

**Washington, D.C. 20549**

**X Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended June 30, 2015**

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

**Melrose Bancorp, Inc.**

**(Exact name of registrant as specified in its charter)**

|   |  |
|---|--|
| <b>Maryland</b><br><b>(State or other jurisdiction of</b>   | <b>47-0967316</b><br><b>(I.R.S. Employer</b> |
| <b>incorporation or organization)</b>   | <b>Identification Number)</b>                |
| <b>638 Main Street, Melrose, Massachusetts</b><br><b>(Address of Principal Executive Offices)</b> | <b>02176</b><br><b>Zip Code</b>              |
| <b>(781) 665-2500</b>   |  |

**(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 ☒ 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 ☒ NO ☐

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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 ☒

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

As of August 14, 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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**Melrose Bancorp, Inc.**

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**Table of Contents****Part I. Financial Information****Item 1. Condensed Financial Statements****MELROSE BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS****(In Thousands, Except Share Data)**

|  | June 30,<br>2015<br>(unaudited) | December 31,<br>2014 |
|--|---------------------------------|----------------------|
| <b><u>Assets</u></b>   |                                 |                      |
| Cash and due from banks  | \$ 16,227                       | \$ 20,760            |
| Money market funds   | 2,930                           | 4,342                |
| Federal funds sold   | 4,061                           | 4,389                |
| Cash and cash equivalents  | 23,218                          | 29,491               |
| Investments in available-for-sale securities (at fair value)                                     | 45,593                          | 41,775               |
| Federal Home Loan Bank stock, at cost  | 437                             | 437                  |
| Loans, net of allowance for loan losses of \$529 at June 30, 2015 and \$520 at December 31, 2014 | 140,853                         | 133,910              |
| Premises and equipment, net  | 1,217                           | 1,254                |
| Co-operative Central Bank deposit  | 881                             | 881                  |
| Bank-owned life insurance  | 5,106                           | 5,037                |
| Accrued interest receivable  | 414                             | 382                  |
| Other assets   | 189                             | 175                  |
| Total assets   | \$ 217,908                      | \$ 213,342           |
| <b><u>Liabilities and Stockholders' Equity</u></b>   |                                 |                      |
| Deposits:  |                                 |                      |
| Noninterest-bearing  | \$ 13,496                       | \$ 13,286            |
| Interest-bearing   | 158,003                         | 153,785              |
| Total deposits   | 171,499                         | 167,071              |
| Deferred tax liability, net  | 174                             | 215                  |
| Other liabilities  | 475                             | 593                  |
| Total liabilities  | 172,148                         | 167,879              |
| <b><u>Stockholders' Equity:</u></b>  |                                 |                      |
|  | 28                              | 28                   |

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Common stock, par value \$0.01 per share, authorized 15,000,000 shares; issued and outstanding 2,829,579 shares at June 30, 2015 and December 31, 2014

|  |         |         |
|--|---------|---------|
| Additional paid-in-capital             | 26,590  | 26,575  |
| Retained earnings                      | 20,130  | 19,832  |
| Unearned compensation - ESOP           | (2,150) | (2,188) |
| Accumulated other comprehensive income | 1,162   | 1,216   |
| Total stockholders' equity             | 45,760  | 45,463  |

|  |            |            |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 217,908 | \$ 213,342 |
|--|------------|------------|

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

**Table of Contents****MELROSE BANCORP, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF INCOME****(In Thousands, Except Per Share Data)**

|  | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2015                        | 2014     | 2015                      | 2014     |
| Interest and dividend income:                                    |                             |          |                           |          |
| Interest and fees on loans                                       | \$ 1,194                    | \$ 1,144 | \$ 2,357                  | \$ 2,291 |
| Interest and dividends on securities:                            |                             |          |                           |          |
| Taxable  | 198                         | 173      | 399                       | 365      |
| Tax-exempt   | 8                           |          | 13                        |          |
| Other interest   | 12                          | 5        | 20                        | 8        |
| Total interest and dividend income                               | 1,412                       | 1,322    | 2,789                     | 2,664    |
| Interest expense:  |                             |          |                           |          |
| Interest on deposits   | 318                         | 313      | 617                       | 641      |
| Total interest expense   | 318                         | 313      | 617                       | 641      |
| Net interest and dividend income                                 | 1,094                       | 1,009    | 2,172                     | 2,023    |
| Provision for loan losses  | 9                           | 8        | 9                         | 10       |
| Net interest and dividend income after provision for loan losses | 1,085                       | 1,001    | 2,163                     | 2,013    |
| Noninterest income:  |                             |          |                           |          |
| Fees and service charges   | 24                          | 36       | 44                        | 57       |
| Gain on sales of securities, net                                 | 407                         |          | 409                       |          |
| Writedown of securities  | (377)                       |          | (377)                     |          |
| Gain on sales of loans   |                             | 10       |                           | 19       |
| Income on bank-owned life insurance                              | 22                          | 20       | 42                        | 43       |
| Other income   | 3                           | 2        | 5                         | 9        |
| Total noninterest income   | 79                          | 68       | 123                       | 128      |
| Noninterest expense:   |                             |          |                           |          |
| Salaries and employee benefits                                   | 573                         | 448      | 1,160                     | 994      |
| Occupancy expense  | 80                          | 70       | 158                       | 143      |
| Equipment expense  | 11                          | 12       | 23                        | 25       |
| Data processing expense  | 74                          | 79       | 151                       | 153      |
| Advertising expense  | 32                          | 30       | 60                        | 59       |
| Printing and supplies  | 23                          | 10       | 29                        | 19       |
| FDIC assessment  | 28                          | 28       | 57                        | 54       |

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|                                  |         |        |         |        |
|----------------------------------|---------|--------|---------|--------|
| Audits and examinations          | 47      | 30     | 89      | 57     |
| Other professional services      | 30      | 19     | 57      | 37     |
| Other expense                    | 29      | 42     | 57      | 71     |
| Total noninterest expense        | 927     | 768    | 1,841   | 1,612  |
| Income before income tax expense | 237     | 301    | 445     | 529    |
| Income tax expense               | 88      | 99     | 147     | 168    |
| Net income                       | \$ 149  | \$ 202 | \$ 298  | \$ 361 |
| Earnings Per Share:              |         |        |         |        |
| Basic                            | \$ 0.06 | N/A    | \$ 0.11 | N/A    |
| Diluted                          | \$ 0.06 | N/A    | \$ 0.11 | N/A    |

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



Table of ContentsMELROSE BANCORP, INC. AND SUBSIDIARYCONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME(In Thousands)

|   | Three Months Ended June 30, |        | Six Months Ended June 30, |        |
|---|-----------------------------|--------|---------------------------|--------|
|   | 2015                        | 2014   | 2015                      | 2014   |
|   | (unaudited)                 |        | (unaudited)               |        |
| Net income  | \$ 149                      | \$ 202 | \$ 298                    | \$ 361 |
| Other comprehensive (loss) income, net of tax:                      |                             |        |                           |        |
| Net unrealized holding (loss) gain on available-for-sale securities | (295)                       | 463    | (65)                      | 918    |
| Reclassification adjustment for net realized gains in net income    | (30)                        |        | (32)                      |        |
| Other comprehensive (loss) income before income tax effect          | (325)                       | 463    | (97)                      | 918    |
| Income tax benefit (expense)  | 127                         | (175)  | 43                        | (338)  |
| Other comprehensive (loss) income, net of tax                       | (198)                       | 288    | (54)                      | 580    |
| Comprehensive (loss) income   | \$ (49)                     | \$ 490 | \$ 244                    | \$ 941 |

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

Table of ContentsMELROSE BANCORP, INC. AND SUBSIDIARYCONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITYFor the Six Months Ended June 30, 2015 and 2014(In Thousands, Except Share Data)

(Unaudited)

|  | Common<br>Shares | Stock<br>Amount | Additional<br>Paid-in-<br>Capital | Retained<br>Earnings | Unearned<br>Compensation<br>- ESOP | Accumulated<br>Other<br>Comprehensive<br>Income | Total     |
|--|------------------|-----------------|-----------------------------------|----------------------|------------------------------------|---|-----------|
| Balance, December 31, 2013                             |                  | \$              | \$                                | \$ 20,004            | \$                                 | \$ 573  | \$ 20,577 |
| Net income   |                  |                 |                                   | 361                  |                                    |   | 361       |
| Other comprehensive income, net<br>of tax              |                  |                 |                                   |                      |                                    | 580   | 580       |
| Balance, June 30, 2014                                 |                  | \$              | \$                                | \$ 20,365            | \$                                 | \$ 1,153  | \$ 21,518 |
| Balance, December 31, 2014                             | 2,829,579        | \$ 28           | \$ 26,575                         | \$ 19,832            | \$ (2,188)                         | \$ 1,216  | \$ 45,463 |
| Net income   |                  |                 |                                   | 298                  |                                    |   | 298       |
| Other comprehensive loss, net of<br>tax                |                  |                 |                                   |                      |                                    | (54)  | (54)      |
| ESOP shares committed to be<br>released (7,546 shares) |                  |                 | 15                                |                      | 38                                 |   | 53        |
| Balance, June 30, 2015                                 | 2,829,579        | \$ 28           | \$ 26,590                         | \$ 20,130            | \$ (2,150)                         | \$ 1,162  | \$ 45,760 |

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)

|   | Six Months Ended June 30, |         |
|---|---------------------------|---------|
|   | 2015                      | 2014    |
| Cash flows from operating activities:   |                           |         |
| Net income  | \$ 298                    | \$ 361  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |         |
| Amortization of securities, net of accretion  | 14                        | 2       |
| Gain on available for sale securities, net  | (409)                     |         |
| Writedown of available for sale securities  | 377                       |         |
| Provision for loan losses   | 9                         | 10      |
| Change in net deferred loan costs/fees  | 4                         | 11      |
| Loans originated for sale   |                           | (1,519) |
| Proceeds from sales of loans  |                           | 1,538   |
| Gain on sales of loans  |                           | (19)    |
| Depreciation and amortization   | 47                        | 44      |
| (Increase) decrease in accrued interest receivable  | (32)                      | 16      |
| Decrease (increase) in other assets   | 18                        | (721)   |
| (Decrease) increase in accrued expenses and other liabilities                               | (118)                     | 141     |
| (Increase) decrease in income tax receivable  | (32)                      | 55      |
| Deferred tax expense (benefit)  | 2                         | (10)    |
| Income on bank-owned life insurance   | (42)                      | (43)    |
| ESOP expense  | 53                        |         |
| Net cash provided by (used in) operating activities   | 189                       | (134)   |
| Cash flows from investing activities:   |                           |         |
| Purchases of available-for-sale securities  | (9,091)                   | (1,169) |
| Proceeds from sale of available-for-sale securities   | 1,898                     |         |
| Proceeds from maturities and calls of available-for-sale securities                         | 3,296                     | 2,000   |
| Purchase of Federal Home Loan Bank stock  |                           | (28)    |
| Loan originations and principal collections, net  | (6,956)                   | 1,280   |
| Capital expenditures  | (10)                      | (25)    |
| Premiums paid on bank-owned life insurance  | (27)                      | (27)    |
| Net cash (used in) provided by investing activities   | (10,890)                  | 2,031   |
| Cash flows from financing activities:   |                           |         |
| Net (decrease) increase in demand deposits, NOW and savings accounts                        | (2,699)                   | 3,120   |

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|   |           |           |
|---|-----------|-----------|
| Net increase (decrease) in time deposits            | 7,127     | (6,530)   |
| Net cash provided by (used in) financing activities | 4,428     | (3,410)   |
| Net decrease in cash and cash equivalents           | (6,273)   | (1,513)   |
| Cash and cash equivalents at beginning of period    | 29,491    | 16,995    |
| Cash and cash equivalents at end of period          | \$ 23,218 | \$ 15,482 |

Supplemental disclosures:

|                   |        |        |
|-------------------|--------|--------|
| Interest paid     | \$ 617 | \$ 643 |
| Income taxes paid | 177    | 123    |

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 (the **Conversion**), the Bank completed a mutual-to-stock conversion pursuant to which the Bank became a wholly owned subsidiary of Melrose Bancorp, Inc. (the **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 June 30, 2015 and for the interim periods ended June 30, 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 thereto included in the Company's Form 10-K for the year ended December 31, 2014. The results of operations for the three and six months ended June 30, 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 June 30, 2015 (unaudited), the Company has total cash and cash equivalents in the following banks:

|                   |   |
|-------------------|---|
| Eastern Bank      | \$7,330,000, which represents approximately 16.0% 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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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 six month period ending June 30, 2015.

|   | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30, 2015      |           | June 30, 2015    |           |
| Net income (in thousands)                             | \$                 | 149       | \$               | 298       |
| Basic Common Shares:                                  |                    |           |                  |           |
| Weighted average common shares outstanding            |                    | 2,829,579 |                  | 2,829,579 |
| Weighted average unallocated ESOP shares              |                    | (218,820) |                  | (218,820) |
| Basic and diluted weighted average shares outstanding |                    | 2,610,759 |                  | 2,610,759 |
| Basic earnings per share                              | \$                 | 0.06      | \$               | 0.11      |
| Diluted earnings per share                            | \$                 | 0.06      | \$               | 0.11      |

**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 consolidated balance sheets for cash and cash equivalents approximate fair value.

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 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.



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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. However, in July 2015, the FASB voted to approve deferring the effective date by one year (i.e. interim and annual reporting periods beginning after December 15, 2017). Early adoption is permitted, but not before the original effective date (i.e. interim and annual reporting periods beginning after December 15, 2016). 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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In May 2015, the FASB issued ASU 2015-07: Fair Value Measurement (Topic 820) Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent). The objective of this update is to address the diversity in practice related to how certain investments measured at net asset value with redemption dates in the future are categorized within the fair value hierarchy. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendments in this update are effective for fiscal years, and the interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

**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<br>Cost<br>Basis | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|--|----------------------------|------------------------------|-------------------------------|---------------|
| (In Thousands)   |                            |                              |                               |               |
| June 30, 2015: (unaudited)   |                            |                              |                               |               |
| U.S. government and federal agency obligations   | \$ 7,088                   | \$ 5                         | \$ 56                         | \$ 7,037      |
| Debt securities issued by states of the United States and political subdivisions of the states | 1,441                      |                              | 27                            | 1,414         |
| Corporate bonds and notes  | 16,329                     | 25                           | 28                            | 16,326        |
| Preferred stock  | 3,000                      | 4                            | 69                            | 2,935         |
| Mortgage-backed securities   | 2,657                      |                              | 44                            | 2,613         |
| Marketable equity securities   | 13,107                     | 2,199                        | 38                            | 15,268        |
|  | \$ 43,622                  | \$ 2,233                     | \$ 262                        | \$ 45,593     |
| 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<br>Value<br>(In Thousands) |
|--|---------------------------------|
| June 30, 2015 (unaudited)              |                                 |
| Due within one year                    | \$ 6,008                        |
| Due after one year through five years  | 14,341                          |
| Due after five years through ten years | 2,378                           |
| Due after ten years                    | 2,051                           |
| Mortgage-backed securities             | 2,613                           |
| Asset-backed securities                | 1,999                           |
| Preferred stock, no stated maturity    | 935                             |
|  | \$ 30,325                       |

|  | Fair<br>Value<br>(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 June 30, 2015 (unaudited) and December 31, 2014.

During the three and six months ended June 30, 2015, proceeds from the sale of available-for-sale securities amounted to \$864,000 and \$1.9 million, respectively. The gross realized gains on these sales amounted to \$1,000 and \$489,000 and the gross realized losses were \$0 and \$80,000, respectively. The tax expense applicable to these net realized gains amounted to \$0 and \$164,000, respectively. During the six months ended June 30, 2014, there were no sales of available-for-sale securities.

The Company had no pledged securities as of June 30, 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)   |                     |                   |                     |                   |                  |                   |
| <b>June 30, 2015: (unaudited)</b>  |                     |                   |                     |                   |                  |                   |
| U.S. government and federal agency obligations   | \$ 5,041            | \$ 51             | \$ 1,495            | \$ 5              | \$ 6,536         | \$ 56             |
| Debt securities issued by states of the United States and political subdivisions of the states | 1,414               | 27                |                     |                   | 1,414            | 27                |
| Corporate bonds and notes  | 5,318               | 17                | 988                 | 11                | 6,306            | 28                |
| Preferred stock  | 996                 | 3                 | 934                 | 66                | 1,930            | 69                |
| Mortgage-backed securities   | 2,613               | 44                |                     |                   | 2,613            | 44                |
| Marketable equity securities   |                     |                   | 8,455               | 38                | 8,455            | 38                |
| <b>Total temporarily impaired securities</b>   | <b>\$ 15,382</b>    | <b>\$ 142</b>     | <b>\$ 11,872</b>    | <b>\$ 120</b>     | <b>\$ 27,254</b> | <b>\$ 262</b>     |
| <b>December 31, 2014:</b>  |                     |                   |                     |                   |                  |                   |
| 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               |
| <b>Total temporarily impaired securities</b>   | <b>\$ 9,639</b>     | <b>\$ 44</b>      | <b>\$ 16,670</b>    | <b>\$ 570</b>     | <b>\$ 26,309</b> | <b>\$ 614</b>     |

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.

During the three and six months ended June 30, 2015, the Company wrote down four securities that were deemed other than temporarily impaired and recognized a loss of \$377,000. There were no write downs of securities for the three and six months ended June 30, 2014. A summary of the Company's reviews of investment securities deemed to be temporarily impaired is as follows:

*June 30, 2015 (unaudited)*

Unrealized losses on U.S. Government and federal agency obligations amounted to \$56,000 and consisted of ten securities. Unrealized losses on corporate bonds and notes amounted to \$28,000 and consisted of eleven securities. The unrealized losses on all but one of these debt securities were individually less than 1.5% of amortized cost basis, with one U.S. government and federal agency obligation at 2.6% of amortized cost basis. The unrealized losses were primarily due to changes in interest rates. Unrealized losses on municipal bonds amounted to \$27,000 and consisted of four securities. The unrealized losses on all of these debt securities were each individually less than 3.0% of amortized cost basis, and the unrealized losses were primarily due to changes in interest rates. Unrealized losses on mortgage-backed and asset-backed securities amounted to \$44,000 and consisted of four securities. The unrealized losses on these debt securities were each individually less than 3.0% 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.

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Unrealized losses on preferred stocks amounted to \$69,000 and consisted of two investments. Public Storage Inc., has an unrealized loss of \$66,000, or 6.6% of amortized cost. 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.

Unrealized losses on marketable equity securities amounted to \$38,000 and consisted of five mutual funds. 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 six months ended June 30, 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.



**Table of Contents****NOTE 4 - LOANS**

Loans consisted of the following at:

|                                       | June 30,<br>2015<br>(In Thousands)<br>(unaudited) | December 31,<br>2014 |
|---------------------------------------|---|----------------------|
| Real estate loans:                    |   |                      |
| One-to four-family residential        | \$ 120,473  | \$ 118,144           |
| Home equity loans and lines of credit | 10,864  | 10,811               |
| Commercial                            | 5,730   | 2,462                |
| Construction                          | 4,090   | 2,787                |
| Consumer loans                        | 149   | 146                  |
| <b>Total loans</b>                    | <b>141,306</b>                                    | <b>134,350</b>       |
| Allowance for loan losses             | (529)   | (520)                |
| Deferred loan costs, net              | 76  | 80                   |
| <br>Net loans                         | <br>\$ 140,853                                    | <br>\$ 133,910       |

The following tables set forth information on the allowance for loan losses at and for the six months ended June 30, 2015 and 2014, and at December 31, 2014:

|                                       | Real Estate:      |                      |                     |            |              |          |             |    |    |       |    |   |    |     |
|---------------------------------------|-------------------|----------------------|---------------------|------------|--------------|----------|-------------|----|----|-------|----|---|----|-----|
|                                       | Home Equity Loans |                      |                     |            |              | Consumer |             |    |    |       |    |   |    |     |
|                                       | One- family       | to four- Residential | and Lines of Credit | Commercial | Construction | Loans    | Unallocated |    |    | Total |    |   |    |     |
|                                       | (In Thousands)    |                      |                     |            |              |          |             |    |    |       |    |   |    |     |
| June 30, 2015 (unaudited)             |                   |                      |                     |            |              |          |             |    |    |       |    |   |    |     |
| Allowance for loan losses:            |                   |                      |                     |            |              |          |             |    |    |       |    |   |    |     |
| Beginning balance                     | \$                | 414                  | \$                  | 58         | \$           | 25       | \$          | 21 | \$ | 1     | \$ | 1 | \$ | 520 |
| Charge offs                           |                   |                      |                     |            |              |          |             |    |    |       |    |   |    |     |
| Recoveries                            |                   |                      |                     |            |              |          |             |    |    |       |    |   |    |     |
| Provision (benefit)                   |                   | (30)                 |                     |            |              | 32       |             | 7  |    |       |    |   |    | 9   |
| Ending balance                        | \$                | 384                  | \$                  | 58         | \$           | 57       | \$          | 28 | \$ | 1     | \$ | 1 | \$ | 529 |
| Ending balance:                       |                   |                      |                     |            |              |          |             |    |    |       |    |   |    |     |
| Individually evaluated for impairment | \$                |                      | \$                  |            | \$           |          | \$          |    | \$ |       | \$ |   | \$ |     |
| Ending balance:                       |                   |                      |                     |            |              |          |             |    |    |       |    |   |    |     |
| Collectively evaluated for impairment |                   | 384                  |                     | 58         |              | 57       |             | 28 |    | 1     |    | 1 |    | 529 |

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|  |    |     |    |    |    |    |    |    |    |   |    |   |    |     |
|--|----|-----|----|----|----|----|----|----|----|---|----|---|----|-----|
| Total allowance for loan losses ending balance | \$ | 384 | \$ | 58 | \$ | 57 | \$ | 28 | \$ | 1 | \$ | 1 | \$ | 529 |
|--|----|-----|----|----|----|----|----|----|----|---|----|---|----|-----|

Loans:

Ending balance:

|                                       |    |  |    |  |    |  |    |  |    |  |    |  |
|---------------------------------------|----|--|----|--|----|--|----|--|----|--|----|--|
| Individually evaluated for impairment | \$ |  | \$ |  | \$ |  | \$ |  | \$ |  | \$ |  |
|---------------------------------------|----|--|----|--|----|--|----|--|----|--|----|--|

Ending balance:

|                                       |         |        |       |       |     |         |
|---------------------------------------|---------|--------|-------|-------|-----|---------|
| Collectively evaluated for impairment | 120,473 | 10,864 | 5,730 | 4,090 | 149 | 141,306 |
|---------------------------------------|---------|--------|-------|-------|-----|---------|

|                            |    |         |    |        |    |       |    |       |    |     |    |         |
|----------------------------|----|---------|----|--------|----|-------|----|-------|----|-----|----|---------|
| Total loans ending balance | \$ | 120,473 | \$ | 10,864 | \$ | 5,730 | \$ | 4,090 | \$ | 149 | \$ | 141,306 |
|----------------------------|----|---------|----|--------|----|-------|----|-------|----|-----|----|---------|

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|   | Real Estate:                           |  |            |              |                   |             |    |       |    |       |    |    |    |         |
|---|--|--|------------|--------------|-------------------|-------------|----|-------|----|-------|----|----|----|---------|
|   | One- to<br>four- family<br>Residential | Home Equity Loans<br>and Lines of Credit | Commercial | Construction | Consumer<br>Loans | Unallocated |    |       |    | Total |    |    |    |         |
|   | (In Thousands)                         |  |            |              |                   |             |    |       |    |       |    |    |    |         |
| June 30, 2014 (unaudited)                         |  |  |            |              |                   |             |    |       |    |       |    |    |    |         |
| Allowance for loan losses:                        |  |  |            |              |                   |             |    |       |    |       |    |    |    |         |
| Beginning balance                                 | \$                                     | 414                                      | \$         | 55           | \$                | 20          | \$ | 14    | \$ | 1     | \$ | 6  | \$ | 510     |
| Charge offs                                       |  |  |            |              |                   |             |    |       |    |       |    |    |    |         |
| Recoveries  |  |  |            |              |                   |             |    |       |    |       |    |    |    |         |
| (Benefit) provision                               |  | (10)                                     |            | 3            |                   | 6           |    | (2)   |    |       |    | 13 |    | 10      |
| Ending balance                                    | \$                                     | 404                                      | \$         | 58           | \$                | 26          | \$ | 12    | \$ | 1     | \$ | 19 | \$ | 520     |
| Ending balance:                                   |  |  |            |              |                   |             |    |       |    |       |    |    |    |         |
| Individually evaluated for<br>impairment          | \$                                     |  | \$         |              | \$                |             | \$ |       | \$ |       | \$ |    | \$ |         |
| Ending balance:                                   |  |  |            |              |                   |             |    |       |    |       |    |    |    |         |
| Collectively evaluated for<br>impairment          |  | 404                                      |            | 58           |                   | 26          |    | 12    |    | 1     |    | 19 |    | 520     |
| Total allowance for loan losses<br>ending balance |  |  |            |              |                   |             |    |       |    |       |    |    |    |         |
|   | \$                                     | 404                                      | \$         | 58           | \$                | 26          | \$ | 12    | \$ | 1     | \$ | 19 | \$ | 520     |
| Loans:  |  |  |            |              |                   |             |    |       |    |       |    |    |    |         |
| Ending balance:                                   |  |  |            |              |                   |             |    |       |    |       |    |    |    |         |
| Individually evaluated for<br>impairment          | \$                                     |  | \$         |              | \$                |             | \$ |       | \$ |       | \$ |    | \$ |         |
| Ending balance:                                   |  |  |            |              |                   |             |    |       |    |       |    |    |    |         |
| Collectively evaluated for<br>impairment          |  | 115,919                                  |            | 10,878       |                   | 2,649       |    | 1,564 |    | 119   |    |    |    | 131,129 |
| Total loans ending balance                        | \$                                     | 115,919                                  | \$         | 10,878       | \$                | 2,649       | \$ | 1,564 | \$ | 119   | \$ |    | \$ | 131,129 |

|                            | Real Estate:                           |  |            |              |                   |             |  |  |  |        |  |
|----------------------------|--|--|------------|--------------|-------------------|-------------|--|--|--|--------|--|
|                            | One- to<br>four-<br>family Residential | Home Equity Loans<br>and Lines of Credit | Commercial | Construction | Consumer<br>Loans | Unallocated |  |  |  | Total  |  |
|                            | (In Thousands)                         |  |            |              |                   |             |  |  |  |        |  |
| December 31, 2014:         |  |  |            |              |                   |             |  |  |  |        |  |
| Allowance for loan losses: |  |  |            |              |                   |             |  |  |  |        |  |
| Beginning balance          | \$ 414                                 | \$ 55                                    | \$ 20      | \$ 14        | \$ 1              | \$ 6        |  |  |  | \$ 510 |  |
| Charge offs                |  |  |            |              |                   |             |  |  |  |        |  |
| Recoveries                 |  |  |            |              |                   |             |  |  |  |        |  |
| Provision (benefit)        |  | 3  | 5          | 7            |                   | (5)         |  |  |  | 10     |  |

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|  |    |         |    |        |    |       |    |       |    |     |    |   |    |         |
|--|----|---------|----|--------|----|-------|----|-------|----|-----|----|---|----|---------|
| Ending balance                                 | \$ | 414     | \$ | 58     | \$ | 25    | \$ | 21    | \$ | 1   | \$ | 1 | \$ | 520     |
| 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 |

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

|  | 30 - 59<br>Days | 60 - 89<br>Days | 90 Days or More<br>Past Due | Total Past Due<br>(In Thousands) | Total<br>Current | Total      | 90 Days or More<br>Past Due<br>and<br>Accruing | Non-<br>Accrual |
|--|-----------------|-----------------|-----------------------------|----------------------------------|------------------|------------|--|-----------------|
| <b><u>At June 30, 2015 (unaudited)</u></b> |                 |                 |                             |                                  |                  |            |  |                 |
| Real estate loans:                         |                 |                 |                             |                                  |                  |            |  |                 |
| One-to four-family residential             | \$              | \$ 23           | \$ 68                       | \$ 91                            | \$ 120,382       | \$ 120,473 | \$   | \$ 495          |
| Home equity loans and lines of credit      |                 |                 | 202                         | 202                              | 10,662           | 10,864     |  | 202             |
| Commercial                                 |                 |                 |                             |                                  | 5,730            | 5,730      |  |                 |
| Construction                               |                 |                 |                             |                                  | 4,090            | 4,090      |  |                 |
| Consumer loans                             |                 |                 |                             |                                  | 149              | 149        |  |                 |
| Total                                      | \$              | \$ 23           | \$ 270                      | \$ 293                           | \$ 141,013       | \$ 141,306 | \$   | \$ 697          |

**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 six months ended June 30, 2015 and 2014 (unaudited) there were no loans that met the definition of an impaired loan in ASC 310-10-35.

During the six months ended June 30, 2015 and 2014 (unaudited) there were no loans modified that met the definition of a troubled debt restructured loan in ASC 310-10-50.

**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.

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

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

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

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

As of June 30, 2015 (unaudited), one- to four- family residential real estate loans with balances totaling \$163,000 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.

**Table of Contents****NOTE 5 - PREMISES AND EQUIPMENT**

The following is a summary of premises and equipment:

|                           | June 30,<br>2015 | December 31,<br>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  | (1,702)          | (1,655)              |
|                           | \$ 1,217         | \$ 1,254             |

**NOTE 6 - DEPOSITS**

The aggregate amount of time deposit accounts in denominations of \$100,000 or more as of June 30, 2015 (unaudited) and December 31, 2014 was \$40,367,000 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 June 30, 2015 (unaudited) and December 31, 2014 amounted to \$15,997,000 and \$12,015,000, respectively.

For time deposits as of June 30, 2015 (unaudited) the scheduled maturities for each of the following years ended June 30 are as follows:

|      | (In Thousands) |
|------|----------------|
| 2016 | \$ 40,441      |
| 2017 | 29,967         |
| 2018 | 4,239          |
| 2019 | 3,401          |
| 2020 | 325            |
|      | \$ 78,373      |

Deposits from related parties held by the Bank as of June 30, 2015 (unaudited) and December 31, 2014 amounted to \$5,598,000 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, the Company has the ability to borrow from the Federal Home Loan Bank of Boston and 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.



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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.

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

|   | June 30,<br>2015 | December 31,<br>2014 |
|---|------------------|----------------------|
|   | (In Thousands)   |                      |
| Commitments to originate loans                    | \$ 6,004         | \$ 3,713             |
| Unused lines of credit                            | 11,025           | 11,065               |
| Due to borrowers on unadvanced construction loans | 1,463            | 323                  |
|   | \$ 18,492        | \$ 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 June 30, 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 six months ended June 30, 2015 (unaudited) and the year ended December 31, 2014.

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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.

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<br>Active Markets for<br>Identical<br>Assets<br>Level 1 | Significant<br>Other Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |
| (In Thousands)   |  |  |  |  |
| June 30, 2015: (unaudited)   |  |  |  |  |
| U.S. government and federal agency obligations   | \$ 7,037   | \$   | \$ 7,037   | \$   |
| Debt securities issued by states of the United States and political subdivisions of the states | 1,414  |  | 1,414  |  |
| Corporate bonds and notes  | 16,326   |  | 16,326   |  |
| Preferred stock  | 2,935  | 2,935  |  |  |
| Mortgage-backed securities   | 2,613  |  | 2,613  |  |
| Marketable equity securities   | 15,268   | 15,268   |  |  |
| Totals   | \$ 45,593  | \$ 18,203  | \$ 27,390  | \$   |
| 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  |  |

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|                              |           |           |           |
|------------------------------|-----------|-----------|-----------|
| 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 a recurring basis. At June 30, 2015 (unaudited) and December 31, 2014, there were no assets or liabilities carried on the consolidated balance sheets 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:

|                                   |           | June 30, 2015 (unaudited) |         |         |           |
|-----------------------------------|-----------|---------------------------|---------|---------|-----------|
|                                   | Carrying  | Fair Value                |         |         |           |
|                                   | Amount    | Level 1                   | Level 2 | Level 3 | Total     |
|                                   |           | (In Thousands)            |         |         |           |
| Financial assets:                 |           |                           |         |         |           |
| Cash and cash equivalents         | \$ 23,218 | \$ 23,218                 | \$      | \$      | \$ 23,218 |
| Available-for-sale securities     | 45,593    | 18,203                    | 27,390  |         | 45,593    |
| Federal Home Loan Bank stock      | 437       | 437                       |         |         | 437       |
| Loans, net                        | 140,853   |                           |         | 140,921 | 140,921   |
| Co-operative Central Bank deposit | 881       | 881                       |         |         | 881       |
| Accrued interest receivable       | 414       | 414                       |         |         | 414       |
| Financial liabilities:            |           |                           |         |         |           |
| Deposits                          | 171,499   |                           | 171,674 |         | 171,674   |

|                                   |           | December 31, 2014 |                |         |           |
|-----------------------------------|-----------|-------------------|----------------|---------|-----------|
|                                   | Carrying  |                   | Fair Value     |         |           |
|                                   | Amount    | Level 1           | Level 2        | Level 3 | Total     |
|                                   |           |                   | (In Thousands) |         |           |
| Financial assets:                 |           |                   |                |         |           |
| Cash and cash equivalents         | \$ 29,491 | \$ 29,491         | \$             | \$      | \$ 29,491 |
| Available-for-sale securities     | 41,775    | 19,889            | 21,886         |         | 41,775    |
| Federal Home Loan Bank stock      | 437       | 437               |                |         | 437       |
| Loans, net                        | 133,910   |                   |                | 135,513 | 135,513   |
| Co-operative Central Bank deposit | 881       | 881               |                |         | 881       |
| Accrued interest receivable       | 382       | 382               |                |         | 382       |
| Financial liabilities:            |           |                   |                |         |           |
| Deposits                          | 167,071   |                   | 167,881        |         | 167,881   |

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions. Accounting policies related to financial instruments are described in Note 2.

**Table of Contents****NOTE 11 - OTHER COMPREHENSIVE (LOSS) INCOME**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the stockholders equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income, included in stockholders equity, are as follows:

|   | Three months ended June 30, |        | Six months ended June 30, |        |
|---|-----------------------------|--------|---------------------------|--------|
|   | 2015                        | 2014   | 2015                      | 2014   |
|   | (In Thousands)              |        |                           |        |
|   | (unaudited)                 |        |                           |        |
| Net unrealized holding (losses) gains on available-for-sale securities    | \$ (295)                    | \$ 463 | \$ (65)                   | \$ 918 |
| Reclassification adjustment for realized gains (losses) in net income (1) | (30)                        |        | (32)                      |        |
| Other comprehensive (loss) income before income tax effect                | (325)                       | 463    | (97)                      | 918    |
| Income tax (benefit) expense  | 127                         | (175)  | 43                        | (338)  |
| Other comprehensive (loss) income, net of tax                             | \$ (198)                    | \$ 288 | \$ (54)                   | \$ 580 |

- (1) Reclassification adjustments include net realized securities gains. Realized gains have been reclassified out of accumulated other comprehensive income and affect certain captions in the consolidated statements of income as follows: pre-tax amount is reflected as a gain on securities, net and writedowns of securities, the tax effect is included in income tax expense, and the after-tax amount is included in net income.

Accumulated other comprehensive income as of June, 2015 (unaudited) and December 31, 2014 consists of net unrealized holding gains on available-for-sale securities, net of taxes.

**NOTE 12 - REGULATORY MATTERS**

The Bank is subject to various regulatory capital requirements administered by the federal 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Effective January 1, 2015 (with a phase-in period of two to four years for certain components), the Bank became subject to new capital regulations adopted by the Board of Governors of the Federal Reserve System (FRB) and the FDIC, which implement the Basel III regulatory capital reforms and the changes required by the Dodd-Frank Act. The

new regulations require a new common equity Tier 1 ( CETI ) capital ratio of 4.5%, increase the minimum Tier 1 capital to risk-weighted assets ratio to 6.0% from 4.0%, require a minimum total capital to risk-weighted assets ratio of 8.0% and require a minimum Tier 1 leverage ratio of 4.0%. CETI generally consists of common stock and retained earnings, subject to applicable adjustments and deductions. Under new prompt corrective action regulations, in order to be considered well capitalized, the Bank must maintain a CETI capital ratio of 6.5% (new) and a Tier 1 ratio of 8.0% (increased from 6.0%), a total risk based capital ratio of 10% (unchanged) and a Tier 1 leverage ratio of 5.0% (unchanged). In addition, the regulations establish a capital conservation buffer above the required capital ratios that phases in beginning January 1, 2016 at 0.625% of risk-weighted assets and increases each year by 0.625% until it is fully phased in at 2.5% effective January 1, 2019. Beginning January 1, 2016, failure to maintain the capital conservation buffer will limit the ability of the Bank and the Company to pay dividends, repurchase shares or pay discretionary bonuses.

The new regulations implemented changes to what constitutes regulatory capital. Certain instruments will no longer constitute qualifying capital, subject to phase-out periods. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of CETI will be deducted from capital. The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on the Bank's regulatory capital ratios.

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The new regulations also changed the risk weights of certain assets, including an increase in the risk weight of certain high volatility commercial real estate acquisition, development and construction loans and non-residential mortgage loans that are 90 days past due or on non-accrual status to 150% from 100%, a credit conversion factor for the unused portion of commitments with maturities of less than one year that are not cancellable to 20% from 0%, an increase in the risk weight for mortgage servicing rights and deferred tax assets that are not deducted from capital to 250% from 100%, and an increase in the risk weight for equity exposures to 600% from 0%.

As of June 30, 2015 (unaudited) and December 31, 2014, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are presented in the following table.

|  | June 30,<br>2015       | December 31,<br>2014 |
|--|------------------------|----------------------|
|  | (Dollars in Thousands) |                      |
| <b>Regulatory Capital</b>  |                        |                      |
| Stockholders' Equity   | \$ 32,865              | \$ 32,595            |
| Less: Net unrealized gains on investment securities,<br>net of tax | (1,198)                | (1,236)              |
| Common Equity Tier 1 Capital                                       | 31,667                 | N/A                  |
| <b>Tier 1 Capital</b>  | <b>31,667</b>          | <b>31,364</b>        |
| Allowable reserve for credit losses and unfunded<br>commitments    | 1,502                  | 1,510                |
| <b>Total Regulatory Capital (1)</b>                                | <b>\$ 33,169</b>       | <b>\$ 32,874</b>     |
| <b>Risk-weighted assets (1)</b>                                    | <b>\$ 117,245</b>      | <b>\$ 119,395</b>    |
| <b>Average Assets</b>  | <b>\$ 213,248</b>      | <b>\$ 208,294</b>    |
| <b>Key Regulatory Capital Ratios (1):</b>                          |                        |                      |
| Common Equity Tier 1 Capital Ratio                                 | 27.01%                 | N/A                  |
| Tier 1 Capital Ratio   | 27.01%                 | 26.27%               |
| Total Capital Ratio  | 28.29%                 | 27.53%               |
| Tier 1 Leverage Ratio  | 15.00%                 | 14.78%               |

(1) June 30, 2015 calculated under Basel III rules, which became effective January 1, 2015.

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

### **General**



Management's discussion and analysis of the financial condition and results of operations at and for the three and six months ended June 30, 2015 and 2014 is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto, appearing on Part I, Item 1 of this quarterly report on Form 10-Q.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This quarterly report contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, expect and words of similar meaning. These forward-looking statements include, but are not limited to:

statements of our goals, intentions and expectations;

statements regarding our business plans, prospects, growth and operating strategies;

statements regarding the quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

general economic conditions, either nationally or in our market area, that are worse than expected;

our success in growing our commercial real estate loan portfolio;

increased competition among depository and other financial institutions;

inflation and changes in the interest rate environment that reduce our margins and yields, reduce the fair value of financial instruments or increase our funding costs;

changes in laws or government regulations or policies that adversely affect financial institutions, including changes in regulatory fees and capital requirements;

our ability to manage operations in the current economic conditions;

our ability to capitalize on growth opportunities;

changes in consumer spending, borrowing and savings habits;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;

changes in our organization, compensation and benefit plans;

changes in the level of government support for housing finance;

significant increases in delinquencies and our loan losses; and

changes in our financial condition or results of operations that reduce capital.

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**Comparison of Financial Condition at June 30, 2015 (unaudited) and December 31, 2014**

Total assets increased \$4.6 million or 2.1%, to \$217.9 million at June 30, 2015 from \$213.3 million at December 31, 2014. The increase was primarily the result of an increase in securities available-for-sale and net loans, partially offset by a decrease in cash and cash equivalents.

Cash and cash equivalents decreased \$6.3 million, or 21.3%, to \$23.2 million at June 30, 2015 from \$29.5 million at December 31, 2014. These decreases were due primarily to the originations of commercial loans.

Securities available-for-sale increased \$3.8 million, or 9.1%, to \$45.6 million at June 30, 2015 from \$41.8 million at December 31, 2014. The increase in securities available-for-sale during 2015 was a result of the investment of the proceeds of our initial public offering in October 2014.

Net loans increased \$6.9 million, or 5.2%, to \$140.8 million at June 30, 2015 from \$133.9 million at December 31, 2014. The increase in net loans was due primarily to an increase of \$2.3 million, or 2.0%, in one-to-four family residential loans, an increase of \$1.3 million, or 46.8%, in construction loans as well as an increase of \$3.3 million or 132.7% in commercial real estate loans during the six months ended June 30, 2015.

At June 30, 2015 our investment in bank-owned life insurance was \$5.1 million, an increase of \$69,000, or 1.4%, from \$5.0 million at December 31, 2014. We invest in bank-owned life insurance to provide us with a funding offset for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable.

Other assets increased \$14,000, or 8.0%, to \$189,000 at June 30, 2015 from \$175,000 at December 31, 2014. The increase resulted primarily from an increase of \$32,000 in federal and state taxes receivable and \$17,000 in prepaid consulting fees partially offset by a decrease of \$31,000 in prepaid bank insurance.

Total deposits increased \$4.4 million, or 2.7%, to \$171.5 million at June 30, 2015 from \$167.1 million at December 31, 2014. The increase in deposits was due primarily to an increase of \$7.1 million, or 9.9%, in time deposits and \$1.0 million, or 2.2%, in savings accounts. The increases in time deposits and savings accounts were offset by a decrease of \$4.0 million, or 10.5%, in money market accounts.

We had no borrowings outstanding at June 30, 2015 or December 31, 2014. At June 30, 2015, we had the ability to borrow approximately \$89.2 million from the Federal Home Loan Bank of Boston, subject to certain collateral requirements. Additionally at June 30, 2015, we had the ability to borrow up to \$5.0 million on a Federal Funds line of credit with the Co-operative Central Bank.

Total stockholders' equity increased \$297,000, or 0.7%, to \$45.8 million at June 30, 2015 from \$45.5 million at December 31, 2014. The increase was primarily the result of net income of \$298,000 as well as an increase of \$53,000 due to ESOP shares committed to be released, offset by \$54,000 of other comprehensive loss, net of tax.

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**Comparison of Operating Results for the Three Months Ended June 30, 2015 and 2014**

**General.** Net income decreased \$53,000, or 26.2%, to \$149,000 for the three months ended June 30, 2015 from \$202,000 for the three months ended June 30, 2014. Net income decreased primarily due to an increase in noninterest expenses and interest expense, partially offset by an increase in interest and dividend income and noninterest income.

**Interest and Dividend Income.** Interest and dividend income increased \$90,000, or 6.8%, to \$1.4 million for the three months ended June 30, 2015 from \$1.3 million for the three months ended June 30, 2014 due to an increase in interest and fees on loans, which increased \$50,000 to \$1.2 million for the three months ended June 30, 2015 from \$1.1 million for the three months ended June 30, 2014. The increase of \$50,000 in interest and fees on loans was the result of an increase in new loan originations.

Interest and dividends on securities increased \$33,000, or 19.1%, to \$206,000 for the three months ended June 30, 2015 from \$173,000 for the three months ended June 30, 2014 resulting from an increase of \$5.0 million in the average balance of securities quarter to quarter.

Other interest income increased \$7,000 for the three months ended June 30, 2015 due to a \$15.6 million increase in the average balance of other interest-earning assets.

**Interest Expense.** Interest expense increased \$5,000, or 1.6%, to \$318,000 for the three months ended June 30, 2015 from \$313,000 for the three months ended June 30, 2014. The increase was due to an increase of \$670,000, or 0.9% in the average balance of time deposits as well as an increase of five basis points in the yield on those time deposits to 1.43% for 2015 from 1.38% for 2014.

**Net Interest and Dividend Income.** Net interest and dividend income increased \$85,000, or 8.4%, to \$1.1 million for the three months ended June 30, 2015 from \$1.0 million for the three months ended June 30, 2014 primarily due to an increase of \$31.2 million in our net interest-earning assets to \$53.2 million during 2015 from \$22.0 million during 2014. This was offset in part as our net interest rate spread decreased twenty-three basis points to 1.90% for 2015 from 2.13% for 2014.

**Provision for Loan Losses.** We recorded a provision for loan losses of \$9,000 for the three months ended June 30, 2015, an increase of \$1,000 or 12.5% from the provision of \$8,000 for the three months ended June 30, 2014.

There were no charge-offs for the quarters ended June 30, 2015 and June 30, 2014. The allowance for loan losses was \$529,000 or 0.37% of total loans, at June 30, 2015, an increase of \$9,000 compared to \$520,000, or 0.40%, of total loans, at June 30, 2014. Total nonperforming loans were \$697,000 at June 30, 2015 compared to \$838,000 at June 30, 2014. As a percentage of nonperforming loans, the allowance for loan losses was 75.9% at June 30, 2015 compared to 62.0% at June 30, 2014.

**Noninterest Income.** Noninterest income increased \$11,000, or 16.2%, to \$79,000 for the three months ended June 30, 2015 from \$68,000 for the three months ended June 30, 2014 due primarily to an increase of \$407,000 in gain on sale of available-for-sale securities, net, partially offset by writedowns of securities of \$377,000, decreased fees and service charges and decreased gains on sales of loans.

There were no loans originated for sale and sold during the three months ended June 30, 2015 resulting in a decrease of \$10,000 for the period in gain on sales of loans. Fees and service charges decreased \$12,000, or 33.3%, to \$24,000 for the three months ended June 30, 2015 from \$36,000 for the three months ended June 30, 2014.



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**Noninterest Expense.** Noninterest expense increased \$159,000, or 20.7%, to \$927,000 for the three months ended June 30, 2015 from \$768,000 for the three months ended June 30, 2014. Noninterest expense increased primarily due to an increase to salaries and employee benefits as well as audit and examination expense and the expense for professional services associated with being a public company.

Salaries and employee benefits increased \$125,000, or 27.9%, to \$573,000 for the three months ended June 30, 2015 from \$448,000 for the three months ended June 30, 2014 as a result of hiring commercial loan staff as well as normal salary increases and increases in payroll taxes. Audit and examination expenses increased \$17,000, or 56.7%, to \$47,000 for the three months ended June 30, 2015, from \$30,000 for the three months ended June 30, 2014. The expense for professional services increased \$11,000, or 57.9%, to \$30,000 for the three month period ended June 30, 2015 from \$19,000 for the same period in 2014.

**Income Tax Expense.** Income tax decreased \$11,000, or 11.1%, to \$88,000 for the three months ended June 30, 2015 from \$99,000 for the three months ended June 30, 2014. The effective tax rate for the three months ended June 30, 2015 and June 30, 2014 was 37.1% and 32.9%, respectively.

**Average Balances and Yields.** The following tables set forth average balance sheets, average yields and costs, and certain other information for the three months ended June 30, 2015 and 2014 (unaudited). All average balances are daily average balances based upon amortized costs. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense. Yields/rates for the three months ended June 30, 2015 and 2014 are annualized.

| (Dollars In Thousands)            | Three Months Ended June 30,<br>2015 |          |            | Three Months Ended June 30,<br>2014 |          |            |
|-----------------------------------|-------------------------------------|----------|------------|-------------------------------------|----------|------------|
|                                   | Average<br>Outstanding<br>Balance   | Interest | Yield/Rate | Average<br>Outstanding<br>Balance   | Interest | Yield/Rate |
| <b>Interest-earning assets:</b>   |                                     |          |            |                                     |          |            |
| Loans                             | \$ 136,305                          | \$ 1,194 | 3.50%      | \$ 131,150                          | \$ 1,144 | 3.49%      |
| Securities (1)                    | 45,191                              | 206      | 1.82%      | 39,930                              | 173      | 1.73%      |
| Other interest-earning assets (2) | 26,079                              | 12       | 0.18%      | 10,520                              | 5        | 0.19%      |
| Total interest-earning assets     | 207,575                             | 1,412    | 2.72%      | 181,600                             | 1,322    | 2.91%      |
| Non-interest earning assets       | 7,420                               |          |            | 11,262                              |          |            |
| Total assets                      | \$ 214,995                          |          |            | \$ 192,862                          |          |            |

**Interest-bearing liabilities:**

|                         |           |       |       |           |       |       |
|-------------------------|-----------|-------|-------|-----------|-------|-------|
| <b>Deposits:</b>        |           |       |       |           |       |       |
| Savings accounts        | \$ 31,495 | \$ 15 | 0.20% | \$ 32,227 | \$ 17 | 0.21% |
| Certificates of deposit | 74,470    | 267   | 1.43% | 73,800    | 255   | 1.38% |
| Money market accounts   | 35,657    | 33    | 0.37% | 41,864    | 39    | 0.37% |
| NOW accounts            | 12,739    | 3     | 0.10% | 11,679    | 2     | 0.07% |

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|  |            |          |       |            |          |       |
|--|------------|----------|-------|------------|----------|-------|
| Total interest-bearing deposits                                    | 154,361    | 318      | 0.82% | 159,570    | 313      | 0.78% |
| Borrowings   |            |          | 0.00% |            |          |       |
| Total interest-bearing liabilities                                 | 154,361    | 318      | 0.82% | 159,570    | 313      | 0.78% |
| Demand deposit accounts  | 14,025     |          |       | 11,155     |          |       |
| Other noninterest-bearing liabilities                              | 779        |          |       | 925        |          |       |
| Total liabilities  | 169,165    |          |       | 171,650    |          |       |
| Stockholders' equity   | 45,830     |          |       | 21,212     |          |       |
| Total liabilities and stockholders' equity                         | \$ 214,995 |          |       | \$ 192,862 |          |       |
| Net interest income  |            | \$ 1,094 |       |            | \$ 1,009 |       |
| Net interest rate spread (3)                                       |            |          | 1.90% |            |          | 2.13% |
| Net interest-earning assets (4)                                    | \$ 53,214  |          |       | \$ 22,030  |          |       |
| Net Interest Margin  |            |          | 2.11% |            |          | 2.22% |
| Average of interest-earning assets to interest-bearing liabilities | 134.47%    |          |       | 113.81%    |          |       |

- (1) No tax equivalent adjustment was applied to tax exempt income for the three months ended June 30, 2015 and 2014 as the amount is not significant.
- (2) Includes Federal Home Loan Bank stock, correspondent bank accounts, federal funds sold, money market funds and Co-operative Central Bank deposit.
- (3) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4) Net interest -earning assets represents total interest-earning assets less total interest-bearing liabilities.
- (5) Net interest margin represents net interest income as a percentage of average interest-earning assets.



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**Comparison of Operating Results for the Six Months Ended June 30, 2015 and 2014**

**General.** Net income decreased \$63,000, or 17.5%, to \$298,000 for the six months ended June 30, 2015 from \$361,000 for the six months ended June 30, 2014. Net income decreased primarily due to an increase in noninterest expenses and a decrease in noninterest income, partially offset by increases in interest and dividend income and a decrease in interest expense.

**Interest and Dividend Income.** Interest and dividend income increased \$125,000, or 4.7%, to \$2.8 million for the six months ended June 30, 2015 from \$2.7 million for the six months ended June 30, 2014 primarily due to an increase in interest and fees on loans, which increased \$66,000 to \$2.4 million for the six months ended June 30, 2015 from \$2.3 million for the six months ended June 30, 2014. The increase of \$66,000 in interest and fees on loans was the result of an increase in new loan originations.

Interest and dividends on securities increased \$47,000, or 12.9%, to \$412,000 for the six months ended June 30, 2015 from \$365,000 for the six months ended June 30, 2014 resulting primarily from an increase of \$4.1 million in the average balance of securities period to period.

Other interest income increased \$12,000 for the six month period ended June 30, 2015 due primarily to a \$13.8 million increase in the average balance of other interest-earning assets.

**Interest Expense.** Interest expense decreased \$24,000, or 3.7%, to \$617,000 for the six months ended June 30, 2015 from \$641,000 for the six months ended June 30, 2014. The decrease was due to a decrease in the average balance of interest-bearing deposits of \$7.8 million, or 4.9%, consisting of a \$1.0 million decrease in the average balance of savings accounts, \$3.3 million decrease in the average balance of certificates of deposits, a \$5.4 million decrease in the average balance of money market accounts, partially offset by an increase of \$1.9 million in the average balance of NOW accounts.

**Net Interest and Dividend Income.** Net interest and dividend income increased \$149,000, or 7.4%, to \$2.2 million for the six months ended June 30, 2015 from \$2.0 million for the six months ended June 30, 2014 primarily due to an increase of \$29.5 million in our net interest-earning assets to \$52.5 million during 2015 from \$23.0 million during 2014. This was offset in part as our net interest rate spread decreased nineteen basis points to 1.91% for 2015 from 2.10% for 2014.

**Provision for Loan Losses.** We recorded a \$9,000 provision for loan losses for the six months ended June 30, 2015, compared to \$10,000 recorded for the six months ended June 30, 2014.

There were no charge-offs for the six month periods ended June 31, 2015 and 2014. The allowance for loan losses was \$529,000 or 0.37% of total loans, at June 30, 2015, an increase of \$9,000 compared to \$520,000, or 0.40%, of total loans, at June 30, 2014. Total nonperforming loans were \$697,000 at June 30, 2015 compared to \$838,000 at June 30, 2014. As a percentage of nonperforming loans, the allowance for loan losses was 75.9% at June 30, 2015 compared to 62.1% at June 30, 2014.

**Noninterest Income.** Noninterest income decreased \$5,000, or 3.9%, to \$123,000 for the six months ended June 30, 2015 from \$128,000 for the six months ended June 30, 2014 due primarily from no gain on sales of loans as well as decreased fees and service charges and other noninterest income.

There were no loans originated for sale and sold during the six months ended June 30, 2015 resulting in a decrease of \$19,000 for the period in gain on sales of loans. Fees and service charges decreased \$13,000, or 22.8%, to \$44,000 for

the six months ended June 30, 2015 from \$57,000 for the six months ended June 30, 2014. Other income decreased \$4,000 to \$5,000 for the six months ended June 30, 2015 from \$9,000 for the six months ended June 30, 2014.

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**Noninterest Expense.** Noninterest expense increased \$229,000, or 14.2%, to \$1.8 million, for the six months ended June 30, 2015 from \$1.6 million, for the six months ended June 30, 2014. Noninterest expense increased primarily due to increases to salaries and employee benefits as well as audit and examination expense and the expense for professional services associated with being a public company.

Salaries and employee benefits increased \$166,000, or 16.7%, to \$1.2 million for the six months ended June 30, 2015 from \$1.0 million for the six months ended June 30, 2014 as a result of hiring commercial loan staff as well as normal salary increases and increases in payroll taxes. Audit and examination expenses increased \$32,000, or 56.1%, to \$89,000 for the six months ended June 30, 2015, from \$57,000 for the six months ended June 30, 2014. The expense for professional services increased \$20,000, or 54.1%, to \$57,000 for the six month period ended June 30, 2015 from \$37,000 for the same period in 2014.

**Income Tax Expense.** Income tax decreased \$21,000, or 12.5%, to \$147,000 for the six months ended June 30, 2015 from \$168,000 for the six months ended June 30, 2014. The effective tax rate for the six months ended June 30, 2015 and June 30, 2014 was 33.0% and 31.8%, respectively.

**Average Balances and Yields.** The following tables set forth average balance sheets, average yields and costs, and certain other information for the six months ended June 30, 2015 and 2014 (unaudited). All average balances are daily average balances based upon amortized costs. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense. Yields/rates for the six months ended June 30, 2015 and 2014 are annualized.

| (Dollars In Thousands)               | Six Months Ended June 30,<br>2015 |          |            | Six Months Ended June 30,<br>2014 |          |            |
|--------------------------------------|-----------------------------------|----------|------------|-----------------------------------|----------|------------|
|                                      | Average<br>Outstanding<br>Balance | Interest | Yield/Rate | Average<br>Outstanding<br>Balance | Interest | Yield/Rate |
| <b>Interest-earning assets:</b>      |                                   |          |            |                                   |          |            |
| Loans                                | \$ 135,053                        | \$ 2,357 | 3.49%      | \$ 131,236                        | \$ 2,291 | 3.49%      |
| Securities (1)                       | 43,870                            | 412      | 1.88%      | 39,777                            | 365      | 1.84%      |
| Other interest-earning assets (2)    | 26,894                            | 20       | 0.15%      | 13,103                            | 8        | 0.12%      |
| Total interest-earning assets        | 205,817                           | 2,789    | 2.71%      | 184,116                           | 2,664    | 2.89%      |
| Non-interest earning assets          | 7,431                             |          |            | 10,035                            |          |            |
| Total assets                         | \$ 213,248                        |          |            | \$ 194,151                        |          |            |
| <b>Interest-bearing liabilities:</b> |                                   |          |            |                                   |          |            |
| <b>Deposits:</b>                     |                                   |          |            |                                   |          |            |
| Savings accounts                     | \$ 31,510                         | \$ 31    | 0.20%      | \$ 32,458                         | \$ 34    | 0.21%      |
| Certificates of deposit              | 72,645                            | 512      | 1.41%      | 75,954                            | 525      | 1.38%      |
| Money market accounts                | 36,358                            | 67       | 0.37%      | 41,813                            | 77       | 0.37%      |
| NOW accounts                         | 12,814                            | 7        | 0.11%      | 10,927                            | 5        | 0.10%      |

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|  |            |          |       |            |          |       |
|--|------------|----------|-------|------------|----------|-------|
| Total interest-bearing deposits                                    | 153,327    | 617      | 0.80% | 161,152    | 641      | 0.80% |
| Borrowings   |            |          | 0.00% |            |          | 0.00% |
| Total interest-bearing liabilities                                 | 153,327    | 617      | 0.80% | 161,152    | 641      | 0.80% |
| Demand deposit accounts  | 13,425     |          |       | 11,227     |          |       |
| Other noninterest-bearing liabilities                              | 793        |          |       | 790        |          |       |
| Total liabilities  | 167,545    |          |       | 173,169    |          |       |
| Stockholders' equity   | 45,703     |          |       | 20,982     |          |       |
| Total liabilities and stockholders' equity                         | \$ 213,248 |          |       | \$ 194,151 |          |       |
| Net interest income  |            | \$ 2,172 |       |            | \$ 2,023 |       |
| Net interest rate spread (3)                                       |            |          | 1.91% |            |          | 2.10% |
| Net interest-earning assets (4)                                    | \$ 52,490  |          |       | \$ 22,964  |          |       |
| Net Interest Margin  |            |          | 2.11% |            |          | 2.20% |
| Average of interest-earning assets to interest-bearing liabilities | 134.23%    |          |       | 114.25%    |          |       |

- (1) No tax equivalent adjustment was applied to tax exempt income for the six months ended June 30, 2015 and 2014 as the amount is not significant.
- (2) Includes Federal Home Loan Bank stock, correspondent bank accounts, federal funds sold, money market funds and Co-operative Central Bank deposit.
- (3) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
- (5) Net interest margin represents net interest income as a percentage of average interest-earning assets.

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

Three Months Ended June 30, 2015 vs. Six Months Ended June 30, 2015 vs. 2014

| (In thousands)                            | Increase (Decrease) Due to |              | Total Increase (Decrease) Due to |             | Total Increase (Decrease) |             |
|---|----------------------------|--------------|----------------------------------|-------------|---------------------------|-------------|
|   | Volume                     | Rate         | (Decrease)                       | Volume      | Rate                      | (Decrease)  |
| <b>Interest-earning assets:</b>           |                            |              |                                  |             |                           |             |
| Loans (1)                                 | \$ 45                      | \$ 5         | \$ 50                            | \$ 66       | \$                        | \$ 66       |
| Securities (2)                            | 23                         | \$ 10        | \$ 33                            | 39          | 8                         | 47          |
| Other interest-earning assets (3)         | 7                          |              | \$ 7                             | 10          | 2                         | 12          |
| <b>Total interest-earning assets</b>      | <b>75</b>                  | <b>\$ 15</b> | <b>\$ 90</b>                     | <b>115</b>  | <b>10</b>                 | <b>125</b>  |
| <b>Interest-bearing liabilities</b>       |                            |              |                                  |             |                           |             |
| <b>Deposits:</b>                          |                            |              |                                  |             |                           |             |
| Savings accounts                          | (1)                        | (1)          | (2)                              | (1)         | (2)                       | (3)         |
| Certificates of Deposit                   | 2                          | 10           | 12                               | (26)        | 13                        | (13)        |
| Money market accounts                     | (6)                        |              | (6)                              | (10)        |                           | (10)        |
| NOW accounts                              |                            | 1            | 1                                | 1           | 1                         | 2           |
| <b>Total interest-bearing deposits</b>    | <b>5</b>                   | <b>10</b>    | <b>5</b>                         | <b>(36)</b> | <b>12</b>                 | <b>(24)</b> |
| <b>Borrowings</b>                         |                            |              |                                  |             |                           |             |
| <b>Total interest-bearing liabilities</b> | <b>5</b>                   | <b>10</b>    | <b>5</b>                         | <b>(36)</b> | <b>12</b>                 | <b>(24)</b> |
| <b>Change in net interest income</b>      | <b>80</b>                  | <b>5</b>     | <b>85</b>                        | <b>151</b>  | <b>(2)</b>                | <b>149</b>  |

(1) Includes non-accrual loans and interest received on such loans, and loans held-for-sale.

(2) Includes short-term investments.

(3) Includes Federal Home Loan Bank of Boston Stock, deposits with Cooperative Central Bank, and available-for-sale securities.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable, as the Registrant is a smaller reporting company.

**Item 4. Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 30, 2015. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Registrant's disclosure controls and procedures were effective.

During the quarter ended June 30, 2015, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Part II Other Information**

**Item 1. Legal Proceedings**

We are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Bank's or the Company's financial condition or results of operations.

**Item 1A. Risk Factors**

Not applicable, as the Registrant is a smaller reporting company.

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

- (a) There were no sales of unregistered securities during the period covered by this Report.
- (b) There were no issuer repurchases of securities during the period covered by this Report.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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|         |  |
|---------|--|
| 32      | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |



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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.

**MELROSE BANCORP, INC.**

Date: August 13, 2015

/s/ Jeffrey D. Jones  
Jeffrey D. Jones  
President and Chief Executive Officer

Date: August 13, 2015

/s/ Diane Indorato  
Diane Indorato  
Senior Vice President and Chief Financial Officer