Melrose Bancorp, Inc.
Form 10-Q
November 10, 2016
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016

OR

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

Commission File No. 001-36702

Melrose Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

(781) 665-2500

(Registrant s telephone number)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. YES 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

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 November 10, 2016 2,602,079 shares of the Registrant s common stock, par value $0.01 per share, were issued and outstanding.

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Part I. Financial Information

Item 1. Condensed Financial Statements

MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Data)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	$ 14,385	$ 11,934
Money market funds	2,939	1,605
Federal funds sold	2,881	3,315
Cash and cash equivalents	20,205	16,854
Investments in available-for-sale securities (at fair value)	32,099	45,143
Federal Home Loan Bank stock, at cost	739	437
Loans, net of allowance for loan losses of $859 at September 30, 2016 and $580 at December 31, 2015	205,522	160,303
Premises and equipment, net	1,206	1,226
Co-operative Central Bank deposit	881	881
Bank-owned life insurance	5,337	5,230
Accrued interest receivable	542	440
Other assets	179	195
Total assets	$ 266,710	$ 230,709
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	$ 19,294	$ 13,400
Interest-bearing	198,583	171,127
Total deposits	217,877	184,527
Deferred tax liability, net	91	78
FHLB Borrowings	5,000	
Other liabilities	468	559
Total liabilities	223,436	185,164
Stockholders equity:		
	26	28

Common stock, par value $0.01 per share, authorized 15,000,000 shares; issued 2,605,579 shares at September 30, 2016 and 2,787,579 shares at December 31, 2015				
Additional paid-in-capital		23,293		25,994
Retained earnings		21,343		20,490
Unearned compensation - ESOP (205,615 shares unallocated at September 30, 2016 and 211,274 at December 31, 2015)		(2,056)		(2,113)
Unearned Compensation - Restricted Stock (44,300 shares non-vested at September 30, 2016)		(614)		
Accumulated other comprehensive income		1,282		1,146
Total stockholders equity		43,274		45,545
Total liabilities and stockholders equity	$	266,710	$	230,709

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

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MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Share and Per Share Data)

(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest and dividend income:				
Interest and fees on loans	$ 1,737	$ 1,289	$ 4,753	$ 3,648
Interest and dividends on securities:				
Taxable	164	223	587	622
Tax-exempt	15	8	44	21
Other interest	13	7	41	27
Total interest and dividend income	1,929	1,527	5,425	4,318
Interest expense:				
Interest on deposits	429	326	1,186	943
Total interest expense	429	326	1,186	943
Net interest and dividend income	1,500	1,201	4,239	3,375
Provision for loan losses	117	35	279	45
Net interest and dividend income after provision for loan losses	1,383	1,166	3,960	3,330
Noninterest income:				
Fees and service charges	21	25	57	68
Gain on sales of securities, net	279		572	409
Writedown of securities				(377)
Income on bank-owned life insurance	22	23	68	65
Other income	2	56	9	60
Total noninterest income	324	104	706	225
Noninterest expense:				
Salaries and employee benefits	708	617	2,071	1,777
Occupancy expense	80	73	227	231
Equipment expense	9	13	27	36
Data processing expense	97	84	269	235
Advertising expense	36	43	114	103
Printing and supplies	8	12	26	40

FDIC assessment		30		28		86		86
Audits and examinations		67		48		163		137
Other professional services		35		30		278		87
Other expense		29		25		104		82
Total noninterest expense		1,099		973		3,365		2,814
Income before income tax expense		608		297		1,301		741
Income tax expense		222		91		448		238
Net income	$	386	$	206	$	853	$	503
Weighted average common shares outstanding:								
Basic		2,366,802		2,610,759		2,450,698		2,610,759
Diluted		2,367,225		2,610,759		2,450,920		2,610,759
Earnings per share:								
Basic	$	0.16	$	0.08	$	0.35	$	0.19
Diluted	$	0.16	$	0.08	$	0.35	$	0.19

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

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MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
		(unaudited)		
Net income	$ 386	$ 206	$ 853	$ 503
Other comprehensive income (loss), net of tax:				
Net unrealized holding gain (loss) on available-for-sale securities	31	(165)	721	(230)
Reclassification adjustment for net realized gains in net income	(279)		(572)	(32)
Other comprehensive (loss) income before income tax effect	(248)	(165)	149	(262)
Income tax benefit (expense)	86	83	(13)	126
Other comprehensive (loss) income, net of tax	(162)	(82)	136	(136)
Comprehensive income	$ 224	$ 124	$ 989	$ 367

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

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MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

For the Nine Months Ended September 30, 2016 and 2015

(In Thousands, Except Share Data)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Retained Earnings	Unearned Compensation - ESOP	Unearned Compensation - RSA	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2014	2,829,579	$ 28	$ 26,575	$ 19,832	$ (2,188)	$	$ 1,216	$ 45,463
Net income				503				503
Other comprehensive loss, net of tax							(136)	(136)
Common stock held by ESOP committed to be allocated (7,546 shares annually)			24		56			80
Balance, September 30, 2015	2,829,579	$ 28	$ 26,599	$ 20,335	$ (2,132)	$	$ 1,080	$ 45,910
Balance, December 31, 2015	2,787,579	$ 28	$ 25,994	$ 20,490	$ (2,113)	$	$ 1,146	$ 45,545
Net income				853				853
Other comprehensive income, net of tax							136	136
Restricted stock awarded	44,300		670			(670)		
Restricted stock award expense						56		56
Stock option expense			64					64
Buyback of common stock	(226,300)	(2)	(3,463)					(3,465)
Common stock held by ESOP committed to be allocated (7,546 shares annually)			28		57			85
Balance, September 30, 2016	2,605,579	$ 26	$ 23,293	$ 21,343	$ (2,056)	$ (614)	$ 1,282	$ 43,274

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)

(Unaudited)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$ 853	$ 503
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net of accretion	38	28
Gain on sales of available-for-sale securities, net	(572)	(409)
Writedown of available for sale securities		377
Provision for loan losses	279	45
Change in net deferred loan costs/fees	(281)	1
Depreciation and amortization	63	73
Increase in accrued interest receivable	(102)	(68)
Decrease (increase) in other assets	16	(34)
Decrease in accrued expenses and other liabilities	(91)	(65)
Decrease in income taxes receivable		3
Deferred tax expense		3
Income on bank-owned life insurance	(68)	(65)
ESOP expense	85	80
Stock-based compensation expense	120	
Net cash provided by operating activities	340	472
Cash flows from investing activities:		
Purchases of available-for-sale securities	(3,670)	(13,218)
Proceeds from sales of available-for-sale securities	8,439	1,898
Proceeds from maturities and calls of available-for-sale securities	8,958	7,700
Purchase of Federal Home Loan Bank stock	(302)	
Loan originations and principal collections, net	(15,969)	(16,931)
Loans purchased	(29,248)	
Capital expenditures	(43)	(69)
Premiums paid on bank-owned life insurance	(39)	(40)
Net cash used in investing activities	(31,874)	(20,660)
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	3,528	281
Net increase in time deposits	29,822	9,701
Increase in FHLB Borrowings	5,000	

Repurchase of Melrose Bancorp, Inc. Common Stock		(3,465)		
Net cash provided by financing activities		34,885		9,982
Net increase (decrease) in cash and cash equivalents		3,351		(10,206)
Cash and cash equivalents at beginning of period		16,854		29,491
Cash and cash equivalents at end of period	$	20,205	$	19,285
Supplemental disclosures:				
Interest paid	$	1,186	$	943
Income taxes paid		478		232

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 Bancorp, Inc. (the Company) was incorporated in February 2014 under the laws of State of Maryland. The Company s activity consists of owning and supervising its subsidiary, Melrose Cooperative Bank (the Bank). The Bank provides financial services to individuals, families and businesses through our full-service banking office. Our primary business activity consists of taking deposits from the general public in our market area and investing those deposits, together with funds generated from operations, in one- to four-family residential real estate loans, home equity loans and lines of credit, commercial real estate loans, and to a much lesser extent consumer loans. The Bank is a Massachusetts-chartered cooperative bank headquartered in Melrose, Massachusetts. The Bank is subject to the regulations of, and periodic examination by, the Massachusetts Division of Banks (DOB) and the Federal Deposit Insurance Corporation (FDIC). The Bank s deposits are insured by the FDIC.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America.

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 September 30, 2016 and for the interim periods ended September 30, 2016 and 2015 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, 2015 filed with the Securities and Exchange Commission on March 30, 2016. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for future periods, including the year ended December 31, 2016.

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.

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CASH AND CASH EQUIVALENTS:

As of September 30, 2016 (unaudited), the Company has total cash and cash equivalents in the following banks:

Eastern Bank	$6,202,000 which represents approximately 14.3% of total stockholders equity
State Street Bank	$2,992,000, which represents approximately 6.9% of total stockholders equity

As of December 31, 2015, the Company has total cash and cash equivalents in the following banks:

Eastern Bank	$6,414,000, which represents approximately 14.0% of total stockholders equity
State Street Bank	$2,993,000, which represents approximately 6.6% of total stockholders equity

EARNINGS PER SHARE (EPS):

Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding adjusted to exclude the weighted average number of unallocated shares held by the ESOP. Diluted EPS 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.

The calculation of basic and diluted EPS (unaudited) is presented below.

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(In Thousands, except share data)			
Net income	$ 386	$ 206	$ 853	$ 503
Basic Common Shares:				
Weighted average common shares outstanding	2,573,360	2,829,579	2,658,828	2,829,579
Weighted average unallocated ESOP shares	(206,558)	(218,820)	(208,130)	(218,820)
Basic weighted average shares outstanding	2,366,802	2,610,759	2,450,698	2,610,759
Dilutive effect of unvested restricted stock awards	423		222	

Diluted weighted average shares outstanding		2,367,225		2,610,759		2,450,920		2,610,759
Basic earnings per share	$	0.16	$	0.08	$	0.35	$	0.19
Diluted earnings per share [(1)]	$	0.16	$	0.08	$	0.35	$	0.19

(1) Options to purchase 224,200 shares, representing all outstanding options, were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2016 because the effect is anti-dilutive.

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.

Federal Home Loan Bank advances: Fair values for Federal Home Loan Bank advances are estimated using a discounted cash flow technique that applies interest rates currently being offered on advances to a schedule of aggregate expected monthly maturities on Federal Home Loan Bank advances.

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:

As an emerging growth company, as defined in Title 1 of Jumpstart Our Business Startups (JOBS) Act, the Company has elected to use the extended transition period to delay adoption of new or reissued accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, the consolidated financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards. As of September 30, 2016, there is no significant difference in the comparability of the financial statements as a result of this extended transition period.

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments and makes targeted improvements to GAAP as follows:

1. Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, the entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same manner.

2. Simplify the impairment assessment of equity investments without determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value.

3. Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.

4. Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.

5. Require an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

6. Require separate presentation of financial assets and financial liabilities by measurement category and form of financial assets (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.

7. Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity s other deferred tax assets.

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Under the extended transition period for an emerging growth company, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of item 5 above is permitted as of the beginning of fiscal years or interim periods for which financial statements have not been issued. Early adoption of all other amendments in this ASU is not permitted. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU was issued to increase transparency and comparability among organizations by requiring reporting entities to recognize all leases, including operating, as lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. Under the extended transition period for an emerging growth company, the amendments in this ASU are effective for fiscal years beginning after December 31, 2019, and interim periods within fiscal years being after December 15, 2020. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in-capital (APIC). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer s statutory income tax withholding obligation. The new guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. Under the extended transition period for an emerging growth company, ASU No. 2016-09 is effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 31, 2018. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Company is currently evaluating the provisions of ASU No. 2016-09 to determine the potential impact the new standard will have on the Company s consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments . The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgement to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. Under the extended transition period for an emerging growth company, this update will be effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted in interim and annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the amendments of ASU No. 2016-13 to determine the potential impact the new standard will have on the Company s consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. Current GAAP is unclear or does not include specific guidance on how to classify certain transactions in the statement of cash flows. This ASU is intended to reduce diversity in practice in how eight particular transactions are classified in the statement of cash flows. Under the extended transition period for an emerging growth company, this update will be effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, provided that all of the amendments are adopted in the same period. Entities will be required to apply the guidance retrospectively. If it is impracticable to apply to the guidance retrospectively for an issue, the amendments related to that issue would be applied prospectively. As this guidance only affects the classification with the statement of cash flows, ASU No. 2016-15 is not expected to have a material impact on the Company s consolidated financial statements.

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NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

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

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
September 30, 2016: (unaudited)				
U.S. Government and federal agency obligations	$ 5,909	$ 17	$ 65	$ 5,861
Debt securities issued by states of the United States and political subdivisions of the states	2,395	85	10	2,470
Corporate bonds and notes	11,538	93	13	11,618
Preferred stock	3,000	114		3,114
Mortgage-backed securities	1,693		66	1,627
Marketable equity securities	5,486	1,923		7,409
	$ 30,021	$ 2,232	$ 154	$ 32,099
December 31, 2015:				
U.S. Government and federal agency obligations	$ 8,851	$ 7	$ 88	$ 8,770
Debt securities issued by states of the United States and political subdivisions of the states	2,408	8	18	2,398
Corporate bonds and notes	13,540	12	44	13,508
Preferred stock	3,000	31	2	3,029
Mortgage-backed securities	2,232		66	2,166
Marketable equity securities	13,183	2,125	36	15,272
	$ 43,214	$ 2,183	$ 254	$ 45,143

The scheduled maturities of debt securities were as follows as of September 30, 2016 (unaudited):

	Fair Value (In Thousands)
Due within one year	$ 2,001
Due after one year through five years	13,402
Due after five years through ten years	2,008
Due after ten years	3,082
Mortgage-backed securities	1,627
Asset-backed securities	1,533
	$ 23,653

Not included in the maturity table above is preferred stock with no stated maturity of $1,037,000 at September 30, 2016 (unaudited).

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders equity as of September 30, 2016 (unaudited) and December 31, 2015.

During the three and nine months ended September 30, 2016 (unaudited) proceeds from the sales of available-for-sale securities were $576,000 and $8,439,000, respectively, and gross realized gains on these sales amounted to $279,000 and $572,000, respectively. The tax expense on the realized gains during the three and nine months ended September 30, 2016 was $92,000 and $188,000, respectively. During the three months ended September 30, 2015 (unaudited) there were no sales of available-for-sale securities. Proceeds from the sale of available-for-sale securities for the nine months ended September 30, 2015, amounted to $1.9 million. The gross realized gains on these sales amounted to $489,000 and the gross realized losses were $80,000. The tax expense applicable to these net realized gains amounted to $164,000.

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The Company had no pledged securities as of September 30, 2016 (unaudited) and December 31, 2015.

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)			
September 30, 2016 (unaudited)						
U.S. government and federal agency obligations	$ 1,921	$ 5	$ 1,401	$ 60	$ 3,322	$ 65
Debt securities issued by states of the United States and political subdivisions of the states			248	10	248	10
Corporate bonds and notes	1,987	12	500	1	2,487	13
Mortgage-backed securities	390	1	1,236	65	1,626	66
Total temporarily impaired securities	$ 4,298	$ 18	$ 3,385	$ 136	$ 7,683	$ 154
December 31, 2015						
U.S. government and federal agency obligations	$ 5,366	$ 59	$ 1,403	$ 29	$ 6,769	$ 88
Debt securities issued by states of the United States and political subdivisions of the states	1,176	9	505	9	1,681	18
Corporate bonds and notes	9,012	38	993	6	10,005	44
Preferred stock	998	2			998	2
Mortgage-backed securities	1,608	40	558	26	2,166	66
Marketable equity securities	5,160	36			5,160	36
Total temporarily impaired securities	$ 23,320	$ 184	$ 3,459	$ 70	$ 26,779	$ 254

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. 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.

During the nine months ended September 30, 2016, the Company had no writedowns of securities. During the nine months ended 2015, there were five marketable equity securities that were declared other-than-temporarily impaired for which an impairment loss of $377,000 was recognized. A summary of the Company s reviews of investment securities deemed to be temporarily impaired as of September 30, 2016 is as follows:

Unrealized losses on U.S. Government and federal agency obligations amounted to $65,000 and consisted of six securities. The unrealized losses on all but one of these debt securities were individually less than 5.0% of amortized cost basis, with one U.S. government and federal agency obligation at 5.0%. Unrealized losses on municipal bonds amounted to $10,000 and consisted of one security. The unrealized loss on this debt security was 3.8% of amortized cost basis. Unrealized losses on corporate bonds amounted to $13,000 and consisted of four securities. The unrealized losses on all but one of these debt securities were individually less than 1.0% of amortized cost basis, with one corporate bond obligation at 1.6%. Unrealized losses on mortgage-backed securities amounted to $66,000 and consisted of four securities. The unrealized losses on these debt securities were 0.3%, 3.2%, 6.2% and 7.2% of amortized cost basis, respectively. The unrealized losses were primarily due to changes in interest rates.

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NOTE 4 - LOANS

Loans consisted of the following at:

	September 30, 2016	December 31, 2015
	(In Thousands)	
	(unaudited)	
Real estate loans:		
One-to four-family residential	$ 162,096	$ 132,237
Home equity loans and lines of credit	10,359	10,862
Commercial	21,780	13,251
Construction	11,674	4,303
Consumer loans	82	121
Total loans	205,991	160,774
Allowance for loan losses	(859)	(580)
Deferred loan costs, net	390	109
Net loans	$ 205,522	$ 160,303

The following tables set forth information on the allowance for loan losses at and for the nine months ended September 30, 2016 and 2015, and at December 31, 2015:

	Real Estate: One- to four-family Residential	Home Equity Loans and Lines of Credit	Commercial	Construction	Consumer Loans	Unallocated	Total
			(In Thousands)				
Nine Months Ended September 30, 2016 (unaudited)							
Allowance for loan losses:							
Beginning balance	$ 331	$ 49	$ 150	$ 40	$ 1	$ 9	$ 580
Charge offs							
Recoveries							
Provision (benefit)	74	(2)	104	83		20	279
Ending balance	$ 405	$ 47	$ 254	$ 123	$ 1	$ 29	$ 859
At September 30, 2016 (unaudited)							
Ending balance:							
	$	$	$	$	$	$	$

Individually evaluated for impairment														
Ending balance:														
Collectively evaluated for impairment		405		47		254		123		1		29		859
Total allowance for loan losses ending balance	$	405	$	47	$	254	$	123	$	1	$	29	$	859
Loans:														
Ending balance:														
Individually evaluated for impairment	$		$		$		$		$		$		$	
Ending balance:														
Collectively evaluated for impairment		162,096		10,359		21,780		11,674		82				205,991
Total loans ending balance	$	162,096	$	10,359	$	21,780	$	11,674	$	82	$		$	205,991

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	Real Estate: One- to four-family Residential		Home Equity Loans and Lines of Credit		Commercial		Construction		Consumer Loans		Unallocated		Total
					(In Thousands)								
Nine months ended September 30, 2015 (unaudited)													
Allowance for loan losses:													
Beginning balance	$	414	$	58	$	25	$	21	$	1	$	1	$ 520
Charge offs													
Recoveries													
(Benefit) provision		(56)		1		102		(1)				(1)	45
Ending balance	$	358	$	59	$	127	$	20	$	1	$		$ 565
At September 30, 2015 (unaudited)													
Ending balance:													
Individually evaluated for impairment	$		$		$		$		$		$		$
Ending balance:													
Collectively evaluated for impairment		358		59		127		20		1			565
Total allowance for loan losses ending balance	$	358	$	59	$	127	$	20	$	1	$		$ 565
Loans:													
Ending balance:													
Individually evaluated for impairment	$		$		$		$		$		$		$
Ending balance:													
Collectively evaluated for impairment		124,846		10,813		11,142		4,349		131			151,281
Total loans ending balance	$	124,846	$	10,813	$	11,142	$	4,349	$	131	$		$ 151,281

	Real Estate: One- to four-family Residential	Home Equity Loans and Lines of Credit	Commercial	Construction	Consumer Loans	Unallocated	Total
			(In Thousands)				
December 31, 2015							
Allowance for loan losses:							
Ending balance:							

Individually evaluated for impairment	$	$	$	$	$	$	$
Ending balance:							
Collectively evaluated for impairment	331	49	150	40	1	9	580
Total allowance for loan losses ending balance	$ 331	$ 49	$ 150	$ 40	$ 1	$ 9	$ 580
Loans:							
Ending balance:							
Individually evaluated for impairment	$	$	$	$	$	$	$
Ending balance:							
Collectively evaluated for impairment	132,237	10,862	13,251	4,303	121		160,774
Total loans ending balance	$ 132,237	$ 10,862	$ 13,251	$ 4,303	$ 121	$	$ 160,774

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

	30 - 59 Days	60 - 89 Days	90 Days or More Past Due	Total Past Due	Total Current	Total	90 Days or More Past Due and Accruing	Non-Accrual
				(In Thousands)				
At September 30, 2016 (unaudited)								
Real estate loans:								
One-to four-family residential	$ 35	$ 323	$	$ 358	$ 161,738	$ 162,096	$	$
Home equity loans and lines of credit					10,359	10,359		
Commercial					21,780	21,780		
Construction					11,674	11,674		
Consumer loans					82	82		
Total	$ 35	$ 323	$	$ 358	$ 205,633	$ 205,991	$	$
At December 31, 2015								
Real estate loans:								
One-to four-family residential	$ 600	$	$ 68	$ 668	$ 131,569	$ 132,237	$	$ 68
Home equity loans and lines of credit			197	197	10,665	10,862		197
Commercial					13,251	13,251		
Construction					4,303	4,303		
Consumer loans					121	121		
Total	$ 600	$	$ 265	$ 865	$ 159,909	$ 160,774	$	$ 265

As of and during the nine months ended September 30, 2016 and 2015 (unaudited) there were no loans that met the definition of an impaired loan in ASC 310-10-35.

During the nine months ended September 30, 2016 and 2015 (unaudited) there were no loans modified that met the definition of a troubled debt restructured loan in ASC 310-10-50.

As of September 30, 2016 (unaudited) there is one consumer mortgage loan with a recorded balance of $323,000 in the process of foreclosure.

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Credit Quality Information

In early 2016, the Company implemented a new 10 point internal loan rating system for commercial real estate, construction and commercial loans. For residential real estate and consumer loans, the Company initially assesses credit quality based upon the borrower s ability to pay and subsequently monitors these loans based on the borrower s ability to pay. The new risk rating system will assist the Company in better understanding the risk inherent in each loan. The new loan ratings are as follows:

Loans rated 1: Secured by cash collateral or highly liquid diversified marketable securities.

Loans rated 2 3: Strongest quality loans in the portfolio not secured by cash. Defined by consistent, solid profits, strong cash flow and are well secured. Very little vulnerability to changing economic conditions and compare favorably to their industry.

Loans rated 4 5: These loans are pass rated. Borrower will show average to strong cash flow, strong to adequate collateral coverage, and will have a generally sound balance sheet. Inclusive in the 5 rating are all open and closed end residential and retail loans which are paying as agreed.

Loans rated 6: Possess above average risk but still considered pass. Generally this rating is reserved for projects currently under construction or borrowers with modest cash flow, although still meeting all loan covenants.

Loans rated 6W: Contain all the risks of a 6 rated credit but have an inherent weakness that requires close monitoring. This rating also generally includes open and closed-end residential and retail loans which are greater than 30 days past due but display no other inherent weakness.

Loans rated 7: Potential weaknesses which warrant management s close attention. If weaknesses are uncorrected, repayment prospects may be weakened. This is typically a transitional rating.

Loans rated 8: Considered substandard. There is a likelihood of loss if the deficiencies are not corrected. Generally, open and closed end retail loans, as well as automotive and other consumer loans past 90 cumulative days from the contractual due date should be classified as an 8.

Loans rated 9: Borrower has a pronounced weakness and all current information indicates collection or liquidation of all debts in full is improbable and highly questionable.

Loans rated 10: Uncollectable and a loss will be taken. Open and closed end loans secured by residential real estate that are beyond 180 days past due will be assessed for value and any outstanding loan balance in excess of said value, less cost to sell, will be classified as a 10.

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

As of September 30, 2016 (unaudited), one- to four- family residential real estate loans with balances totaling $289,000 had a risk rating of 8 - substandard and all other loans outstanding had a risk rating of 1 to 6 - pass.

As of December 31, 2015, one- to four- family residential real estate loans with balances totaling $366,000 and home equity lines of credit totaling $197,000 had a risk rating of 8 - substandard and all other loans outstanding had a risk rating of 1 to 6 - pass.

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NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment:

	September 30, 2016	December 31, 2015
	(In Thousands)	
	(unaudited)	
Land	$ 393	$ 393
Building and improvements	1,817	1,817
Furniture and equipment	549	514
Data processing equipment	262	254
	3,021	2,978
Accumulated depreciation	(1,815)	(1,752)
	$ 1,206	$ 1,226

NOTE 6 - DEPOSITS

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 September 30, 2016 (unaudited) and December 31, 2015 amounted to $23,718,000 and $16,876,000, respectively.

For time deposits as of September 30, 2016 (unaudited) the scheduled maturities for each of the following years ended September 30 are as follows:

	(In Thousands)
2017	$ 76,964
2018	35,237
2019	2,097
2020	1,326
2021	1,533
	$ 117,157

Deposits from related parties held by the Bank as of September 30, 2016 (unaudited) and December 31, 2015 amounted to $2,564,656 and $4,030,000, respectively.

NOTE 7 - BORROWED FUNDS

The Bank is a member of the Federal Home Loan Bank of Boston (FHLB). The FHLB Borrowings are secured by a blanket lien by the FHLB on certain residential loans or securities with a market value at least equal to the outstanding balances. The remaining maximum borrowing capacity with the FHLB at September 30, 2016 was approximately

$104.9 million subject to the purchase of additional FHLB stock. At September 30, 2016 the Company had a three year fixed rate amortizing advance totaling $5.0 million, with an interest rate of 1.42%, which matures on September 19, 2019. In addition, the Company has the ability to borrow from the Co-operative Central Bank. The Company had no borrowings outstanding as of December 31, 2015.

NOTE 8 - FINANCIAL INSTRUMENTS

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

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

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

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

	September 30, 2016	December 31, 2015
	(In Thousands)	
	(unaudited)	
Commitments to originate loans	$ 6,945	$ 5,214
Unused lines of credit	13,501	11,986
Due to borrowers on unadvanced construction loans	4,597	1,796
	$ 25,043	$ 18,996

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. 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 September 30, 2016 (unaudited) and December 31, 2015. The Company did not have any significant transfers of assets between levels 1 and 2 of the fair value hierarchy during the nine months ended September 30, 2016 (unaudited) and the year ended December 31, 2015.

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.

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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 Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
September 30, 2016 (unaudited):				
U.S. Government and federal agency obligations	$ 5,861	$	$ 5,861	$
Debt securities issued by states of the United States and political subdivisions of the states	2,470		2,470	
Corporate bonds and notes	11,618		11,618	
Preferred stock	3,114	3,114		
Mortgage-backed securities	1,627		1,627	
Marketable equity securities	7,409	7,409		
Totals	$ 32,099	$ 10,523	$ 21,576	$
December 31, 2015:				
U.S. Government and federal agency obligations	$ 8,770	$	$ 8,770	$
Debt securities issued by states of the United States and political subdivisions of the states	2,398		2,398	
Corporate bonds and notes	13,508		13,508	
Preferred stock	3,029	3,029		
Mortgage-backed securities	2,166		2,166	
Marketable equity securities	15,272	15,272		

Totals	$ 45,143	$ 18,301	$ 26,842	$

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 September 30, 2016 (unaudited) and December 31, 2015, 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:

	September 30, 2016 (unaudited)				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	$ 20,205	$ 20,205	$	$	$ 20,205
Available-for-sale securities	32,099	10,523	21,576		32,099
Federal Home Loan Bank stock	739	739			739
Loans, net	205,522			206,289	206,289
Co-operative Central Bank deposit	881	881			881
Accrued interest receivable	542	542			542
Financial liabilities:					
Deposits	217,877		218,484		218,484
FHLB Borrowings	5,000		5,013		5,013

	December 31, 2015				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	$ 16,854	$ 16,854	$	$	$ 16,854
Available-for-sale securities	45,143	18,301	26,842		45,143
Federal Home Loan Bank stock	437	437			437
Loans, net	160,303			161,206	161,206
Co-operative Central Bank deposit	881	881			881
Accrued interest receivable	440	440			440
Financial liabilities:					
Deposits	184,527		185,170		185,170

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

NOTE 10 - 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 (loss) income, included in stockholders equity, are as follows:

	Three months ended September 30,	Nine months ended September 30,

	2016	2015	2016	2015
	(In Thousands) (unaudited)			
Net unrealized holding gains (losses) on available-for-sale securities	$ 31	$ (165)	$ 721	$ (230)
Reclassification adjustment for net realized gain in net income [(1)]	(279)		(572)	(32)
Other comprehensive income (loss) before income tax effect	(248)	(165)	149	(262)
Income tax benefit (expense)	86	83	(13)	126
Other comprehensive income (loss), net of tax	$ (162)	$ (82)	$ 136	$ (136)

(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 for the three and nine months ended September 30, 2016 is reflected as a gain on sale of securities, net of $279,000 and $572,000, respectively. The tax effect, included in income tax expense for the three and nine months ended September 30, 2016 was $92,000 and $188,000, respectively. Pre-tax amount for the three and nine months ended September 30, 2015, is reflected as a gain on sale securities, net of $0 and $409,000, respectively, and a write-down of $0 and $377,000, respectively. The tax effect, included in income tax expense, for the three and nine months ended September 30, 2015 was approximately $11,000 for the period. The after tax amount is included in net income.

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Accumulated other comprehensive income as of September 30, 2016 (unaudited) and December 31, 2015 consists of net unrealized holding gains on available-for-sale securities, net of taxes.

NOTE 11 - 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 (CET1) 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%. CET1 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 CET1 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 10.0% (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 began phasing 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 regulation 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 CET1 will be deducted from capital.

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 the 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 100%.

Management believes, as of September 30, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2016, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, Common Equity tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There were no conditions or events since that notification that management believes have changed the Bank s category.

The Bank s actual capital amounts and ratios (unaudited) are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars In Thousands)			
As of September 30, 2016:						
Total Capital (to Risk Weighted Assets)	$ 34,720	22.14%	$ 12,546	8.0%	$ 15,683	10.0%
Tier 1 Capital (to Risk Weighted Assets)	32,995	21.04	9,410	6.0	12,546	8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	32,995	21.04	7,057	4.5	10,194	6.5
Tier 1 Capital (to Average Assets)	32,995	13.61	9,696	4.0	12,120	5.0

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NOTE 12 COMMON STOCK REPURCHASES

From time to time, our board of directors authorizes stock repurchase plans. In general, stock repurchase plans allow us to proactively manage our capital position and return excess capital to shareholders. Shares purchased under such plans also provide us with shares of common stock necessary to satisfy obligations related to stock compensation awards. Our board of directors authorized a stock repurchase program, allowing us to repurchase up to 283,000 shares of our common stock from time to time at various prices in the open market or through private transactions. The actual amount and timing of future share repurchases, if any, will depend on market conditions, applicable SEC rules and various other factors.

During the year ended December 31, 2015, 42,000 shares of common stock were repurchased at an average cost of $14.60.

During the nine months ended September 30, 2016, a total of 226,300 shares of common stock were repurchased at an average cost of $15.31.

In October and November 2016, a total of 3,500 shares of common stock were repurchased at an average cost of $15.45.

NOTE 13 STOCK BASED COMPENSATION

Melrose Bancorp, Inc. adopted the Melrose Bancorp, Inc. 2015 Equity Incentive Plan (the 2015 Equity Incentive Plan) to provide directors, officers, and employees of the Company and Melrose Cooperative Bank with additional incentives to promote growth and performance of the Company and Melrose Cooperative Bank. The 2015 Equity Incentive Plan authorizes the issuance or delivery to participants of up to 396,140 shares of Melrose Bancorp, Inc. common stock pursuant to grants of incentive and non-statutory stock options, restricted stock awards, and restricted stock units. Of this number, the maximum number of shares of Melrose Bancorp, Inc. common stock that may be issued under the 2015 Equity Incentive Plan pursuant to the exercise of stock options is 282,957 shares, and the maximum number of shares of Melrose Bancorp, Inc. common stock that may be issued as restricted stock awards or restricted stock units is 113,183 shares. The 2015 Equity Incentive Plan was effective upon approval by stockholders at the November 23, 2015 annual meeting.

On May 12, 2016, the Company issued 44,300 shares of common stock restricted stock awards. The restricted stock award expense is based on $15.13 per share, and shares vest over 5 years commencing one year from the grant date. During the three and nine month periods ending September 30, 2016 the expense was $31,000 and $56,000, respectively. The recognized tax benefit was $11,000 and $19,000, respectively.

On May 12, 2016, the Company granted 224,200 stock options. The stock options have an exercise price of $15.13 per share, and vest ratably over 5 years commencing one year from the date of the grant. The stock option expense is equal to the number of options expected to vest each year times the grant date fair value of the shares as determined using the Black-Scholes option pricing model. The Company completed an analysis of seven peer banks to determine the expected volatility of 20.24%. The exercise price used in the pricing model was $15.13, the closing price of the stock on the grant date. The expected life was estimated to be 6.5 years and the 7 year treasury rate of 1.54% was used as the annual risk free interest rate. Using these variables, the estimated fair value is $3.71 per share. During the three and nine month periods ending September 30, 2016 the stock option expense was $42,000 and $64,000, respectively. The recognized tax benefit was $16,000 and $22,000, respectively.

At September 30, 2016 the unrecognized share based compensation expense related to the 44,300 unvested restricted stock awards amounted to $614,000. The unrecognized expense will be recognized over a weighted average life of 4.6 years.

At September 30, 2016, none of the 224,200 stock options outstanding are exercisable, and the remaining contractual life is 9.6 years. The unrecognized expense related to the unvested options is $768,000, and will be recognized over a weighted average life of 4.6 years.

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

Management s discussion and analysis of the financial condition at September 30, 2016 and the results of operations for the three and nine months ended September 30, 2016 and 2015 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.

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 fo 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 September 30, 2016 (unaudited) and December 31, 2015

Total assets increased $36.0 million, or 15.6%, to $266.7 million at September 30, 2016 from $230.7 million at December 31, 2015. The increase was primarily the result of an increase in cash and cash equivalents and net loans, partially offset by a decrease in available-for-sale securities.

Cash and cash equivalents increased $3.4 million, or 19.9%, to $20.2 million at September 30, 2016 from $16.9 million at December 31, 2015. This increase was due primarily from proceeds from sales, maturities, and calls of available-for-sale securities, and an increase in deposits.

Securities available-for-sale decreased $13.0 million, or 28.9%, to $32.1 million at September 30, 2016 from $45.1 million at December 31, 2015. The decrease in securities available-for-sale during the period was mostly a result of sales, maturities, and calls of available-for-sale securities.

Net loans increased $45.2 million, or 28.2%, to $205.5 million at September 30, 2016 from $160.3 million at December 31, 2015. The increase in net loans was due primarily to an increase of $29.9 million, or 22.6%, in one-to four-family residential loans, an increase of $8.5 million, or 64.4%, in commercial real estate loans, and an increase of $7.3 million, or 171.3%, in construction loans during the nine months ended September 30, 2016. The increase in one-to four-family residential loans was partly due to the increase in loans purchased. The increase in commercial real estate loans was partly due to a $2.8 million participation loan.

At September 30, 2016 our investment in bank-owned life insurance was $5.3 million, an increase of $107,000, or 2%, from $5.2 million at December 31, 2015. 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.

Total deposits increased $33.4 million, or 18.1%, to $217.9 million at September 30, 2016 from $184.5 million at December 31, 2015. The increase in deposits was due primarily to an increase of $29.8 million, or 34.1%, in time deposits, an increase of $1.7 million, or 5.1%, in money market accounts, and an increase of $6.0 million, or 46.4%, in demand deposits. The increases in time deposits, money markets, and demand deposits were offset by a decrease of $4.6 million, or 26.6%, in NOW accounts. The increase in time deposits was a result of special promotions, as well as, offering listed certificates of deposit through QwickRate. QwickRate is an unbiased online marketplace for CD buyers and sellers. The bank utilizes this national CD market as a source of time certificates of deposits. Depositors in this market are institutional, non-consumer entities such as credit unions, banking institutions, public entities, CD brokers and some private corporations or non-profit organizations.

Borrowings increased to $5.0 million at September 30, 2016 from $0 at December 31, 2015. At September 30, 2016, we had the ability to borrow approximately an additional $104.9 million from the Federal Home Loan Bank of Boston, subject to certain collateral requirements. Additionally at September 30, 2016, 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 decreased $2.3 million, or 5.0%, to $43.2 million at September 30, 2016 from $45.5 million at December 31, 2015. The decrease was primarily due to repurchases of Company common stock totaling $3.5 million, partially offset by net income of $853,000 and other comprehensive income of $136,000.

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Comparison of Operating Results for the Three Months Ended September 30, 2016 and 2015

General. Net income increased $180,000, or 87.4%, to $386,000 for the three months ended September 30, 2016 from $206,000 for the three months ended September 30, 2015. Net income increased primarily due to gains on sales of available-for-sale securities, and an increase in interest income, partially offset by an increase in interest expense, noninterest expense and income tax expense.

Interest and Dividend Income. Interest and dividend income increased $402,000, or 26.3%, to $1.9 million for the three months ended September 30, 2016 from $1.5 million for the three months ended September 30, 2015 due to an increase in interest and fees on loans, which increased $448,000, or 34.8%, to $1.7 million for the three months ended September 30, 2016 from $1.3 million for the three months ended September 30, 2015. The increase in interest and fees on loans was primarily the result of an increase in new loan originations.

Interest and dividends on securities decreased $52,000, or 22.5%, to $179,000 for the three months ended September 30, 2016 from $231,000 for the three months ended September 30, 2015 resulting primarily from a decrease in the average balance of available-for-sale securities of $12.1 million, or 26.6%, to $33.4 million for the three months ended September 30, 2016 from $45.5 million for the three months ended September 30, 2015.

Other interest income increased $6,000, or 85.7%, to $13,000 for the three months ended September 30, 2016 from $7,000 for the three months ended September 30, 2015, primarily due to changes in interest rates. There was an increase of $1.7 million in the average balance of other interest earning assets quarter to quarter.

Interest Expense. Interest expense increased $103,000, or 31.6%, to $429,000 for the three months ended September 30, 2016 from $326,000 for the three months ended September 30, 2015. The increase was primarily due to an increase of $37.9 million, or 24.0%, in the average balance of interest-bearing deposits.

Net Interest and Dividend Income. Net interest and dividend income increased $299,000, or 24.9%, to $1.5 million for the three months ended September 30, 2016 from $1.2 million for the three months ended September 30, 2015 primarily due to an increase in the net interest margin of 13 basis points to 2.40% for 2016 from 2.27% for 2015. This was offset in part by a decrease in net interest-earning assets of $169,000, or 0.3%, to $53.0 million for the three months ended September 30, 2016 from $53.2 million for the three months ended September 30, 2015.

Provision for Loan Losses. We recorded a provision for loan losses of $117,000 for the three months ended September 30, 2016, an increase of $82,000 from the provision of $35,000 for the three months ended September 30, 2015. This increase was due to an increase in total loans of $17.7 million, or 9.4%, to $206.0 million at September 30, 2016 from $188.3 million at June 30, 2016. The increase in total loans was due primarily to an increase of $15.8 million, or 10.8%, in one-to four-family residential loans, an increase of $2.7 million, or 14.4%, in commercial real estate loans, partially offset by a decrease of $370,000, or 3.1%, in construction loans during the three months ended September 30, 2016.

There were no charge-offs for the quarters ended September 30, 2016 and September 30, 2015. The allowance for loan losses was $859,000 or 0.42% of total loans, at September 30, 2016, an increase of $294,000, or 52.0%, compared to $565,000, or 0.40% of total loans, at September 30, 2015. There were no nonperforming loans at September 30, 2016 compared to $285,000 at September 30, 2015.

Noninterest Income. Noninterest income increased $220,000, or 211.5%, to $324,000 for the three months ended September 30, 2016 from $104,000 for the three months ended September 30, 2015, primarily due to an increase in the gain on sales of available-for-sale securities, net to $279,000 for the three months ended September 30, 2016, from

$0 for the three months ended September 30, 2015. The increase was partially offset by a decrease in other income of $54,000, or 96.4%, to $2,000 for the three months ended September 30, 2016 from $56,000 for the three months ended September 30, 2015.

There were no loans originated for sale and sold during the three months ended September 30, 2016 and September 30, 2015. Fees and service charges decreased $4,000, or 16.0%, to $21,000 for the three months ended September 30, 2016 from $25,000 for the three months ended September 30, 2015.

Noninterest Expense. Noninterest expense increased $126,000, or 12.9%, to $1.1 million for the three months ended September 30, 2016 from $973,000 for the three months ended September 30, 2015. Noninterest expense increased primarily due to an increase to salary and employee benefits, audits and examination expenses and data processing expenses.

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Salaries and employee benefit expenses increased $91,000, or 14.7%, to $708,000 for the three months ended September 30, 2016 from $617,000 for the three months ended September 30, 2015 as a result of normal salary increases and increases in payroll taxes. Additionally, stock based compensation expense, including ESOP expense, was $100,000 for the three months ended September 30, 2016 compared to $27,000 for the three month period ending September 30, 2015. Audit and examination expenses increased $19,000, or 39.6%, to $67,000 for the three months ended September 30, 2016 from $48,000 for the three months ended September 30, 2015. Data processing expenses increased $13,000, or 15.5%, to $97,000 for the three months ended September 30, 2016, from $84,000 for the three months ended September 30, 2015.

Income Tax Expense. Income tax expense increased $131,000, or 144.0%, to $222,000 for the three months ended September 30, 2016 from $91,000 for the three months ended September 30, 2015. The effective tax rate for the three months ended September 30, 2016 and September 30, 2015 was 36.5% and 30.6%, 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 September 30, 2016 and 2015 (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 September 30, 2016 and 2015 are annualized.

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans	$ 195,251	$ 1,737	3.56%	$ 146,269	$ 1,289	3.53%
Securities (1)	33,404	179	2.14%	45,524	231	2.03%
Other interest-earning assets	21,313	13	0.24%	19,559	7	0.14%
Total interest-earning assets	249,968	1,929	3.09%	211,352	1,527	2.89%
Non-interest earning assets	9,031			7,784		
Total assets	$ 258,999			$ 219,136		
Interest-bearing liabilities:						
Deposits:						
Savings accounts	$ 32,768	$ 16	0.20%	$ 31,696	$ 16	0.20%
Certificates of deposit	114,450	375	1.31%	78,650	274	1.39%
Money market accounts	35,741	33	0.37%	33,902	32	0.38%
NOW accounts	13,115	5	0.15%	13,911	4	0.12%
Total interest-bearing deposits	196,074	429	0.88%	158,159	326	0.82%
Borrowings	870					0.00%

Total interest-bearing liabilities	196,944	429	0.87%	158,159	326	0.82%
Demand deposit accounts	17,875			14,294		
Other noninterest-bearing liabilities	653			677		
Total liabilites	215,472			173,130		
Stockholders equity	43,527			46,006		
Total liabilities and stockholders equity	$ 258,999			$ 219,136		
Net interest income		$ 1,500			$ 1,201	
Net interest rate spread (2)			2.22%			2.07%
Net interest-earning assets (3)	$ 53,024			$ 53,193		
Net interest margin (4)			2.40%			2.27%
Average of interest-earning assets to interest-bearing liabilities	126.92%			133.63%		

(1) No tax equivalent adjustment was applied to tax exempt income for the three months ended September 30, 2016 and 2015 as the amount is not significant.

(2) 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.

(3) Net interest -earning assets represents total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

Comparison of Operating Results for the Nine Months Ended September 30, 2016 and 2015

General. Net income increased $350,000, or 69.6%, to $853,000 for the nine months ended September 30, 2016 from $503,000 for the nine months ended September 30, 2015. Net income increased primarily due to an increase in net interest and dividend income and noninterest income, offset by an increase in noninterest expense, and income tax expense.

Interest and Dividend Income. Interest and dividend income increased $1.1 million, or 25.6%, to $5.4 million for the nine months ended September 30, 2016 from $4.3 million for the nine months ended September 30, 2015 primarily due to an increase in interest and fees on loans, which increased $1.1 million, or 30.3%, to $4.7 million for the nine months ended September 30, 2016 from $3.6 million for the nine months ended September 30, 2015. The increase in interest and fees on loans was the result of an increase in new loan originations and an increase in the yield on loans.

Interest and dividends on securities decreased $12,000, or 1.9%, to $631,000 for the nine months ended September 30, 2016 from $643,000 for the nine months ended September 30, 2015 resulting primarily from a decrease of $5.9 million, or 13.2%, in the average balance on securities to $38.6 million for the nine months ended September 30, 2016 from $44.5 million for the nine months ended September 30, 2015, offset by an increase in the yield on securities of 0.25%, from 1.93% to 2.18%.

Interest Expense. Interest expense increased $243,000, or 25.8%, to $1.2 million for the nine months ended September 30, 2016 from $943,000 for the nine months ended September 30, 2015. The increase was due primarily to an increase of $31.2 million, or 20.1%, in the average balance on interest-bearing deposits to $186.2 million for the nine months ended September 30, 2016 from $155.0 million for the nine months ended September 30, 2015.

Net Interest and Dividend Income. Net interest and dividend income increased $864,000, or 25.6%, to $4.2 million for the nine months ended September 30, 2016 from $3.4 million for the nine months ended September 30, 2015 primarily due to our net interest margin increase of 20 basis points. This was offset in part as our net interest-earning assets decreased $533,000, or 1.0%, to $52.3 million for the nine months ended September 30, 2016 from $52.8 million for the nine months ended September 30, 2015.

Provision for Loan Losses. We recorded a $279,000 provision for loan losses for the nine months ended September 30, 2016, compared to $45,000 recorded for the nine months ended September 30, 2015. This increase was due to an increase in total loans of $45.2 million, or 28.1%, to $206.0 million at September 30, 2016 from $160.8 million at December 31, 2015. The increase in total loans was due primarily to an increase of $29.9 million, or 22.6%, in one-to four-family residential loans, an increase of $8.5 million, or 64.4%, in commercial real estate loans, and an increase of $7.4 million, or 171.3%, in construction loans during the nine months ended September 30, 2016.

There were no charge-offs for the nine month periods ended September 30, 2016 and 2015. The allowance for loan losses was $859,000 or 0.40% of total loans, at September 30, 2016, an increase of $294,000, or 52.0%, compared to $565,000, or 0.40% of total loans, at September 30, 2015. There were no nonperforming loans at September 30, 2016 compared to $285,000 at September 30, 2015.

Noninterest Income. Noninterest income increased $481,000, or 213.8%, to $706,000 for the nine months ended September 30, 2016 from $225,000 for the nine months ended September 30, 2015. This increase is primarily due to gains on sales of available-for-sale securities, net of $572,000 in 2016 as compared to a gain, net of writedowns of $32,000 in 2015, resulting in an increase in 2016 of $540,000. We recorded $572,000 and $409,000 in gains on sales of available-for-sale securities for the nine months ended September 30, 2016 and 2015, respectively. There were no writedowns of available-for-sale securities recorded for the nine months ended September 30, 2016 and $377,000 in writedowns of available-for-sale securities for the nine months ended September 30, 2015. The increase was partially offset by a decrease in other income of $51,000, or 85.0%, to $9,000 for the nine months ended September 30, 2016 from $60,000 for the nine months ended September 30, 2015. There were no loans originated for sale and sold during the nine months ended September 30, 2016 and 2015.

Noninterest Expense. Noninterest expense increased $551,000, or 19.6%, to $3.4 million, for the nine months ended September 30, 2016 from $2.8 million, for the nine months ended September 30, 2015. Noninterest expense increased primarily due to increases to salaries and employee benefits as well as data processing, audit and examination expenses, and the expense for professional services.

Salaries and employee benefit expense increased $294,000, or 16.5%, to $2.1 million for the nine months ended September 30, 2016 from $1.8 million for the nine months ended September 30, 2015 as a result of hiring additional staff as well as normal salary increases and increases in payroll taxes. Additionally, stock based compensation expense, including ESOP expense, was $205,000 for the nine months ended September 30, 2016 compared to $80,000 for the nine month period ended September 30, 2015. The expense for professional services increased $191,000, or 219.5%, to $278,000 for the nine month period ended September 30, 2016 from $87,000 for the same period in 2016. This increase was primarily due to increases in legal and consulting fees related to stock based compensation and the use of additional consulting services in the loan department and other areas. Data processing expenses increased $34,000, or 14.5%, to $269,000 for the nine months ended September 30, 2016, from $235,000 for the nine months ended September 30, 2015. Audits and examination expenses increased $26,000, or 19.0%, to $163,000 for the nine months ended September 30, 2016, from $137,000 for the nine months ended September 30, 2015.

Income Tax Expense. Income tax expense increased $210,000, or 88.2%, to $448,000 for the nine months ended September 30, 2016 from $238,000 for the nine months ended September 30, 2015. The effective tax rate for the nine months ended September 30, 2016 and September 30, 2015 was 34.4% and 32.1%, respectively.

Average Balances and Yields. The following tables set forth average balance sheets, average yields and costs, and certain other information for the nine months ended September 30, 2016 and 2015 (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 nine months ended September 30, 2016 and 2015 are annualized.

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans	$ 178,295	$ 4,753	3.55%	$ 138,833	$ 3,648	3.50%
Securities (1)	38,626	631	2.18%	44,492	643	1.93%
Other interest-earning assets	21,812	41	0.25%	24,452	27	0.15%
Total interest-earning assets	238,733	5,425	3.03%	207,777	4,318	2.77%
Non-interest earning assets	8,254			7,599		
Total assets	$ 246,987			$ 215,376		
Interest-bearing liabilities:						
Deposits:						
Savings accounts	$ 32,651	$ 48	0.20%	$ 31,573	$ 49	0.21%
Certificates of deposit	103,773	1,025	1.32%	74,669	786	1.40%
Money market accounts	35,438	98	0.37%	35,530	98	0.37%
NOW accounts	14,290	15	0.14%	13,183	10	0.10%

Total interest-bearing deposits	186,152	1,186	0.85%	154,955	943	0.81%
Borrowings	292					
Total interest-bearing liabilities	186,444	1,186	0.85%	154,955	943	0.81%
Demand deposit accounts	15,764			13,813		
Other noninterest-bearing liabilities	596			802		
Total liabilites	202,804			169,570		
Stockholders equity	44,183			45,806		
Total liabilities and stockholders equity	$ 246,987			$ 215,376		
Net interest income		$ 4,239			$ 3,375	
Net interest rate spread (2)			2.18%			1.96%
Net interest-earning assets (3)	$ 52,289			$ 52,822		
Net interest margin (4)			2.37%			2.17%
Average of interest-earning assets to interest-bearing liabilities	128.05%			134.09%		

(1) No tax equivalent adjustment was applied to tax exempt income for the nine months ended September 30, 2016 and 2015 as the amount is not significant.

(2) 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.

(3) Net interest -earning assets represents total interest-earning assets less total interest-bearing liabilities.

(4) 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 September 30, 2016 vs. 2015			Nine Months Ended September 30, 2016 vs. 2015		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
Interest-earning assets:						
Loans (1)	$ 437	$ 11	$ 448	$ 1,052	$ 53	$ 1,105
Securities (2)	(65)	13	(52)	(685)	673	(12)
Other interest-earning assets (3)	1	5	6	(4)	18	14
Total interest-earning assets	373	29	402	363	744	1,107
Interest-bearing liabilities						
Deposits:						
Savings accounts				3	(4)	(1)
Certificates of deposit	116	(15)	101	280	(41)	239
Money market accounts	2	(1)	1			
NOW accounts		1	1	1	4	5
Total interest-bearing deposits	118	(15)	103	284	(41)	243
Borrowings						
Total interest-bearing liabilities	118	(15)	103	284	(41)	243
Change in net interest income	$ 255	$ 44	$ 299	$ 79	$ 785	$ 864

(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 and deposits with Cooperative Central Bank

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 September 30, 2016. 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 September 30, 2016, 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) S*ales of Unregistered Securities*. Not applicable.

(b) ***Use of Proceeds.*** Not applicable

(c) The Company s repurchases of its common stock during the three months ended September 30, 2016 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2016 to July 31, 2016		$		32,400
August 1, 2016 to August 31, 2016	5,000	15.55	5,000	27,400
September 1, 2016 to September 30, 2016	12,700	15.20	12,700	14,700

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
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: November 10, 2016	/s/ Jeffrey D. Jones Jeffrey D. Jones President and Chief Executive Officer
Date: November 10, 2016	/s/ Diane Indorato Diane Indorato Senior Vice President and Chief Financial Officer

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