Melrose Bancorp, Inc.
Form 10-Q
November 09, 2018

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, 2018

OR

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

For the transition period from _______________ to _______________

Commission File No. 001-36702

Melrose Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**47-0967316**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

638 Main Street, Melrose, Massachusetts **02176**
(Address of Principal Executive Offices) Zip Code

(781) 665-2500

(Registrant's telephone number)

N/A

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

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

YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 9, 2018, 2,582,424 shares of the Registrant’s common stock, par value $0.01 per share, were issued and outstanding.

Melrose Bancorp, Inc.

Form 10-Q

Part I. – Financial Information

Item 1. Condensed Consolidated Financial Statements

MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Data)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	$ 12,742	$ 8,903
Money market funds	2,570	3,963
Federal funds sold	3,667	4,737
Cash and cash equivalents	18,979	17,603
Investments in available-for-sale securities, at fair value	27,342	26,496
Federal Home Loan Bank stock, at cost	2,285	1,800
Loans, net of allowance for loan losses of $1,358 at September 30, 2018 and $1,134 at December 31, 2017	262,265	251,317
Premises and equipment, net	2,675	1,993
Co-operative Central Bank deposit	891	886
Bank-owned life insurance	6,207	6,090
Accrued interest receivable	834	702
Deferred tax asset, net	539	364
Other assets	310	275
Total assets	$ 322,327	$ 307,526
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Noninterest-bearing	$ 18,138	$ 16,180
Interest-bearing	222,513	216,741
Total deposits	240,651	232,921
Federal Home Loan Bank advances	36,000	29,000
Other liabilities	668	612

Total liabilities	277,319	262,533
Stockholders' equity:		
Common stock, par value $0.01 per share, authorized 15,000,000 shares; issued 2,591,424 shares at September 30, 2018 and 2,600,743 shares at December 31, 2017	26	26
Additional paid-in-capital	23,454	23,496
Retained earnings	24,091	23,674
Unearned compensation - ESOP (190,526 shares unallocated at September 30, 2018 and 196,184 shares unallocated at December 31, 2017)	(1,905)	(1,961)
Unearned compensation - restricted stock	(350)	(451)
Accumulated other comprehensive (loss)/income	(308)	209
Total stockholders' equity	45,008	44,993
Total liabilities and stockholders' equity	$ 322,327	$ 307,526

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, 2018	2017	Nine Months Ended September 30, 2018	2017
Interest and dividend income:				
Interest and fees on loans	$2,559	$2,139	$7,327	$6,025
Interest and dividends on securities:				
Taxable	137	129	396	398
Tax-exempt	16	18	48	51
Other interest	100	62	223	112
Total interest and dividend income	2,812	2,348	7,994	6,586
Interest expense:				
Interest on deposits	753	479	1,863	1,339
Interest on Federal Home Loan Bank advances	201	112	536	217
Total interest expense	954	591	2,399	1,556
Net interest and dividend income	1,858	1,757	5,595	5,030
Provision for loan losses	53	3	224	94
Net interest and dividend income after provision for loan losses	1,805	1,754	5,371	4,936
Noninterest income:				
Fees and service charges	19	22	66	62
Gain on sales and calls of available-for-sale securities, net	103	388	342	1,195
Income on bank-owned life insurance	24	84	77	133
Other income	3	-	11	4
Total noninterest income	149	494	496	1,394
Noninterest expense:				
Salaries and employee benefits	827	807	2,543	2,428
Occupancy expense	85	155	243	307
Equipment expense	20	11	54	32
Data processing expense	113	100	314	297
Advertising expense	52	45	158	146
Printing and supplies	11	9	43	38
FDIC assessment	22	15	66	55
Audits and examinations	57	50	171	150

Other professional services	83	80	243	230
Other expense	85	45	271	151
Total noninterest expense	1,355	1,317	4,106	3,834
Income before income tax expense	599	931	1,761	2,496
Income tax expense	157	300	460	917
Net income	$442	$631	$1,301	$1,579
Weighted average common shares outstanding:				
Basic	2,378,294	2,368,989	2,377,858	2,365,661
Diluted	2,411,000	2,380,820	2,407,997	2,370,063
Earnings per share:				
Basic	$0.19	$0.27	$0.55	$0.67
Diluted	$0.18	$0.27	$0.54	$0.67
Dividends per share	$-	$-	$0.34	$-

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,	
	2018	2017	2018	2017
Net income	$442	$631	$1,301	$1,579
Other comprehensive loss, net of tax:				
Net unrealized holding (loss) gain on available-for-sale securities	(70)	48	(350)	545
Reclassification adjustment for net realized gains included in net income	(103)	(388)	(342)	(1,195)
Other comprehensive loss before income tax effect	(173)	(340)	(692)	(650)
Income tax benefit	44	133	175	285
Other comprehensive loss, net of tax	(129)	(207)	(517)	(365)
Comprehensive income	$313	$424	$784	$1,214

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

MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2018 and 2017

(In Thousands, Except Share Data)

(Unaudited)

	Common Stock		Additional Paid-in-	Retained	Unearned Compensation	Unearned Compensation	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	- ESOP	- RSA	(Loss)/Income	Total
Balance, December 31, 2016	2,602,079	$ 26	$ 23,292	$ 21,912	$ (2,037)	$ (585)	$ 696	$ 43,304
Net income	-	-	-	1,579	-	-	-	1,579
Other comprehensive loss, net of tax	-	-	-	-	-	-	(365)	(365)
Shares repurchased for tax withholdings on stock-based compensation	(1,336)	-	(22)	-	-	-	-	(22)
Restricted stock award expense	-	-	-	-	-	101	-	101
Stock option expense	-	-	124	-	-	-	-	124
Common stock held by ESOP committed to be allocated (7,546 shares annually)	-	-	43	-	57	-	-	100
Balance, September 30, 2017	2,600,743	$ 26	$ 23,437	$ 23,491	$ (1,980)	$ (484)	$ 331	$ 44,821
Balance, December 31, 2017	2,600,743	$ 26	$ 23,496	$ 23,674	$ (1,961)	$ (451)	$ 209	$ 44,993
Net income	-	-	-	1,301	-	-	-	1,301
Other comprehensive loss, net of tax	-	-	-	-	-	-	(517)	(517)
Dividends paid	-	-	-	(884)	-	-	-	(884)
Restricted stock award expense	-	-	-	-	-	101	-	101

Stock option expense	-	-	124	-	-	-	-	124
Repurchase of common stock	(17,200)	-	(335)	-	-	-	-	(335)
Common stock held by ESOP committed to be allocated (7,546 shares annually)	-	-	56	-	56	-	-	112
Shares repurchased for tax withholdings on stock-based compensation	(1,219)	-	(24)	-	-	-	-	(24)
Stock options exercised	9,100	-	137	-	-	-	-	137
Balance, September 30, 2018	2,591,424	$ 26	$ 23,454	$ 24,091	$ (1,905)	$ (350)	$ (308)	$ 45,008

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

MELROSE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$1,301	$1,579
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net of accretion	160	100
Gain on sales and calls of available-for-sale securities, net	(342)	(1,195)
Provision for loan losses	224	94
Change in net deferred loan fees/costs	44	4
Change in unamortized premiums	48	(74)
Depreciation	109	160
Increase in accrued interest receivable	(132)	(96)
Increase in other assets	(35)	(93)
Increase in other liabilities	56	161
Income on bank-owned life insurance	(77)	(133)
ESOP expense	112	100
Stock-based compensation expense	225	225
Net cash provided by operating activities	1,693	832
Cash flows from investing activities:		
Purchases of available-for-sale securities	(8,169)	(3,193)
Proceeds from sales of available-for-sale securities	602	2,264
Proceeds from maturities and calls of available-for-sale securities	6,211	3,814
Purchases of Federal Home Loan Bank stock	(485)	(716)
Increase in Cooperative Central Bank deposit	(5)	(5)
Loan originations and principal collections, net	(11,264)	(9,011)
Loans purchased	-	(12,605)
Capital expenditures	(791)	(396)
Premiums paid on bank-owned life insurance	(40)	(41)
Net cash used in investing activities	(13,941)	(19,889)

Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	2,298	1,951
Net increase in time deposits	5,432	10,427
Proceeds from Federal Home Loan Bank advances	10,000	16,000
Repayment of Federal Home Loan Bank advances	(3,000)	-
Dividends paid	(884)	-
Repurchase of Melrose Bancorp, Inc. common stock	(335)	-
Shares repurchased for tax withholdings on stock-based compensation	(24)	(22)
Stock options exercised	137	-
Net cash provided by financing activities	13,624	28,356
Net increase in cash and cash equivalents	1,376	9,321
Cash and cash equivalents at beginning of the period	17,603	13,792
Cash and cash equivalents at end of the period	$18,979	$23,113
Supplemental disclosures:		
Interest paid	$2,384	$1,551
Income taxes paid	64	785

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

Melrose Bancorp, Inc. and Subsidiary

Form 10-Q

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 the State of Maryland. The Company’s activity consists of owning and supervising its subsidiary, Melrose 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, construction 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 subject to limitations.

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, 2018 and for the interim periods ended September 30, 2018 and 2017 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, 2017 filed with the Securities and Exchange Commission on March 16, 2018. The results of operations for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for future periods, including the year ending December 31, 2018.

The significant accounting policies are summarized below to assist the reader in better understanding the condensed 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.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash, amounts due from banks, money market funds and federal funds sold.

SECURITIES:

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts computed so as to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

The Company classifies all debt and equity securities as available-for-sale. Available-for-sale securities are carried at fair value in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of stockholders' equity until realized. The security classification may be modified after acquisition only under certain specified conditions.

For any debt security with a fair value less than its amortized cost basis, the Company will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, the Company will recognize a full impairment charge to earnings. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the credit loss portion of impairment will be recognized in earnings as realized losses. The other-than-temporary impairment related to all other factors will be recorded in other comprehensive loss.

Declines in marketable equity securities below their cost that are deemed other-than-temporary are reflected in earnings as realized losses.

FEDERAL HOME LOAN BANK STOCK:

As a member of the Federal Home Loan Bank of Boston (FHLB), the Bank is required to invest in $100 par value stock of the FHLB. The FHLB capital structure mandates that members must own stock as determined by their Total Stock Investment Requirement which is the sum of a member's Membership Stock Investment Requirement and Activity-Based Stock Investment Requirement, as defined. Management evaluates the Company's investment in FHLB stock for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Based on its most recent analysis of the FHLB as of September 30, 2018, management deems its investment in FHLB stock to be not other-than-temporarily impaired.

CO-OPERATIVE CENTRAL BANK AND SHARE INSURANCE FUND:

All Massachusetts-chartered co-operative banks are required to be members of the Co-operative Central Bank, which maintains the Share Insurance Fund that insures co-operative bank deposits in excess of federal deposit insurance coverage. The Co-operative Central Bank is authorized to charge co-operative banks an annual assessment fee on deposit balances in excess of amounts insured by the FDIC. Assessment rates are based on the institution's risk category, similar to the method currently used to determine assessments by the FDIC.

LOANS:

Loans receivable that management has the intent and ability to hold until maturity or payoff are reported at their outstanding principal balances adjusted for amounts due to borrowers on outstanding home equity lines of credit, commercial lines of credit and construction loans, any charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination and commitment fees and certain direct origination costs are deferred, and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the expected lives of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or are in the process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity line in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectability of principal is reasonably assured and the loan has performed for a period of time, generally six months.

Cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the collectability of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans are recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

PREMISES AND EQUIPMENT:

Land is carried at cost. Buildings and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense.

Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets. Estimated lives are 15 to 40 years for buildings and 3 to 10 years for furniture and equipment.

Premises and equipment are periodically evaluated for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable.

BANK-OWNED LIFE INSURANCE:

The Company has purchased insurance policies on the lives of certain directors, executive officers and employees. Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statements of income and are not subject to income taxes.

ADVERTISING:

The Company directly expenses costs associated with advertising as they are incurred.

INCOME TAXES:

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company’s assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

EMPLOYEE STOCK OWNERSHIP PLAN:

Compensation expense for the Employee Stock Ownership Plan (“ESOP”) is recorded at an amount equal to the shares allocated by the ESOP multiplied by the average fair value of the shares during the period. Unearned compensation applicable to the ESOP is reflected as a reduction of stockholders’ equity in the consolidated balance sheets. The difference between the average fair value and the cost of shares allocated by the ESOP is recorded as an adjustment to additional paid-in-capital.

STOCK-BASED COMPENSATION:

The Company recognizes stock-based compensation based on the grant-date fair value of the award. Forfeitures will be recognized when they occur. The Company values share-based stock option awards granted using the Black-Scholes option-pricing model. The Company recognizes compensation expense for its awards on a straight-line basis over the requisite service period for the entire award (straight-line attribution method), ensuring that the amount of compensation cost recognized at any date at least equals the portion of the grant-date fair value of the award that is vested at that time.

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 and weighted average shares of unearned restricted stock. 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, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(In thousands, except share data)			
Net income	$442	$631	$1,301	$1,579
Basic Common Shares:				
Weighted average common shares outstanding	2,593,648	2,600,743	2,598,234	2,601,485
Weighted average shares - unearned restricted stock	(23,885)	(32,741)	(26,078)	(34,925)
Weighted average unallocated ESOP shares	(191,469)	(199,013)	(194,298)	(200,899)
Basic weighted average shares outstanding	2,378,294	2,368,989	2,377,858	2,365,661
Dilutive effect of unvested restricted stock awards	5,319	8,502	5,724	4,402
Dilutive effect of stock options	27,387	3,329	24,415	-

Diluted weighted average shares outstanding	2,411,000	2,380,820	2,407,997	2,370,063
Basic earnings per share	$0.19	$0.27	$0.55	$0.67
Diluted earnings per share [(1)]	$0.18	$0.27	$0.54	$0.67

(1) For the nine months ended September 30, 2017, stock options were not included in the computation of dilutive earnings per share, 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.

Federal Home Loan Bank stock: The carrying amounts reported in the consolidated balance sheets for Federal Home Loan Bank stock approximate fair value.

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.

Cooperative Central Bank deposits: The carrying amounts reported in the consolidated balance sheets for Cooperative Central Bank deposits approximate fair value.

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

Deposit liabilities: The fair values 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 similar 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.

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, 2018, there is no significant difference in the comparability of the financial statements as a result of this extended transition period. The extended transition period for an emerging growth company is five years, and the Company’s emerging growth status will end on December 31, 2019.

In May 2014 and August 2015, respectively, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ASU 2014-09 and ASU 2015-14, “Revenue from Contracts with Customers (Topic 606).” The objective of ASU 2014-09 is to clarify principles for recognizing revenue and to develop a common revenue standard for Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards. The guidance in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the extended transition period for an emerging growth company, the amendments in ASU 2015-14 defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2018 and interim periods within that period. Earlier application is permitted only as of an annual reporting period beginning after December 31, 2016, include interim reporting periods within that reporting period. The Company’s revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. Based on the Company’s preliminary analysis of the effect of the new standard on its recurring revenue streams, the net quantitative impact of these presentation changes to noninterest income and noninterest expense is expected to be immaterial and will not affect net income. The Company is in the process of completing a full evaluation of the impact of the new standard, however, anticipates the adoption of this ASU will not have a material impact on its consolidated financial statements.

In January 2016, the FASB issued 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 loss 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.

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 is currently evaluating the amendments of ASU No. 2016-01 to determine the potential impact the new standard will have on the Company’s 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. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods therein. The Company anticipates that the adoption of this ASU will not have a material impact on its 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 judgment 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. This update will be effective for fiscal years beginning after December 15, 2019, 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 March 2017, the FASB issued ASU 2017-08, "Premium Amortization on Purchased Callable Debt Securities." This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU No. 2017-08 is effective for annual reporting beginning after December 15, 2018, and interim periods therein; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company anticipates the adoption of ASU No. 2017-08 will not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement". The amendments in this update modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The update is effective for interim and annual periods in fiscal years beginning after December 15, 2019, an entity is permitted to early adopt any removed or modified disclosures upon issuance of the update and delay adoption of these additional disclosures until their effective date. The removed and modified disclosures will be adopted on a retrospective basis, and the new disclosures will be adopted on a prospective basis. The adoption will not have a material effect on the Company's consolidated financial statements.

NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost basis of securities and their approximate fair values are as follows as of September 30, 2018 (unaudited) and December 31, 2017:

	Amortized Cost Basis (In Thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018				
U.S. Government and federal agency obligations	$4,544	$ -	$ 114	$4,430
Debt securities issued by states of the United States and political subdivisions of the states	2,630	-	68	2,562
Corporate bonds and notes	14,465	4	210	14,259
Preferred stock	2,000	4	50	1,954
Asset-backed securities	1,013	-	53	960
Mortgage-backed securities	1,262	-	52	1,210
Marketable equity securities	1,817	160	10	1,967
	$27,731	$ 168	$ 557	$27,342
December 31, 2017:				
U.S. Government and federal agency obligations	$5,390	$ -	$ 65	$5,325
Debt securities issued by states of the United States and political subdivisions of the states	2,898	12	29	2,881
Corporate bonds and notes	11,364	7	77	11,294
Preferred stock	3,000	13	-	3,013
Mortgage-backed securities	1,495	-	47	1,448
Marketable equity securities	2,046	490	1	2,535
	$26,193	$ 522	$ 219	$26,496

The scheduled maturities of debt securities were as follows as of September 30, 2018 (unaudited):

	Fair Value (In Thousands)
Due within one year	$ 2,483
Due after one year through five years	16,494
Due after five years through ten years	2,069
Due after ten years	1,209

Asset-backed securities	960
Mortgage-backed securities	1,210
	$ 24,425

Not included in the maturity table above is preferred stock with no stated maturity of $950,000 at September 30, 2018 (unaudited).

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders' equity as of September 30, 2018 (unaudited) and December 31, 2017.

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During the three and nine months ended September 30, 2018 (unaudited) proceeds from the sales of available-for-sale securities were $175,000 and $602,000, respectively, and gross realized gains on these sales amounted to $103,000 and $357,000, respectively. The tax expense on the realized gains during the three and nine months ended September 30, 2018 was $27,000 and $88,000, respectively. There were no realized losses on available for sale securities for the three months ended September 30, 2018. During the nine months ended September 30, 2018, there was one security called prior to full amortization of the premium being taken, and the Company recognized a loss of $15,000 as a result. During the three and nine months ended September 30, 2017 (unaudited) proceeds from the sales of available-for-sale securities were $718,000 and $2.3 million, respectively, and gross realized gains on these sales amounted to $388,000 and $1.2 million, respectively. The tax expense on the realized gains during the three and nine months ended September 30, 2017 was $136,000 and $420,000, respectively. There were no realized losses on available for sale securities for the three and nine months ended September 30, 2017.

The Company had no pledged securities as of September 30, 2018 (unaudited) and December 31, 2017.

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 as of September 30, 2018 (unaudited) and December 31, 2017:

	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, 2018						
U.S. Government and federal agency obligations	$1,321	$ 43	$3,109	$ 71	$4,430	$ 114
Debt securities issued by states of the United States and political subdivisions of the states	1,780	41	782	27	2,562	68
Corporate bonds and notes	10,639	137	2,925	73	13,564	210
Preferred stock	950	50	-	-	950	50
Asset-backed securities	960	53	-	-	960	53
Mortgage-backed securities	-	-	1,210	52	1,210	52
Marketable equity securities	1,699	10	-	-	1,699	10
Total temporarily impaired securities	$17,349	$ 334	$8,026	$ 223	$25,375	$ 557
December 31, 2017						
U.S. Government and federal agency obligations	$2,855	$ 20	$2,470	$ 45	$5,325	$ 65
Debt securities issued by states of the United States and political subdivisions of the states	991	6	535	23	1,526	29
Corporate bonds and notes	4,467	24	3,946	53	8,413	77
Mortgage-backed securities	453	6	995	41	1,448	47
Marketable equity securities	485	1	-	-	485	1
Total temporarily impaired securities	$9,251	$ 57	$7,946	$ 162	$17,197	$ 219

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. A summary of the Company's reviews of investment securities deemed to be temporarily impaired is as follows:

Unrealized losses on U.S. Government and federal agency obligations amounted to $114,000 and consisted of nine securities. The unrealized losses on six of these debt securities were individually less than 3.5% of amortized cost basis, with three of these U.S. government and federal agency obligations between 3.5% and 7.0% of amortized cost basis. Unrealized losses on municipal bonds amounted to $68,000 and consisted of seven securities. The unrealized losses on five of these debt securities were individually less than 2.5% of amortized cost basis, with two of these municipal bonds between 5.0% and 6.2% of amortized cost basis. Unrealized losses on corporate bonds amounted to $210,000 and consisted of twenty-four securities. The unrealized losses on twenty-two of these debt securities were individually less than 4.0% of amortized cost basis, with two of these corporate bonds between 4.0% and 5.5% of amortized cost basis. Unrealized losses on preferred stock amounted to $50,000 and consisted of one security, the unrealized loss on this one security was 5.0% of amortized cost basis. Unrealized losses on asset-backed securities amounted to $53,000 and consisted of four securities. Unrealized losses on one of these asset-backed securities was less than 1% of amortized cost basis, with three of these securities having unrealized losses between 5.2% and 6.4% of amortized cost basis. Unrealized losses on mortgage-backed securities amounted to $52,000 and consisted of five securities. The unrealized losses on these debt securities range from 1.8% to 6.5% of amortized cost basis. These unrealized losses relate principally to the effect of interest rate changes on the fair value of debt securities and not to an increase in credit risk of the issuers. As the Company does not intend to sell the securities and it is more likely than not that the Company will not be required to sell the securities before recovery of their amortized cost basis, which may be at maturity, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2018.

Unrealized losses on marketable equity securities amounted to $10,000 and consisted of two securities. The unrealized losses on these marketable equity securities were less than 1.0% of amortized cost basis. These unrealized losses relate principally to the effect of fluctuations in market value and not to an increase in credit risk of the issuers.

NOTE 4 - LOANS

Loans consisted of the following at:

	September 30, 2018	December 31, 2017
	(In Thousands)	
	(unaudited)	
Real estate loans:		
One-to four-family residential	$183,860	$189,763
Home equity loans and lines of credit	12,453	11,585
Commercial	56,175	34,686
Construction	10,655	15,853
Consumer loans	52	44
Total loans	263,195	251,931
Allowance for loan losses	(1,358)	(1,134)
Deferred loan (fees)/costs, net	(9)	35
Unamortized premiums	437	485
Net loans	$262,265	$251,317

The following tables set forth information on loans and the allowance for loan losses at and for the periods ending September 30, 2018 and 2017 (unaudited) and as of December 31, 2017:

Real Estate: One-to four-family Residential	Home Equity Loans and Lines of Credit	Commercial	Construction	Consumer Loans	Unallocated	Total
(In Thousands)						

Three Months Ended September 30, 2018 (unaudited)							
Allowance for loan losses:							
Beginning balance	$476	$ 51	$ 678	$ 71	$ 1	$ 28	$1,305
Charge offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
(Benefit)/provision	(9)	4	106	(48)	-	-	53
Ending balance	$467	$ 55	$ 784	$ 23	$ 1	$ 28	$1,358

	Real Estate: One- to four-family Residential	Home Equity Loans and Lines of Credit	Commercial	Construction	Consumer Loans	Unallocated	Total
	(In Thousands)						
Three Months Ended September 30, 2017 (unaudited)							
Allowance for loan losses:							
Beginning balance	$451	$ 52	$ 317	$ 131	$ 1	$ 29	$981
Charge offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
(Benefit)/provision	6	3	32	(38)	-	-	3
Ending balance	$457	$ 55	$ 349	$ 93	$ 1	$ 29	$984

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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, 2018 (unaudited)							
Allowance for loan losses:							
Beginning balance	$481	$ 52	$ 472	$ 107	$ 1	$ 21	$1,134
Charge offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
(Benefit)/provision	(14)	3	312	(84)	-	7	224
Ending balance	$467	$ 55	$ 784	$ 23	$ 1	$ 28	$1,358

	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, 2017 (unaudited)							
Allowance for loan losses:							
Beginning balance	$418	$ 49	$ 276	$ 117	$ 1	$ 29	$890
Charge offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision/(benefit)	39	6	73	(24)	-	-	94
Ending balance	$457	$ 55	$ 349	$ 93	$ 1	$ 29	$984

	Real Estate: One- to four-family Residential	Home Equity Loans and Lines of Credit	Commercial	Construction	Consumer Loans	Unallocated	Total
	(In Thousands)						
At September 30, 2018 (unaudited)							
Allowance for loan losses:							
Ending Balance:							
Individually evaluated for impairment	$8	$-	$ -	$ -	$ -	$ -	$8
Ending balance:							
Collectively evaluated for impairment	459	55	784	23	1	28	1,350
Total allowance for loan losses ending balance	$467	$55	$ 784	$ 23	$ 1	$ 28	$1,358
Loans:							
Ending balance:							
Individually evaluated for impairment	$98	$-	$ -	$ -	$ -	$ -	$98
Ending balance:							
Collectively evaluated for impairment	183,762	12,453	56,175	10,655	52	-	263,097
Total loans ending balance	$183,860	$12,453	$ 56,175	$ 10,655	$ 52	$ -	$263,195
At December 31, 2017							
Allowance for loan losses:							
Ending Balance:							
Individually evaluated for impairment	$8	$-	$ -	$ -	$ -	$ -	$8
Ending balance:							
Collectively evaluated for impairment	473	52	472	107	1	21	1,126
Total allowance for loan losses ending balance	$481	$52	$ 472	$ 107	$ 1	$ 21	$1,134
Loans:							
Ending balance:							
Individually evaluated for impairment	$100	$-	$ -	$ -	$ -	$ -	$100
Ending balance:							
Collectively evaluated for impairment	189,663	11,585	34,686	15,853	44	-	251,831
Total loans ending balance	$189,763	$11,585	$ 34,686	$ 15,853	$ 44	$ -	$251,931

The following tables set forth information regarding nonaccrual loans and past-due loans as of September 30, 2018 (unaudited) and December 31, 2017:

	30 - 59 Days Past Due	60 - 89 Days Past Due	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, 2018 (unaudited)								
Real estate loans:								
One-to four-family residential	$358	$ -	$ 171	$529	$183,331	$183,860	$ -	$ 353
Home equity loans and lines of credit	-	-	-	-	12,453	12,453	-	-
Commercial	-	-	-	-	56,175	56,175	-	-
Construction	-	-	-	-	10,655	10,655	-	-
Consumer loans	1	-	-	1	51	52	-	-
Total	$359	$ -	$ 171	$530	$262,665	$263,195	$ -	$ 353
At December 31, 2017								
Real estate loans:								
One-to four-family residential	$295	$ 177	$ -	$472	$189,291	$189,763	$ -	$ 189
Home equity loans and lines of credit	189	-	-	189	11,396	11,585	-	-
Commercial	-	-	-	-	34,686	34,686	-	-
Construction	-	-	-	-	15,853	15,853	-	-
Consumer loans	-	-	-	-	44	44	-	-
Total	$484	$ 177	$ -	$661	$251,270	$251,931	$ -	$ 189

During the nine months ended September 30, 2018 (unaudited) there was one, one- to four-family residential loan, with an outstanding balance of $98,000 as of September 30, 2018, meeting the definition of an impaired loan in ASC 310-10-35. During the nine months ended September 30, 2017 there was one, one- to four-family residential loan, with an outstanding balance of $100,000 as of September 30, 2017, meeting the definition of an impaired loan in ASC 310-10-35.

During the three months ended September 30, 2018 (unaudited) there were no one- to four-family residential real estate loans modified that met the definition of a troubled debt restructured loan in ASC 310-40. During the nine months ended September 30, 2018 (unaudited) there was one, one- to four-family residential real estate loan with a recorded balance of $98,000, modified that met the definition of a troubled debt restructured loan in ASC 310-40. The loan has had no defaults on payment, and no commitments to lend additional funds have been approved subsequent to the modification. During the three and nine months ended September 30, 2017 (unaudited), there was one, one- to four-family residential real estate loan with a recorded balance of $100,000, modified that met the definition of a troubled debt restructured loan.

As of September 30, 2018 (unaudited) and December 31, 2017, there were no loans in the process of foreclosure.

Credit Quality Information

The Company has established an 11 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 risk rating system will assist the Company in better understanding the risk inherent in each loan. The 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: Loans with 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 over $350,000.

As of September 30, 2018 (unaudited), there was one, one- to four- family residential real estate loan with a total balance of $98,000 with a risk rating of “7 – special mention.” There were three, one- to four- family residential real estate loans with a total balance of $455,000 with a risk rating of “6W – Pass Watch,” and all other loans outstanding had a risk rating of “1 to 6 - pass.”

As of December 31, 2017, there were no one- to four- family residential real estate loans that had a risk rating of “8 – substandard.” There were three, one- to four- family residential real estate loans with a total balance of $472,000 with a risk rating of “6W – Pass Watch,” and one special mention one- to four- family residential real estate loan with a total balance of $99,000. All other outstanding loans had a risk rating of “1 to 6 – pass.”

NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment:

	September 30, 2018	December 31, 2017
	(In Thousands)	
	(unaudited)	
Land	$393	$ 393
Building	3,305	2,070
Construction in process	-	641
Furniture and equipment	642	553
Data processing equipment	468	360
	4,808	4,017
Accumulated depreciation	(2,133)	(2,024)
	$2,675	$ 1,993

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, 2018 (unaudited) and December 31, 2017 amounted to $28,945,000 and $27,781,000, respectively.

For time deposits as of September 30, 2018 (unaudited) the scheduled maturities for each of the following periods ending September 30 are as follows:

	(In Thousands)
2019	$ 76,412
2020	41,223
2021	11,088
2022	2,048
2023	782
	$ 131,553

Deposits from related parties held by the Bank as of September 30, 2018 (unaudited) and December 31, 2017 amounted to $6,155,000 and $3,603,000, respectively.

NOTE 7 - BORROWED FUNDS

The Bank is a member of the Federal Home Loan Bank of Boston (FHLB). Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one-to-four family properties, certain unencumbered investment securities and other qualified assets. The remaining maximum borrowing capacity with the FHLB at September 30, 2018 (unaudited) was approximately $69.7 million subject to the purchase of additional FHLB stock. The Bank had outstanding FHLB borrowings of $36.0 million at September 30, 2018, (unaudited) consisting of eight advances all with three year terms and interest rates ranging from 1.42% to 2.78%. Additionally, at September 30, 2018, (unaudited) the Bank had the ability to borrow up to $5.0 million on a Federal Funds line of credit with the Co-Operative Central Bank.

Maturities of advances from the FHLB for the periods ending after September 30, 2018 (unaudited) are summarized as follows (in thousands):

2019	$10,000
2020	16,000
2021	10,000
	$36,000

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 consolidated 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.

Amounts of financial instrument liabilities with off-balance sheet credit risk are as follows as of September 30, 2018 (unaudited) and December 31, 2017:

	September 30, 2018	December 31, 2017
	(In Thousands)	
Commitments to originate loans	$9,337	$ 2,401
Unused lines of credit	20,510	17,611
Due to borrowers on unadvanced construction loans	2,770	2,320
	$32,617	$ 22,332

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NOTE 9 - FAIR VALUE MEASUREMENTS

ASC 820-10, “Fair Value Measurement - Overall,” 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, 2018 (unaudited) and December 31, 2017. 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, 2018 (unaudited) and the year ended December 31, 2017.

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

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

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

The following summarizes assets measured at fair value on a recurring basis as of September 30, 2018 (unaudited) and December 31, 2017:

	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, 2018				
U.S. Government and federal agency obligations	$4,430	$ -	$ 4,430	$ -
Debt securities issued by states of the United States and political subdivisions of the states	2,562	-	2,562	-
Corporate bonds and notes	14,259	-	14,259	-
Preferred stock	1,954	1,954	-	-
Asset-backed securities	960	-	960	-
Mortgage-backed securities	1,210	-	1,210	-
Marketable equity securities	1,967	1,967	-	-
Totals	$27,342	$ 3,921	$ 23,421	$ -
December 31, 2017:				
U.S. Government and federal agency obligations	$5,325	$ -	$ 5,325	$ -
Debt securities issued by states of the United States and political subdivisions of the states	2,881	-	2,881	-
Corporate bonds and notes	11,294	-	11,294	-
Preferred stock	3,013	3,013	-	-
Mortgage-backed securities	1,448	-	1,448	-
Marketable equity securities	2,535	2,535	-	-
Totals	$26,496	$ 5,548	$ 20,948	$ -

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, 2018 (unaudited) and December 31, 2017, there were no assets or liabilities carried on the consolidated balance sheets for which a nonrecurring change in fair value has been recorded.

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, 2018 (unaudited)				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	$18,979	$18,979	$-	$-	$18,979
Available-for-sale securities	27,342	3,921	23,421	-	27,342
Federal Home Loan Bank stock	2,285	2,285	-	-	2,285
Loans, net	262,265	-	-	264,112	264,112
Co-operative Central Bank deposit	891	891	-	-	891
Accrued interest receivable	834	834	-	-	834
Financial liabilities:					
Deposits	240,651	-	240,784	-	240,784
FHLB advances	36,000	-	34,931	-	34,931

	December 31, 2017				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	$17,603	$17,603	$-	$-	$17,603
Available-for-sale securities	26,496	5,548	20,948	-	26,496
Federal Home Loan Bank stock	1,800	1,800	-	-	1,800
Loans, net	251,317	-	-	252,792	252,792
Co-operative Central Bank deposit	886	886	-	-	886
Accrued interest receivable	702	702	-	-	702
Financial liabilities:					
Deposits	232,921	-	232,899	-	232,899
FHLB advances	29,000	-	28,660	-	28,660

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

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, included in stockholders' equity, are as follows:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
	(In thousands) (unaudited)			
Net unrealized holding (loss)/gain on available-for-sale securities	$(70)	$48	$(350)	$545
Reclassification adjustment for net realized gains included in net income [1]	(103)	(388)	(342)	(1,195)
Other comprehensive loss before income tax effect	(173)	(340)	(692)	(650)
Income tax benefit	44	133	175	285
Other comprehensive loss, net of tax	$(129)	$(207)	$(517)	$(365)

(1) Reclassification adjustments include net realized securities gains. Realized gains have been reclassified out of accumulated other comprehensive loss and affect certain captions in the consolidated statements of income as follows: pre-tax amount for the three and nine months ended September 30, 2018, is reflected as gain on sales and calls of available-for-sale securities, net of $103,000 and $342,000, respectively. The tax effect, included in income tax expense for the three and nine months ended September 30, 2018, was $27,000 and $88,000, respectively. Pre-tax amount for the three and nine months ended September 30, 2017 is reflected as a gain on sales and calls of available-for-sale securities, net of $388,000 and $1.2 million, respectively. The tax effect, included in income tax expense for the three and nine months ended September 30, 2017 was $136,000 and $420,000, respectively. The after tax amounts are included in net income.

Accumulated other comprehensive (loss)/income as of September 30, 2018 (unaudited) and December 31, 2017 consists of net unrealized holding (losses)/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 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 regulations require a common equity Tier 1 ("CET1") capital ratio of 4.5%, a minimum Tier 1 capital to risk-weighted assets ratio of 6.0%, a minimum total capital to risk-weighted assets ratio of 8.0% and 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 prompt corrective action regulations, in order to be considered "well capitalized," the Bank must maintain a CET1 capital ratio of 6.5%, a Tier 1 risk based capital ratio of 8.0%, a total risk based capital ratio of 10.0%, and a Tier 1 leverage ratio of 5.0%. In addition, the regulations establish a capital conservation buffer above the required capital ratios that began phasing in 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. 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. At September, 30, 2018 (unaudited), the Bank exceeded the fully phased in regulatory requirement for the capital conservation buffer.

Management believes, as of September 30, 2018 (unaudited), that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2018, 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 Common Equity Tier 1 risk-based, total risk-based, Tier 1 risk-based and Tier 1 leverage capital 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 as of September 30, 2018 (unaudited) and December 31, 2017 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)				
At September 30, 2018 (unaudited):						
Total Capital (to Risk Weighted Assets)	$38,713	17.27%	$17,931	8.0 %	$22,414	10.0%
Tier 1 Capital (to Risk Weighted Assets)	37,286	16.64	13,448	6.0	17,931	8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	37,286	16.64	10,086	4.5	14,569	6.5

Tier 1 Capital (to Average Assets)	37,286	12.07	12,353	4.0	15,441	5.0
As of December 31, 2017:						
Total Capital (to Risk Weighted Assets)	$35,297	19.80%	$15,007	8.0 %	$18,759	10.0%
Tier 1 Capital (to Risk Weighted Assets)	36,314	19.08	11,255	6.0	15,007	8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	36,314	19.08	8,441	4.5	12,193	6.5
Tier 1 Capital (to Average Assets)	36,314	12.59	11,373	4.0	14,216	5.0

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. On September 14, 2017, the board of directors of the Company authorized an increase in the number of shares that may be repurchased pursuant to the Company's stock repurchase plan that was previously announced on November 12, 2015. Under the expanded repurchase plan, the Company is authorized to repurchase an additional 130,037 shares, representing approximately 5.0% of the Company's issued and outstanding shares of common stock as of September 14, 2017. As of September 14, 2017, the Company had 11,200 shares remaining to be purchased under its previously announced share repurchase plan of 283,000. The actual amount and timing of future share repurchases, if any, will depend on market conditions, applicable SEC rules and various other factors. As of September 30, 2018, the Company had 124,037 shares remaining to be repurchased pursuant to its repurchase plans.

During the nine months ended September 30, 2018 (unaudited), the Company repurchased 17,200 shares of common stock at an average cost of $19.42 per share. Common stock repurchases for the three months ended September 30, 2018 are presented in the following table.

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, 2018 to July 31, 2018	5,000	19.50	5,000	126,237
August 1, 2018 to August 31, 2018	-	-	-	126,237
September 1, 2018 to September 30, 2018	2,200	19.75	2,200	124,037

During the nine months ended September 30, 2018, 1,219 shares of common stock were repurchased, as a result of net settlements in connection with the second annual installment of stock awards vesting. During the nine months ended September 30, 2017, 1,336 shares of common stock were repurchased, as a result of net settlements in connection with the first annual installment of stock awards vesting. These net settlements were not part of the Company's repurchase plan; the Company was required to purchase these shares for the payment of incomes taxes withheld on unvested restricted stock awards.

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 the Bank with additional incentives to promote growth and performance of the Company and the 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 the grant date fair value of $15.13 per share, and shares vest over 5 years commencing one year from the grant date. The total expense recognized for the three and nine months ended September 30, 2018, in connection with the restricted stock awards was $34,000 and $101,000, respectively (unaudited), and the recognized tax benefit was $9,000 and $26,000, respectively (unaudited). There were no forfeitures during the three and nine month period ending September 30, 2018. During the three and nine month period ending September 30, 2017, the expense was $34,000 and $101,000, respectively (unaudited), and the recognized tax benefit was $12,000 and $35,000, respectively (unaudited). There were no forfeitures during the three and nine month period ending September 30, 2017.

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. The expected forfeiture rate is 0%. Using these variables, the estimated fair value is $3.71 per share. The aggregate intrinsic value of outstanding stock options is $1.0 million as of September 30, 2018. The total expense recognized for the three and nine months ended September 30, 2018, in connection with the stock options was $41,000 and $124,000, respectively (unaudited), and the recognized tax benefit was $3,000 and $10,000, respectively (unaudited). There were no forfeitures during the three and nine month period ending September 30, 2018. There were no stock options exercised during the three months ended September 30, 2018. During the nine months ended September 30, 2018, there were 9,100 options exercised. During the three and nine month period ending September 30, 2017 the stock option expense was $42,000 and $124,000, respectively (unaudited), and the recognized tax benefit was $4,000 and $13,000 (unaudited). There were no forfeitures or options exercised during the three and nine month period ending September 30, 2017.

At September 30, 2018 (unaudited), the unrecognized share based compensation expense related to the 26,580 unvested restricted stock awards amounted to $350,000. The unrecognized expense will be recognized over a weighted average period of 2.6 years.

At September 30, 2018 (unaudited), 80,580 of the 215,100 stock options outstanding are exercisable, and the remaining contractual life is 7.6 years. The unrecognized expense related to the unvested options is $435,000 and will be recognized over a weighted average period of 2.6 years.

NOTE 14 – SUBSEQUENT EVENT

In October of 2018, a total of 9,000 shares of common stock were repurchased at an average cost of $19.75 per share.

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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, 2018 and the results of operations for the three and nine months ended September 30, 2018 and 2017 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 consolidated 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 forward-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.

Comparison of Financial Condition at September 30, 2018 (unaudited) and December 31, 2017

Total assets increased $14.8 million, or 4.8%, to $322.3 million at September 30, 2018 from $307.5 million at December 31, 2017. The increase was the result of an increase in cash and cash equivalents, securities available-for-sale, FHLB stock, net loans, and premises and equipment.

Cash and cash equivalents increased $1.4 million, or 8.0%, to $19.0 million at September 30, 2018 from $17.6 million at December 31, 2017. This increase was due primarily to an increase of a $7.7 million in deposits, $7.0 million increase in FHLB advances, and sales, calls, and maturities of available-for-sale securities of $6.8 million during the nine months ended September 30, 2018, partly offset by net loan originations of $11.3 million, purchases of available-for-sale securities of $8.2 million, and fixed asset additions of $791,000 during the nine months ended September 30, 2018.

Securities available-for-sale increased $846,000, or 3.2%, to $27.3 million at September 30, 2018 from $26.5 million at December 31, 2017. The increase in securities available-for-sale during the period was primarily a result of purchases of $8.2 million, offset by changes in fair value, as well as, sales, maturities, and calls of available-for-sale securities of $6.8 million.

Federal Home Loan Bank (FHLB) stock increased $485,000, or 26.9%, to $2.3 million at September 30, 2018 from $1.8 million at December 31, 2017. The increase in FHLB stock was the result of an increase in FHLB borrowings to $36.0 million at September 30, 2018, from $29.0 million at December 31, 2017. The borrowings are being used to fund new loan originations.

Net loans increased $11.0 million, or 4.4%, to $262.3 million at September 30, 2018 from $251.3 million at December 31, 2017. The increase in net loans was due primarily to an increase of $21.5 million, or 62.0%, in commercial real estate loans, and an increase of $868,000, or 7.5%, in home equity loans and lines of credit, offset by a decrease of $5.9 million, or 3.1%, in one- to four- family residential loans, and a decrease of $5.2 million, or 32.8%, in construction loans.

At September 30, 2018 our premises and equipment was $2.7 million, an increase of $682,000, or 34.2%, from $2.0 million at December 31, 2017. The increase was the result of the lobby renovation completed in April 2018.

At September 30, 2018 our investment in bank-owned life insurance was $6.2 million, an increase of $117,000, or 1.9%, from $6.1 million at December 31, 2017. 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 $7.8 million, or 3.3%, to $240.7 million at September 30, 2018 from $232.9 million at December 31, 2017. The increase in deposits was due primarily to an increase of $5.4 million, or 4.1%, in time deposit accounts, an increase of $1.5 million, or 8.5%, in NOW accounts, an increase of $2.1 million, or 13.2%, in demand deposit accounts, and an increase of $391,000, or 2.5%, in money market accounts, partially offset by a decrease of $1.5 million, or 5.5%, in savings accounts.

Borrowings, all of which were FHLB advances, increased $7.0 million, or 24.1%, to $36.0 million at September 30, 2018 from $29.0 million at December 31, 2017. At September 30, 2018, the Bank had the ability to borrow an additional $69.7 million from the Federal Home Loan Bank of Boston, subject to certain collateral requirements. The proceeds from the borrowings are used to fund new loan originations. Additionally at September 30, 2018, we had the ability to borrow up to $5.0 million on a Federal Funds line of credit with the Co-operative Central Bank.

Total stockholders' equity increased $15,000, or 0.04%, to $45.0 million at September 30, 2018 from $45.0 million at December 31, 2017. The increase was primarily due to net income of $1.3 million and a decrease in unearned compensation on restricted stock and the employee stock ownership plan of $213,000, for the nine months ended September 30, 2018, offset in part by a dividend payout of $0.34 per share, totaling $884,000, and a decrease in accumulated other comprehensive loss/income of $517,000, or 247.4%, to an accumulated loss of $308,000 at September 30, 2018 from accumulated income of $209,000 at December 31, 2017.

Comparison of Operating Results for the Three Months Ended September 30, 2018 and 2017 (unaudited)

General. Net income decreased $189,000, or 30.0%, to $442,000 for the three months ended September 30, 2018 from $631,000 for the three months ended September 30, 2017. Net income decreased primarily due to a decrease in gains on sales of available-for-sale securities and an increase in interest and non-interest expense, offset in part by an increase in interest and dividend income and a decrease in income tax expense.

Interest and Dividend Income. Interest and dividend income increased $464,000, or 19.8%, to $2.8 million for the three months ended September 30, 2018 from $2.3 million for the three months ended September 30, 2017 primarily due to an increase in interest and fees on loans of $420,000, or 19.6%, to $2.6 million for the three months ended September 30, 2018 from $2.1 million for the three months ended September 30, 2017. The increase in interest and fees on loans was the result of an increase of $26.0 million, or 11.2%, in the average balance on loans to $258.7 million for the three months ended September 30, 2018, from $232.7 million for the three months ended September 30, 2017. In addition, the yield on these loans increased 28 basis points to 3.96% for the three months ended September 30, 2018 from 3.68% for the three months ended September 30, 2017. The increase in yield on loans for the nine months ended September 30, 2017 is primarily due to rising loan rates, as well as, the Bank increasing the mix of commercial real estate loans to residential one- to four-family loans, these commercial loans generally have higher yields.

Interest and dividends on securities increased $6,000, or 4.1%, to $153,000 for the three months ended September 30, 2018 from $147,000 for the three months ended September 30, 2017 resulting primarily from a 35 basis point increase in the yield on available-for-sale securities, offset in part by a decrease in average balance of available-for-sale securities of $3.8 million, or 12.1%, to $27.1 million for the three months ended September 30, 2018 from $30.9 million for the three months ended September 30, 2017.

Other interest income increased $38,000, or 61.3%, to $100,000 for the three months ended September 30, 2018 from $62,000 for the three months ended September 30, 2017, primarily due to higher average interest rates on balances held at correspondent banks, partly offset by a decrease of $1.1 million, or 4.8%, in the average balance of other interest-earning assets quarter to quarter.

Interest Expense. Interest expense increased $363,000, or 61.4%, to $954,000 for the three months ended September 30, 2018 from $591,000 for the three months ended September 30, 2017. The increase was primarily due to an increase of $8.6 million, or 4.1%, in the average balance of interest-bearing deposits, in addition to a 46 basis point increase in yield on these accounts. There was an increase in interest expense on FHLB borrowings of $89,000, or 79.5%, to $201,000 for the three months ended September 30, 2018 from $112,000 for the three months ended September 30, 2017. This increase was primarily due to an increase of $11.9 million, or 45.6%, in average balance on FHLB borrowings and a 40 basis point rate increase on these borrowings. The increase in yield on deposit accounts is primarily due to the Bank increasing interest rate on deposit accounts to remain competitive in the market.

Net Interest and Dividend Income. Net interest and dividend income increased $101,000, or 5.7%, to $1.9 million for the three months ended September 30, 2018 from $1.8 million for the three months ended September 30, 2017 primarily due to an increase in average balance on loans of $26.0 million, in addition to a 28 basis point increase in yield on those loans. The increase was partly offset by an increase in average balance on interest bearing deposits of $8.6 million, an increase in average balance on FHLB borrowings of $11.9 million, in addition to a 46 basis point increase on average interest bearing deposits and a 40 basis point increase on average FHLB advances.

Provision for Loan Losses. We recorded a provision for loan losses of $53,000 for the three months ended September 30, 2018, an increase of $50,000 from the provision of $3,000 for the three months ended September 30, 2017. The increased provision was a result of an increase in net loan originations, quarter to quarter, of $11.0 million. In addition, the Bank is increasing the mix of commercial real estate loans to residential one- to four-family loans, which we believe requires a higher reserve rate.

There were no charge-offs for the quarters ended September 30, 2018 and September 30, 2017. The allowance for loan losses was $1,358,000, or 0.52%, of total loans, at September 30, 2018, an increase of $374,000, or 38.0%, compared to $984,000, or 0.42%, of total loans, at September 30, 2017. There was $353,000 in nonperforming loans at September 30, 2018 and $191,000 in nonperforming loans as of September 30, 2017.

Noninterest Income. Noninterest income decreased $345,000, or 69.8%, to $149,000 for the three months ended September 30, 2018 from $494,000, for the three months ended September 30, 2017, primarily due to a decrease in the gain on sales and calls of available-for-sale securities of $285,000, or 73.5%, to $103,000 for the three months ended September 30, 2018, from $388,000, for the three months ended September 30, 2017, and a decrease in income on bank-owned life insurance of $60,000, or 71.4%, to $24,000 for the three months ended September 30, 2018 from $84,000 for the three months ended September 30, 2017.

Noninterest Expense. Noninterest expense increased $38,000, or 2.9%, to $1.4 million for the three months ended September 30, 2018 from $1.3 million for the three months ended September 30, 2017. Noninterest expense increased primarily due to an increase in salaries and employee benefits, equipment expense, data processing expense, advertising expenses, audits and examinations, and professional services, partially offset by a decrease in occupancy expense.

Salaries and employee benefits expense increased $20,000, or 2.5%, to $827,000 for the three months ended September 30, 2018 from $807,000 for the three months ended September 30, 2017, primarily due to new hires and normal salary increases. Equipment expenses increased $9,000, or 81.8%, to $20,000 for the three months ended September 30, 2018 from $11,000 for the three months ended September 30, 2017, as a result of increased depreciation expense. FDIC Assessment increased $7,000, or 46.7%, to $22,000 for the three months ended September 30, 2018, from $15,000 for the three months ended September 30, 2017. Audits and examination expense increased $7,000, or 14.0%, to $57,000 for the three months ended September 30, 2018, from $50,000 for the three months September 30, 2017. Data processing expense increased $13,000, or 13.0%, to $113,000 for the three months ended September 30, 2018, from $100,000 for the three months ended September 30, 2017. Advertising expense increased $7,000, or 15.6%, to $52,000 for the three months ended September 30, 2018, from $45,000 for the three months ended September 30, 2017. Other professional services expense increased $3,000, or 3.8%, to $83,000 for the three months ended September 30, 2018, from $80,000 for the three months ended September 30, 2017. Other expense increased $40,000, or 88.9%, to $85,000 for the three months ended September 30, 2018, from $45,000 for the three months ended September 30, 2017. The increase was due to an increase in software amortization and a change to some of the Bank's deposit products in which the Bank is rebating certain fees and service charges based on specific account parameters and activity. These increases were partially offset by a decrease in occupancy expense of $70,000, or 45.2%, to $85,000 for the three months ended September 30, 2018, from $155,000 for the three months ended September 30, 2017. As a result of the lobby renovation, we accelerated depreciation on a few assets during the three months ended September 30, 2017, which resulted in the decreased expense quarter to quarter.

Income Tax Expense. The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income, and the effect of changes in valuation allowances maintained against deferred tax benefits. Income tax expense for the three months ended September 30, 2018 was $157,000 compared to $300,000 for the three months ended September 30, 2017. The effective tax rate for the three months ended September 30, 2018 and September 30, 2017 was 26.21% and 32.22%, respectively. The decrease in income tax expense and the effective tax rate during the 2018 period is a result of The Tax Act which was passed in December 2017, which reduced the Company’s federal tax rate from 34% to 21%.

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, 2018 and 2017 (unaudited). All average balances are daily average balances based upon amortized cost. 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, 2018 and 2017 are annualized.

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate
(Dollars in Thousands)						
Interest-earning assets:						
Loans	$258,668	$2,559	3.96 %	$232,674	$2,139	3.68 %
Securities (1)	27,138	153	2.26 %	30,856	147	1.91 %
Other interest-earning assets	23,362	100	1.71 %	24,536	62	1.01 %
Total interest-earning assets	309,168	2,812	3.64 %	288,066	2,348	3.26 %
Non-interest earning assets	11,086			9,278		
Total assets	$320,254			$297,344		
Interest-bearing liabilities:						
Deposits:						
Savings accounts	$32,629	$16	0.20 %	$33,666	$19	0.23 %
Certificates of deposit	129,574	627	1.94 %	122,644	416	1.36 %
Money market accounts	36,016	82	0.91 %	37,904	35	0.37 %
NOW accounts	19,352	28	0.58 %	14,716	9	0.24 %
Total interest-bearing deposits	217,571	753	1.38 %	208,930	479	0.92 %
Borrowings	37,859	201	2.12 %	26,000	112	1.72 %
Total interest-bearing liabilities	255,430	954	1.49 %	234,930	591	1.01 %
Demand deposit accounts	19,620			17,247		
Other noninterest-bearing liabilities	139			399		
Total liabilities	275,189			252,576		
Stockholders' equity	45,065			44,768		
Total liabilities and stockholders' equity	$320,254			$297,344		
Net interest income		$1,858			$1,757	
Net interest rate spread (2)			2.15 %			2.25 %
Net interest-earning assets (3)	$53,738			$53,136		
Net interest margin (4)			2.40 %			2.44 %
Average of interest-earning assets to interest-bearing liabilities	121.04 %			122.62 %		

(1) No tax equivalent adjustment was applied to tax exempt income for the three months ended September 30, 2018 and 2017 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 ending September 30, 2018 compared to three months ending September 30, 2017		
	Increase (Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)
Interest-earning assets:			
Loans (1)	$250	$170	$ 420
Securities (2)	(11)	17	6
Other interest-earning assets (3)	(3)	41	38
Total interest-earning assets	236	228	464
Interest-bearing liabilities			
Deposits:			
Savings accounts	(1)	(2)	(3)
Certificates of deposit	25	186	211
Money market accounts	(2)	49	47
NOW accounts	4	15	19
Total interest-bearing deposits	26	248	274
Borrowings	59	30	89
Total interest-bearing liabilities	85	278	363
Change in net interest income	$151	$(50)	$ 101

(1) Includes non-accrual loans and interest received on such loans.
(2) Includes short-term investments.
(3) Includes Federal Home Loan Bank of Boston stock and deposits with Cooperative Central Bank.

Comparison of Operating Results for the Nine Months Ended September 30, 2018 and 2017 (unaudited)

General. Net income decreased $278,000, or 17.6%, to $1.3 million for the nine months ended September 30, 2018 from $1.6 million for the nine months ended September 30, 2017. Net income decreased primarily due to a decrease in gains on sales and calls of available-for-sale securities, and an increase in interest and non-interest expenses, partially offset by an increase in interest and dividend income.

Interest and Dividend Income. Interest and dividend income increased $1.4 million, or 21.4%, to $8.0 million for the nine months ended September 30, 2018 from $6.6 million for the nine months ended September 30, 2017 primarily due to an increase in interest and fees on loans of $1.3 million, or 21.6%, to $7.3 million for the nine months ended September 30, 2018 from $6.0 million for the nine months ended September 30, 2017. This increase was primarily due to an increase of $30.9 million in the average balance on loans period to period and a 25 basis point increase in yield on these loans. The increase in yield on loans for the nine months ended September 30, 2017 is primarily due to rising loan rates, as well as, the Bank increasing the mix of commercial real estate loans to residential one- to four-family loans, these commercial loans generally have higher yields.

Interest and dividends on securities decreased $5,000, or 1.1%, to $444,000 for the nine months ended September 30, 2018 from $449,000 for the nine months ended September 30, 2017 resulting primarily from a decrease in the average balance of available-for-sale securities of $4.2 million, or 13.6%, to $26.9 million for the nine months ended September 30, 2018 from $31.2 million for the nine months ended September 30, 2017, partially offset by a yield increase of 28 basis points to 2.20% for the nine months ended September 30, 2018, from 1.92% for the nine months ended September 30, 2017.

Other interest income increased $111,000, or 99.1%, to $223,000 for the nine months ended September 30, 2018 from $112,000 for the nine months ended September 30, 2017, primarily due to higher average interest rates on balances held at correspondent banks. In addition, there was an increase of $858,000, or 4.4%, in the average balance held at correspondent banks for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017.

Interest Expense. Interest expense increased $843,000, or 54.2%, to $2.4 million for the nine months ended September 30, 2018 from $1.6 million for the nine months ended September 30, 2017. The increase was primarily due to an increase of $11.4 million, or 5.6%, in the average balance of interest-bearing deposits, in addition to a 28 basis point increase in yield on these accounts. There was an increase in interest expense on FHLB borrowings of $319,000, or 147.0%, to $536,000 for the nine months ended September 30, 2018 from $217,000 for the nine months ended September 30, 2017. This increase was primarily due to an increase of $17.6 million, or 91.1%, in average balance on FHLB borrowings and a 44 basis point increase in yield on these borrowings. The increase in yield on deposit accounts is primarily due to the Bank increasing interest rate on deposit accounts to remain competitive in the market.

Net Interest and Dividend Income. Net interest and dividend income increased $565,000, or 11.2%, to $5.6 million for the nine months ended September 30, 2018 from $5.0 million for the nine months ended September 30, 2017 primarily due to an increase in average balance on loans of $30.9 million, or 13.8%, to $255.3 million, for the nine months ended September 30, 2018 from $224.4 million for the nine months ended September 30, 2017, in addition to a 25 basis point increase in yield on those loans. This increase was partly offset by an increase in average balance on interest bearing deposits of $11.4 million, or 5.6%, to $214.2 million for the nine months ended September 30, 2018, from $202.7 million for the nine months ended September 30, 2017, and an increase in average balance on FHLB borrowings of $17.6 million, or 91.1%, to $36.8 million for the nine months ended September 30, 2018, from $19.3 million for the nine months ended September 30, 2017, in addition to a 28 basis point increase on average interest bearing deposits and a 44 basis point increase on average FHLB borrowings.

Provision for Loan Losses. We recorded a provision for loan losses of $224,000 for the nine months ended September 30, 2018, an increase of $130,000 from the provision of $94,000 for the nine months ended September 30, 2017. The provision increase is a result of an increase in the percentage of commercial loans to total loans in the portfolio, as the Bank continues its focus on commercial loan originations.

Noninterest Income. Noninterest income decreased $898,000, or 64.4%, to $496,000 for the nine months ended September 30, 2018 from $1.4 million, for the nine months ended September 30, 2017, primarily due to a decrease in the gain on sales and calls of available-for-sale securities of $853,000, or 71.4%, to $342,000 for the nine months ended September 30, 2018, from $1.2 million, for the nine months ended September 30, 2017.

Noninterest Expense. Noninterest expense increased $272,000, or 7.1%, to $4.1 million for the nine months ended September 30, 2018 from $3.8 million for the nine months ended September 30, 2017. Noninterest expense increased primarily due to an increase in salaries and employee benefits, equipment expense, FDIC assessment, audits and examinations, professional services, and other expenses.

Salaries and employee benefits expense increased $115,000, or 4.7%, to $2.5 million for the nine months ended September 30, 2018 from $2.4 million for the nine months ended September 30, 2017, primarily due to new hires, normal salary increases and increases in payroll taxes. Equipment expenses increased $22,000, or 68.8%, to $54,000 for the nine months ended September 30, 2018 from $32,000 for the nine months ended September 30, 2017, due to an increase in depreciation expense in connection with fixed asset additions for the nine months ended September 30, 2018. FDIC Assessment increased $11,000, or 20.0%, to $66,000 for the nine months ended September 30, 2018, from $55,000 for the nine months ended September 30, 2017. Audits and examination expense increased $21,000, or 14.0%, to $171,000 for the nine months ended September 30, 2018, from $150,000 for the nine months ended September 30, 2017. Other professional services expense increased $13,000, or 5.7%, to $243,000 for the nine months ended September 30, 2018, from $230,000 for the nine months ended September 30, 2017. Other expense increased $120,000, or 79.5%, to $271,000 for the nine months ended September 30, 2018, from $151,000 for the nine months ended September 30, 2017. The increase was due to an increase in software amortization and a change to some of the Bank’s deposit products in which the Bank is rebating certain fees and service charges based on specific account parameters and activity.

Income Tax Expense. The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income, and the effect of changes in valuation allowances maintained against deferred tax benefits. Income tax expense for the nine months ended September 30, 2018 was $460,000 compared to $917,000 for the nine months ended September 30, 2017. The effective tax rate for the nine months ended September 30, 2018 and September 30, 2017 was 26.1% and 36.7%, respectively. The decrease in income tax expense and the effective tax rate during the 2018 period is a result of The Tax Act which was passed in December 2017, which reduced the Company's federal tax rate from 34% to 21%.

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, 2018 and 2017 (unaudited). All average balances are daily average balances based upon amortized cost. 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, 2018 and 2017 are annualized.

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate
(Dollars in Thousands)						
Interest-earning assets:						
Loans	$255,344	$7,327	3.83 %	$224,413	$6,025	3.58 %
Securities [1]	26,929	444	2.20 %	31,157	449	1.92 %
Other interest-earning assets	20,454	223	1.45 %	19,596	112	0.76 %
Total interest-earning assets	302,727	7,994	3.52 %	275,166	6,586	3.19 %
Non-interest earning assets	10,807			9,166		
Total assets	$313,534			$284,332		
Interest-bearing liabilities:						
Deposits:						
Savings accounts	$33,029	$52	0.21 %	$33,209	$54	0.22 %
Certificates of deposit	125,620	1,587	1.68 %	118,485	1,166	1.31 %
Money market accounts	36,436	149	0.55 %	37,407	103	0.37 %
NOW accounts	19,078	75	0.52 %	13,670	16	0.16 %
Total interest-bearing deposits	214,163	1,863	1.16 %	202,771	1,339	0.88 %
Borrowings	36,821	536	1.94 %	19,267	217	1.50 %
Total interest-bearing liabilities	250,984	2,399	1.27 %	222,038	1,556	0.93 %
Demand deposit accounts	17,541			17,533		
Other noninterest-bearing liabilities	129			470		
Total liabilities	268,654			240,041		

Stockholders' equity	44,880					44,291			
Total liabilities and stockholders' equity	$313,534					$284,332			
Net interest income			$5,595				$5,030		
Net interest rate spread (2)				2.25	%			2.26	%
Net interest-earning assets (3)	$51,863					$53,128			
Net interest margin (4)				2.46	%			2.44	%
Average of interest-earning assets to interest-bearing liabilities	120.62	%				123.93	%		

(1) No tax equivalent adjustment was applied to tax exempt income for the nine months ended September 30, 2018 and 2017 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.

	Nine months ending September 30, 2018 compared to nine months ending September 30, 2017		
	Increase (Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)
Interest-earning assets:			
Loans (1)	$869	$433	$ 1,302
Securities (2)	(86)	81	(5)
Other interest-earning assets (3)	5	106	111
Total interest-earning assets	788	620	1,408
Interest-bearing liabilities			
Deposits:			
Savings accounts	-	(2)	(2)
Certificates of deposit	74	347	421
Money market accounts	(3)	49	46
NOW accounts	8	51	59
Total interest-bearing deposits	79	445	524
Borrowings	241	78	319
Total interest-bearing liabilities	320	523	843
Change in net interest income	$468	$97	$ 565

(1) Includes non-accrual loans and interest received on such loans.
(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, 2018. 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, 2018, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

The presentation of Risk Factors is not required for smaller reporting companies such as Melrose Bancorp, Inc.

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

(a) ***Sales of Unregistered Securities.*** Not applicable.

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

(c) During the three months ended September 30, 2018, the Company repurchased 7,200 shares of common stock at an average cost of $19.58 per share. An additional 9,000 shares of common stock were subsequently purchased in October 2018 at an average cost of $19.75 per share.

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, 2018 to July 31, 2018	5,000	19.50	5,000	126,237
August 1, 2018 to August 31, 2018	-	-	-	126,237
September 1, 2018 to September 30, 2018	2,200	19.75	2,200	124,037

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

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 9, 2018	/s/ Jeffrey D. Jones Jeffrey D. Jones President and Chief Executive Officer
Date: November 9, 2018	/s/ Diane Indorato Diane Indorato Senior Vice President and Chief Financial Officer