses properly supports the level of associated loss and risk.

Troubled Debt Restructurings: The restructuring of a loan is considered a "troubled debt restructuring" if both (i) the restructuring constitutes a concession by the creditor and (ii) the debtor is experiencing financial difficulties. A troubled debt restructuring may include (i) a transfer from the debtor to the creditor of receivables from third parties, real estate, or other assets to satisfy fully or partially a debt, (ii) issuance or other granting of an equity interest to the creditor by the debtor to satisfy fully or partially a debt unless the equity interest is granted pursuant to existing terms for converting debt into an equity interest, and (iii) modifications of terms of a debt.

Troubled debt restructurings during the three and six months ended June 30, 2013 and 2012 are set forth in the following table:

	Three Months Ended June 30, 2013			Six Months Ended June, 2013		
(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate	1	$ 317	$ 317	2	$ 492	$ 492
Commercial real estate	1	539	539	2	3,159	3,159
Installment and collateral	2	30	30	2	30	30
Total troubled debt restructuring	4	$ 886	$ 886	6	$ 3,681	$ 3,681

There were no trouble debt restructurings that defaulted within twelve months of restructuring during the three months ended June 30, 2013.

Troubled debt restructurings that defaulted within twelve months of restructuring during the three and six months ended June 30, 2013 follows:

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
(Dollars in thousands)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Residential real estate	—	$ —	1	$ 64
Total troubled debt restructuring	—	$ —	1	$ 64

(Dollars in thousands)	Three Months Ended June 30, 2012 Number of Contracts	Three Months Ended June 30, 2012 Pre-Modification Outstanding Recorded Investment	Three Months Ended June 30, 2012 Post-Modification Outstanding Recorded Investment	Six Months Ended June, 2012 Number of Contracts	Six Months Ended June, 2012 Pre-Modification Outstanding Recorded Investment	Six Months Ended June, 2012 Post-Modification Outstanding Recorded Investment
Residential real estate	—	$ —	$ —	1	$ 27	$ —
Construction	1	629	629	5	1,546	1,530
Total troubled debt restructuring	1	$ 629	$ 629	6	$ 1,573	$ 1,530

Troubled debt restructurings that defaulted within twelve months of restructuring during the three and six months ended June 30, 2012 follows:

(Dollars in thousands)	Three Months Ended June 30, 2012 Number of Contracts	Three Months Ended June 30, 2012 Recorded Investment	Six Months Ended June 30, 2012 Number of Contracts	Six Months Ended June 30, 2012 Recorded Investment
Residential real estate	—	$ —	1	$ 58
Total troubled debt restructuring	—	$ —	1	$ 58

The majority of restructured loans were on non-accrual status as of June 30, 2013 and December 31, 2012. The financial impact of the trouble debt restructured loans has been minimal to date. Typically, residential loans are restructured with a modification and extension of the loan amortization and maturity at substantially the same interest rate as contained in the original credit extension. As part of the troubled debt restructuring process, the current value of the property is compared to the general ledger loan balance and if not fully supported, a write down is processed through the allowance for loan losses. Commercial real estate loans and commercial business loans also contain payment modification agreements and a like assessment of the underlying collateral value if the borrower’s cash flow may be inadequate to service the entire obligation.

Loan Servicing

The Company services certain loans for third parties. The aggregate of loans serviced for others was $340.0 million and $238.1 million as of June 30, 2013 and December 31, 2012, respectively. The balances of these loans are not included in the accompanying consolidated statements of condition.

The risks inherent in mortgage servicing rights relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The fair value of mortgage servicing rights at June 30, 2013 and 2012 was determined using pretax internal rates of return ranging from 8.0% to 10.0% and the Public Securities Association (“PSA”) Standard Prepayment model to estimate prepayments on the portfolio with an average prepayment speed of 184 and 459, respectively. The fair value of mortgage servicing rights is obtained from a third party provider.

Mortgage servicing rights are included in other assets in the Consolidated Statements of Condition. The following table summarizes mortgage servicing rights capitalized and amortized for the three and six months ended June 30, 2013 and 2012:

(In thousands)	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Mortgage servicing rights:				
Balance at beginning of period	$ 2,066	$ 941	$ 1,052	$ 944
Cumulative effect of changes in accounting principles	—	—	502	—
Change in fair value recognized in net income	1,012	—	1,297	—
Issuances	297	4	572	83
Settlements	(39)	—	(87)	—
Amortization	—	(109)	—	(191)
Balance at end of period	3,336	836	3,336	836
Valuation allowances:				
Balance at beginning of period	—	(58)	—	(166)
Recoveries	—	—	—	108
Provisions	—	(27)	—	(27)
Balance at end of period	—	(85)	—	(85)
Mortgage servicing rights, net	3,336	751	3,336	751
Fair value of mortgage servicing rights at end of period	$ 3,336	$ 1,093	$ 3,336	$ 1,093

Note 8. Federal Home Loan Bank Advances and Stock and Other Borrowings

FHLB Advances and Stock

The Bank is a member of the FHLBB. Contractual maturities and weighted-average rates of outstanding advances from the FHLBB as of June 30, 2013 and December 31, 2012 are summarized below:

(Dollars in thousands)	June 30, 2013 Amount	June 30, 2013 Weighted-Average Rate	December 31, 2012 Amount	December 31, 2012 Weighted-Average Rate
2013	$171,000	0.26%	$ 61,000	0.33%
2014	8,112	3.70	8,112	3.70
2015	35,000	2.28	35,000	2.28
2016	3,000	2.70	3,000	2.70
2017	33,000	2.56	33,000	2.56
Thereafter	2,959	2.54	2,994	2.54
	$253,071	1.01%	$143,106	1.61%

At June 30, 2013, FHLBB advances totaling $23.0 million with interest rates ranging from 3.19% to 4.39% which are scheduled to mature between 2014 and 2017 are callable. Advances are collateralized by first mortgage loans with an estimated eligible collateral value of $337.8 million and $350.6 million at June 30, 2013 and December 31, 2012, respectively.

In addition to the outstanding advances the Bank has access to an unsecured line of credit with the FHLBB amounting to $10.0 million at June 30, 2013 and December 31, 2012. At June 30, 2013 and December 31, 2012 there were no advances outstanding under the line of credit.

In accordance with an agreement with the FHLBB, the qualified collateral must be free and clear of liens, pledges and encumbrances. At June 30, 2013 the Bank could borrow immediately an additional $109.0 million from the FHLBB inclusive of the line of credit.

The Bank is required to acquire and hold shares of capital stock in the FHLBB in an amount at least equal to the sum of 0.35% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, and up to 4.5% of its advances (borrowings) from the FHLBB. The carrying value of FHLBB stock approximates fair value based on the most recent redemption provisions of the stock. The FHLBB repurchased $814,000 of excess capital stock during the first quarter of 2013 as part of an announced program to repurchase $250.0 million of members' excess stock, the second repurchase since it established a moratorium in 2008.

Other Borrowings

During the first quarter of 2013, the Company entered into a reverse repurchase agreement with a maturity date of July 2013 resulting in $9.7 million of other borrowings at March 31, 2013 at a cost of the three month LIBOR plus 20 basis points, or 0.51%. During the second quarter of 2013, the Company entered into a second reverse repurchase agreement with a maturity date of December 2013 resulting in an additional $9.3 million of other borrowings at June 30, 2013 at a cost of the three month LIBOR plus 17.5 basis points, or 0.45%.

In addition to the FHLBB advances, reverse repurchase borrowing agreements and committed fed funds lines of credit, the Bank has a relationship with a brokered sweep deposit provider by which funds are provided up to a maximum of 5% of the Bank's assets. As of June 30, 2013, deposits under this agreement totaled $35.0 million at a cost of 0.50%. As of June 30, 2013, the Bank could borrow an additional $74.0 million through this relationship.

Note 9. Pension and Other Post-Retirement Benefit Plans

Defined Benefit, Supplemental and Other Post-Retirement Plans

Rockville offered a defined benefit noncontributory pension plan through December 31, 2012 for eligible employees who met certain minimum service and age requirements hired before January 1, 2005. Pension plan benefits were based upon employee earnings during the period of credited service. The pension plan was hard-frozen effective December 31, 2012. All other employees will accrue no additional retirement benefits on or after January 1, 2013, and the amount of their qualified retirement income will not exceed the amount of benefits determined as of December 31, 2012.

The Company also has supplemental retirement plans (the "Supplemental Plans") that provide benefits for certain key executive officers. Benefits under the Supplemental Plans are based on a predetermined formula and are reduced by other benefits. The liability arising from these plans is being accrued over the participants' remaining periods of service so that at the expected retirement dates, the present value of the annual payments will have been expensed.

The Company also provides an unfunded post-retirement medical, health and life insurance benefit plan for retirees and employees hired prior to March 31, 1993.

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The following table presents the amount of net periodic pension cost for the three and six months ended June 30, 2013 and 2012.

(In thousands)	Qualified Pension For the Quarter Ended June 30, 2013	Qualified Pension For the Quarter Ended June 30, 2012	Supplemental Executive Retirement Plans For the Quarter Ended June 30, 2013	Supplemental Executive Retirement Plans For the Quarter Ended June 30, 2012	Other Post-Retirement Benefits For the Quarter Ended June 30, 2013	Other Post-Retirement Benefits For the Quarter Ended June 30, 2012
Service cost	$ 12	$ 265	$ 10	$ 9	$ 9	$ 8
Interest cost	262	291	12	11	23	26
Expected return on plan assets	(433)	(423)	—	—	—	—
Amortization:						
Loss	196	309	2	1	16	20
Prior service (credit) cost	—	(12)	6	7	—	—
Additional amount recognized due to settlement or curtailment	—	—	199	—	—	—
Net periodic benefit cost	$ 37	$ 430	$ 229	$ 28	$ 48	$ 54

(In thousands)	Qualified Pension For the Six Months Ended June 30, 2013	Qualified Pension For the Six Months Ended June 30, 2012	Supplemental Executive Retirement Plans For the Six Months Ended June 30, 2013	Supplemental Executive Retirement Plans For the Six Months Ended June 30, 2012	Other Post-Retirement Benefits For the Six Months Ended June 30, 2013	Other Post-Retirement Benefits For the Six Months Ended June 30, 2012
Service cost	$ 25	$ 530	$ 21	$ 19	$ 18	$ 16
Interest cost	524	582	23	22	46	51
Expected return on plan assets	(867)	(845)	—	—	—	—
Amortization:						
Loss	392	618	4	1	32	39
Prior service (credit) cost	—	(24)	13	14	—	—
Additional amount recognized due to settlement or curtailment	—	—	199	—	—	—
Net periodic benefit cost	$ 74	$ 861	$ 260	$ 56	$ 96	$ 106

In addition to the above, the Company entered into a non-qualified, Supplemental Executive Retirement Plan with the Company's president in December 2012. Plan expenses for the three and six months ended June 30, 2013 were $18,000 and $36,000, respectively. The accrued liability was $96,000 as of June 30, 2013.

Note 10. Share-Based Compensation Plans

The Company maintains and operates the Rockville Financial, Inc. 2006 Stock Incentive Award Plan (the "Plan") as approved by the Company's Board of Directors and stockholders. The Plan allows the Company to use stock options, stock awards, stock appreciation rights and performance awards to attract, retain and reward performance of qualified employees and others who contribute to the success of the Company. Prior to the Company's second-step stock offering effective March 3, 2011, the Plan allowed for the issuance of a maximum of 349,830 restricted stock shares and 874,575 stock options. After adjusting for the 1.5167 exchange ratio established as a result of the stock offering, the Plan allows for maximum issuances of 530,587 restricted stock shares and 1,326,467 stock options. As of December 31, 2012, 14,603 restricted stock shares and 161,841 stock options remained available for future grants. During the six months ended June 30, 2013, there were zero restricted stock shares and 94,419 stock options granted. Additionally, 1,716 restricted stock shares and 9,158 stock options were forfeited and re-entered the pool of available shares for future grants. As of June 30, 2013, 16,319 restricted stock shares and 76,580 stock options remain available for future grants under the Plan.

The Company maintains and operates the Rockville Financial, Inc. 2012 Stock Incentive Plan (the “2012 Plan”) as approved by the Company’s Board of Directors and stockholders. The 2012 Plan allows the Company to use stock options, stock awards, stock appreciation rights and performance awards to attract, retain and reward performance of qualified employees and others who contribute to the success of the Company. The 2012 Plan allows for the issuance of a maximum of 684,395 restricted stock shares and 1,710,989 stock options. As of December 31, 2012, 258,390 restricted stock shares and 810,537 stock options remained available for future grants. During the six months ended June 30, 2013, there were 53,834 restricted stock shares and 342,817 stock options granted. Of the 53,834 restricted shares granted in 2013, 15,391 shares are performance-related. Additionally, 2,950 restricted stock shares and 7,904 stock options were forfeited and re-entered the pool of available shares for future grants. There was also an adjustment for performance-related restricted stock shares of 14,881 shares, which were removed from the pool of remaining shares in anticipation of a coming performance-related vestings. As of June 30, 2013, 188,008 restricted stock shares and 475,624 stock options remain available for future grants under the 2012 Plan.

Total employee and Director share-based compensation expense recognized for stock options and restricted stock was $877,000 with a related tax benefit recorded of $307,000 for the three months ended June 30, 2013, of which Director share-based compensation expense recognized (in the consolidated statements of income as other non-interest expense) was $290,000 and officer share-based compensation expense recognized (in the consolidated statements of income as salaries and employee benefit expense) was $587,000. The total charge of $877,000 for the three months ended June 30, 2013 does not include any cost related to vested restricted shares used for income tax withholding on behalf of certain executives in the three months ended June 30, 2013.

Total employee and Director share-based compensation expense recognized for stock options and restricted stock was $1.6 million with a related tax benefit recorded of $577,000 for the six months ended June 30, 2013, of which Director share-based compensation expense recognized (in the consolidated statements of income as other non-interest expense) was $605,000 and officer share-based compensation expense recognized (in the consolidated statements of income as salaries and employee benefit expense) was $1.0 million. The total charge of $1.6 million for the six months ended June 30, 2013 includes $26,000 related to 2,038 vested restricted shares used for income tax withholding on behalf of certain executives which occurred in the first half of 2013.

Stock Options: The following table presents the activity related to stock options under the Plans for the six months ended June 30, 2013:

	Number of Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2012	1,996,843	$ 10.12		
Granted	437,236	13.20		
Exercised	(24,266)	9.25		
Forfeited or expired	(17,062)	10.20		
Outstanding at June 30, 2013	2,392,751	$ 10.69	7.7	$ 5,787
Stock options vested and exercisable at June 30, 2013	1,366,819	$ 9.99	6.5	$ —

The aggregate fair value of options that vested was $720,000 and $484,000 during the six months ended June 30, 2013 and 2012, respectively. As of June 30, 2013, the unrecognized cost related to the stock options awarded of $1.6 million will be recognized over a weighted-average period of 2.5 years.

For share-based compensation recognized for the six months ended June 30, 2013, the Company used the Black-Scholes option pricing model for estimating the fair value of stock options granted. There were 437,236 stock options granted in the first six months of 2013. The weighted-average estimated fair values of stock option grants and the assumptions that were used in calculating such fair values were based on estimates at June 30, 2013 as follows:

	June 30, 2013	June 30, 2012
Weighted per share average fair value of options granted	$ 1.80	$ 1.47
Assumptions:		
Risk-free interest rate	1.61%	0.91%
Expected volatility	20.33%	22.27%
Expected dividend yield	3.03%	3.28%
Expected life of options granted	6.0 years	6.0 years

Restricted Stock: Restricted stock provides grantees with rights to shares of common stock upon completion of a service period. During the restriction period, all shares are considered outstanding and dividends are paid on the restricted stock. The following table presents the activity for restricted stock for the six months ended June 30, 2013:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2012	378,604	$ 10.89
Granted	53,834	13.20
Vested	(176,240)	10.99
Forfeited	(4,666)	10.04
Unvested as of June 30, 2013	251,532	$ 11.33

The fair value of restricted shares that vested during the six months ended June 30, 2013 and 2012 was $1.9 million and $843,000, respectively. As of June 30, 2013, there was $2.4 million of total unrecognized compensation cost related to unvested restricted stock which was expected to be recognized over a weighted-average period of 2.0 years.

During the six months ended June 30, 2013, the Company granted 53,834 shares of restricted stock out of Treasury stock. In conjunction with the grant, 5,780 shares of restricted stock vested immediately.

Of the remaining unvested restricted stock, 4,847 shares will vest in 2013, 91,500 in 2014, 134,346 in 2015 and 20,839 in 2016. All unvested restricted stock shares are expected to vest.

Employee Stock Ownership Plan: In connection with its reorganization and stock offering completed in 2005, the Company established an Employee Stock Ownership Plan (“ESOP”) to provide substantially all employees of the Company the opportunity to also become shareholders. The ESOP borrowed $7.8 million from the Company to purchase 699,659 shares of common stock in the subscription offering and in the open market. The outstanding loan balance of $1.9 million at June 30, 2013 will be repaid principally from the Bank’s discretionary contributions to the ESOP over a remaining period of two years.

As part of the second-step conversion and stock offering completed in 2011, the ESOP borrowed an additional $7.1 million from the Company to purchase 684,395 shares of common stock during the initial public offering and in the open market. The outstanding loan balance of $6.8 million at June 30, 2013 will be repaid principally from the Bank’s discretionary contributions to the ESOP over a remaining period of 28 years. The 699,659 ESOP shares purchased in the initial reorganization in 2005 were exchanged for shares in the second-step conversion using an exchange ratio of 1.5167.

The Company accounts for its ESOP in accordance with FASB ASC 718-40, *Compensation – Stock Compensation*. Under this guidance, unearned ESOP shares are not considered outstanding and are shown as a reduction of stockholders’ equity as unearned compensation. The Company will recognize compensation cost equal to the fair value of the ESOP shares during the periods in which they are committed to be released. To the extent that the fair value of the Company’s ESOP shares differs from the cost of such shares, this difference will be credited or debited to equity. As the loan is internally leveraged, the loan receivable from the ESOP to the Company is not reported as an asset nor is the debt of the ESOP shown as a liability in the Company’s financial statements. Dividends on unallocated shares are used to pay the ESOP debt.

At June 30, 2013, the two loans had an outstanding balance of $8.7 million and the interest rate is the prime rate plus one percent. The unallocated ESOP shares are pledged as collateral on the loans. As the loans are repaid to the Company, shares will be released from collateral and will be allocated to the accounts of the participants. The ESOP compensation expense for the six months ended June 30, 2013 and 2012 was $838,000 and $729,000, respectively.

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The ESOP shares as of June 30, 2013 were as follows:	
Shares released for allocation	894,564
Unreleased shares	851,004
Total ESOP shares	1,745,568
Market value of unreleased shares at June 30, 2013 (in thousands)	$ 11,131

Note 11. Income Taxes

As of June 30, 2013 and December 31, 2012, there were no material uncertain tax positions related to federal and state income tax matters. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended after December 31, 2008.

As of June 30, 2013 and December 31, 2012, the Company has not recorded any interest and penalties related to uncertain tax positions.

Note 12. Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss, net of taxes, consist of the following:

(In thousands)	Net Unrealized (Loss) Gain on Benefit Plans	Net Unrealized Gain (Loss) on Available For Sale Securities	Net Unrealized (Loss) Gain on Interest Rate Swaps	Accumulated Other Comprehensive Loss
December 31, 2012	$ (7,006)	$ 3,055	$ (96)	$ (4,047)
Change	356	(8,421)	3,796	(4,269)
June 30, 2013	$ (6,650)	$ (5,366)	$ 3,700	$ (8,316)

Note 13. Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by Federal and State banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly, additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s financial statements. The regulations require the Company and the Bank to meet specific capital guidelines that involve quantitative measures of the Company’s and the Bank’s assets, liabilities, and certain off-balance sheet items, as calculated under regulatory accounting practices. The Company’s and the Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. At June 30, 2013, the Bank exceeded all regulatory capital requirements and is considered “well-capitalized” under regulatory guidelines.

The following is a summary of the Company's and the Bank's regulatory capital amounts and ratios as of June 30, 2013 and December 31, 2012 compared to the Federal Deposit Insurance Corporation's requirements for classification as a well-capitalized institution and for minimum capital adequacy:

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Rockville Bank:						
June 30, 2013						
Total capital to risk weighted assets	$281,210	16.5%	$ 136,676	8.0%	$170,844	10.0%
Tier 1 capital to risk weighted assets	262,231	15.4	68,334	4.0	102,501	6.0
Tier 1 capital to total average assets	262,231	12.7	82,527	4.0	103,159	5.0
December 31, 2012						
Total capital to risk weighted assets	$272,111	17.4%	$ 124,893	8.0%	$156,116	10.0%
Tier 1 capital to risk weighted assets	253,089	16.2	62,453	4.0	93,679	6.0
Tier 1 capital to total average assets	253,089	12.9	78,721	4.0	98,402	5.0
Rockville Financial, Inc.:						
June 30, 2013						
Total capital to risk weighted assets	$322,882	18.8%	$ 137,251	8.0%	N/A	N/A
Tier 1 capital to risk weighted assets	303,903	17.7	68,640	4.0	N/A	N/A
Tier 1 capital to total average assets	303,903	14.7	82,526	4.0	N/A	N/A
December 31, 2012						
Total capital to risk weighted assets	$342,505	21.9%	$ 125,345	8.0%	N/A	N/A
Tier 1 capital to risk weighted assets	323,483	20.6	62,691	4.0	N/A	N/A
Tier 1 capital to total average assets	323,483	16.5	78,373	4.0	N/A	N/A

Connecticut law restricts the amount of dividends that the Bank can pay based on retained earnings for the current year and the preceding two years. As of June 30, 2013, $24.8 million is available for payment of dividends.

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Note 14. Net Income Per Share

The following table sets forth the calculation of basic and diluted net income per share for the three and six months ended June 30, 2013 and 2012:

(In thousands, except share data)	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Net income available to common stockholders	$ 3,299	$ 2,949	$ 7,850	$ 6,804
Adjusted weighted-average common shares outstanding	29,483,274	29,509,304	29,484,797	29,511,277
Less: average number of treasury shares	(2,348,813)	(966,388)	(1,886,378)	(526,252)
Less: average number of unvested ESOP award shares	(807,673)	(936,603)	(823,698)	(952,719)
Weighted-average basic shares outstanding	26,326,788	27,606,313	26,774,721	28,032,306
Dilutive effect of stock options	350,801	167,052	340,738	167,852
Weighted-average diluted shares	26,677,589	27,773,365	27,115,459	28,200,158
Net income per share:				
Basic	$ 0.13	$ 0.11	$ 0.29	$ 0.24
Diluted	$ 0.12	$ 0.11	$ 0.29	$ 0.24

Note 15. Commitments and Contingencies

Financial Instruments With Off-Balance Sheet Risk

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit through issuing standby letters of credit and undisbursed portions of construction loans and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults and the value of any existing collateral obligations is deemed worthless. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Off-balance sheet financial instruments whose contract amounts represent credit risk are as follows at June 30, 2013 and December 31, 2012:

(In thousands)	June 30, 2013	December 31, 2012
Commitments to extend credit:		
Commitment to grant loans	$ 98,904	$ 63,086
Undisbursed construction loans	68,123	71,459
Undisbursed home equity lines of credit	144,325	139,238
Undisbursed commercial lines of credit	79,647	76,673
Standby letters of credit	8,768	8,691
Unused checking overdraft lines of credit	42	51
	$399,809	$ 359,198

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include residential and commercial property, accounts receivable, inventory, property, plant and equipment, deposits, and securities.

Legal Matters: The Company is not involved in any legal proceedings deemed to be material as of June 30, 2013 which have arisen in the normal course of business.

Note 16. Subsequent Events

On July 5, 2013, the Company announced plans to close its Enfield Street branch in Enfield, Connecticut effective November 1, 2013. The Company incurred $800,000 of expense in the second quarter of 2013 related to the write off of future lease expense and unamortized leasehold improvements in that branch location.

On July 17, 2013, the Company announced that the Bank has filed an application with the Connecticut Department of Banking and the FDIC to open a loan production office at 393 State Street in North Haven, Connecticut.

On July 23, 2013, the Company announced that the Bank has filed an application with and the Connecticut Department of Banking and the FDIC to open a new retail banking branch at 2290 Whitney Avenue in Hamden, Connecticut. The application has been approved by both regulators. The Bank plans to open the office in the fourth quarter of 2013.

On July 26, 2013, the Company announced the Bank has filed an application with the Connecticut Department of Banking and the FDIC to open a new retail banking branch at 117 Washington Avenue in North Haven, Connecticut.

Forward-Looking Statements

This Form 10-Q contains forward-looking statements that are within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of our management and are subject to significant risks and uncertainties. These risks and uncertainties could cause our results to differ materially from those set forth in such forward-looking statements.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Words such as "believes," "anticipates," "expects," "intends," "plans," "estimates," "targeted" and similar expressions, and future or conditional verbs, such as "will," "would," "should," "could" or "may" are intended to identify forward-looking statements but are not the only means to identify these statements.

Factors that have a material adverse effect on operations include, but are not limited to, the following:

- Local, regional, national and international business or economic conditions may differ from those expected.
- The effects of and changes in trade, monetary and fiscal policies and laws, including the U.S. Federal Reserve Board's interest rate policies, may adversely affect our business.
- The ability to increase market share and control expenses may be more difficult than anticipated.
- Changes in government regulations (including those concerning taxes, banking, securities and insurance) may adversely affect us or our businesses, including those under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the Basel III update to the Basel Accords.
- Changes in accounting policies and practices, as may be adopted by regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board, may affect expected financial reporting.
- Future changes in interest rates may reduce our profits which could have a negative impact on the value of our stock.

- Technological changes and cyber-security matters.
- Changes in demand for loan products, financial products and deposit flow could impact our financial performance.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by customers.
- Adverse conditions in the securities markets that lead to impairment in the value of securities in our investment portfolio.
- Strong competition within our market area may limit our growth and profitability.
- We may plan to open new branches which may not become profitable as soon as anticipated, if at all.
- If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.
- Our stock value may be negatively affected by banking regulations and our Certificate of Incorporation restricting takeovers.
- Changes in the level of non-performing assets and charge-offs.
- Because we intend to continue to increase our commercial real estate and commercial business loan originations, our lending risk may increase, and downturns in the real estate market or local economy could adversely affect our earnings.
- The trading volume in our stock is less than in larger publicly traded companies which can cause price volatility, hinder your ability to sell our common stock and may lower the market price of the stock.
- We may not manage the risks involved in the foregoing as well as anticipated.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Except as required by applicable law or regulation, management undertakes no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Rockville Financial, Inc., our operations and our present business environment. We believe accuracy, transparency and clarity are the primary goals of successful financial reporting. We remain committed to transparency in our financial reporting, providing our stockholders with informative financial disclosures and presenting an accurate view of our financial disclosures, financial position and operating results.

MD&A is provided as a supplement to—and should be read in conjunction with—our Unaudited Consolidated Financial Statements and the accompanying notes thereto contained in Part I, Item 1, of this report as well as our Annual Report on Form 10-K for the year ended December 31, 2012. The following sections are included in MD&A:

- *Our Business* – a general description of our business, our objectives and regulatory considerations
- *Critical Accounting Estimates* – a discussion of accounting estimates that require critical judgments and estimates.
- *Operating Results* – an analysis of our Company's consolidated results of operations for the periods presented in our Unaudited Consolidated Financial Statements.
- Comparison of Financial Liquidity and Capital Resources – an overview of financial condition and market interest rate risk.

Our Business

General

By assets, Rockville Financial, Inc. is the third largest publicly traded banking institution headquartered in Connecticut with consolidated assets of $2.18 billion and stockholders' equity of $297.0 million at June 30, 2013. The Company delivers financial services to individuals, families and businesses throughout Connecticut and the region through its 22 banking offices, its commercial loan production office, its mortgage loan production office, 38 ATMs and internet website (www. rockvillebank.com). The Company's common stock is traded on the NASDAQ Global Select Stock Exchange under the symbol "RCKB."

The Company strives to remain a leader in meeting the financial service needs of the community and to provide superior customer service to the individuals and businesses in the market areas that it has served since 1858. Rockville Bank is a community-oriented provider of traditional banking products and services to business organizations and individuals, offering products such as residential and commercial real estate loans, commercial business loans, consumer loans and a variety of deposit products. Our business philosophy is to remain a community-oriented franchise and continue to focus on providing superior customer service to meet the financial needs of the communities in which we operate. Current strategies include expanding our banking network by pursuing new branch locations and branch acquisition opportunities in our market area, continuing our residential mortgage lending activities which comprise a majority of our loan portfolio and continuing to expand our commercial real estate and commercial business lending activities and growing our deposit base.

The Company's results of operations depend primarily on net interest income, which is the difference between the income earned on its loan and securities portfolios and its cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by the Company's provision for loan losses, income and expenses pertaining to other real estate owned, gains and losses from sales of loans and securities and non-interest income and expenses. Non-interest income primarily consists of fee income from depositors, mortgage servicing income, mortgage origination and loan sale income and increases in cash surrender value of bank-owned life insurance ("BOLI"). Non-interest expenses consist principally of salaries and employee benefits, occupancy, service bureau fees, marketing, professional fees, FDIC insurance assessments, other real estate owned and other operating expenses.

Results of operations are also significantly affected by general economic and competitive conditions and changes in interest rates as well as government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may materially affect the Company. Uncertainty and challenges surrounding future economic growth, consumer confidence, credit availability, competition and corporate earnings remains. Management believes that overall credit quality continues to be somewhat affected by weaknesses in national and regional economic conditions, including high unemployment levels, particularly in Connecticut.

Our Objectives

The Company seeks to continually deliver superior value to its customers, stockholders, employees and communities through achievement of its core operating objectives which are to:

- Grow and retain primary households to increase core deposit relationships with a focus on checking, savings and money market accounts for personal, business and municipal depositors;
- Build high quality, profitable loan portfolios using primarily organic growth and also purchase strategies, while also continuing to build efficiencies in its robust secondary mortgage banking business;
- Build and diversify revenue streams through development of banking-related fee income, in particular, through the expansion of its financial advisory services and introduction of private banking professionals;
- Maintain expense discipline and improve operating efficiencies;
- Invest in technology to enhance superior customer service and products; and
- Maintain a rigorous risk identification and management process.

Significant factors management reviews to evaluate achievement of the Company's operating objectives and its operating results and financial condition include, but are not limited to: net income and earnings per share, return on equity and assets, net interest margin, non-interest income, operating expenses related to total assets and efficiency ratio, asset quality, loan and deposit growth, capital management, liquidity and interest rate sensitivity levels, customer service standards, market share and peer comparisons.

Regulatory Considerations

Rockville Financial and its subsidiaries are subject to numerous examinations by federal and state banking regulators, as well as the Securities and Exchange Commission. Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for additional disclosures with respect to laws and regulations affecting the Company's businesses.

It is difficult to predict at this time what specific impact certain provisions the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on the Company, including any regulations promulgated by the Consumer Financial Protection Bureau. The financial reform legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and our ability to conduct business. Management will have to apply additional resources to ensure compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase our costs of operations and adversely impact our earnings.

In June 2012, the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation approved three proposals that would amend the existing capital adequacy requirements of banks and bank holding companies. The three proposals would, among other things, implement the Basel III capital standards, as well as the standardized approach for almost all banking organizations in the United States. The proposal would increase the minimum levels of required capital, narrow the definition of capital, and place greater emphasis on common equity. The Basel III standardized proposal would modify the risk weights for various asset classes.

In July 2013, the three Federal bank regulatory agencies (the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation) approved the final Basel III rules that amended the existing capital adequacy requirements of banks and bank holding companies for smaller banks as defined. The new rules will become effective for smaller banks and bank holding companies on January 15, 2015, a year after their application to larger banks. Final rules for large banks are expected to be finalized by the end of the third quarter 2013. The Company believes it will continue to exceed all expected well-capitalized regulatory requirements upon the implementation of Basel III.

Critical Accounting Estimates

The accounting policies followed by the Company and its subsidiaries conform with accounting principles generally accepted in the United States of America and with general practices within the banking industry. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our Consolidated Financial Statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP.

We believe that our most critical accounting policies, which involve the most complex subjective decisions or assessments, relate to allowance for loan losses, other-than-temporary impairment of investment securities, derivatives, income taxes, pension and other post-retirement benefits and share-based compensation. None of the Company's critical accounting estimates have changed during the quarter. Additional accounting policies are more fully described in Note 1 in the "Notes to Consolidated Financial Statements" presented in our 2012 Annual Report on Form 10-K. A brief description of our current policies involving significant judgment follows:

Allowance for Loan Losses: The allowance for loan losses is established as embedded losses are estimated to have occurred through the provisions for losses charged against operations and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Management's judgment in determining the adequacy of the allowance is inherently subjective and is based on past loan loss experience, known and inherent losses and size of the loan portfolios, an assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, review of regulatory authority examination reports and other relevant factors.

Although management believes it uses appropriate available information to establish the allowance for loan losses, future additions to the allowance may be necessary if certain future events occur that cause actual results to differ from the assumptions used in making the evaluation.

Other-than-Temporary Impairment of Securities: The Company maintains a securities portfolio that is classified into two major categories: available for sale and held to maturity. Securities available for sale are recorded at estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Held to maturity securities are recorded at amortized cost. Management determines the classifications of a security at the time of its purchase.

Quarterly, securities with unrealized losses are reviewed as deemed appropriate to assess whether the decline in fair value is temporary or other-than-temporary. The assessment is to determine whether the decline in value is from company-specific events, industry developments, general economic conditions, credit losses on debt or other reasons. Declines in the fair value of available for sale securities below their cost or amortized cost that are deemed to be other-than-temporary are reflected in earnings for equity securities and for debt securities that have an identified credit loss. Unrealized losses on debt securities with no identified credit loss component are reflected in other comprehensive income. In the first six months of 2013, the Company did not experience any losses which were deemed to be other-than-temporarily impaired.

Derivative Instruments and Hedging Activities: The Company uses derivatives to manage a variety of risks, including risks related to interest rates. Accounting for derivatives as hedges requires that, at inception and over the term of the arrangement, the hedged item and related derivative meet the requirements for hedge accounting. The rules and interpretations related to derivatives accounting are complex. Failure to apply this complex guidance correctly will result in the changes in the fair value of the derivative being reported in earnings.

The Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. The fair values of interest rate swaps are determined using the standard methodology of netting the discounted future fixed cash receipts (or payment) and the expected variable cash payments (or receipts.) The variable cash payment (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rates curves.

At June 30, 2013, derivative assets and liabilities were $6.3 million and $424,000, respectively. Further information about our use of derivatives is provided in Note 6, “Derivatives and Hedging Activities” in the Notes to the Unaudited Consolidated Financial Statements contained elsewhere in this report.

Income Taxes: The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. Some judgments are subjective and involve estimates and assumptions about matters that are inherently uncertain. In determining the valuation allowance, we use forecasted future operating results, based upon approved business plans, including a review of the eligible carryforward periods, tax planning opportunities and other relevant considerations. Management believes that the accounting estimate related to the valuation allowance is a critical accounting estimate because the underlying assumptions can change from period to period. For example, tax law changes or variances in future projected operating performance could result in a change in the valuation allowance.

The reserve for tax contingencies contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with our various tax positions. The effective income tax rate is also affected by changes in tax law, entry into new tax jurisdictions, the level of earnings and the results of tax audits.

Pension and Other Post-retirement Benefits: Management uses key assumptions that include discount rates, expected return on plan assets, benefits earned, interest costs, mortality rates, increases in compensation, and other factors. The two most critical assumptions—estimated return on plan assets and the discount rate—are important elements of plan expense and asset/liability measurements. These critical assumptions are evaluated at least annually on a plan basis.

Share-based Compensation: The Company accounts for stock options and restricted stock based on the grant date fair value of the award. These costs are recognized over the period during which an employee is required to provide services in exchange for the award, the requisite service period (usually the vesting period). The Company expenses the grant date fair value of the Company’s stock options and restricted stock with a corresponding increase in equity or a liability, depending on whether the instruments granted satisfy the equity or liability classification criteria.

The Company uses the Black-Scholes option valuation model to value stock options. Determining the appropriate fair-value model and calculating the estimated fair value of share-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life, expected dividend rate, risk-free interest rate and expected forfeiture rate. The Company develops estimates based on historical data and market information which can change significantly over time.

Operating Results

Executive Overview

Earnings for the second quarter of 2013 were $3.3 million, or $0.12 per diluted share, compared to $2.9 million, or $0.11 per diluted share, for the second quarter in 2012. For the six months ended June 30, 2013 and 2012, the Company recorded earnings of $7.9 million, or $0.29 per diluted share, and $6.8 million, or $0.24 per diluted share, respectively. The Company's results can be attributed to its continued business momentum characterized by solid revenues, balance sheet growth, in tandem with solid asset quality. The quarterly results include the impact of the net interest margin decline which is attributable to decreased yields on loans and securities in the continued low interest rate environment.

The increase in the Company's revenues over the second quarter in the prior year reflects the expansion of the mortgage banking business. The Company sold residential mortgage loans totaling $66.1 million in the second quarter of 2013 and reported net gains of $1.0 million, compared to $928,000 sold in the second quarter of 2012 with net gains of $44,000. For the six months ended June 30, 2013 and 2012 the Company sold residential mortgage loans totaling $128.8 million in 2013 and reported net gains of $3.1 million, compared to $18.5 million sold in 2012 with net gains of $569,000. Catalysts for this increase include the introduction of mortgage loan officers during 2012 into the mortgage banking business model to foster relationships with local realtors to target purchase mortgage production and decrease reliance on the refinance business and launching an online mortgage loan application solution to enhance the efficiency of the mortgage loan process. Additionally, the Company changed its accounting policy for mortgage servicing rights from the amortization method to the fair value method in the first quarter of 2013. The effect of the accounting policy change resulted in the Company recording approximately a $1.0 million increase in value for the mortgage servicing rights asset in the second quarter. The Company also benefited from an increase in revenue from its investment advisory subsidiary, Rockville Financial Services, Inc. ("RFS"). RFS recorded an increase in revenue over the prior quarter of approximately $160,000 as the reorganization of this subsidiary is beginning to gain traction.

The Company's tax-equivalent net interest margin for the three months ended June 30, 2013 was 3.48%, a decrease of 37 basis points over the same quarter of 2012. In the three months ended June 30, 2013 the Company received a commercial prepayment penalty of $367,000; excluding the commercial loan prepayment penalty, the tax-equivalent net interest margin was 3.41% for the second quarter of 2013. The tax-equivalent net interest margin for the six months ended June 30, 2013 was 3.48% compared to 3.83% for the same period in 2012. For the three months ended June 30, 2013 and 2012, the yield on earning assets declined 49 basis points to 3.99% and the cost of interest-bearing liabilities declined 19 basis points to 0.66%. The decline in the net interest margin was partially offset by an increase in average earning assets of 9.4%. The general year over year trends for the comparable six month periods impacting the margin includes a 47 basis point reduction in the yield on earning assets coupled with a 19 basis point reduction in the cost of interest-bearing liabilities. The margin decline was partially offset by the 11.5% increase in average earning assets. A sustained period of low interest rates is anticipated to continue, therefore, as interest-earning assets continue to originate or reprice downward, the net interest margin could be adversely affected.

The Company's strategy with interest rate risk management is to incrementally shorten asset duration and lengthen liability duration. Execution of this strategy contributed to the reduction of net interest margin in the second quarter of 2013 relative to the comparable period. During the second quarter of 2013, long term rates increased, while shorter term rates remained anchored due to continued easing by the Federal Reserve Board of Governors actions. This resulted in a steepening of the yield curve. Consequently, management decided to keep incremental wholesale funding short to take advantage of the curve steepening. Management has embarked on a measured strategy to incent retail customers to go out on the funding curve in an effort to neutralize the shorter duration funding that occurred due to management's actions and remain prepared for rising rates as well as act deyfensively to maintain and grow core deposits in the face of increased competitive pricing pressures from local competitors. During the quarter, the Company added adjustable rate securities to the investment portfolio that will react positively when market interest rates rise. Furthermore, the secondary market strategy of opportunistically selling long duration fixed rate residential originations without adding to the legacy higher-yielding residential portfolio has had a significant impact on the residential portfolio's contribution to net interest margin. With interest-bearing funding, the Company has exhibited price discipline with maturity deposits and other perceived rate-sensitive deposit products and is emphasizing low cost demand deposit generation. The success of this strategy will be dependent on the ability for the Company to reduce its cost of funds further. However, given the duration of the low interest rate environment and the actions taken previously to reduce rates on our deposit products will make it difficult to reduce the cost of funds in a meaningful way. The Company will continually reassess this strategy in light of new economic data releases and market expectations for changes to interest rates.

The asset quality of our loan portfolio has remained strong even as the leading economic indicators have provided mixed results as evidenced in part by the continued high unemployment and foreclosure rates throughout the country. The allowance for loan losses to total loans ratio was 1.14% and 1.15%, the allowance for loan losses to non-performing loans ratio was 137.55% and 115.08%, and the ratio of non-performing loans to total loans was 0.83% and 1.00% at June 30, 2013 and December 31, 2012, respectively. A provision for loan losses of $403,000 was recorded for the current quarter compared to $1.2 million for the quarter ended June 30, 2012. For the six months ended June 30, 2013 and 2012, the provision for loan loss expense was $794,000 and $1.9 million, respectively.

The Company will be aggressive in pursuing its strategic goals while practicing prudent risk management to achieve continued positive business momentum and success.

Selected Financial Data

(Dollars in thousands, except share data)	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Share Data:				
Basic net income per share common	$ 0.13	$ 0.11	$ 0.29	$ 0.24
Diluted net income per share common	0.12	0.11	0.29	0.24
Dividends declared per share	0.10	0.09	0.20	0.17
Operating Data:				
Total operating revenue	$ 20,808	$ 19,150	$ 42,199	$ 37,946
Total operating expense	15,857	13,815	30,528	26,158
Key Ratios:				
Return on average assets	0.64%	0.63%	0.76%	0.74%
Return on average equity	4.26%	3.63%	4.98%	4.13%
Tax-equivalent net interest margin	3.48%	3.85%	3.48%	3.83%
Non-performing Assets:				
Residential real estate	$ 7,521	$ 8,087	$ 7,521	$ 8,087
Commercial real estate	1,126	1,624	1,126	1,624
Construction	1,456	1,235	1,456	1,235
Commercial business	773	1,200	773	1,200
Installment and collateral	—	33	—	33
Total non-accrual loans, excluding troubled debt restructures	10,876	12,179	10,876	12,179
Troubled debt restructures—non-accruing	2,461	3,071	2,461	3,071
Total non-performing loans	13,337	15,250	13,337	15,250
Other real estate owned	2,611	2,084	2,611	2,084
Total non-performing assets	$ 15,948	$ 17,334	$ 15,948	$ 17,334
Non-performing loans to total loans	0.83%	0.98%	0.83%	0.98%
Non-performing assets to total assets	0.73%	0.90%	0.73%	0.90%
Allowance for loan losses to non-performing loans	137.55%	113.47%	137.55%	113.47%
Allowance for loan losses to total loans	1.14%	1.11%	1.14%	1.11%

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Average Balances, Interest, Average Yields\Cost and Rate\Volume Analysis

The table below sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. A tax-equivalent yield adjustment was made for the three and six months ended June 30, 2013 and 2012. All average balances are daily average balances. Loans held for sale and non-accrual loans are included in the computation of interest-earning average balances, with non-accrual loans carrying a zero yield. The yields set forth above include the effect of deferred costs, discounts and premiums that are amortized or accreted to interest income or expense.

Average Balance Sheets for the Three Months Ended June 30, 2013 and 2012

	Three Months Ended June 30,					
	2013			2012		
(Dollars in thousands)	Average Balance	Interest and Dividends	Annualized Yield/ Cost	Average Balance	Interest and Dividends	Annualized Yield/ Cost
Interest-earning assets:						
Residential real estate loans	$ 650,886	$ 6,203	3.81%	$ 687,632	$ 7,290	4.24%
Commercial real estate loans	695,657	8,398	4.84	608,799	8,247	5.45
Construction loans	45,666	406	3.57	48,166	446	3.72
Commercial loans	175,346	1,761	4.03	167,364	1,897	4.56
Installment and collateral loans	2,679	33	4.93	3,723	50	5.37
Investment securities	337,896	2,618	3.10	218,674	1,940	3.55
Federal Home Loan Bank stock	15,053	15	0.40	15,867	22	0.56
Other earning assets	30,931	21	0.27	35,318	26	0.29
Total interest-earning assets	1,954,114	19,455	3.99	1,785,543	19,918	4.48
Allowance for loan losses	(18,443)			(16,927)		
Non-interest-earning assets	128,364			117,118		
Total assets	$2,064,035			$1,885,734		
Interest-bearing liabilities:						
NOW and money market accounts	$ 557,460	370	0.27	$ 478,243	358	0.30
Saving deposits (1)	232,073	36	0.06	209,305	83	0.16
Time deposits	527,102	1,472	1.12	531,301	1,805	1.37
Total interest-bearing deposits	1,316,635	1,878	0.57	1,218,849	2,246	0.74
Advances from the Federal Home Loan Bank	173,077	591	1.37	110,323	563	2.05
Other borrowings	10,721	14	0.52	—	—	—
Total interest-bearing liabilities	1,500,433	2,483	0.66%	1,329,172	2,809	0.85%
Non-interest-bearing liabilities	253,738			231,556		
Total liabilities	1,754,171			1,560,728		
Stockholders’ equity	309,864			325,006		
Total liabilities and stockholders’ equity	$2,064,035			$1,885,734		
Net interest-earning assets (3)	$ 453,681			$ 456,371		
Tax-equivalent net interest income		16,972			17,109	
Tax-equivalent net interest rate spread (2)			3.33%			3.63%
Tax-equivalent net interest margin (4)			3.48%			3.85%
Average interest-earning assets to average interest-bearing liabilities			130.24%			134.33%
Less tax-equivalent adjustment		271			218	
		$ 16,701			$ 16,891	

(1) Includes mortgagors’ and investors’ escrow accounts

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

(3) Tax-equivalent net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities

(4) Tax-equivalent net interest rate margin represents tax-equivalent net interest income divided by average interest-earning assets.

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Average Balance Sheets for the Six Months Ended June 30, 2013 and 2012

	Six Months Ended June 30,					
	2013			2012		
(Dollars in thousands)	Average Balance	Interest and Dividends	Annualized Yield/ Cost	Average Balance	Interest and Dividends	Annualized Yield/ Cost
Interest-earning assets:						
Residential real estate loans	$ 663,510	$ 12,873	3.88%	$ 684,704	$ 14,506	4.24%
Commercial real estate loans	696,065	16,649	4.82	606,316	16,377	5.43
Construction loans	46,917	821	3.53	49,737	919	3.72
Commercial loans	174,041	3,546	4.11	159,155	3,585	4.53
Installment and collateral loans	2,741	67	4.89	3,874	107	5.50
Investment securities	314,500	4,713	3.00	197,357	3,299	3.34
Federal Home Loan Bank stock	15,394	30	0.39	16,293	43	0.53
Other earning assets	32,788	42	0.26	27,393	37	0.27
Total interest-earning assets	1,945,956	38,741	4.00	1,744,829	38,873	4.47
Allowance for loan losses	(18,589)			(16,641)		
Non-interest-earning assets	125,614			106,518		
Total assets	$2,052,981			$1,834,706		
Interest-bearing liabilities:						
NOW and money market accounts	$ 552,226	744	0.27	$ 453,229	634	0.28
Saving deposits [(1)]	226,308	70	0.06	202,239	152	0.15
Time deposits	531,645	3,048	1.16	522,530	3,711	1.43
Total interest-bearing deposits	1,310,179	3,862	0.59	1,177,998	4,497	0.77
Advances from the Federal Home Loan Bank	165,793	1,174	1.43	98,800	1,111	2.26
Other borrowings	9,838	25	0.51	—	—	—
Total interest-bearing liabilities	1,485,810	5,061	0.69%	1,276,798	5,608	0.88%
Non-interest-bearing liabilities	252,009			228,381		
Total liabilities	1,737,819			1,505,179		
Stockholders' equity	315,162			329,527		
Total liabilities and stockholders' equity	$2,052,981			$1,834,706		
Net interest-earning assets [(3)]	$ 460,146			$ 468,031		
Tax-equivalent net interest income		33,680			33,265	
Tax-equivalent net interest rate spread [(2)]			3.31%			3.59%
Tax-equivalent net interest margin [(4)]			3.48%			3.83%
Average interest-earning assets to average interest-bearing liabilities			130.97%			136.66%
Less tax-equivalent adjustment		472			248	
		$ 33,208			$ 33,017	

(1) Includes mortgagors' and investors' escrow accounts.
(2) Net interest rate spread represents the difference between yield on average interest-earning assets and the cost of average interest- bearing liabilities.
(3) Tax-equivalent net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(4) Tax-equivalent net interest rate margin represents tax-equivalent net interest income divided by average interest-earning assets.

Rate\Volume Analysis

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

Rate\Volume Analysis

	Three Months Ended June 30, 2013 Compared to June 30, 2012			Six Months Ended June 30, 2013 Compared to June 30, 2012		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
(In thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest and dividend income:						
Loans receivable	$ 628	$(1,757)	$(1,129)	$1,813	$(3,351)	$(1,538)
Securities	949	(271)	678	1,786	(372)	1,414
Other earning assets[1]	(6)	(6)	(12)	8	(16)	(8)
Total earning assets	1,571	(2,034)	(463)	3,607	(3,739)	(132)
Interest expense:						
NOW and money market accounts	55	(43)	12	132	(22)	110
Savings accounts	8	(55)	(47)	16	(98)	(82)
Time deposits	(14)	(319)	(333)	64	(727)	(663)
Total interest-bearing deposits	49	(417)	(368)	212	(847)	(635)
FHLBB advances	63	(35)	28	153	(90)	63
Other borrowings	14	—	14	25	—	25
Total interest-bearing liabilities	126	(452)	(326)	390	(937)	(547)
Change in tax-equivalent net interest income	$1,445	$(1,582)	$ (137)	$3,217	$(2,802)	$ 415

(1) Includes FHLBB stock

Comparison of Operating Results for the Three and Six Months Ended June 30, 2013 and 2012

The following discussion provides a summary and comparison of the Company's operating results for the three and six months ended June 30, 2013 and 2012.

Net Interest Income Analysis

Net interest income is the amount that interest and fees on earning assets (loans and investments) exceeds the cost of funds, interest paid to the Company's depositors and interest on external borrowings. Net interest margin is the difference between the income on earning assets and the cost of interest-bearing funds as a percentage of average earning assets.

As shown in the tables, tax-equivalent net interest income decreased $137,000 for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The yield on average earning assets declined 49 basis points for the three months ended June 30, 2013 and the cost of interest-bearing liabilities declined 19 basis points compared to the same period in the prior year. Partially offsetting the negative impact of the decline in the tax-equivalent interest rate spread was an increase of $168.6 million of average earning assets for the three months ended June 30, 2013 compared to June 30, 2012. However, as a result of the greater decline in the yield of interest-earning assets than the decline in the cost on interest-earning liabilities, the tax-equivalent net interest margin decreased by 37 basis points to 3.48% for the three months ended June 30, 2013, from 3.85% for the three months ended June 30, 2012.

For the six months ended June 30, 2013 tax-equivalent net interest income was $33.7 million, an increase of $415,000 compared to the same period in 2012. The increase for the six months ended June 30, 2013 was primarily due to: a) an increased volume of securities offset by a rate reduction due to the addition of adjustable rate securities to the portfolio with lower initial yields; b) the increased average balance of loans, the impact of which was partially offset by a lower yield of 43 basis points; c) an increase of $224,000 in tax-free income primarily from the addition of investments in municipal bonds; d) the higher cost of borrowings driven by a $76.8 million increase in borrowed funds which was partially offset by an 89 basis point reduction in borrowing costs; and e) the shift in the mix of funding sources from higher cost time deposits to core interest and non-interest-bearing deposits which was a factor in reducing the cost of funds.

Since net interest income is affected by changes in interest rates, loan and deposit pricing strategies, competitive conditions, the volume and mix of interest-earning assets and interest-bearing liabilities as well as the level of non-performing assets, Rockville Financial manages the risk of changes in interest rates on its net interest income through an Asset/Liability Management Committee and through related interest rate risk monitoring and management policies.

Provision for Loan Losses: The provision for loan losses is a charge to earnings in an amount sufficient to maintain the allowance for loan losses at a level deemed adequate by the Company. The level of the allowance is a critical accounting estimate, which is subject to uncertainty.

Management evaluates the adequacy of the allowance for loan losses on a quarterly basis. The adequacy of the loan loss allowance is based on such interrelated factors as the composition of the loan portfolio and its inherent risk characteristics, the level of non-performing loans and charge-offs, both current and historic, local economic and credit conditions, the direction of real estate values, and regulatory guidelines. The provision is charged against earnings in order to maintain an allowance for loan losses that reflects management's best estimate of probable losses inherent in the loan portfolio at the balance sheet date.

Management recorded a provision of $403,000 and $794,000 for the three and six months ended June 30, 2013, respectively. The primary factors that influenced management's decision to record these provision expenses were due to the ongoing assessment of estimated exposure on impaired loans, the increase in net loans outstanding of $12.6 million and loan volume realized during the period. Impaired loans totaled $17.8 million at June 30, 2013 compared to $16.7 million at December 31, 2012, an increase of $1.1 million, or 6.6%. At June 30, 2013, the allowance for loan losses totaled $18.3 million, which represented 1.14% of total loans and 137.55% of non-performing loans compared to an allowance for loan losses of $18.5 million, which represented 1.15% of total loans and 115.08% of non-performing loans as of December 31, 2012. The repayment of these impaired loans is largely dependent upon the sale and value of collateral that may be impacted by current real estate conditions.

Non-interest Income:

Total non-interest income was $4.1 million and $9.0 million for the three and six months ended June 30, 2013. For the three and six months ended June 30, 2013, non-interest income represented 19.7% and 21.3% of total revenues, respectively. The following is a summary of non-interest income by major category for the three and six months ended June 30, 2013 and 2012:

Non-Interest Income

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
(Dollars in thousands)	2013	2012	$ Change	% Change	2013	2012	$ Change	% Change
Service charges and fees	$3,017	$1,534	$ 1,483	96.7%	$4,850	$3,220	$ 1,630	50.6%
Net gain from sales of securities	329	118	211	178.8	556	121	435	359.5
Net gain from sales of loans	1,001	44	957	2,175.0	3,061	569	2,492	438.0
BOLI income	524	524	—	—	1,034	830	204	24.6
Other (loss) income	(763)	39	(802)	(2,056.4)	(509)	189	(698)	(369.3)
Total non-interest income	$4,108	$2,259	$ 1,849	81.9%	$8,992	$4,929	$ 4,063	82.4%

Service Charges and Fees: Service charges and fees were $3.0 million and $4.9 million for the three and six months ended months ended June 30, 2013, respectively, an increase of $1.5 million and $1.6 million from the comparable 2012 periods. The increases were due primarily to increases in loan servicing income resulting from the significant increase in loan sales to the secondary market in the past twelve months with servicing retained, and the impact of changing to the fair value method of valuing mortgage servicing rights from the amortization method. Additionally, increases in Rockville Financial Services, Inc. fee income resulted from a renewed effort by the Bank to offer our customers the opportunity to invest in various annuity and securities products as an alternative to the lower-yielding deposit products. These increases were partially offset by reductions in loan origination fee income, previously provided by Rockville Bank Mortgage, Inc.

Net Gain From Sales of Securities: For the three months ended June 30, 2013, the Company recorded $329,000 in net gains on security sales compared to $118,000 in the same period in the prior year period. Periodically, the Company evaluates the portfolio for prepayment risk and will act to reduce this exposure. To date, sales in 2013 reflect execution of this strategy. Sales of fast paying, lower market yielding securities in 2013 accounted for the majority of the gains on security sales for the quarter and six months ended June 30, 2013. For the six months ended June 30, 2013 and 2012, the Company recorded $556,000 and $121,000, respectively, in net gains on security sales.

Net Gain From Sales of Loans: Net gain from sales of loans was $1.0 million and $3.1 million for the three and six months ended June 30, 2013, respectively, an increase of $957,000 and $2.5 million from the comparable periods of 2012, due to an increase in the volume of mortgage loans sold. Over the course of the year, the Company has deployed more resources to its mortgage banking business with the hiring of additional mortgage loan officers and additional mortgage underwriters and processors, which is the prime driver for the increase in volume. Loan sales volume was $66.1 million in the second quarter, an increase of $3.4 million over the first quarter.

BOLI Income: For the three months ended June 30, 2013, the Company recorded BOLI income of $524,000, unchanged from the same quarter in the prior year despite the Company purchasing $4.0 million in BOLI during the current quarter as the higher balances were partially offset by a decline in the average yield as a result of current market interest rates. For the six months ended June 30, 2013, the Company recorded $1.0 million in BOLI income compared to $830,000 in the first six months of 2012. The $204,000 increase in BOLI is primarily due to the additional purchase of $25.0 million of BOLI policies towards the end of the first quarter of 2012 combined with the $4.0 million purchase in the May 2013, partially offset by a decline in the average yield earned on those policies.

Other (Loss) Income: The decrease in other income of $802,000 and $698,000 for the three and six months ended June 30, 2013 as compared to the prior year periods is primarily due to losses recorded on rate lock commitments partially offset by gains on forward loan sale commitments on loans held for sale. Additionally, the decrease for the six month period ended June 30, 2012 was heightened due to the recovery of a business interruption insurance claim in the first quarter of 2012 for approximately $100,000.

Non-interest Expense: The following table summarizes non-interest expense for the three and six months ended June 30, 2013 and 2012:

Non-Interest Expense

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
(Dollars in thousands)	2013	2012	$ Change	% Change	2013	2012	$ Change	% Change
Salaries and employee benefits	$ 9,112	$ 8,468	$ 644	7.6%	$17,786	$15,591	$ 2,195	14.1%
Service bureau fees	921	1,231	(310)	(25.2)	1,736	2,288	(552)	(24.1)
Occupancy and equipment	2,210	1,036	1,174	113.3	3,646	2,101	1,545	73.5
Professional fees	617	828	(211)	(25.5)	1,340	1,546	(206)	(13.3)
Marketing and promotions	98	103	(5)	(4.9)	168	217	(49)	(22.6)
FDIC insurance assessments	330	201	129	64.2	624	506	118	23.3
Other real estate owned	214	53	161	303.8	460	334	126	37.7
Other	2,356	1,895	461	24.3	4,768	3,575	1,193	33.4
Total non-interest expense	$15,858	$13,815	$ 2,043	14.8%	$30,528	$26,158	$ 4,370	16.7%

Non-interest Expense: Non-interest expense totaled $15.9 million for the second quarter of 2013, an increase of $2.0 million, or 14.8%, from the second quarter of 2012. For the six months ended June 30, 2013, non-interest expense increased $4.4 million to $30.5 million from $26.2 million for the six months ended June 30, 2011. Excluding the $809,000 related to the previously announced branch closing and $561,000 for personnel reductions implemented in the second quarter, the Company experienced an increase of $673,000 and $3.0 million in non-interest expense for the three and six months ending June 30, 2013. The increase in non-interest expense primarily reflects increases in salaries and benefits, occupancy and equipment expense and other expenses, partially offset by service bureau fees and professional fees.

Salaries and Employee Benefits: Salaries and employee benefits was $9.1 million and $17.8 million for the three and six months ended June 30, 2013, respectively, an increase of $644,000 and $2.2 million from the comparable 2012 periods. These increases were primarily due to the a) higher level of full-time equivalent employees in the current period supporting the Company's growth plan reflecting salaries and related benefits for new hires, b) increased commissions expense related to mortgage loan originations and product sales and c) costs associated with position eliminations in the second quarter. The increases were partially offset by a) decreased employee restricted stock and option expense resulting from the second quarter 2012 awards that had an immediate vesting component of the award granted, b) pension costs as the Company froze its noncontributory defined benefit and pension plan as of December 31, 2012, whereby participants in the plan stopped earning additional benefits under the plan c) lower accruals for year-end bonus payments and d) an increase in deferred compensation expense related to an increase in volume of loan originations.

Service Bureau Fees: Service bureau fees decreased $310,000 and $552,000, respectively, for the three and six months ended June 30, 2013 compared to the 2012 periods. The decrease is primarily attributable to the renegotiation of our service contract with our data processing vendor in June 2012 and to classifying certain telephone expenses in other expenses in 2013.

Occupancy and Equipment: Occupancy and equipment was $2.2 million and $3.6 million for the three and six months ended June 30, 2013, respectively, an increase of $1.2 million and $1.5 million from the comparable 2012 periods. The increases were due primarily to the Company's decision in the second quarter of 2013 to close a retail branch facility in Enfield, CT as of November 30, 2013 representing the write down of unamortized leasehold improvements and a negotiated payment for the lease buyout. Also, contributing to the increase were additional rent and maintenance contracts related to newly leased properties in the second half of 2012.

Professional Fees: Professional fees were $617,000 and $1.3 million for the three and six months ended June 30, 2013, respectively, a decrease of $211,000 and $206,000 from the comparable 2012 periods. The decrease in professional fees was primarily in legal and consulting expenses as the Company's projects that focused on potential growth opportunities and evaluation of the infrastructure and risk management needs necessary for the Company's future growth were scaled back.

Other Expenses: Other expense was $2.4 million and $4.8 million for the three and six months ended June 30, 2013, respectively, an increase of $461,000 and $1.2 million from the comparable 2012 periods. This increase was primarily due to Director restricted stock and option expense related to the June 2012 grant that contained an immediate vesting component, printing and forms, software maintenance related to investments made in the loan origination area and statement and mailing expenses for certain promotional events. This was partially offset by a reduction in mortgage appraisal and credit report fees and human resource expenses.

Income Tax Provision: The provision for income taxes was $1.2 million for each of the three months ended June 30, 2013 and 2012. The Company's effective tax rate for the three months ended June 30, 2013 was 27.5%, as compared to 29.0% for the same period in 2012. The decrease in the effective tax rate was due largely to the benefits of tax-exempt income from the purchase of various tax-free municipal bonds and additional purchases of bank-owned life insurance. For the six months ended June 30, 2013 and June 30, 2012, the provision for income taxes was $3.0 million and $3.1 million with effective income tax rates of 27.8% and 31.3%, respectively.

Financial Condition, Liquidity and Capital Resources

Summary:

The Company had total assets of $2.18 billion at June 30, 2013 and $2.00 billion at December 31, 2012, an increase of $184.3 million, or 9.22%, primarily due to the increase in short-term investments, available for sale securities, principally asset-backed and corporate debt securities and loans. The Company utilized deposit growth and additional advances from the Federal Home Loan Bank of Boston to fund the growth in security purchases and loans.

Total loans, net of $1.60 billion, with allowance for loan and lease losses of $18.3 million at June 30, 2013, increased $12.6 million when compared to total loans, net of $1.59 billion, with allowance for loan of $18.5 million at December 31, 2012. Total deposits of $1.59 billion at June 30, 2013 increased $82.5 million when compared to total deposits of $1.50 billion at December 31, 2012. Non-interest-bearing deposits increased $9.2 million, or 3.9%, primarily resulting from an increase in commercial demand deposit balances totaling $6.3 million. Interest-bearing deposits increased $73.2 million, or 5.8%, during the period due to the Company's opening of the new West Hartford, CT banking center. The Bank's net loan-to-deposit ratio was 100.8% at June 30, 2013, compared to 105.5% at December 31, 2012.

At June 30, 2013, total equity of $297.0 million decreased $23.6 million when compared to total equity of $320.6 million at December 31, 2012 due primarily to common stock repurchases in the first six months of 2013 totaling $24.8 million and $5.6 million of dividends to common shareholders. At June 30, 2013, the tangible common equity ratio was 13.6% compared to 16.0% at December 31, 2012. See Note 13, "Regulatory Matters" in the Notes to the Unaudited Consolidated Financial Statements contained elsewhere in this report for information on the Bank and the Company's regulatory capital levels and ratios.

Securities:

The Company maintains a securities portfolio that is primarily structured to generate interest income, manage interest-rate sensitivity and provide a source of liquidity for operating needs. The securities portfolio is managed in accordance with regulatory guidelines and established internal corporate investment policies.

The following table sets forth information regarding the amortized cost and fair value of the Company's investment portfolio at the dates indicated:

Investment Securities

(In thousands)	June 30, 2013 Amortized Cost	June 30, 2013 Fair Value	December 31, 2012 Amortized Cost	December 31, 2012 Fair Value
Available for sale:				
Debt securities:				
U.S. Government and government-sponsored enterprise obligations	$ 11,806	$ 11,644	$ 12,413	$ 12,717
Government-sponsored residential mortgage-backed securities	90,381	90,310	87,769	91,144
Government-sponsored residential collateralized debt obligations	36,834	36,058	20,798	20,947
Government-sponsored commercial mortgage-backed securities	13,974	13,203	9,179	9,302
Government-sponsored commercial collateralized debt obligations	5,046	4,793	5,048	5,135
Asset-backed securities	86,386	84,873	11,193	11,200
Corporate debt securities	41,012	39,647	19,760	18,818
Obligations of states and political subdivisions	67,302	63,791	67,458	68,804
Total debt securities	352,741	344,319	233,618	238,067
Marketable equity securities, by sector:				
Banks	3,068	3,050	68	78
Industrial	109	164	109	159
Mutual funds	2,775	2,830	2,756	2,887
Oil and gas	131	208	135	198
Total marketable equity securities	6,083	6,252	3,068	3,322
Total available for sale securities	$358,824	$350,571	$236,686	$241,389
Held to maturity:				
Debt securities:				
Government-sponsored residential mortgage-backed securities	$ 4,555	$ 4,957	$ 6,084	$ 6,681

The available for sale securities portfolio increased by $109.2 million to $350.6 million, while the held to maturity portfolio decreased by $1.5 million to $4.6 million at June 30, 2013.

The Company's underlying investment strategy has been to incrementally shorten the duration of the investment portfolio by purchasing investments that show favorable price movement to changes in rising interest rates. The Company's strategy included the addition of shorter duration floating rate asset-backed securities and floating rate corporate bonds, of which purchases totaled $39.4 million and $76.7 million for the three and six months ended June 30, 2013, respectively. The Company's investment focus for asset-backed securities is to make purchases of collateralized loan obligations ("CLO") in senior tranches of structures that exhibit high levels of over collateralization and interest coverage ratios. Investments made in CLOs are limited to industry leading, experienced collateral managers and a portion of positions allow for the collateral manager to reinvest proceeds from principal paydowns. The Company limits purchases in non-government sponsored asset-backed securities and corporate bonds to investment grade or better rating prior to purchase. Furthermore, the Company limits its exposure to position parameters and will review the impact on the portfolio from periodic issuer disclosures as well as developing market trends. The effective duration and weighted average life of the CLO portfolio is 0.2 years and 3.8 years, respectively.

During the three months ended June 30, 2013, the Company recorded no write-downs for other-than-temporary impairments of its available for sale securities. The Company held $257.3 million in securities that are in an unrealized loss position at June 30, 2013. Approximately $255.9 million of this total had been in an unrealized loss position for less than twelve months while the remainder, $1.3 million, had been in an unrealized loss position for twelve months or longer. These securities were evaluated by management and were determined not to be other-than-temporarily impaired. The Company does not have the intent to sell these securities, and it is more-likely-than-not that it will not have to sell the securities before the recovery of their cost basis. To the extent that changes in interest rates, credit movements and other factors that influence the fair value of securities continue, the Company may be required to record additional impairment charges for other-than-temporary impairment in future periods. For additional information on the securities portfolio, see Note 5- "Securities" in the Notes to Unaudited Consolidated Financial Statements contained elsewhere in this report.

The Company has the ability to use the investment portfolio, as well as interest-rate financial instruments within internal policy guidelines, to hedge and manage interest-rate risk as part of its asset/liability strategy. See Note 6, "Derivatives and Hedging Activities", in the Notes to Unaudited Consolidated Financial Statements contained elsewhere in this report for additional information concerning derivative financial instruments.

Lending Activities:

The Company makes residential real estate loans secured by one-to-four family residences, commercial real estate loans, residential and commercial construction loans, commercial business loans, multi-family loans, home equity loans and lines of credit and other consumer loans. The table below displays the balances of the Company's loan portfolio as of June 30, 2013 and December 31, 2012.

Loan Portfolio Analysis

	June 30, 2013		December 31, 2012	
(Dollars in thousands)	Amount	Percent	Amount	Percent
Real estate loans:				
Residential	$ 636,869	39.4%	$ 683,195	42.6%
Commercial	735,739	45.5	697,133	43.4
Construction—residential	3,791	0.2	3,338	0.2
Construction—commercial	40,938	2.5	46,642	2.9
Total real estate loans	1,417,337	87.7	1,430,308	89.1
Commercial business loans	196,277	12.1	171,632	10.7
Installment and collateral loans	2,558	0.2	2,751	0.2
Total loans	1,616,172	100.0%	1,604,691	100.0%
Net deferred loan costs and premiums	1,710		771	
Allowance for loan losses	(18,345)		(18,477)	
Loans—net	$1,599,537		$1,586,985	

As shown above, gross loans were $1.62 billion, up $11.5 million, or 0.7%, at June 30, 2013 from year-end 2012. The Company primarily experienced increases in commercial real estate, construction-residential and commercial business loans and decreases in residential real estate, commercial construction, and installment and collateral loans.

Residential real estate loans continue to represent a major segment of the Company’s loan portfolio as of June 30, 2013, comprising 39.4% of total loans. The decrease of $46.3 million from December 31, 2012 was primarily due to the sale of $125.0 million of newly originated and existing residential mortgage loans and the net impact of prepayments. The Company had significant originations of both adjustable and fixed rate mortgages of $77.1 million during the second quarter of the year, with approximately $11.0 million originated for portfolio and $66.1 million sold in the secondary market. The Company opportunistically sells a majority of originated fixed rate residential real estate loans with terms of 10 to 30 years. The strong mortgage origination activity resulted from low market interest rates, competitive pricing and increased emphasis by the Company on the expansion of the residential mortgage business program.

Commercial real estate loans represent the largest segment of our loan portfolio at 45.5% of total loans and increased $38.6 million from December 31, 2012. The Bank has experienced increased demand in commercial real estate loans given the current rate environment. Mid-sized businesses continue to look to community banks for relationship banking and personalized lending services.

Construction real estate loans totaled $44.7 million at June 30, 2013, a decrease of $5.3 million from December 31, 2012. Construction real estate loans consist of residential construction and commercial construction. Residential real estate construction segment loans are made to individuals for home construction whereby the borrower owns the parcel of land and the funds are advanced in stages until completion. Residential real estate construction loans totaled $3.8 million at June 30, 2013 compared to $3.3 million at December 31, 2012.

Commercial real estate construction loans are made for developing commercial real estate properties such as office complexes, apartment buildings and residential subdivisions. Total commercial real estate construction loans totaled $40.9 million at June 30, 2013, $25.6 million of which is residential use and $15.3 million commercial use, compared to total commercial real estate construction loans of $46.6 million at December 31, 2012.

Commercial business loans increased $24.6 million, or 14.4%, primarily through the Shared National Credit program. A newly formed business line within Commercial Banking “Corporate Loan Strategies” engages in the participation and purchase of credits with other “supervised” unaffiliated banks or financial institutions specifically loan syndications and participations. These loans generate earning assets to increase profitability of the Bank; diversify commercial loan portfolios by providing opportunities to participate in loans to borrowers in other regions or industries the Bank might otherwise have no access.

The Bank has employed specific parameters taking into account: geographical considerations; exposure hold levels; qualifying financial partners; and most importantly sound credit quality with strong metrics. A thorough independent analysis of the credit quality of each borrower is made for every transaction whether it is an assignment or participation.

The Company originates loans with interest reserves on certain commercial construction credits depending on various factors including, but not limited to, quality of credit, interest rate and project type. At June 30, 2013 the Company had one performing commercial construction loan for $127,000 for which it funded the outstanding interest reserves of approximately $12,000.

It is the Company’s policy to recognize income for this interest component as long as the project is progressing as agreed and if there has been no material deterioration in the financial standing of the borrower or the underlying project. If there is monetary or non-monetary loan default, the Company will cease any interest accrual. At June 30, 2013 there were no situations where additional interest reserves were advanced to keep a loan from becoming non-performing.

Asset Quality

Rockville’s lending strategy focuses on direct relationship lending within its primary market area as the quality of assets underwritten is an important factor in the successful operation of a financial institution. Non-performing assets, loan delinquency and credit loss levels are considered to be key measures of asset quality. Management strives to maintain asset quality through its underwriting standards, servicing of loans and management of non-performing assets since asset quality is a key factor in the determination of the level of the allowance for loan losses (“ALL”). See Note 7 “Loans Receivable and Allowance for Loan Losses” contained elsewhere in this report for further information concerning the Allowance for Loan Losses.

The following table details asset quality ratios for the following periods:

Asset Quality Ratios

	At June 30, 2013	At December 31, 2012
Non-performing loans as a percentage of total loans	0.83%	1.00%
Non-performing assets as a percentage of total assets	0.73%	0.95%
Net charge-offs as a percentage of average loans (1)	0.12%	0.07%
Allowance for loan losses as a percentage of total loans	1.14%	1.15%
Allowance for loan losses to non-performing loans	137.55%	115.08%

(1) Calculated based on year to date net charge-offs annualized

Non-performing Assets

Generally loans are placed on non-accrual if collection of principal or interest in full is in doubt, if the loan has been restructured, or if any payment of principal or interest is past due 90 days or more. A loan may be returned to accrual status if it has demonstrated sustained contractual performance for six continuous months or if all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period. There are, on occasion, circumstances that cause commercial loans to be placed in the 90 days and accruing category, for example, loans that are considered to be well secured and in the process of collection or renewal. As of June 30, 2013 and December 31, 2012, no loans greater than 90 days past due were accruing.

The following table details non-performing assets for the periods presented:

Non-performing Assets

	At June 30, 2013		At December 31, 2012	
(Dollars in thousands)	Amount	%	Amount	%
Non-accrual loans:				
Real estate loans:				
Residential	$ 7,521	47.16%	$ 7,837	41.46%
Commercial	1,126	7.06	1,502	7.95
Construction	1,456	9.13	1,824	9.65
Commercial business loans	773	4.85	1,713	9.06
Installment and collateral loans	—	—	45	0.24
Total non-accrual loans, excluding troubled debt restructured loans	10,876	68.20	12,921	68.36
Troubled debt restructurings—non-accruing	2,461	15.43	3,135	16.59
Total non-performing loans	13,337	83.63	16,056	84.95
Other real estate owned	2,611	16.37	2,846	15.05
Total non-performing assets	$15,948	100.00%	$18,902	100.00%
Total non-performing loans to total loans	0.83%		1.00%	
Total non-performing assets to total assets	0.73%		0.95%	

As displayed in the table above, non-performing assets at June 30, 2013 decreased to $15.9 million compared to $18.9 million at December 31, 2012. The decrease is primarily due to across the board decreases in non-accrual loans, non-accruing troubled debt restructurings and other real estate owned.

The decrease in non-performing residential loans of $316,000 was due to an increase of $219,000 in net charge offs and the transfer of five loans to other real estate owned. Current economic conditions, including factors such as continued high unemployment rates and softness in the real estate market, are impacting customers' ability to make loan payments. There are 89 loans in the residential real estate non-performing category, including troubled debt restructured loans ("TDR"), totaling $2.0 million, representing 0.3% of the total residential real estate portfolio. The Company continues to originate loans with superior credit characteristics and routinely updates non-performing loans in terms of FICO scores and LTV ratios. Through continued heightened account monitoring, collections and workout efforts, the Bank is committed to mortgage solution programs designed to assist homeowners to remain in their homes. As has been its practice historically, the Company does not originate subprime loans.

The $376,000 decrease in non-accruing commercial real estate loans is primarily due to the transfer of one loan to other real estate owned and principal payment reductions on non-accrual commercial real estate loans. The $368,000 decrease in non-accruing construction loans is due to the transfer of two loans to other real estate owned status and principal payment reductions on non-accrual construction loans. The $940,000 decrease in non-accruing commercial business loans is due to the payoff of $249,000 in loans and the transfer of two loans to other real estate owned status.

The $235,000 decrease in other real estate owned is due to the addition of ten properties which was offset by the sale of six properties resulting in a net reduction in the fair value of the remaining properties.

Troubled Debt Restructuring

Loans are considered restructured in a troubled debt restructuring when the Company has granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. These concessions include modifications of the terms of the debt such as reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit the Company by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectability of the loan. Loans which are already on non-accrual status at the time of the restructuring generally remain on non-accrual status for a minimum of six months before management considers such loans for return to accruing TDR status. Accruing restructured loans are placed into non-accrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term**.** Once a loan is classified as a TDR it retains that classification for the life of the loan; however, some TDRs may demonstrate acceptable performance allowing the TDR loan to be placed on accruing TDR status. The increase in accruing TDRs is attributable to the addition of two new commercial real estate accruing TDRs in the first six months of 2013 totaling $3.2 million.

The following tables provide detail of TDR balances and activity for the periods presented:

Troubled Debt Restructuring Balances

(In thousands)	At June 30, 2013	At December 31, 2012
Recorded investment in TDRs:		
Accrual status	$ 4,453	$ 625
Non-accrual status	2,461	3,135
Total recorded investment	$ 6,914	$ 3,760
Accruing TDRs performing under modified terms more than one year	$ 4,453	$ 625
TDR allocated reserves included in the balance of allowance for loan losses	$ —	$ —
Additional funds committed to borrowers in TDR status	$ —	$ —

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Troubled Debt Restructuring Activity

(In thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
TDRs, beginning of period	$ 6,816	$ 4,066	$ 3,760	$ 3,367
New TDR status	886	630	3,994	1,530
Paydowns/draws on existing TDRs, net	(638)	(78)	(688)	(214)
Charge-offs post modification	(150)	—	(152)	(65)
TDRs, end of period	$ 6,914	$ 4,618	$ 6,914	$ 4,618

Delinquent Loans

The following table presents past due loans by loan category as of the dates indicated:

	Delinquent Loans			
	June 30, 2013		December 31, 2012	
(Dollars in thousands)	Amount	%	Amount	%
Real estate loans:				
Residential	$5,278	59.2%	$13,699	51.2%
Commercial	1,469	16.5	9,931	37.2
Construction	727	8.2	2,664	10.0
Commercial business loans	1,432	16.1	366	1.3
Installment and collateral loans	4	0.0	67	0.3
Total	$8,910	100.0%	$26,727	100.0%

Allowance for Loan Losses

The allowance for loan losses and the reserve for unfunded credit commitments are maintained at a level estimated by management to provide for probable losses inherent within the loan portfolio. Probable losses are estimated based upon a quarterly review of the loan portfolio, which includes historic default and loss experience, specific problem loans, risk rating profile, economic conditions and other pertinent factors which, in management's judgment, warrant current recognition in the loss estimation process. The Company's Risk Management Committee meets quarterly to review and conclude on the adequacy of the reserves and to present their recommendation to executive management and the Board of Directors.

Management considers the adequacy of the ALL a critical accounting estimate. The adequacy of the ALL is subject to considerable assumptions and judgment used in its determination. Therefore, actual losses could differ materially from management's estimate if actual conditions differ significantly from the assumptions utilized. These conditions include economic factors in the Company's market and nationally, industry trends and concentrations, real estate values and trends, and the financial condition and performance of individual borrowers. While management believes the ALL is adequate as of June 30, 2013, actual results may prove different and the differences could be significant.

The Company's general practice is to identify problem credits early and recognize full or partial charge-offs as promptly as practicable when it is determined that the collection of loan principal is unlikely. The Company recognized full or partial charge-offs on collateral dependent impaired loans when the collateral is deemed to be insufficient to support the carrying value of the loan. The Company does not recognize a recovery when an updated appraisal indicates a subsequent increase in value.

The Company has a loan loss allowance of $18.3 million, or 1.14%, of total loans as compared to a loan loss allowance of $18.5 million, or 1.15% of total loans at December 31, 2012. Management believes that the allowance for loan losses is adequate and consistent with asset quality indicators and that it represents the best estimate of probable losses inherent in the loan portfolio.

The unallocated portion of the ALL represents general valuation allowances that are not allocated to a specific loan portfolio. The unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses and reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio. The unallocated portion of the ALL at June 30, 2013 decreased $220,000 compared to December 31, 2012. The following table provides detail of activity in the Company's allowance for loan losses for the three and six months ended June 30, 2013 and 2012:

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Allowance for Loan Losses

(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Installment and Collateral	Unallocated	Total
Three Months Ended June 30, 2013							
Balance, beginning of period	$ 6,117	$ 8,023	$ 1,012	$ 2,679	$ 73	$ 633	$18,537
Provision (credit) for loan losses	66	326	(24)	455	(47)	(373)	403
Loans charged off	(218)	(74)	(248)	(66)	(8)	—	(614)
Recoveries of loans previously charged off	9	—	—	—	10	—	19
Balance, end of period	$ 5,974	$ 8,275	$ 740	$ 3,068	$ 28	$ 260	$18,345
Three Months Ended June 30, 2012							
Balance, beginning of period	$ 5,348	$ 6,861	$ 1,229	$ 2,978	$ 47	$ 64	$16,527
Provision (credit) for loan losses	765	420	(141)	10	2	125	1,181
Loans charged off	(300)	(108)	—	—	(12)	—	(420)
Recoveries of loans previously charged off	5	—	—	3	7	—	15
Balance, end of period	$ 5,818	$ 7,173	$ 1,088	$ 2,991	$ 44	$ 189	$17,303
Six Months Ended June 30, 2013							
Balance, beginning of period	$ 6,194	$ 8,051	$ 807	$ 2,916	$ 29	$ 480	$18,477
Provision (credit) for loan losses	227	369	182	229	7	(220)	794
Loans charged off	(468)	(145)	(249)	(86)	(23)	—	(971)
Recoveries of loans previously charged off	21	—	—	9	15	—	45
Balance, end of period	$ 5,974	$ 8,275	$ 740	$ 3,068	$ 28	$ 260	$18,345
Six Months Ended June 30, 2012							
Balance, beginning of period	$ 5,071	$ 6,694	$ 1,286	$ 2,515	$ 49	$ 410	$16,025
Provision (credit) for loan losses	1,284	587	(198)	429	4	(221)	1,885
Loans charged off	(547)	(108)	—	(2)	(19)	—	(676)
Recoveries of loans previously charged off	10	—	—	49	10	—	69
Balance, end of period	$ 5,818	$ 7,173	$ 1,088	$ 2,991	$ 44	$ 189	$17,303

In addition to the ALL, the Company maintains a reserve for unfunded credit commitments. The allowance for credit losses analysis includes consideration of the risks associated with unfunded loan commitments. The reserve calculation includes factors that are consistent with ALL methodology for funded loans. The combination of ALL and unfunded reserves is calculated in a manner to capture the entirety of the underlying business relationship of the customer. The amounts of unfunded commitments and the associated reserves may be subject to fluctuations due to originations, the timing and volume of loan funding, as well as changes in risk ratings. At June 30, 2013, the reserve for unfunded credit commitments was $553,000 compared to a reserve for unfunded credit commitments of $431,000 at December 31, 2012.

Sources of Funds

The primary source of the Company's cash flows, for use in lending and meeting its general operational needs, is deposits. Additional sources of funds are from Federal Home Loan Bank of Boston advances, reverse repurchase agreements, fed funds lines, loan and mortgage-backed securities repayments, securities sales proceeds and maturities, and earnings. While scheduled loan and securities repayments are a relatively stable source of funds, loan and investment security prepayments and deposit inflows are influenced by prevailing interest rates and local economic conditions and are inherently uncertain.

Deposits

The Company offers a wide variety of deposit products to consumer, business and municipal customers. Deposit customers can access their accounts in a variety of ways including branch banking, ATM's, internet banking, mobile banking and telephone banking. Effective advertising, direct mail, well-designed product offerings, customer service and competitive pricing policies have been successful in attracting and retaining deposits. A key strategic objective is to grow the base of checking customers by retaining existing relationships while attracting new customers.

Deposits provide an important source of funding for the Bank as well as an ongoing stream of fee revenue. The Company attempts to control the flow of funds in its deposit accounts according to its need for funds and the cost of alternative sources of funding. A Retail Pricing Committee meets weekly and a Management ALCO Committee meets monthly, to determine pricing and marketing initiatives. Actions of the committee influence the flow of funds primarily by the pricing of deposits, which is affected to a large extent by competitive factors in its market area and asset/liability management strategies.

The following table presents deposits by category as of the dates indicated:

Deposits

(In thousands)	June 30, 2013	December 31, 2012
Demand deposits	$ 248,144	$ 238,924
NOW accounts	165,586	149,611
Regular savings and club accounts	226,761	214,480
Money market and investment savings	421,490	366,690
Total core deposits	1,061,981	969,705
Time deposits	525,160	534,975
Total deposits	$ 1,587,141	$ 1,504,680

Total deposits amounted to $1.59 billion at June 30, 2013, up $82.5 million from the balance at December 31, 2012. Core deposits increased $92.3 million, or 9.5%, from year end as the Company's strategy has been to increase core deposits and reduce rates paid on interest-bearing deposits, particularly on time deposits, in order to improve the net interest margin and the interest rate spread while continuing to build core relationships. This strategy included promoting commercial deposit and cash management deposit products, competitive rate shorter term deposits and money market accounts in response to the competition within our marketplace.

Time deposits included brokered certificate of deposits of $83.4 million and $65.2 million at June 30, 2013 and December 31, 2012, respectively. The Company utilizes out-of-market brokered time deposits as part of its overall funding program along with other sources. Excluding out-of-market brokered certificates of deposits, in market deposits totaled $1.51 billion at June 30, 2013. Rockville Bank is a member of the Certificate Deposit Account Registry Service network.

Borrowings

The Company also uses various types of short-term and long-term borrowings in meeting funding needs. While customer deposits remain the primary source for funding loan originations, management uses short-term and long-term borrowings as a supplementary funding source for loan growth and other liquidity needs when the cost of these funds are favorable compared to alternative funding, including deposits.

Rockville Bank is a member of the Federal Home Loan Bank System, which consists of twelve district Federal Home Loan Banks, each subject to the supervision and regulation of the Federal Housing Finance Agency. Members are required to own capital stock in the FHLBB in order for the Bank to access advances and borrowings which are collateralized by certain home mortgages or securities of the U.S. Government and its agencies. The capital stock investment is restricted in that there is no market for it, and it can only be redeemed by the Federal Home Loan Bank of Boston.

Total Federal Home Loan Bank of Boston advances increased $110.0 million to $253.1 million at June 30, 2013 compared to $143.1 million at December 31, 2012. This increase is a result of greater utilization of FHLBB advances at lower interest rates, combined with the growth in our core deposits, which assisted the Company in funding growth in our securities and loans portfolios, and in meeting other liquidity needs while effectively managing interest rate risk. At June 30, 2013, all of the Company’s outstanding FHLBB advances were at fixed rates ranging from 0.20% to 4.39%. FHLBB borrowings represented 11.6% and 7.2% of assets at June 30, 2013 and December 31, 2012, respectively.

In addition, during the first quarter of 2013 the Company entered into a reverse repurchase agreement with a maturity date of July 2013 resulting in $9.7 million of other borrowings at March 31, 2013 at a cost of the three month LIBOR plus 20 basis points, or 0.51%. During the second quarter of 2013, the Company entered into a second reverse repurchase agreement with a maturity date of December 2013 resulting in an additional $9.3 million of other borrowings at June 30, 2013 at a cost of the three month LIBOR plus 17.5 basis points, or 0.45%.

Liquidity and Capital Resources

Liquidity is the ability to meet cash needs at all times with available cash or by conversion of other assets to cash at a reasonable price and in a timely manner. The Company maintains liquid assets at levels the Company considers adequate to meet its liquidity needs. The Company adjusts its liquidity levels to fund loan commitments, repay its borrowings, fund deposit outflows, pay escrow obligations on all items in the loan portfolio and to fund operations. The Company also adjusts liquidity as appropriate to meet asset and liability management objectives.

The Company’s primary sources of liquidity are deposits, amortization and prepayment of loans, the sale in the secondary market of loans held for sale, maturities and sales of investment securities and other short-term investments, periodic pay downs of mortgage-backed securities, and earnings and funds provided from operations. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. The Company sets the interest rates on our deposits to maintain a desired level of total deposits. In addition, the Company invests excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements.

A portion of the Company’s liquidity consists of cash and cash equivalents, which are a product of our operating, investing and financing activities. At June 30, 2013, $83.4 million of the Company’s assets were invested in cash and cash equivalents compared to $35.3 million at December 31, 2012. The Company’s primary sources of cash are principal repayments on loans, proceeds from the calls and maturities of investment securities, increases in deposit accounts, proceeds from residential loan sales and advances from the Federal Home Loan Bank of Boston.

Liquidity management is both a daily and longer-term function of business management. If the Company requires funds beyond its ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Boston, which provide an additional source of funds. At June 30, 2013, the Company had $253.1 million in advances from the Federal Home Loan Bank of Boston and an additional available borrowing limit of $109.0 million based on collateral requirements of the Federal Home Loan Bank of Boston inclusive of the line of credit. In addition, the Bank has a relationship with a brokered sweep deposit provider by which the Bank could borrow an additional $74.0 million through this relationship. Internal policies limit wholesale borrowings to 30% of total assets, or $654.9 million, at June 30, 2013. In addition, the Company has uncommitted federal funds line of credit with four counterparties totaling $92.5 million at June 30, 2013. No federal funds purchased were outstanding at June 30, 2013. At June 30, 2013, the Company had outstanding commitments to originate loans of $98.9 million and unfunded commitments under construction loans, lines of credit and stand-by letters of credit of $300.9 million. At June 30, 2013, time deposits scheduled to mature in less than one year totaled $275.1 million. Based on prior experience, management believes that a significant portion of such deposits will remain with the Company, although there can be no assurance that this will be the case. In the event a significant portion of its deposits are not retained by the Company, it will have to utilize other funding sources, such as Federal Home Loan Bank of Boston advances in order to maintain its level of assets. Alternatively, we would reduce our level of liquid assets, such as our cash and cash equivalents in order to meet funding needs. In addition, the cost of such deposits may be significantly higher if market interest rates are higher or there is an increased amount of competition for deposits in our market area at the time of renewal.

Rockville's main source of liquidity at the parent company level is dividends from Rockville Bank. The main uses of liquidity are payments of dividends to common stockholders, repurchase of Rockville Bank's common stock, and corporate operating expenses. There are certain restrictions on the payment of dividends. See Note 13, "Regulatory Matters" in the Company's 2012 Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for further information on dividend restrictions.

The Company and the Bank are subject to various regulatory capital requirements. As of June 30, 2013, the Company and the Bank are categorized as "well-capitalized" under the regulatory framework for prompt corrective action. See Note 13, "Regulatory Matters" in the Notes to the Unaudited Consolidated Financial Statements contained elsewhere in this report for discussion of capital requirements.

The liquidity position of the Company is continuously monitored and adjustments are made to balance between sources and uses of funds as deemed appropriate. Management is not aware of any events that are reasonably likely to have a material adverse effect on the Company's liquidity, capital resources or operations. In addition, management is not aware of any regulatory recommendations regarding liquidity, which if implemented would have a material adverse effect on the Company. The Company has a detailed liquidity contingency plan which is designed to respond to liquidity concerns in a prompt and comprehensive manner. It is designed to provide early detection of potential problems and details specific actions required to address liquidity stress scenarios.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. During the low interest rate environment that has existed in recent years, we have implemented the following strategies to manage our interest rate risk: (i) emphasizing adjustable rate loans including, adjustable rate one-to-four family, commercial and consumer loans, (ii) selling longer-term 1-4 family fixed rate mortgage loans in the secondary market, (iii) reducing and shortening the expected average life of the investment portfolio, and (iv) periodically lengthening the term structure of our wholesale funding. These measures should serve to reduce the volatility of our future net interest income in different interest rate environments.

Quantitative Analysis

Income Simulation: Simulation analysis is used to estimate our interest rate risk exposure at a particular point in time. Beginning June 30, 2013, the Company transitioned from a dynamic method that incorporated forecasted balance sheet growth assumptions to a static method in which a stable balance sheet (both size and mix) is projected throughout the modeling horizon. This adoption was made in a continued effort to align with regulatory best practices and to highlight the current level of risk in the Company's positions without the effects of growth assumptions. We utilize the income simulation method to analyze our interest rate sensitivity position to manage the risk associated with interest rate movements. At least quarterly, our Asset/Liability Committee of the Board of Directors reviews the potential effect changes in interest rates could have on the repayment or repricing of rate sensitive assets and funding requirements of rate sensitive liabilities. Our most recent simulation uses projected repricing of assets and liabilities at June 30, 2013 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rate assumptions as well as deposit characterization assumptions can have a significant impact on interest income simulation results. Because of the large percentage of loans and mortgage-backed assets we hold, rising or falling interest rates may have a significant impact on the actual prepayment speeds of our mortgage related assets that may in turn effect our interest rate sensitivity position. When interest rates rise, prepayment speeds slow and the average expected life of our assets would tend to lengthen more than the expected average life of our liabilities and therefore would most likely result in a decrease to our asset sensitive position.

	Percentage Decrease in Estimated Net Interest Income Over 12 Months
300 basis point increase in rates	6.53%
50 basis point decrease in rates	2.30

Rockville Bank’s Asset/Liability policy currently limits projected changes in net interest income based on a matrix of projected total risk-based capital relative to the interest rate change for each twelve month period measured compared to the flat rate scenario. As a result, the higher a level of projected risk-based capital, the higher the limit of projected net interest income volatility the Company will accept. As the level of projected risk-based capital is reduced, the policy requires that net interest income volatility also is reduced, making the limit dynamic relative to the capital level needed to support it. These policy limits are re-evaluated on a periodic basis (not less than annually) and may be modified, as appropriate. Because of the liability-sensitivity of our balance sheet, coupled with little opportunity to decrease deposit rates further due to their current low nominal level, income is projected to decrease if interest rates rise. Also included in the decreasing rate scenario is the assumption that further declines are reflective of a deeper recession as well as narrower credit spreads from Federal Open Market Committee actions. At June 30, 2013, income at risk (i.e., the change in net interest income) decreased 6.53% and decreased 2.30% based on a 300 basis point average increase or a 50 basis point average decrease, respectively. While we believe the assumptions used are reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security and loan repayment activity.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: Our disclosure controls and procedures are designed to ensure that information the Company must disclose in its reports filed or submitted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized, and reported on a timely basis. Our management has evaluated, with the participation and under the supervision of our chief executive officer (“CEO”) and chief financial officer (“CFO”), the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our CEO and CFO have concluded that, as of such date, the Company’s disclosure controls and procedures are effective in ensuring that information relating to the Company, including its consolidated subsidiaries, required to be disclosed in reports that it files under the Exchange Act is (1) recorded, processed, summarized and reported within time periods specified in the SEC’s rules and forms, and (2) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls: During the quarter under report, there was no change in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is 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

The Company is not involved in any legal proceedings deemed to be material as of June 30, 2013 which have arisen in the normal course of business.

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the Company's annual report on Form 10-K for the period ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to net purchases made by Rockville Financial, Inc. of its common stock during the period ended June 30, 2013.

Period	Total number of shares purchased	Average[1] price paid per share	Total number of shares purchased as Part of Publicly Announced Program	Maximum number of shares that may yet be purchased under the plans or programs [2]
April 1 - 30, 2013	527,000	$ 12.85	—	436,431
May 1 - 31, 2013	833,427	13.17	833,427	2,333,030
June 1 - 30, 2013	360,712	13.12	1,194,139	1,972,318
Total	1,721,139	$ 13.06	1,194,139	1,972,318

(1) Includes dealer commission expense to purchase the securities
(2) Includes 2,730,026 of shares authorized for repurchase by the Board of Directors on May 20, 2013

On March 2, 2012, the Company authorized the purchase of up to 2,951,250 shares, from time to time, subject to certain conditions. The Company completed this repurchase plan on May 20, 2013 with the purchase of 436,431 shares at an average price of $13.17.

On May 17, 2013, the Company authorized the purchase of up to 2,730,026 shares, or 10% of the then outstanding stock, from time to time, subject to certain conditions upon the completion of the March 2, 2012 repurchase plan. The Company purchased 396,996 shares at an average price of $13.17 during May. The Company has no intentions to terminate this plan or cease any potential future purchases. As of June 30, 2013, there were 1,972,318 maximum shares that may yet be purchased under this publicly announced plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

2.1	Amended and Restated Plan of Conversion and Reorganization (incorporated herein by reference to Exhibit 2.1 to the Registration Statement filed on the Form S-1 for Rockville Financial New, Inc. on September 16, 2010)
3.1	Certificate of Incorporation of Rockville Financial New, Inc. (incorporated herein by reference to Exhibit 3.1 to the Registration Statement on the Form S-1 filed for Rockville Financial New, Inc. on September 16, 2010)
3.1.1	Amendment of Certificate of Incorporation of Rockville Financial New, Inc. (incorporated herein by reference to Exhibit 3.1.1 to the Registration Statement on the Form S-1 filed for Rockville Financial New, Inc. on September 16, 2010)
3.2	Bylaws of Rockville Financial New, Inc. (incorporated herein by reference to Exhibit 3.2 to the Registration Statement on the Form S-1 filed for Rockville Financial New, Inc. on September 16, 2010)
3.2.1	The Bylaws, as amended and restated, and amended Article III (incorporated herein by reference to Exhibit 3.2.1 to the Current Report on the Company’s Form 8-K filed on March 21, 2013)
10.2	Employment Agreement as amended and restated by and among Rockville Financial, Inc., Rockville Bank and John T. Lund, effective January 9, 2012 (incorporated herein by reference to Exhibit 10.2 to the Current Report on the Company’s Form 8-K filed on January 13, 2012)
10.2.1	Supplemental Executive Retirement Agreement of Rockville Bank for John T. Lund effective December 6, 2010 (incorporated by reference to Exhibit 10.3.1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 10, 2011)
10.2.3	Change-in-Control and Restricted Covenant Agreement by and among Rockville Financial, Inc., Rockville Bank and John T. Lund, effective January 2, 2009 (incorporated herein by reference to Exhibit 10.3 to the Annual Report on Rockville Financial, Inc.’s Form 10-K for the year ended December 31, 2008 filed on March 11, 2009 (File No. 000-51239))
10.4	Employment Agreement as amended and restated by and among Rockville Financial, Inc., Rockville Bank and Richard J. Trachimowicz, effective January 9, 2012 (incorporated herein by reference to Exhibit 10.4 to the Current Report on the Company’s Form 8-K filed on January 13, 2012)
10.4.2	Supplemental Executive Retirement Agreement of Rockville Bank for Richard J. Trachimowicz effective December 6, 2010 (incorporated by reference to Exhibit 10.5.2 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 10, 2011)
10.5	Supplemental Savings and Retirement Plan of Rockville Bank as amended and restated effective December 31, 2007 (incorporated herein by reference to Exhibit 10.5 to the Current Report on Form 8-K filed for Rockville Financial, Inc. filed on December 18, 2007)
10.6	Rockville Bank Officer Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.2.3 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2005 filed on March 31, 2006 (File No. 000-52139))
10.7	Rockville Bank Supplemental Executive Retirement Agreement for Joseph F. Jeamel, Jr. (incorporated herein by reference to Exhibit 10.8 to the Registration Statement filed on Form S-1 filed for Rockville Financial New, Inc. on September 16, 2010)
10.7.1	First Amendment to the Supplemental Executive Retirement Agreement for Joseph F. Jeamel, Jr. (incorporated herein by reference to Exhibit 10.7.1 to the Current Report on Form 8-K filed for Rockville Financial, Inc. filed on December 18, 2007)

10.8	Executive Split Dollar Life Insurance Agreement for Joseph F. Jeamel, Jr. (incorporated herein by reference to Exhibit 10.11 to the Registration Statement filed on Form S-1 filed for Rockville Financial, Inc. filed on December 17, 2004 (File No. 333-121421))
10.9	Rockville Bank Supplemental Executive Retirement Plan as amended and restated effective December 31, 2007 (incorporated herein by reference to Exhibit 10.9 to the Current Report on Form 8-K filed for Rockville Financial, Inc. filed on December 18, 2007)
10.10	Rockville Financial, Inc. 2006 Stock Incentive Award Plan (incorporated herein by reference to Appendix B in the Definitive Proxy Statement on Form 14A for Rockville Financial, Inc. filed on July 3, 2006 (File No. 000-51239))
10.11	Employment Agreement by and among Rockville Financial, Inc., Rockville Bank and William H.W. Crawford, IV, effective January 3, 2011 (incorporated herein by reference to Exhibit 10.15 to the Current Report on the Company’s Form 8-K filed on January 6, 2011)
10.11.1	Employment Agreement as amended by and among Rockville Financial, Inc., Rockville Bank and William H.W. Crawford, IV, effective February 24, 2012 (incorporated herein by reference to Exhibit 10.11.1 to the Current Report on the Company’s Form 8-K filed on February 24, 2012)
10.11.2	Supplemental Executive Retirement Agreement of Rockville Bank for William H.W. Crawford, IV effective December 26, 2012 (incorporated by reference to Exhibit 10.11.2 to the Current Report on the Company’s Form 8-K filed on January 2, 2013)
10.11.3	On June 10, 2013, Rockville Financial, Inc. and its subsidiary Rockville Bank entered into an employment agreement with William H. W. Crawford, IV effective January 1, 2014 (incorporated by reference to Exhibit 10.11.3 to the Current Report on the Company’s Form 8-K filed on June 10, 2013)
10.12	Supplemental Executive Retirement Agreement of Rockville Bank for Mark A. Kucia effective December 6, 2010 (incorporated by reference to Exhibit 10.13 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 10, 2011)
10.12.1	Employment Agreement as amended and restated by and among Rockville Financial, Inc., Rockville Bank and Mark A. Kucia, effective January 9, 2012 (replaces former Exhibit 10.12.1) (incorporated herein by reference to Exhibit 10.12.1 to the Current Report on the Company’s Form 8-K filed on January 13, 2012)
10.13	Employment Agreement by and among Rockville Financial, Inc., Rockville Bank and Marino J. Santarelli effective January 9, 2012 (replaces former Exhibits 10.2 and 10.2.2) (incorporated herein by reference to Exhibit 10.2 to the Current Report on the Company’s Form 8-K filed on January 13, 2012)
10.14	Rockville Financial, Inc. 2012 Stock Incentive Award Plan (incorporated herein by reference to Appendix A in the Definitive Proxy Statement on Form 14A for Rockville Financial, Inc. filed on April 4, 2012 (File No. 0001193125-12-149948))
14	Rockville Financial, Inc., Rockville Bank, Standards of Conduct Policy - Employees (incorporated herein by reference to Exhibit 14 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2007 filed on March 17, 2008)
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer filed herewith
32.0	32.0 Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer attached hereto
101.	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Net Income, (iii) the Consolidated Statements of Changes in Stockholders’ Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Consolidated Financial Statements filed herewith

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SIGNATURES

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

Rockville Financial, Inc.

By: /s/ John T. Lund
John T. Lund
EVP, Chief Financial Officer and Treasurer

Date: August 8, 2013

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

Certification

I, William H.W. Crawford, IV, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rockville Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation;
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

August 8, 2013

/s/ William H.W. Crawford, IV
William H.W. Crawford, IV
President and Chief Executive Officer

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

Certification

I, John T. Lund, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rockville Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation;
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2013

/s/ John T. Lund
John T. Lund
EVP, Chief Financial Officer and Treasurer

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Section 4: EX-32 (EX-32)

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Rockville Financial, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2013, as filed with the Securities and Exchange Commission (the "Report"), I hereby certify pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in this Report fairly presents, in all material respects, the consolidated financial condition and results of the Company as of and for the period covered by this Report.

By: /s/ William H.W. Crawford, IV
William H.W. Crawford, IV
President and Chief Executive Officer
August 8, 2013

By: /s/ John T. Lund
John T. Lund
EVP, Chief Financial Officer and Treasurer

August 8, 2013

The forgoing certification is being furnished solely pursuant to 12 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Note: A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Rockville Financial, Inc. and will be retained by Rockville Financial, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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