Melrose Bancorp, Inc.
Form 10-Q
May 15, 2015
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2015

OR

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission File No. 001-36702

Melrose Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**47-0967316**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
638 Main Street, Melrose, Massachusetts	**02176**
(Address of Principal Executive Offices)	**Zip Code**

(781) 665-2500

(Registrant s telephone number)

N/A

(Former name or former address, if changed since last report)

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

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

As of May 15, 2015, 2,829,579 shares of the Registrant s common stock, par value $0.01 per share, were issued and outstanding.

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Part I. Financial Information

Item 1. Condensed Financial Statements

MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Data)

	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Cash and due from banks	$ 20,156	$ 20,760
Money market funds	2,396	4,342
Federal funds sold	3,041	4,389
Cash and cash equivalents	25,593	29,491
Investments in available-for-sale securities (at fair value)	44,756	41,775
Federal Home Loan Bank stock, at cost	437	437
Loans, net of allowance for loan losses of $521 at March 31, 2015 and $520 at December 31, 2014	134,825	133,910
Premises and equipment, net	1,240	1,254
Co-operative Central Bank deposit	881	881
Bank-owned life insurance	5,071	5,037
Accrued interest receivable	403	382
Other assets	108	175
Total assets	$ 213,314	$ 213,342
Liabilities and Stockholders Equity		
Deposits:		
Noninterest-bearing	$ 14,377	$ 13,286
Interest-bearing	152,329	153,785
Total deposits	166,706	167,071
Deferred tax liability, net	298	215
Other liabilities	529	593
Total liabilities	167,533	167,879
Stockholders Equity:		
Common stock, par value $0.01 per share, authorized 15,000,000 shares; issued and outstanding 2,829,579 shares at March 31, 2015 and December 31, 2014	28	28

Additional paid-in-capital	26,581	26,575
Retained earnings	19,981	19,832
Unearned compensation ESOP	(2,169)	(2,188)
Accumulated other comprehensive income	1,360	1,216
Total stockholders equity	45,781	45,463
Total liabilities and stockholders equity	$ 213,314	$ 213,342

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

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MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Data)

	Three Months Ended March 31, 2015	2014
	(unaudited)	
Interest and dividend income:		
Interest and fees on loans	$ 1,163	$ 1,147
Interest and dividends on securities:		
Taxable	201	192
Tax-exempt	5	
Other interest	8	3
Total interest and dividend income	1,377	1,342
Interest expense:		
Interest on deposits	299	328
Total interest expense	299	328
Net interest and dividend income	1,078	1,014
Provision for loan losses		2
Net interest and dividend income after provision for loan losses	1,078	1,012
Noninterest income:		
Fees and service charges	20	21
Gain on sale of securities	1	
Gain on sales of loans		9
Income on bank-owned life insurance	20	23
Other income	2	7
Total noninterest income	43	60
Noninterest expense:		
Salaries and employee benefits	587	546
Occupancy expense	77	73
Equipment expense	12	13
Data processing expense	77	74
Advertising expense	28	28
Printing and supplies	6	9
FDIC assessment	29	27
Audits and examinations	42	27

Other professional services		27		18
Other expense		28		29
Total noninterest expense		913		844
Income before income tax expense		208		228
Income tax expense		59		69
Net income	$	149	$	159
Earnings Per Share:				
Basic	$	0.06		N/A
Diluted	$	0.06		N/A

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

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MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	For the Three Months Ended March 31, 2015	2014
	(unaudited)	
Net income	$ 149	$ 159
Other comprehensive income, net of tax:		
Net change in unrealized holding gain on available-for-sale securities	144	292
Comprehensive income	$ 293	$ 451

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

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MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the Three Months Ended March 31, 2015 and 2014

(In Thousands, Except Share Data)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Retained Earnings	Unearned Compensation - ESOP	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2013		$	$	$ 20,004	$	$ 573	$ 20,577
Net income				159			159
Other comprehensive income, net of tax						292	292
Balance, March 31, 2014		$	$	$ 20,163	$	$ 865	$ 21,028
Balance, December 31, 2014	2,829,579	$ 28	$ 26,575	$ 19,832	$ (2,188)	$ 1,216	$ 45,463
Net income				149			149
Other comprehensive income, net of tax						144	144
ESOP shares committed to be released (1,887 shares)			6		19		25
Balance, March 31, 2015	2,829,579	$ 28	$ 26,581	$ 19,981	$ (2,169)	$ 1,360	$ 45,781

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

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MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Three Months Ended March 31, 2015	2014
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 149	$ 159
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of securities, net of accretion	6	2
Gain on sale of securities	(1)	
Provision for loan losses		2
Change in net deferred loan costs/fees	1	4
Loans originated for sale		(1,167)
Proceeds from sales of loans		994
Gain on sales of loans		(9)
Depreciation and amortization	24	22
(Increase) decrease in accrued interest receivable	(21)	34
Decrease (increase) in other assets	43	(438)
(Decrease) increase in accrued expenses and other liabilities	(64)	140
Decrease in income tax receivable	24	70
Deferred tax benefit	(1)	(6)
Income on bank-owned life insurance	(20)	(23)
ESOP expense	25	
Net cash provided by (used in) operating activities	165	(216)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(3,994)	(1,090)
Proceeds from sale of available-for-sale securities	1,034	
Proceeds from maturities and calls of available-for-sale securities	202	1,000
Loan originations and principal collections, net	(917)	637
Recoveries on loans previously charged-off	1	
Capital expenditures	(10)	
Premiums paid on bank-owned life insurance	(14)	(14)
Net cash (used in) provided by investing activities	(3,698)	533
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	240	2,182
Net decrease in time deposits	(605)	(6,845)

Net cash used in financing activities	(365)	(4,663)
Net decrease in cash and cash equivalents	(3,898)	(4,346)
Cash and cash equivalents at beginning of period	29,491	16,995
Cash and cash equivalents at end of period	$ 25,593	$ 12,649
Supplemental disclosures:		
Interest paid	$ 299	$ 329
Income taxes paid	36	5

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

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Melrose Bancorp, Inc. and Subsidiary

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Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE 1 NATURE OF OPERATIONS

Melrose Cooperative Bank (the Bank) is a state chartered co-operative bank which was incorporated in 1890 and is headquartered in Melrose, Massachusetts. The Bank operates its business from one banking office located in Melrose, Massachusetts. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential real estate loans, and in consumer and small business loans.

On October 21, 2014, in accordance with a Plan of Conversion (Conversion), Melrose Cooperative Bank completed a mutual-to-stock conversion pursuant to which the Bank became a wholly owned subsidiary of Melrose Bancorp, Inc. (Company), a stock holding company incorporated in February 2014. In connection with the conversion, the Company sold 2,723,409 shares of common stock, including 226,366 shares to a newly established employee stock ownership plan, at an offering price of $10 per share, and issued an additional 106,170 shares of its common stock to the Melrose Cooperative Bank Foundation (the Foundation), resulting in an aggregate issuance of 2,829,579 shares of common stock. The net proceeds from the stock offering, net of offering costs of $1,716,000, amounted to $25,518,000. The Company s stock began trading on October 22, 2014 on the NASDAQ Capital Market under the symbol MELR .

The Bank at the time of the Conversion, established a Liquidation Account in an amount equal to the net worth of the Bank as of the date of the latest consolidated statement of financial condition contained in the final prospectus distributed in connection with the Conversion. The function of the Liquidation Account is to establish a priority on liquidation. The Liquidation Account will be maintained by the Company for the benefit of the eligible account holders who continue to maintain deposit accounts with the Bank following the conversion. Each eligible account holder shall, with respect to each deposit account, hold a related inchoate interest in a portion of the Liquidation Account balance, in relation to each deposit account balance at the eligibility record date, or to such balance as it may be subsequently reduced, as hereinafter provided. The initial Liquidation Account balance shall not be increased, and shall be subject to downward adjustment to the extent of any downward adjustment of any subaccount balance of any eligible account holder in accordance with the Regulations of the Division of Banks of the Commonwealth of Massachusetts.

In the unlikely event of a complete liquidation of the Bank (and only in such event), following all liquidation payments to creditors (including those to depositors to the extent of their deposit accounts) each eligible account holder shall be entitled to receive a liquidating distribution from the Liquidation Account, in the amount of the then-adjusted subaccount balances for his or her deposit accounts then held, before any liquidating distribution may be made to any holder of the Bank s capital stock.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and Rule 10-01 of Regulation S-X. Information included herein as of March 31, 2015 and for the interim periods ended March 31, 2015 and 2014 is unaudited; however, in the opinion of management, all adjustments considered necessary for a fair presentation have been included and were of a normal recurring nature. These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Form 10-K for the year ended December 31, 2014. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ended December 31, 2015.

The significant accounting policies are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary the Bank, and the Bank s wholly-owned subsidiary, MCBSC, Inc., which is used to hold investment securities. All significant intercompany accounts and transactions have been eliminated in the consolidation.

USE OF ESTIMATES:

In preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, impairment of securities and deferred income taxes.

CASH AND CASH EQUIVALENTS:

As of March 31, 2015 (unaudited), the Company has total cash and cash equivalents in the following banks:

Eastern Bank	$6,298,000, which represents approximately 13.8% of total stockholders equity
State Street Bank	$2,993,000, which represents approximately 6.5% of total stockholders equity

As of December 31, 2014, the Company has total cash and cash equivalents in the following banks:

Eastern Bank	$7,440,000, which represents approximately 16.4% of total stockholders equity
State Street Bank	$2,993,000, which represents approximately 6.6% of total stockholders equity

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EARNINGS PER SHARE (EPS):

Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding adjusted to exclude the weighted average number of unallocated shares held by the ESOP. Diluted EPS, if presented, reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in earnings of the entity. For the purposes of computing diluted EPS, the treasury stock method is used. Because the formation of the Company was completed on October 22, 2014, EPS data is not meaningful for prior comparative periods and is therefore not presented.

The calculation of basic and diluted EPS is presented below. There were no common stock equivalents in the three month period ending March 31, 2015.

	Three Months Ended March 31, 2015	
Net income (In Thousands)	$	149
Basic Common Shares:		
Weighted average common shares outstanding		2,829,579
Weighted average unallocated ESOP shares		(218,820)
Basic and diluted weighted average shares outstanding		2,610,759
Basic earnings per share	$	0.06
Diluted earnings per share	$	0.06

FAIR VALUES OF FINANCIAL INSTRUMENTS:

Accounting Standards Codification (ASC) 825, Financial Instruments, requires that the Company disclose the estimated fair value for its financial instruments. Fair value methods and assumptions used by the Company in estimating its fair value disclosures are as follows:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets fair values.

Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans held-for-sale: Fair values of loans held-for-sale are based on commitments on hand from investors or prevailing market prices.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued interest receivable: The carrying amount of accrued interest receivable approximates its fair value.

Deposit liabilities: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificate accounts are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on certificate accounts.

Off-balance sheet instruments: The fair value of commitments to originate loans is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments and the unadvanced portion of loans, fair value also considers the difference between current levels of interest rates and the committed rates.

RECENT ACCOUNTING PRONOUNCEMENTS:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The objective of this ASU is to clarify principles for recognizing revenue and to develop a common revenue standard for Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently reviewing this ASU to determine if it will have an impact on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in this ASU affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The standard is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The guidance should be applied on a retrospective basis. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer s accounting for service contracts. ASU 2015-05 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company anticipates that the adoption of this

ASU will not have a material impact on its consolidated financial statements.

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NOTE 3 INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

Debt and equity securities have been classified in the consolidated balance sheets according to management s intent. The amortized cost basis of securities and their approximate fair values are as follows:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
March 31, 2015: (unaudited)				
U.S. government and federal agency obligations	$ 4,997	$ 8	$ 18	$ 4,987
Debt securities issued by states of the United States and political subdivisions of the states	542		3	539
Corporate bonds and notes	16,602	52	14	16,640
Preferred stock	3,000	34	32	3,002
Mortgage-backed securities	2,444		22	2,422
Marketable equity securities	14,875	2,698	407	17,166
	$ 42,460	$ 2,792	$ 496	$ 44,756
December 31, 2014:				
U.S. government and federal agency obligations	$ 4,007	$ 3	$ 20	$ 3,990
Debt securities issued by states of the United States and political subdivisions of the states	544		4	540
Corporate bonds and notes	15,238	38	35	15,241
Preferred stock	3,000		96	2,904
Mortgage-backed securities	2,138		23	2,115
Marketable equity securities	14,780	2,641	436	16,985
	$ 39,707	$ 2,682	$ 614	$ 41,775

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The scheduled maturities of debt securities were as follows as of the dates indicated:

	Fair Value (In Thousands)
March 31, 2015 (unaudited)	
Due within one year	$ 6,772
Due after one year through five years	13,399
Due after five years through ten years	2,016
Due after ten years	1,022
Mortgage-backed securities	2,422
Asset-backed securities	991
Preferred stock, no stated maturity	968
	$ 27,590

	Fair Value (In Thousands)
December 31, 2014	
Due within one year	$ 5,278
Due after one year through five years	12,990
Due after five years through ten years	1,491
Due after ten years	994
Mortgage-backed securities	2,115
Asset-backed securities	1,011
Preferred stock, no stated maturity	911
	$ 24,790

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders equity as of March 31, 2015 (unaudited) and December 31, 2014.

During the three months ended March 31, 2015, proceeds from the sale of an available-for-sale security amounted to $1,034,000. The gross realized gain on the sale amounted to $1,000 and there were no gross realized losses. The tax expense applicable to the realized gain for the three months ended March 31, 2015 amounted to less than $1,000. During the three months ended March 31, 2014, there were no sales of available-for-sale securities.

The Company had no pledged securities as of March 31, 2015 (unaudited) and December 31, 2014.

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The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, and are not other-than-temporarily impaired, are as follows:

	Less than 12 months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
March 31, 2015: (unaudited)						
U.S. government and federal agency obligations	$ 1,490	$ 12	$ 1,495	$ 6	$ 2,985	$ 18
Debt securities issued by states of the United States and political subdivisions of the states	539	3			539	3
Corporate bonds and notes	1,004	5	1,489	9	2,493	14
Preferred stock			938	32	938	32
Mortgage-backed securities	2,423	22			2,423	22
Marketable equity securities			9,363	407	9,363	407
Total temporarily impaired securities	$ 5,456	$ 42	$ 13,285	$ 454	$ 18,741	$ 496
December 31, 2014:						
U.S. government and federal agency obligations	$ 2,006	$ 6	$ 1,486	$ 14	$ 3,492	$ 20
Debt securities issued by states of the United States and political subdivisions of the states	540	4			540	4
Corporate bonds and notes	4,978	11	1,974	24	6,952	35
Preferred stock			2,904	96	2,904	96
Mortgage-backed securities	2,115	23			2,115	23
Marketable equity securities			10,306	436	10,306	436
Total temporarily impaired securities	$ 9,639	$ 44	$ 16,670	$ 570	$ 26,309	$ 614

The Company conducts periodic reviews of investment securities with unrealized losses to evaluate whether the impairment is other-than-temporary. The Company s review for impairment generally includes a determination of the cause, severity and duration of the impairment; and an analysis of both positive and negative evidence available. The Company also determines if it has the ability and intent to hold the investment for a period of time sufficient to allow for anticipated recovery to cost basis. Based on the Company s review of securities in the investment portfolio, management deemed securities with unrealized losses as of March 31, 2015 (unaudited) and December 31, 2014 to be temporarily impaired and has the ability and intent to hold these securities until recovery to cost basis occurs. A summary of these reviews is as follows.

March 31, 2015 (unaudited)

Unrealized losses on U.S. Government and federal agency obligations amounted to $18,000 and consisted of four securities. Unrealized losses on corporate bonds and notes amounted to $14,000 and consisted of four securities. The unrealized losses on these debt securities were individually all less than 2.5% of amortized cost basis, and the unrealized losses were primarily due to changes in interest rates. In regard to corporate debt, the Company also considers the issuer s current financial condition and its ability to make future scheduled interest and principal payments on a timely basis in assessing other-than-temporary impairment.

Unrealized losses on preferred stocks amounted to $32,000, or 3.2%, of amortized cost and consisted of one investment. This loss was due to changes in interest rates. The Company reviewed this investment for impairment by considering factors such as, among other things, the financial condition and ability of the issuer to continue to pay dividends, and any specific events that may affect the operations of the issuer.

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Unrealized losses on marketable equity securities consist of six mutual funds. Four mutual funds invest mainly in short-term bonds, with unrealized losses amounting to $222,000, or 4.1% of cost basis, with individual losses ranging from 0.1% to 0.7% of the mutual fund s cost basis; and two mutual funds invest in Government National Mortgage Association (GNMA) securities with a total combined unrealized loss of $185,000, or approximately 4.3% of each mutual fund s cost basis. These six mutual funds have been in an unrealized loss position ranging from one to three years. The cause of the impairment in these mutual funds is due to changes in interest rates and the continued underperformance of most fixed income asset classes during the three months ended March 31, 2015 (unaudited). The Company considered several factors in reviewing these mutual fund investments, including underlying investment performance, composition and rating of the securities in the mutual fund, and management of the mutual funds issuer.

December 31, 2014

Unrealized losses on U.S. Government and federal agency obligations amounted to $19,000 and consisted of four securities. Unrealized losses on corporate bonds and notes amounted to $35,000 and consisted of twelve securities. Unrealized losses on municipal bonds amounted to $4,000 and consisted of two securities. Unrealized losses on mortgage-backed and asset-backed securities amounted to $24,000 and consisted of three securities. The unrealized losses on all of these debt securities were each individually less than 2.0% of amortized cost basis, and the unrealized losses were primarily due to changes in interest rates. In regard to corporate debt, the Company also considers the issuer s current financial condition and its ability to make future scheduled interest and principal payments on a timely basis in assessing other-than-temporary impairment.

The Company s investments in preferred stocks were purchased in the first quarter of 2013, and consist of three investments with unrealized losses amounting to $96,000, or 3.2% of amortized cost. These three investments consist of Kayne Anderson MLP, which has an unrealized loss of $1,000, or 0.1 percent of amortized cost, General Electric Capital Corporation, which has an unrealized loss of $6,000, or 0.6% of amortized cost, and Public Storage Inc., which has an unrealized loss of $89,000, or 8.9% of amortized cost. These losses were due to changes in interest rates. The Company reviewed these investments for impairment by considering factors such as, among other things, the financial condition and ability of the issuer to continue to pay dividends, and any specific events that may affect the operations of the issuer.

Unrealized losses on marketable equity securities consist of seven mutual funds. Five mutual funds invest mainly in short-term bonds, with unrealized losses amounting to $238,000, or 3.7% of cost basis, with individual losses ranging from 0.8% to 8.4% of the mutual fund s cost basis; and two mutual funds invest in GNMA securities with a total combined unrealized loss of $198,000, or approximately 4.6% of each mutual fund s cost basis. These seven mutual funds have been in an unrealized loss position ranging from one to three years. The cause of the impairment in these mutual funds is due to changes in interest rates and the continued underperformance of most fixed income asset classes during the year ended December 31, 2014. The Company considered several factors in reviewing these mutual fund investments, including underlying investment performance, composition and rating of the securities in the mutual fund, and management of the mutual funds issuer.

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NOTE 4 LOANS

Loans consisted of the following at:

	March 31, 2015	December 31, 2014
	(In Thousands)	
	(unaudited)	
Real estate loans:		
One-to four-family residential	$ 118,998	$ 118,144
Home equity loans and lines of credit	10,802	10,811
Commercial	2,472	2,462
Construction	2,854	2,787
Consumer loans	141	146
Total loans	135,267	134,350
Allowance for loan losses	(521)	(520)
Deferred loan costs, net	79	80
Net loans	$ 134,825	$ 133,910

The following tables set forth information on the allowance for loan losses at and for the three months ended (unaudited):

	Real Estate: One- to four-family Residential	Home Equity Loans and Lines of Credit	Commercial	Construction	Consumer Loans	Unallocated	Total
	(In Thousands)						
Three Months Ended March 31, 2015 (unaudited)							
Allowance for loan losses:							
Beginning balance	$ 414	$ 58	$ 25	$ 21	$ 1	$ 1	$ 520
Charge offs							
Recoveries					1		1
Provision (benefit)							
Ending balance	$ 414	$ 58	$ 25	$ 21	$ 2	$ 1	$ 521
At March 31, 2015 (unaudited)							
Ending balance:							
Individually evaluated for impairment	$	$	$	$	$	$	$
Ending balance:							

Collectively evaluated for impairment		414		58		25		21		2		1		521
Total allowance for loan losses ending balance	$	414	$	58	$	25	$	21	$	2	$	1	$	521
Loans:														
Ending balance:														
Individually evaluated for impairment	$		$		$		$		$		$		$	
Ending balance:														
Collectively evaluated for impairment		118,998		10,802		2,472		2,854		141				135,267
Total loans ending balance	$	118,998	$	10,802	$	2,472	$	2,854	$	141	$		$	135,267
Three Months Ended March 31, 2014 (unaudited)														
Allowance for loan losses:														
Beginning balance	$	414	$	55	$	20	$	14	$	1	$	6	$	510
Charge offs														
Recoveries														
(Benefit) provision		(8)		(1)		10		5				(4)		2
Ending balance	$	406	$	54	$	30	$	19	$	1	$	2	$	512

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The following tables set forth information on the allowance for loan losses at December 31, 2014:

	Real Estate: One- to four-family Residential	Home Equity Loans and Lines of Credit	Commercial	Construction	Consumer Loans	Unallocated	Total
	(In Thousands)						
At December 31, 2014:							
Allowance for loan losses:							
Ending balance:							
Individually evaluated for impairment	$	$	$	$	$	$	$
Ending balance:							
Collectively evaluated for impairment	414	58	25	21	1	1	520
Total allowance for loan losses ending balance	$ 414	$ 58	$ 25	$ 21	$ 1	$ 1	$ 520
Loans:							
Ending balance:							
Individually evaluated for impairment	$	$	$	$	$	$	$
Ending balance:							
Collectively evaluated for impairment	118,144	10,811	2,462	2,787	146		134,350
Total loans ending balance	$ 118,144	$ 10,811	$ 2,462	$ 2,787	$ 146	$	$ 134,350

The following tables set forth information regarding nonaccrual loans and past-due loans:

	30 - 59 Days	60 - 89 Days	90 Days or More Past Due	Total Past Due	Total Current	Total	90 Days or More Past Due and Accruing	Non-Accrual
	(In Thousands)							
At March 31, 2015 (unaudited)								
Real estate loans:								
One-to four-family residential	$ 1,099	$ 25	$ 268	$ 1,392	$ 117,606	$ 118,998	$	$ 505
Home equity loans and lines of credit			202	202	10,600	10,802		202
Commercial					2,472	2,472		
Construction					2,854	2,854		
Consumer loans	3			3	138	141		

Total	$ 1,102	$ 25	$ 470	$ 1,597	$ 133,670	$ 135,267	$	$ 707
At December 31, 2014								
Real estate loans:								
One-to four-family residential	$ 817	$ 122	$ 113	$ 1,052	$ 117,092	$ 118,144	$	$ 421
Home equity loans and lines of credit		198	4	202	10,609	10,811		202
Commercial					2,462	2,462		
Construction					2,787	2,787		
Consumer loans		1		1	145	146		
Total	$ 817	$ 321	$ 117	$ 1,255	$ 133,095	$ 134,350	$	$ 623

As of and during the three months ended March 31, 2015 and 2014 (unaudited) there were no loans that met the definition of an impaired loan in ASC 310-10-35.

During the three months ended March 31, 2015 and 2014 (unaudited) there were no loans that met the definition of a troubled debt restructured loan in ASC 310-10-50.

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Credit Quality Information

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

Loans rated 1 - 3: Loans in these categories are considered pass rated loans with low to average risk.

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

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

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

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

On an annual basis, or more often if needed, the Bank formally reviews the ratings on all commercial real estate, construction and commercial loans.

As of March 31, 2015 (unaudited), one- to four- family residential real estate loans with balances totaling $375,000 and home equity loans and lines of credit totaling $202,000 had a risk rating of substandard and all other loans outstanding had a risk rating of pass.

As of December 31, 2014, one- to four- family residential real estate loans with balances totaling $394,000 and home equity loans and lines of credit totaling $202,000 had a risk rating of substandard and all other loans outstanding had a risk rating of pass.

NOTE 5 PREMISES AND EQUIPMENT

The following is a summary of premises and equipment:

	March 31, 2015 (unaudited)	December 31, 2014
	(In Thousands)	
Land	$ 393	$ 393
Building and improvements	1,817	1,817
Furniture and equipment	491	482
Data processing equipment	218	217
	2,919	2,909

Accumulated depreciation	(1,679)	(1,655)
	$ 1,240	$ 1,254

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NOTE 6 DEPOSITS

The aggregate amount of time deposit accounts in denominations of $100,000 or more as of March 31, 2015 (unaudited) and December 31, 2014 was $34,640,000 and $34,583,000, respectively. The aggregate amount of time deposit amounts in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 as of March 31, 2015 (unaudited) and December 31, 2014 amounted to $12,500,000 and $12,015,000, respectively.

For time deposits as of March 31, 2015 (unaudited) the scheduled maturities for each of the following years ended March 31 are as follows:

	(In Thousands)
2016	$ 33,212
2017	26,985
2018	4,761
2019	5,073
2020	610
	$ 70,641

Deposits from related parties held by the Bank as of March 31, 2015 (unaudited) and December 31, 2014 amounted to $5,425,000 and $5,044,000, respectively.

NOTE 7 BORROWED FUNDS

The Company is permitted to borrow from the Federal Reserve Bank of Boston under certain conditions. Any such borrowings would be required to be fully secured by pledges of collateral satisfactory to the Federal Reserve Bank of Boston. In addition, as of March 31, 2015 (unaudited) the Company has the ability to borrow up to $88.3 million from the Federal Home Loan Bank of Boston (collateralized) and $5.0 million from the Co-Operative Central Bank.

NOTE 8 FINANCIAL INSTRUMENTS

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. 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 borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

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Notional amounts of financial instrument liabilities with off-balance sheet credit risk are as follows:

	March 31, 2015	December 31, 2014
	(In Thousands)	
	(unaudited)	
Commitments to originate loans	$ 2,072	$ 3,713
Unused lines of credit	11,415	11,065
Due to borrowers on unadvanced construction loans	491	323
	$ 13,978	$ 15,101

NOTE 9 FAIR VALUE MEASUREMENTS

ASC 820-10, Fair Value Measurements and Disclosures, provides a framework for measuring fair value under generally accepted accounting principles. This guidance also allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis.

In accordance with ASC 820-10, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. Government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other methodologies, including option pricing models, discounted cash flow models and similar techniques, are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company s financial assets and financial liabilities carried at fair value for March 31, 2015 (unaudited) and December 31, 2014. The Company did not have any significant transfers of assets between levels 1 and 2 of the fair value hierarchy during the three months ended March 31, 2015 (unaudited) and the year ended December 31, 2014.

The Company s investments in preferred stock and marketable equity securities are generally classified within level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Company s investment in debt securities available-for-sale is generally classified within level 2 of the fair value hierarchy. For these securities, we obtain fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument s terms and conditions.

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Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalization and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The following summarizes assets measured at fair value on a recurring basis:

		Fair Value Measurements at Reporting Date Using:		
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
March 31, 2015: (unaudited)				
U.S. government and federal agency obligations	$ 4,987	$	$ 4,987	$
Debt securities issued by states of the United States and political subdivisions of the states	539		539	
Corporate bonds and notes	16,640		16,640	
Preferred stock	3,002	3,002		
Mortgage-backed securities	2,422		2,422	
Marketable equity securities	17,166	17,166		
Totals	$ 44,756	$ 20,168	$ 24,588	$
December 31, 2014:				
U.S. government and federal agency obligations	$ 3,990	$	$ 3,990	$
Debt securities issued by states of the United States and political subdivisions of the states	540		540	
Corporate bonds and notes	15,241		15,241	
Preferred stock	2,904	2,904		
Mortgage-backed securities	2,115		2,115	
Marketable equity securities	16,985	16,985		
Totals	$ 41,775	$ 19,889	$ 21,886	$

Under certain circumstances the Company makes adjustments to fair value for its assets and liabilities although they are not measured at fair value on an ongoing basis. At March 31, 2015 (unaudited) and December 31, 2014, there were no financial instruments carried on the consolidated balance sheet for which a nonrecurring change in fair value has been recorded.

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The estimated fair values of the Company s financial instruments, all of which are held or issued for purposes other than trading, are as follows:

	March 31, 2015 (unaudited)				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	$ 25,593	$ 25,593	$	$	$ 25,593
Available-for-sale securities	44,756	20,168	24,588		44,756
Federal Home Loan Bank stock	437	437			