Wellesley Bancorp, Inc.
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 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 number: 001-35352

WELLESLEY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**45-3219901** (I.R.S. Employer Identification No.)
40 Central Street, Wellesley, Massachusetts (Address of principal executive offices)	**02482** (Zip Code)

(781) 235-2550
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, 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 filing requirements for the past 90 days. Yes x No ¨

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x
(Do not check if a 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 standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of August 1, 2018, there were 2,515,159 shares of the registrant’s common stock outstanding.

WELLESLEY BANCORP, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Assets		
Cash and due from banks	$4,573	$4,604
Short-term investments	28,832	23,858
Total cash and cash equivalents	33,405	28,462
Certificates of deposit	100	100
Securities available for sale, at fair value	67,251	66,486
Federal Home Loan Bank of Boston stock, at cost	5,942	5,937
Loans held for sale	596	--
Loans	710,904	692,455
Less allowance for loan losses	(6,413)	(6,153)
Loans, net	704,491	686,302
Bank-owned life insurance	7,650	7,535
Premises and equipment, net	3,387	3,470
Accrued interest receivable	2,168	2,140
Net deferred tax asset	2,681	2,352
Other assets	2,539	2,611
Total assets	$830,210	$805,395
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	$116,324	$104,346
Interest-bearing	526,862	512,396
Total deposits	643,186	616,742
Short-term borrowings	30,000	38,000
Long-term borrowings	82,682	77,174
Subordinated debt	9,817	9,802

Accrued expenses and other liabilities	3,085	4,432
Total liabilities	768,770	746,150
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	--	--
Common stock, $0.01 par value; 14,000,000 shares authorized, 2,506,132 and 2,506,532 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	25	25
Additional paid-in capital	25,941	25,601
Retained earnings	37,322	34,736
Accumulated other comprehensive income (loss)	(756)	39
Unearned compensation – ESOP	(1,092)	(1,156)
Total stockholders' equity	61,440	59,245
Total liabilities and stockholders' equity	$830,210	$805,395

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)			
Interest and dividend income:				
Interest and fees on loans and loans held for sale	$7,534	$6,355	$14,761	$12,332
Debt securities:				
Taxable	345	333	686	672
Tax-exempt	82	78	164	147
Short-term investments and certificates of deposit	120	42	233	85
FHLB stock	82	59	158	116
Total interest and dividend income	8,163	6,867	16,002	13,352
Interest expense:				
Deposits	1,457	828	2,650	1,621
Short-term borrowings	75	48	198	80
Long-term debt	388	299	731	585
Subordinated debt	158	158	316	316
Total interest expense	2,078	1,333	3,895	2,602
Net interest income	6,085	5,534	12,107	10,750
Provision for loan losses	195	122	260	122
Net interest income, after provision for loan losses	5,890	5,412	11,847	10,628
Non-interest income:				
Customer service fees	45	36	88	70
Mortgage banking activities	28	21	37	64
Income on bank-owned life insurance	58	57	115	114
Wealth management fees	417	308	801	603
Miscellaneous	98	27	183	119
Total non-interest income	646	449	1,224	970
Non-interest expense:				
Salaries and employee benefits	2,693	2,501	5,414	5,110
Occupancy and equipment	701	707	1,419	1,403
Data processing	235	220	469	421
FDIC insurance	168	150	336	297
Professional fees	215	182	413	355
Other general and administrative	581	565	1,100	1,032
Total non-interest expense	4,593	4,325	9,151	8,618
Income before income taxes	1,943	1,536	3,920	2,980
Provision for income taxes	523	599	1,063	1,162

Net income	1,420	937	2,857	1,818
Other comprehensive income:				
Net unrealized holding (loss) gains on available-for-sale securities	(204)	340	(1,076)	577
Income tax benefit (expense)	48	(127)	274	(214)
Total other comprehensive (loss) gain income	(156)	213	(802)	363
Comprehensive income	$1,264	$1,150	$2,055	$2,181
Earnings per common share:				
Basic	$0.59	$0.40	$1.19	$0.77
Diluted	$0.57	$0.38	$1.15	$0.74
Weighted average shares outstanding:				
Basic	2,395,635	2,364,581	2,394,113	2,361,336
Diluted	2,501,122	2,449,413	2,493,172	2,445,712

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Six Months Ended June 30, 2018 and 2017

	Common Stock		Additional	Retained	Accumulated Other Comprehensive	Unearned Compensation-	Total Stockholders'
	Shares	Amount	Paid-in Capital	Earnings	Income (Loss)	ESOP	Equity
	(Dollars in thousands)						
Balance at December 31, 2016	2,484,852	$ 25	$ 24,703	$ 31,999	$ (229)	$ (1,284)	$ 55,214
Comprehensive income	--	--	--	1,818	363	--	2,181
Dividends paid to common stockholders ($0.09 per share)	--	--	--	(224)	--	--	(224)
Issuance of restricted stock	5,000	--	--	--	--	--	--
Share-based compensation-equity incentive plan	--	--	321	--	--	--	321
ESOP shares committed to be allocated (6,419)	---	--	110	--	--	64	174
Balance at June 30, 2017	2,489,852	$ 25	$ 25,134	$ 33,593	$ 134	$ (1,220)	$ 57,666
Balance at December 31, 2017	2,506,532	$ 25	$ 25,601	$ 34,736	$ 39	$ (1,156)	$ 59,245
Comprehensive income	--	--	--	2,857	(802)	--	2,055
Reclassification related to Tax Cuts and Jobs Act	--	--	--	(7)	7	--	--
Dividends paid to common stockholders ($0.105 per share)	--	--	--	(264)	--	--	(264)
Restricted stock forfeitures	(400)	--	--	--	--	--	--
Share-based compensation-equity incentive plan	--	--	207	--	--	--	207
ESOP shares committed to be allocated (6,419)	--	--	133	--	--	64	197
Balance at June 30, 2018	2,506,132	$ 25	$ 25,941	$ 37,322	$ (756)	$ (1,092)	$ 61,440

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	$2,857	$1,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	260	122
Depreciation and amortization	392	380
Net amortization of securities	82	115
Principal balance of loans sold	2,532	5,063
Loans originated for sale	(3,128)	(4,666)
Accretion of net deferred loan fees	(308)	(286)
Amortization of subordinated debt issuance costs	15	17
Income on bank-owned life insurance	(115)	(114)
Deferred income tax provision	(55)	(146)
ESOP expense	197	174
Share-based compensation	207	321
Net change in other assets and liabilities	(1,346)	1,525
Net cash provided by operating activities	1,590	4,323
Cash flows from investing activities:		
Activity in securities available for sale:		
Maturities, prepayments and calls	5,557	1,652
Purchases	(7,480)	(3,013)
Purchase of Federal Home Loan Bank stock	(5)	(678)
Net loan originations	(18,141)	(41,295)
Additions to premises and equipment	(329)	(169)
Proceeds from sale of premises and equipment	63	--
Net cash used by investing activities	(20,335)	(43,503)
Cash flows from financing activities:		
Net increase in deposits	26,444	12,424
Proceeds from issuance of long-term debt	36,000	36,000
Repayments of long-term debt	(30,492)	(18,172)
Increase (decrease) in short-term borrowings	(8,000)	3,000
Cash dividends paid on common stock	(264)	(224)
Net cash provided by financing activities	23,688	33,028
Net change in cash and cash equivalents	4,943	(6,152)
Cash and cash equivalents at beginning period	28,462	28,425
Cash and cash equivalents at end of period	$33,405	$22,273

Supplementary information:		
Interest paid	$3,756	$2,550
Income taxes paid	1,954	1,483

See accompanying notes to consolidated financial statements.

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WELLESLEY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying unaudited interim consolidated financial statements include the accounts of Wellesley Bancorp, Inc. (the "Company") and its wholly-owned subsidiary, Wellesley Bank (the "Bank"), the principal operating entity, and its wholly-owned subsidiaries: Wellesley Securities Corporation, which engages in the business of buying, selling and dealing in securities exclusively on its own behalf; Wellesley Investment Partners, LLC, formed to provide investment management services for individuals, not-for-profit entities and businesses; and Central Linden, LLC, to hold, manage and sell foreclosed real estate. All significant intercompany balances and transactions have been eliminated in consolidation. Assets under management at Wellesley Investment Partners, LLC are not included in these consolidated financial statements because they are not assets of the Company. These financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information, and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2017 Annual Report on Form 10-K. The results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or for any other period.

NOTE 2 – LOAN POLICIES

The loan portfolio consists of real estate, commercial and other loans to the Company's customers in our primary market areas in eastern Massachusetts. The ability of the Company's debtors to honor their contracts is dependent upon the economy in general and the state of real estate and construction sectors within our markets.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred loan origination fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Interest is generally not accrued on loans which are identified as impaired or loans which are ninety days or more past due. Past due status is based on the contractual terms of the loan. Interest income previously accrued on such loans is reversed against current period interest income. Interest income on non-accrual loans is recognized only to the extent of interest payments received and is first applied to the outstanding principal balance when collectibility of principal is in doubt. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured through sustained payment performance for at least six months.

Allowance for loan losses

The allowance for loan losses is established through a provision for loan losses charged to earnings as losses are estimated to occur. Loan losses are charged against the allowance when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components.

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General component

The general component is based on the following loan segments: residential real estate, commercial real estate, construction, commercial, home equity lines of credit and other consumer. Management considers a rolling average of historical losses for each segment based on a time frame appropriate to capture relevant loss data for each loan segment, generally three and 10 years. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume, concentrations and terms of loans; level of collateral protection; effects of changes in risk selection and underwriting standards; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no significant changes to the Company's policies or methodology pertaining to the general component of the allowance during 2018 or 2017.

The qualitative factor adjustments are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate – The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not originate subprime loans. Most loans in this segment are collateralized by one-to-four family residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate – Loans in this segment are primarily income-producing properties in the Company's primary market areas in eastern Massachusetts. The underlying cash flows generated by the properties may be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which, in turn, will have an effect on the credit quality in this segment. Management typically obtains rent rolls annually and continually monitors the cash flows of these loans.

Construction – Loans in this segment include speculative construction loans primarily on residential properties for which payment is derived from the sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions. Residential construction loans in this segment also include loans to build one-to-four family owner-occupied properties which are subject to the same credit quality factors as residential real estate.

Commercial – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Home equity lines of credit – Loans in this segment are collateralized by one-to-four family residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Other consumer – Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower.

<u>Allocated component</u>

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the fair value of the loan or, if the loan is collateral dependent, by the fair value of the collateral, less estimated costs to sell. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan are lower than the carrying value of that loan. Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify performing individual residential and consumer loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired.

Unallocated component

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

NOTE 3 – COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, and gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, 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/loss.

The components of accumulated other comprehensive income (loss) and related tax effects are as follows:

	June 30, 2018	December 31, 2017
	(In thousands)	
Unrealized holding gains (losses) on securities available for sale	$(1,032)	$ 44
Tax effect	276	(5)

Net-of tax amount	$(756)	$ 39

NOTE 4 – RECENT ACCOUNTING AND REGULATORY PRONOUNCEMENTS

Effective January 1, 2018, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this update supersede the revenue recognition requirements in *Topic 605, Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company's primary source of revenue is interest income on financial assets, which is explicitly excluded from the scope of the new guidance. In addition, management determined that the timing of the Company's recognition of wealth management fees did not change materially. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

Effective January 1, 2018, the Company adopted ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities,* to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The key provision included in the ASU is that equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) will be measured at fair value with changes in fair value recognized in net income and the elimination of the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost. This ASU also requires companies to use an "exit price" fair value when measuring the fair values of financial instruments. The adoption of this update did not have a significant impact on the consolidated financial statements, as the Company does not currently invest in equity securities.

Effective January 1, 2018, the Company adopted ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this ASU provide cash flow statement classification guidance for certain areas where diversification existed in practice. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

Effective January 1, 2018, the Company adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that in the statement of cash flows, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

Effective January 1, 2018, the Company adopted ASU 2017-09, *Compensation-Stock Compensation (Topic 718)* to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in *Topic 718, Compensation-Stock Compensation*, to a change in terms or conditions of a share-based payment award. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

Effective January 1, 2018, the Company adopted ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The purpose of this ASU is to eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Reform Act of 2017. Upon adoption of this update, the Company recorded a reclassification of $7 thousand to increase accumulated other comprehensive income and decrease retained earnings.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842*), which requires a lessee to record a right-to-use asset and liability representing the obligation to make lease payments for long-term leases. This ASU will be effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. It is expected that assets and liabilities will increase based on the present value of remaining lease payments for leases in place at the adoption date; however, this is not expected to be material to the Company's results of operations or financial position. Management continues to evaluate the extent of potential impact the new guidance will have on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326),* which requires entities to measure expected credit losses based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. Credit losses on available-for-sale debt securities should be measured in a manner similar to current GAAP; however, recognized credit losses will be presented as an allowance rather than as a write-down. This ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods. Management is evaluating the provisions of the update, and will closely monitor developments and additional guidance to determine the potential impact on the Company's consolidated financial statements. Management is currently working with a third party software service provider to ensure proper mapping and alignment of critical instrument-specific data.

NOTE 5 – SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses, follows:

	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
	(In thousands)			
June 30, 2018				
Residential mortgage-backed securities:				
Government National Mortgage Association	$3,130	$ 34	$ (61)	$3,103
Government-sponsored enterprises	12,787	14	(311)	12,490
SBA and other asset-backed securities	11,612	41	(196)	11,457
State and municipal bonds	12,966	96	(140)	12,922
Government-sponsored enterprise obligations	8,000	--	(285)	7,715
Corporate bonds	16,159	29	(253)	15,935
U.S. Treasury bonds	3,629	--	--	3,629
	$68,283	$ 214	$ (1,246)	$67,251

	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
	(In thousands)			
December 31, 2017				
Residential mortgage-backed securities:				
Government National Mortgage Association	$3,358	$ 46	$ (53)	$3,351
Government-sponsored enterprises	11,690	43	(84)	11,649
SBA and other asset-backed securities	11,961	89	(87)	11,963
State and municipal bonds	13,026	276	(15)	13,287
Government-sponsored enterprise obligations	8,000	--	(166)	7,834
Corporate bonds	17,166	52	(57)	17,161
U.S. Treasury bonds	1,241	--	--	1,241
	$66,442	$ 506	$ (462)	$66,486

There were no sales of available-for-sale securities for the three and six months ended June 30, 2018 and 2017.

The amortized cost and fair value of debt securities by contractual maturity at June 30, 2018 are as follows:

	Amortized Cost	**Fair Value**
	(In thousands)	
Within 1 year	$4,631	$4,627
After 1 year to 5 years	21,427	20,977
After 5 years to 10 years	6,682	6,635
After 10 years	8,014	7,962
	40,754	40,201
Mortgage- and asset-backed securities	27,529	27,050
	$68,283	$67,251

Expected maturities may differ from contractual maturities because the issuer, in certain instances, has the right to call or prepay obligations with or without call or prepayment penalties.

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**
	(In thousands)			
June 30, 2018				
Residential mortgage-backed securities:				
Government National Mortgage Association	$(4)	$138	$(57)	$1,659
Government-sponsored enterprises	(168)	8,175	(143)	2,952
SBA and other asset-backed securities	(78)	5,628	(118)	2,253
State and municipal bonds	(118)	6,043	(22)	856
Government-sponsored enterprise obligations	--	--	(285)	7,715
Corporate bonds	(188)	11,952	(65)	956
	$(556)	$31,936	$(690)	$16,391
December 31, 2017				
Residential mortgage-backed securities:				
Government National Mortgage Association	$(3)	$266	$(50)	$1,611
Government-sponsored enterprises	(13)	3,578	(71)	3,110
SBA and other asset-backed securities	(8)	2,267	(79)	2,434
State and municipal bonds	(3)	571	(12)	871
Government-sponsored enterprise obligations	(27)	1,973	(139)	5,860
Corporate bonds	(21)	7,399	(36)	1,985
	$(75)	$16,054	$(387)	$15,871

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluations. At June 30, 2018, various debt securities have unrealized losses with aggregate depreciation of 2.5% from their aggregate amortized cost basis. These unrealized losses relate principally to the effect of interest rate changes on the fair value of debt securities and not 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, which may be maturity, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2018.

NOTE 6 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the ending balances of loans is as follows:

	June 30, 2018	December 31, 2017
	(In thousands)	
Real estate loans:		
Residential – fixed	$41,657	$31,433
Residential – variable	311,482	297,593
Commercial	147,351	138,784
Construction	112,998	120,004
	613,488	587,814
Commercial loans:		
Secured	52,078	62,333
Unsecured	5,442	5,638
	57,520	67,971
Consumer loans:		
Home equity lines of credit	39,537	36,378
Other	247	214
	39,784	36,592
Total loans	710,792	692,377
Less:		
Allowance for loan losses	(6,413)	(6,153)
Net deferred origination costs	112	78
Loans, net	$704,491	$686,302

The following table summarizes the changes in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2018 and 2017:

	Residential Real Estate	**Commercial Real Estate**	Construction	Commercial	**Home Equity**	**Other Consumer**	Unallocated	Total
	(In thousands)							
Three Months Ended June 30, 2018								
Allowance at March 31, 2018	$1,925	$ 1,545	$ 1,433	$ 995	$ 248	$ 3	$ 69	$6,218
Provision (credit) for loan losses	74	70	26	(33)	9	1	48	195
Allowance at June 30, 2018	$1,999	$ 1,615	$ 1,459	$ 962	$ 257	$ 4	$ 117	$6,413
Three Months Ended June 30, 2017								
Allowance at March 31, 2017	$1,487	$ 1,134	$ 1,695	$ 710	$ 211	$ 3	$ 181	$5,421
Provision (credit) for loan losses	76	37	65	4	4	(1)	(63)	122
Allowance at June 30, 2017	$1,563	$ 1,171	$ 1,760	$ 714	$ 215	$ 2	$ 118	$5,543
Six Months Ended June 30, 2018								
Allowance at December 31, 2017	$1,722	$ 1,520	$ 1,661	$ 917	$ 237	$ 2	$ 94	$6,153
Provision (credit) for loan losses	277	95	(202)	45	20	2	23	260
Allowance at June 30, 2018	$1,999	$ 1,615	$ 1,459	$ 962	$ 257	$ 4	$ 117	$6,413
Six Months Ended June 30, 2017								
	$1,422	$ 1,145	$ 1,827	$ 703	$ 211	$ 3	$ 121	$5,432

Allowance at December 31, 2016								
Provision (credit) for loan losses	141	26	(67)	11	4	10	(3)	122
Loans charged off	--	--	--	--	--	(11)	--	(11)
Allowance at June 30, 2017	$1,563	$ 1,171	$ 1,760	$ 714	$ 215	$ 2	$ 118	$5,543

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Further information pertaining to the allowance for loan losses is as follows:

	Residential Real Estate (In thousands)	**Commercial Real Estate**	Construction	Commercial	**Home Equity**	**Other Consumer**	Unallocated	Total
June 30, 2018								
Allowance related to impaired loans	$--	$ --	$ --	$ --	$--	$ --	$ --	$--
Allowance related to non-impaired loans	1,999	1,615	1,459	962	257	4	117	6,413
Total allowance	$1,999	$ 1,615	$ 1,459	$ 962	$257	$ 4	$ 117	$6,413
Impaired loan balances	$826	$ 561	$ --	$ --	$--	$ --	$ --	$1,387
Non-impaired loan balances	352,313	146,790	112,998	57,520	39,537	247	--	709,405
Total loans	$353,139	$ 147,351	$ 112,998	$ 57,520	$39,537	$ 247	$ --	$710,792
December 31, 2017								
Allowance related to impaired loans	$--	$ --	$ --	$ --	$--	$ --	$ --	$--
Allowance related to non-impaired loans	1,722	1,520	1,661	917	237	2	94	6,153
Total allowance	$1,722	$ 1,520	$ 1,661	$ 917	$237	$ 2	$ 94	$6,153
Impaired loan balances	$172	576	$ --	$ --	$--	$ --	$ --	$748
Non-impaired loan balances	328,854	138,208	120,004	67,971	36,378	214	--	691,629
Total loans	$329,026	$ 138,784	$ 120,004	$ 67,971	$36,378	$ 214	$ --	$692,377

The following is a summary of past due and non-accrual loans at June 30, 2018 and December 31, 2017:

	30-59 Days	**60-89 Days**	**Past Due 90**	**Total**	**Past Due 90**	**Non-accrual Loans**

	Past Due	**Past Due**	**Days or More**	**Past Due**	**Days or More and Still Accruing**	
	(In thousands)					
June 30, 2018						
Residential real estate	$--	$--	$657	$657	$ --	$ 657
Commercial real estate	97	931	--	1,028	--	561
Home equity	395	--	--	395	--	--
Total	$492	$931	$657	$2,080	$ --	$ 1,218
December 31, 2017						
Residential real estate	$598	$65	$--	$663	$ --	$ --
Commercial real estate	--	--	576	576	--	576
Total	$598	$65	$576	$1,239	$ --	$ 576

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The following is a summary of impaired loans:

	June 30, 2018		December 31, 2017	
	Recorded Investment	**Unpaid Principal Balance**	**Recorded Investment**	**Unpaid Principal Balance**
	(In thousands)			
Impaired loans without a valuation allowance:				
Residential real estate	$826	$ 843	$172	$ 189
Commercial real estate	561	689	576	710
Total impaired loans	$1,387	$ 1,532	$748	$ 899

Further information pertaining to impaired loans follows:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Average Recorded Investment	**Interest Income Recognized**	**Interest Income Recognized on Cash Basis**	**Average Recorded Investment**	**Interest Income Recognized**	**Interest Income Recognized on Cash Basis**
	(In thousands)					
Residential real estate	$333	$ 10	$ --	$209	$ 11	$ 8
Commercial real estate	564	8	8	567	28	28
Total	$897	$ 18	$ 8	$776	$ 39	$ 36

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Average	**Interest**	**Interest**	**Average**	**Interest**	**Interest**

	Recorded Investment	Income Recognized	Income Recognized on Cash Basis	Recorded Investment	Income Recognized	Income Recognized on Cash Basis
	(In thousands)					
Residential real estate	$176	$ 2	$ --	$177	$ 3	$ --
Commercial real estate	581	43	43	583	43	43
Total	$757	$ 45	$ 43	$760	$ 46	$ 43

No additional funds are committed to be advanced in connection with impaired loans.

There were no new troubled debt restructurings recorded during the three and six months ended June 30, 2018.

The following is a summary of troubled debt restructurings recorded for the three and six months ended June 30, 2017.

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands)		
Commercial real estate	$1	$ 572	$ 582

During the three and six months ended June 30, 2017, the Company recorded a TDR for one commercial borrower which capitalized past-due interest over the remaining term of the loan in accordance with their bankruptcy filing.

There were no TDRs that defaulted, generally considered 90 days past due or longer, during the three and six months ended June 30, 2018 and 2017, and for which default was within one year of the restructure date. TDRs did not have a material impact on the allowance for loan losses for the three and six months ended June 30, 2018 and 2017.

Credit Quality Information

The Company utilizes an eleven-grade internal loan rating system for commercial real estate, construction and commercial loans.

Loans rated 1-4: Loans in these categories are considered “pass” rated loans with low to average risk.

Loans rated 5: Loans in this category are considered “special mention.” These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 6: Loans in this category are considered “substandard.” Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 7: Loans in this category are considered “doubtful.” Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 8: Loans in this category are considered “loss” or uncollectible and of such little value that their continuance as loans is not warranted.

Loans rated 9: Loans in this category only include commercial loans under $25 thousand with no other outstandings or relationships with the Company that are not rated for credit quality on an annual basis.

Loans rated 10: Loans in this category include loans which otherwise require rating, but which have not been rated, or loans for which the Company’s loan policy does not require rating.

Loans rated 11: Loans in this category include credit commitments/relationships that cannot be rated due to a lack of financial information or inaccurate financial information. If, within 60 days of the assignment of an 11 rating, information is still not available to allow a standard rating, the credit will be rated 6.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, construction and commercial loans. During each calendar year, the Company engages an independent third party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process. On a monthly basis, the Company reviews the residential real estate and consumer loan portfolio for credit quality primarily through the use of delinquency reports.

The following table presents the Company’s loans by risk rating:

	June 30, 2018				December 31, 2017			
	Commercial Real Estate	Construction	Commercial	Total	**Commercial Real Estate**	Construction	Commercial	Total
	(In thousands)							
Loans rated 1-4	$143,457	$ 112,998	$ 57,082	$313,537	$134,201	$ 120,004	$ 67,087	$321,292
Loans rated 5	932	--	438	1,370	1,476	--	301	1,777
Loans rated 6	2,401	--	--	2.401	2,531	--	583	3,114
Loans rated 7	561	--	--	561	576	--	--	576
Total	$147,351	$ 112,998	$ 57,520	$317,869	$138,784	$ 120,004	$ 67,971	$326,759

NOTE 7 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The Company groups its assets 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 – Valuation is based on quoted market prices in active exchange markets for identical assets and liabilities. Valuations are obtained from readily available pricing sources.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities. Valuations are obtained from readily available pricing sources.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as those for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels are recognized at the end of a reporting period, if applicable.

Determination of fair value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances there are no quoted market prices for the Company's various assets and liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the assets and liabilities.

Assets and liabilities measured at fair value on a recurring basis

Assets and liabilities measured at fair value on a recurring basis at June 30, 2018 and December 31, 2017 are summarized below.

	Level 1	Level 2	Level 3	**Total Fair Value**
	(In thousands)			
June 30, 2018				
Assets				
Securities available for sale	$--	$67,251	$ --	$67,251
Forward loan sale commitments	--	6	--	6
Derivative loan commitments	--	6	--	6
Total assets	$--	$67,263	$ --	$67,263
December 31, 2017				
Assets				
Securities available for sale	$--	$66,486	$ --	$66,486

Fair value measurements for securities available for sale are obtained from a third-party pricing service and are not adjusted by management. All securities are measured at fair value in Level 2 based on valuation models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

The fair value of forward loan sale commitments and derivative loan commitments are based on fair values of the underlying mortgage loans, including servicing values as applicable. The fair value of derivative loan commitments also considers the probability of such commitments being exercised.

There were no liabilities measured at fair value on a recurring basis at June 30, 2018 and December 31, 2017

Assets measured at fair value on a non-recurring basis

The Company may also be required, from time to time, to measure certain other financial assets at fair value on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market ("LOCOM") accounting or write-downs of individual assets. Fair values for loans held for sale are based on commitments in effect from investors or prevailing market rates. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets.

	June 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(In thousands)					
Loans held for sale	$--	$ --	$596	$--	$ --	$ --

There are no liabilities measured at fair value on a non-recurring basis at June 30, 2018 and December 31, 2017.

Summary of fair values of financial instruments

The estimated fair values and related carrying amounts of the Company's financial instruments are outlined in the table below. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
	(In thousands)				
June 30, 2018					
Financial assets:					
Cash and cash equivalents	$33,405	$33,405	$--	$--	$33,405
Certificates of deposit	100	100	--	--	100
Securities available for sale	67,251	--	67,251	--	67,251
FHLB stock	5,942	--	--	5,942	5,942
Loans held for sale	596	--	--	596	596
Loans, net	704,491	--	--	698,367	698,367
Accrued interest receivable	2,168	--	--	2,168	2,168
Forward loan sale commitments	6	--	--	6	6
Derivative loan commitments	6	--	--	6	6
Financial liabilities:					
Deposits	$643,186	$--	$--	641,663	641,663
Short-term borrowings	30,000	--	30,000	--	30,000
Long-term debt	82,682	--	82,220	--	82,220
Subordinated debt	9,817	--	--	9,644	9,644
Accrued interest payable	425	--	--	425	425
December 31, 2017					
Financial assets:					
Cash and cash equivalents	$28,462	$28,462	$--	$--	$28,462
Certificates of deposit	100	100	--	--	100
Securities available for sale	66,486	--	66,486	--	66,486
FHLB stock	5,937	--	--	5,937	5,937
Loans, net	686,302	--	--	694,614	694,614
Accrued interest receivable	2,140	--	--	2,140	2,140
Financial liabilities:					

Deposits	$616,742	--	--	615,653	615,653
Short-term borrowings	38,000	--	38,000	--	38,000
Long-term debt	77,174	--	76,906	--	76,906
Subordinated debt	9,802	--	--	9,598	9,598
Accrued interest payable	286	--	--	286	286

NOTE 8 – EMPLOYEE STOCK OWNERSHIP PLAN

The Bank maintains an Employee Stock Ownership Plan (the "ESOP") to provide eligible employees the opportunity to own Company stock. This plan is a tax-qualified retirement plan for the benefit of all Company employees. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax limits.

The Company granted a loan to the ESOP to purchase shares of the Company's common stock on the closing date of the Company's mutual to stock conversion in 2012. As of June 30, 2018, the ESOP held 177,584 shares or 7.1% of the common stock outstanding on that date. The loan is payable annually over 15 years at the rate of 3.25% per annum. The loan can be prepaid without penalty. Loan payments are expected to be funded by cash contributions from the Bank. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. Cash dividends paid on allocated shares are reinvested into shares to participants and cash dividends paid on unallocated shares will be used to repay the outstanding debt of the ESOP. Shares used as collateral to secure the loan are released and available for allocation to eligible employees as the principal and interest on the loan is paid.

Shares held by the ESOP at June 30, 2018 include the following:

Allocated	62,041
Committed to be allocated	6,419
Unallocated	109,124
	177,584

The fair value of unallocated shares was $3.7 million at June 30, 2018.

Total compensation expense recognized in connection with the ESOP for the three months ended June 30, 2018 and 2017 was $104 thousand and $87 thousand, respectively. ESOP-related compensation expense was $198 thousand and $174 thousand for the six months ended June 30, 2018 and 2017, respectively.

NOTE 9 – EQUITY INCENTIVE PLANS

Under the Company’s 2016 Equity Incentive Plan the Company may grant restricted stock awards to its employees and directors for up to 75,000 shares of its common stock. A restricted stock award (the “award”) is a grant of shares of Company common stock for no consideration, subject to a vesting schedule or the satisfaction of market conditions or performance criteria. Awarded shares are held in reserve for each grantee by the Company’s transfer agent, and will be issued from previously authorized but unissued shares upon vesting. The fair value of the stock awards, based on the market price at the grant date, will be recognized over the five-year vesting period. At June 30, 2018, 34,000 shares remain available to award under the Plan.

Under the Company’s 2012 Equity Incentive Plan the Company granted stock options to its employees and directors in the form of incentive stock options and non-qualified stock options totaling 231,894 shares of its common stock. The exercise price of each stock option was not less than the fair market value of the Company’s common stock on the date of grant, and the maximum term of each option is 10 years from the date of each award. The vesting period was five years from the date of grant, with vesting at 20% per year.

Under the 2012 Equity Incentive Plan, the Company also granted stock awards to management, employees and directors. Awarded shares are held in reserve for each grantee by the Company’s transfer agent, and were issued from previously authorized but unissued shares upon vesting. The fair value of the stock awards, based on the market price at the grant date, is recognized over the five-year vesting period.

The Company’s 2012 Equity Incentive Plan was terminated upon approval of the 2016 Equity Incentive Plan.

Stock Options

A summary of option activity under the 2012 Equity Incentive Plan for the six months ended June 30, 2018 is presented below:

Options	**Number of Shares**	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)		(In years)	(In thousands)
Outstanding at beginning of period	212	$ 16.05		
Exercised	--	--		
Forfeited	--	--		
Outstanding at end of period	212	$ 16.05	4.68	$ 3,769
Options exercisable at end of period	194	$ 15.30	4.32	$ 3,425

For the three months ended June 30, 2018 and 2017, compensation expense applicable to the stock options was $9 thousand and $53 thousand, respectively. There was no recognized tax benefit related to this expense for the period ended June 30, 2018. The recognized tax benefit related to this expense was $9 thousand for the period ended June 30, 2017.

For the six months ended June 30, 2018 and 2017, compensation expense applicable to the stock options was $19 thousand and $106 thousand, respectively. There was no recognized tax benefit related to this expense for the period ended June 30, 2018. The recognized tax benefit related to this expense was $19 thousand for the period ended June 30, 2017.

Unrecognized compensation expense for non-vested stock options totaled $51 thousand as of June 30, 2018, which will be recognized over the remaining weighted average vesting period of 1.3 years.

Stock Awards

There was no activity in non-vested restricted stock awards under the 2016 or the 2012 Equity Incentive Plan for the three and six months ended June 30, 2018.

For the three months ended June 30, 2018 and 2017, compensation expense applicable to the stock awards was $90 thousand and $113 thousand, respectively, and the recognized tax benefit related to this expense was $25 thousand and $45 thousand, respectively.

For the six months ended June 30, 2018 and 2017, compensation expense applicable to the stock awards was $188 thousand and $214 thousand, respectively, and the recognized tax benefit related to this expense was $53 thousand and $86 thousand, respectively.

Unrecognized compensation expense for non-vested restricted stock totaled $653 thousand as of June 30, 2018, which will be recognized over the remaining weighted average vesting period of 3.25 years.

NOTE 10 – EARNINGS PER COMMON SHARE

Basic earnings per share represents net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Unallocated ESOP shares are not deemed outstanding for earnings per share calculations. Under the Company's 2012 and 2016 Equity Incentive Plans, stock awards contain non-forfeitable dividend rights. Accordingly, these shares are considered outstanding for computation of basic earnings per share. Potential common shares that may be issued by the Company relate to outstanding stock options and are determined using the treasury stock method.

	Three Months Ended		**Six Months Ended**	
	June 30,		**June 30,**	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Net income applicable to common stock	$1,420	$937	$2,857	$1,818
Average number of common shares issued	2,506	2,488	2,506	2,486
Less: Average unallocated ESOP shares	(111)	(123)	(112)	(125)
Average number of common shares outstanding used to calculate basic earnings per common share	2,396	2,365	2,394	2,361
Effect of dilutive stock options	105	85	99	85
Average number of common shares outstanding used to calculate diluted earnings per share	2,501	2,450	2,493	2,446
Earnings per common share:				
Basic	$0.59	$0.40	$1.19	$0.77
Diluted	$0.57	$0.38	$1.15	$0.74

There were no anti-dilutive options that were excluded from the computations of diluted earnings per share for the three and six months ended June 30, 2018 and 2017.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation

Safe Harbor Statement for Forward-Looking Statements

This report may contain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts; rather they are statements based on the Company’s current expectations regarding its business strategies and their intended results and its future performance. Forward-looking statements are preceded by terms such as “expects,” “believes,” “anticipates,” “intends” and similar expressions.

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company’s actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the changing quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; and, changes in accounting principles and guidelines. Additional factors that may affect our results are discussed in the Company’s 2017 Annual Report on Form 10-K under the section titled “Item 1A.–Risk Factors.” These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

Critical Accounting Policies

We consider critical accounting policies to be accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are the following: the likelihood of loan default; the loss exposure at default; the amount and timing of future cash flows on impaired loans; the value of collateral; and, the determination of loss factors to be applied to the various qualitative elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance at least quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectibility of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic or other conditions differ substantially from the assumptions used in making the evaluation. In addition, the Federal Deposit Insurance Corporation and Massachusetts Commissioner of Banks, as an integral part of their examination processes, periodically review our allowance for loan losses and may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings.

Deferred Tax Assets. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Management reviews deferred tax assets on a quarterly basis to identify any uncertainties pertaining to realization of such assets. In determining whether a valuation allowance is required against deferred tax assets, management assesses historical and forecasted operating results, including a review of eligible carry-forward periods, tax planning opportunities and other relevant considerations. We believe the accounting estimate related to the valuation allowance is a critical estimate because the underlying assumptions can change from period to period. For example, tax law changes or variances in future projected operating performance could result in a change in the valuation allowance. Should actual factors and conditions differ materially from those used by management, the actual realization of net deferred tax assets could differ materially from the amounts recorded in the financial statements. If we were not able to realize all or part of our deferred tax assets in the future, an adjustment to the related valuation allowance would be charged to income tax expense in the period such determination was made.

Comparison of Financial Condition at June 30, 2018 and December 31, 2017

General. Total assets increased $24.8 million, or 3.1%, from $805.4 million at December 31, 2017 to $830.2 million at June 30, 2018. Total asset growth was primarily related to an increase in the loan portfolio of $18.4 million or 2.7%, an increase in cash and cash equivalents of $4.9 million, or 17.4%, and an increase in securities available for sale of $765 thousand, or 1.2%**.**

***Loans*.** The loan portfolio increased $18.4 million. Residential real estate loans increased $24.1 million, or 7.3%, to $353.1 million, compared to $329.0 million at December 31, 2017. Growth in residential real estate was in adjustable-rate and fixed-rate mortgage loans, reflecting customer preferences. Commercial real estate loans increased $8.6 million, or 6.2%, as we have had success in expanding our business development efforts. Construction loans decreased $7.0 million, or 5.8%, primarily due to the completion of several projects during the period. Commercial loans decreased $10.5 million, or 15.4%, due largely to the payoff of a large, credit-only relationship.

At June 30, 2018, past due loans totaled $2.1 million as compared to $1.2 million at December 31, 2017. Two non-accrual residential mortgage loans totaling $65 thousand and $593 thousand, respectively were newly classified as impaired loans as of June 30, 2018 as borrower payments slowed resulting in continued 90 days past due status.

Substantially all delinquent loans are secured by real estate collateral with values exceeding outstanding loan principal. There were no charge-offs on delinquent loans during the six months ended June 30, 2018. Charge-offs on delinquent loans amounted to $11 thousand for the six months ended June 30, 2017.

Securities. Total securities increased from $66.5 million at December 31, 2017 to $67.3 million at June 30, 2018, as excess liquidity was primarily invested in U.S. Treasury bonds.

Deposits. Total deposits increased $26.4 million, or 4.3%, from $616.7 million at December 31, 2017 to $643.2 million at June 30, 2018. Certificates of deposit increased $27.2 million, or 11.7%, to $260.6 million. Demand deposits and NOW accounts increased $17.6 million, or 12.4%, to $159.5 million as growth was realized in both retail and commercial accounts. Money market and savings accounts balances decreased $18.4 million to $127.0 million and $96.2 million, respectively at June 30, 2018.

Borrowings. We use borrowings, primarily from the FHLB, to supplement our supply of funds for loans and securities, and to support short-term liquidity needs of the institution. Long-term debt, consisting entirely of FHLB advances, increased $5.5 million, or 7.1%, for the six months ended June 30, 2018. Short-term borrowings consist entirely of advances from the FHLB with initial maturities less than one year. Balances of short-term borrowings decreased $8.0 million, or 21.1%, since December 31, 2017. Subordinated debt was $9.8 million at June 30, 2018 and December 31, 2017.

Stockholders' Equity. Stockholders' equity increased $2.2 million, or 3.7%, from $59.2 million at December 31, 2017 to $61.5 million at June 30, 2018. The increase was primarily a result of net income for the six month period of $2.9 million, stock compensation expense for the Company's equity incentive plans and ESOP of $404 thousand, offset by an after-tax decrease in the fair value of available for sale securities of $795 thousand and dividends paid of $264 thousand.

Results of Operations for the Three Months Ended June 30, 2018 and 2017

Overview. Net income for the three months ended June 30, 2018 was $1.4 million, compared to net income of $937 thousand for the three months ended June 30, 2017, an increase of 51.6%. The $496 thousand increase was primarily due to an increase in net interest income and non-interest income, offset by an increase in non-interest expense. Net interest income increased $551 thousand to $6.1 million; non-interest income increased $197 thousand to $646 thousand in the 2018 quarter. Non-interest expense increased $268 thousand and totaled $4.6 million for the three months ended June 30, 2018. The loan loss provision increased $73 thousand and income tax expense decreased $76 thousand as compared to the 2017 period.

Net Interest Income. Net interest income for the three months ended June 30, 2018 increased $551 thousand, or 10.0%, as compared to the three months ended June 30, 2017. The increase in interest income was due to increases in the average balances of loans and an increasing yield. Interest expense increased, driven by overall deposit growth, higher rates offered on certificates of deposit and money market accounts, and increases in borrowing expenses.

Interest and dividend income increased $1.3 million, or 18.9%, from $6.9 million for the three months ended June 30, 2017 to $8.2 million for the three months ended June 30, 2018. The average balance of interest-earning assets increased 15.7%, while the average rate earned on these assets increased by 11 basis points ("bps"). Interest and fees on loans increased $1.2 million, or 18.6%, due to a 16.5% increase in the average balance of loans. The average rate earned on loans increased seven bps to 4.32%. Contributing to the increase in loan interest income was the increase in residential real estate, construction loans, commercial real estate and commercial loan average balances during the period. Interest income from investments increased $16 thousand, or 3.9%, due primarily to an increase in the average yields for the three months ended June 30, 2018 as compared to the prior year period.

Interest expense increased $745 thousand, or 55.9% primarily due to an increase in average balances of interest-bearing deposits and their average cost of funds. Our funding costs have responded more quickly than loan income to the change in interest rates. Deposit expense increased $629 thousand, or 76.0%. The average balance of interest-bearing deposits increased $89.3 million, or 20.4%, in the three months ended June 30, 2018, compared to the same period in 2017 and the average rate paid on interest bearing deposits increased 35 bps. The cost of term certificates of deposit increased $461 thousand to $1.0 million as balances in our retail products increased. Rates paid on certificates of deposit balances increased to 1.63%, up 49 bps as compared to the same period last year. Interest expense on money market accounts increased by $118 thousand to $245 thousand. The rate paid on money market accounts increased 25 bps primarily due to a higher tiered-rate structure for these accounts than in the prior year, along with the increase of the average balance of money market accounts of $28.8 million to $133.8 million, as compared to the prior year period. Short and long-term debt expense increased $116 thousand from year to year. The average balance of long-term FHLB advances decreased from $94.9 million to $89.8 million, while rates paid on long-term FHLB advances increased from 1.26% to 1.73%. Long-term debt expense increased by $89 thousand in the three month period ended June 30, 2018. Interest expense on short-term borrowings totaled $75 thousand in the three month period ended June 30, 2018, compared to $48 thousand in the three months ended June 30, 2017 due to increases in the rates by 81 bps.

Average Balances and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using daily balances. Loan fees are included in interest income on loans and are insignificant. Yields are not presented on a tax-equivalent basis. Any adjustments necessary to present yields on a tax-equivalent basis are insignificant.

	For the Three Months Ended June 30,					
	2018			2017		
(Dollars in thousands)	**Average Outstanding Balance**	**Interest Earned/ Paid**	**Average Yield/ Rate (1)**	**Average Outstanding Balance**	**Interest Earned/ Paid**	**Average Yield/ Rate (1)**
Interest-earning assets:						
Short-term investments	$29,858	$ 120	1.61 %	$19,194	$ 42	0.88 %
Debt securities:						
Taxable	53,656	345	2.58	54,323	333	2.46
Tax-exempt	12,927	82	2.54	12,613	78	2.47
Total loans and loans held for sale	698,988	7,534	4.32	599,983	6,355	4.25
FHLB stock	5,874	82	5.57	6,336	59	3.71
Total interest-earning assets	801,303	8,163	4.09	692,449	6,867	3.98
Allowance for loan losses	(6,285)			(5,452)		
Total interest-earning assets less allowance for loan losses	795,018			686,997		
Non-interest-earning assets	23,098			22,275		
Total assets	$818,116			$709,272		
Interest-bearing liabilities:						
Regular savings accounts	$99,411	152	0.61	$97,904	110	0.45
NOW checking accounts	39,102	31	0.32	34,186	23	0.27
Money market accounts	133,753	245	0.73	104,914	127	0.48
Certificates of deposit	253,926	1,029	1.63	199,887	568	1.14
Total interest-bearing deposits	526,192	1,457	1.11	436,891	828	0.76
Short-term borrowings	16,120	75	1.87	17,964	48	1.06
Long-term debt	89,841	388	1.73	94,910	299	1.26
Subordinated debt	9,812	158	6.45	9,781	158	6.56
Total interest-bearing liabilities	641,965	2,078	1.29	559,546	1,333	0.96
Non-interest-bearing demand deposits	111,698			89,025		
Other non-interest-bearing liabilities	3,253			3,147		
Total liabilities	756,916			651,718		
Stockholders' equity	61,200			57,554		

Total liabilities and stockholders’ equity	$818,116			$709,272		
Net interest income		$ 6,085			$ 5,534	
Net interest rate spread (2)			2.79 %			3.02 %
Net interest-earning assets (3)	$159,338			$132,903		
Net interest margin (4)			3.05 %			3.21 %
Average total interest-earning assets to average total interest-bearing liabilities	124.82 %			123.75 %		

(1) Ratios for the three month periods have been annualized.
(2) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.
(3) Represents total average interest-earning assets less total average interest-bearing liabilities.
(4) Represents net interest income as a percent of average interest-earning assets.

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total increase (decrease) column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume.

	Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017 Increase (Decrease) Due to		**Total Increase**
(In thousands)	Volume	Rate	(Decrease)
Interest-earning assets:			
Short-term investments	$31	$47	$ 78
Debt securities:			
Taxable	(4)	16	12
Tax-exempt	2	2	4
Total loans and loans held for sale	1,065	114	1,179
FHLB stock	(4)	27	23
Total interest-earning assets	1,090	206	1,296
Interest-bearing liabilities:			
Regular savings	2	39	41
NOW checking	4	4	8
Money market	41	78	119
Certificates of deposit	179	282	461
Total interest-bearing deposits	226	403	629
Short-term borrowings	(4)	31	27
Long-term debt	(15)	104	89
Total interest-bearing liabilities	207	538	745
Increase (decrease) in net interest income	$883	$(332)	$ 551

Provision for Loan Losses. The provision for loan losses was $195 thousand for the three months ended June 30, 2018, compared to $122 thousand for the three months ended June 30, 2017. In the 2018 period, the provision reflects the loan balances in the portfolio and management's estimate of loan losses based upon historical loan portfolio performance as well as environmental considerations such as the strength of the regional economy and organizational knowledge and expertise.

Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Three Months Ended June 30,	
(Dollars in thousands)	2018	2017
Allowance at beginning of period	$6,218	$5,421
Provision for loan losses	195	122
Charge-offs	--	--
Recoveries	--	--
Net charge-offs	--	--
Allowance at end of period	$6,413	$5,543
Allowance for loan losses to nonperforming loans at end of period	526.49%	953.17%
Allowance for loan losses to total loans at end of period	0.90 %	0.89 %
Net charge-offs to average loans outstanding during the period	0.00 %	0.00 %

Two non-accrual residential mortgage loans totaling $65 thousand and $593 thousand, respectively were newly classified as impaired loans as of June 30, 2018 as borrower payments slowed resulting in 90 days past due status.

Non-interest Income. Non-interest income totaled $646 thousand, an increase of $197 thousand or 43.9%. Wealth management fees increased $109 thousand, or 35.4%, as compared to the prior year as total assets under management increased to $413.9 million as of June 30, 2018, up from $339.5 million at June 30, 2017. Income from mortgage banking activities in 2018 increased $7 thousand as sales of longer-term, fixed rate mortgage loans were higher as compared to the prior year. Customer service fees increased $9 thousand mainly due to an increase in ATM network interchange fees. Commercial loan swap fees increased $52 thousand due to higher volume during the three month period ended 2018.

Non-interest Expense. Non-interest expense totaled $4.6 million for the three months ended June 30, 2018, compared to $4.3 million for the three months ended June 30, 2017, an increase of $268 thousand. Salaries and employee benefits increased $192 thousand due to annual merit and benefit cost increases. Professional fees were also higher by $33 thousand due primarily to an increase in training and audit expenses driven by the bank's growth. Data processing cost increased $15 thousand. FDIC insurance costs increased $18 thousand, or 12.0%, due to higher assessment balances related to growth. Other general and administrative costs, such as advertising and insurance, increased $16 thousand and are attributable to expanding business volumes and operations. Occupancy and equipment expense was slightly lower by $6 thousand.

Income Taxes. An income tax provision of $523 thousand was recorded during the quarter ended June 30, 2018, compared to a provision of $599 thousand in the comparable 2017 quarter. Due to the reduced corporate federal income tax rate enacted at the end of 2017, the effective tax rate for the 2018 three month period was 26.9%, compared with 39.0% for the 2017 three month period.

Results of Operations for the Six Months Ended June 30, 2018 and 2017

Overview. Net income for the six months ended June 30, 2018 was $2.9 million, compared to net income of $1.8 million for the six months ended June 30, 2017, an increase of 57.2%. The $1.1 million increase was primarily due to increased net interest income of $1.4 million and increased non-interest income of $254 thousand, partially offset by increased non-interest expense of $533 thousand and provision for loan losses of $138 thousand.

Net Interest Income. Net interest income for the six months ended June 30, 2018 increased $1.4 million, or 12.6%, as compared to the six months ended June 30, 2017. The increase in net interest income was primarily due to an increase in interest income of $2.7 million, or 19.8% partially offset by interest expenses that increased $1.3 million, or 49.0%, during the period.

Interest and dividend income increased $2.7 million, or 19.8%, from $13.4 million for the six months ended June 30, 2017 to $16.0 million for the six months ended June 30, 2018. The average balance of interest-earning assets increased 16.5%, while the average rate earned on these assets increased by 11 bps. Interest and fees on loans increased $2.4 million, or 19.7%, due to a 17.4% increase in the average balance of loans and an increase of eight bps in the average rate earned on loans. Contributing to the increase in loan income was the increase in residential real estate, construction loan, commercial real estate and commercial loan balances during the period. Interest income from investments increased $179 thousand, or 19.8%, due to an increase in the average balances for the six months ended June 30, 2018 as compared to the prior year period, as well as an increase in the average rate earned on these securities, due, in part, to recent Federal Reserve interest rate increases.

The increase in interest expense of $1.3 million was primarily due to an increase in average balances of interest-bearing deposits and an increase in the cost of funds. The average balance of interest-bearing deposits increased $84.6 million, or 19.5%, in the six months ended June 30, 2018, as compared to the same period in 2017, while the average rate paid on interest-bearing deposits increased 28 bps. Interest expense on money market accounts increased by $227 thousand from 2017 to 2018. The rate paid on money market accounts increased to 0.70% up from 0.48% in 2017, while the average balance of these accounts increased $32.8 million to $138.3 million, as compared to the prior year period. The cost of term certificates of deposit increased $749 thousand to $1.9 million as balances in our retail products, deposits generated through a national certificate of deposit clearinghouse, and brokered CDs have increased, as well as an increase of 40 bps in the rates paid to acquire these balances, as compared to the same period last year. The average balance of short-term FHLB advances increased from $16.8 million to $23.0 million, while rates paid on short-term FHLB advances increased from 0.95% to 1.74%. Rates on long-term FHLB advances increased 36 bps to 1.67% for the six months ending June 30, 2018. Interest expense on short-term and long-term borrowings totaled $929 thousand in the six months ended June 30, 2018, compared to $665 thousand in the six months ended June 30, 2017, an increase of $264 thousand.

Average Balances and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using daily balances. Loan fees are included in interest income on loans and are insignificant. Yields are not presented on a tax-equivalent basis. Any adjustments necessary to present yields on a tax-equivalent basis are insignificant.

	For the Six Months Ended June 30,					
	2018			2017		
(Dollars in thousands)	**Average Outstanding Balance**	**Interest Earned/ Paid**	**Average Yield/ Rate (1)**	**Average Outstanding Balance**	**Interest Earned/ Paid**	**Average Yield/ Rate (1)**
Interest-earning assets:						
Short-term investments	$29,505	$233	1.57 %	$ 20,172	$85	0.85 %
Debt securities:						
Taxable	53,800	686	2.58	54,556	672	2.49
Tax-exempt	13,004	164	2.54	11,676	147	2.53
Total loans and loans held for sale	692,076	14,761	4.30	589,598	12,332	4.22
FHLB stock	5,968	158	5.32	6,085	116	3.82
Total interest-earning assets	794,353	16,002	4.06	682,087	13,352	3.95
Allowance for loan losses	(6,241)			(5,442)		
Total interest-earning assets less allowance for loan losses	788,112			676,645		
Non-interest-earning assets	22,975			22,607		
Total assets	$811,087			$ 699,252		
Interest-bearing liabilities:						
Regular savings accounts	$99,123	265	0.54	$ 97,586	219	0.45
NOW checking accounts	37,486	53	0.29	34,497	46	0.27
Money market accounts	138,340	478	0.70	105,503	251	0.48
Certificates of deposit	243,835	1,854	1.53	196,619	1,105	1.13
Total interest-bearing deposits	518,784	2,650	1.03	434,205	1,621	0.75
Short-term borrowings	23,027	198	1.74	16,825	80	0.95
Long-term debt	88,445	731	1.67	90,208	585	1.31
Subordinated debt	9,808	316	6.49	9,776	316	6.57
Total interest-bearing liabilities	640,064	3,895	1.23	551,014	2,602	0.95
Non-interest-bearing demand deposits	107,055			88,318		
Other non-interest-bearing liabilities	3,347			3,023		
Total liabilities	750,466			642,355		
Stockholders' equity	60,621			56,897		
Total liabilities and stockholders' equity	$811,087			$ 699,252		
Net interest income		$12,107			$10,750	

Net interest rate spread (2)		2.84 %		3.00 %
Net interest-earning assets (3)	$154,289		$ 131,073	
Net interest margin (4)		3.07 %		3.18 %
Average total interest-earning assets to average total interest-bearing liabilities	124.11 %		123.79 %	

(1) Ratios for the six month periods have been annualized.

(2) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) Represents total average interest-earning assets less total average interest-bearing liabilities.

(4) Represents net interest income as a percent of average interest-earning assets.

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total increase (decrease) column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume.

	Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017 Increase (Decrease) Due to		**Total Increase**
(In thousands)	Volume	Rate	(Decrease)
Interest-earning assets:			
Short-term investments	$52	$96	$ 148
Debt securities:			
Taxable	(9)	23	14
Tax-exempt	16	1	17
Total loans and loans held for sale	2,182	247	2,429
FHLB stock	(2)	44	42
Total interest-earning assets	2,239	411	2,650
Interest-bearing liabilities:			
Regular savings	4	43	47
NOW checking	4	3	7
Money market	93	134	227
Certificates of deposit	303	445	748
Total interest-bearing deposits	404	625	1,029
Short-term borrowings	36	82	118
Long-term debt	(11)	157	146
Subordinated debt	--	--	--
Total interest-bearing liabilities	429	864	1,293
Increase (decrease) in net interest income	$1,810	$(453)	$ 1,357

Provision for Loan Losses. The provision for loan losses was $260 thousand for the six months ended June 30, 2018, compared to $122 thousand for the six month period ended June 30, 2017. In the 2018 period, the provision reflects management’s estimate of loan losses based upon historical loan portfolio performance, growth of the portfolio, loan mix, as well as environmental considerations such as the strength of the regional economy and organizational knowledge and expertise.

Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Six Months Ended June 30,	
(Dollars in thousands)	2018	2017
Allowance at beginning of period	$6,153	$5,432
Provision for loan losses	260	122
Charge-offs: Other consumer loans	--	(11)
Recoveries	--	--
Net charge- offs	--	(11)
Allowance at end of period	$6,413	$5,543
Allowance for loan losses to nonperforming loans at end of period	526.49%	953.17%
Allowance for loan losses to total loans at end of period	0.90%	0.89%
Net charge-offs to average loans outstanding during the period	0.00%	0.00%

Non-interest Income. Non-interest income totaled $1.2 million, an increase of $254 thousand, or 26.2%, as income from wealth management fees in 2018 increased $198 thousand as assets under management increased to $413.9 million as of June 30, 2018. Customer service fees increased by $18 thousand due to increasing volumes of ATM interchange and wire transfers. Fees on commercial loan swaps increased $27 thousand from 2017 to 2018 due to increased volume.

Non-interest Expense. Non-interest expense increased $533 thousand to $9.2 million during the six months ended June 30, 2018, from $8.6 million for the six months ended June 30, 2017. Factors that contributed to the increase in non-interest expense during the 2018 period were increased salaries and employee benefits of $304 thousand, or 5.9%, primarily attributable to annual salary and employee benefits increases. FDIC insurance costs increased $39 thousand, or 13.1%, based on growth and higher assessment rates. Data processing expense increased $48 thousand and other general administrative costs increased $68 thousand due to expanding business volumes and operations. Professional fees increased $58 thousand as a result of increased training and corporate legal expenses.

Income Taxes. An income tax provision of $1.1 million was recorded during the six months ended June 30, 2018 compared to a provision of $1.2 million in the comparable 2017 period. The effective tax rate for the 2018 six month period was 27.1%, compared with 39.0% for the 2017 six month period.

Liquidity and Capital Resources

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term and long-term nature. The Bank's primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, and borrowings from the FHLB. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, calls of securities and prepayments on loans are greatly influenced by seasonal events, general interest rates, economic conditions and competition.

Management regularly adjusts our investments in liquid assets based upon an assessment of the following: expected loan demand; expected deposit flows; yields available on interest-earning deposits and securities; and, the objectives of our interest-rate risk and investment policies.

Our most liquid assets are cash and cash equivalents, interest-bearing deposits in other banks, and securities available for sale. The level of these assets depends on our operating, financing, lending and investing activities during any given period. At June 30, 2018, cash and cash equivalents, which include short-term investments, totaled $33.4 million. Securities classified as available-for-sale, whose aggregate fair value is $67.3 million, provide additional sources of liquidity.

At June 30, 2018, we had $30 million in short-term borrowings outstanding, represented entirely by FHLB advances, and $82.7 million in long-term debt, also consisting entirely of FHLB advances. At June 30, 2018, we had a total of $76.9 million in unused borrowing capacity from the FHLB. Short-term borrowings are generally used to fund temporary cash needs due to the timing of loan originations and deposit gathering activities. Long-term debt is generally used to provide for longer-term funding needs of the Company, including the match funding of loans originated for portfolio. At June 30, 2018, we also had the ability to borrow $5.0 million from the Co-operative Central Bank on an unsecured basis, a credit line of $5.0 million with a correspondent bank, and $8.1 million from the Federal Reserve Bank under a collateralized borrowing program, none of which was outstanding at that date.

At June 30, 2018, we had $139.1 million in loan commitments outstanding, which included $54.6 million in unadvanced funds on construction loans, $37.8 million in unadvanced home equity lines of credit, $29.0 million in unadvanced commercial lines of credit, and $16.0 million in new loan originations.

Term certificates of deposit due within one year of June 30, 2018 amounted to $213.3 million, or 81.9%, of total term certificates, an increase of $38.1 million from $175.2 million at December 31, 2017. Balances of term certificates maturing in more than one year decreased to $47.3 million as compared to $58.1 million at December 31, 2017. Balances of term certificates that mature within one year reflect customer preferences for greater liquidity of personal funds, while longer-dated certificates reflect a willingness among customers to accept current interest rates for extended time periods. If maturing deposits are not renewed, we will be required to seek other sources of funds, including new term certificates and other borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the existing funds. We have the ability to attract and retain deposits by adjusting the interest rates offered.

The Company is a separate legal entity from the Bank and will have to provide for its own liquidity to pay its operating expenses and other financial obligations. The Company's primary source of income will be dividends received from the Bank and earnings from investment of net proceeds from the offering retained by the Company. Massachusetts banking law and FDIC regulations limit distributions of capital. In addition, the Company is subject to the policy of the Board of Governors of the Federal Reserve System ("Federal Reserve Board") that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the Company appears consistent with its capital needs, asset quality and overall financial condition. At June 30, 2018, the Company had $173 thousand of liquid assets as represented by cash and cash equivalents on an unconsolidated basis.

Capital Management. 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 consolidated 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 their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Federal banking regulations require a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%; a minimum ratio of Tier 1 capital to risk-weighted assets of 6%; a minimum ratio of total capital to risk-weighted assets of 8%; and, a minimum leverage ratio of 4% for all banking organizations. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. The capital conservation buffer and certain deductions from and adjustments to regulatory capital and risk-weighted assets are being phased in over several years. The required minimum conservation buffer is 1.875% on January 1, 2018 and will increase to 2.5% on January 1, 2019. An institution is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

At June 30, 2018, the Bank was well-capitalized under the current rules. Management believes the Bank’s capital levels will be characterized as “well-capitalized” upon full implementation of the new rules.

Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For information about our loan commitments and unused lines of credit see *Liquidity Management* herein.

For the six months ended June 30, 2018, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Company's financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Qualitative Aspects of Market Risk

One significant risk affecting the financial condition and operating results of the Company and the Bank is interest rate risk. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes the following: originating adjustable-rate loans for retention in our loan portfolio; selling in the secondary market newly originated, conforming longer-term fixed rate residential mortgage loans; promoting core deposit products; adjusting the maturities of borrowings; and, adjusting the investment portfolio mix and duration.

We have an Asset/Liability Committee, which includes members of management, to communicate, coordinate and control all aspects involving asset-liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Quantitative Aspects of Market Risk

We analyze our interest rate sensitivity position to manage the risk associated with interest rate movements through the use of interest income and equity simulations. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest sensitive.” An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and the present value of our equity. Interest income and equity simulations are completed quarterly and presented to the Asset/Liability Committee and the Board of Directors. The simulations provide an estimate of the impact of changes in interest rates on net interest income and the present value of our equity under a range of assumptions. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and changes spreads between different market rates. The simulation analysis incorporates management’s current assessment of the risk that pricing margins will change adversely over time due to competition or other factors.

Simulation analysis is only an estimate of our interest rate risk exposure at a particular point in time. We continually review the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

The table below sets forth an approximation of our exposure as a percentage of estimated net interest income for the next 12 month period using interest income and equity simulations. The simulations use projected repricing of assets and liabilities at June 30, 2018 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rates can have a significant impact on the simulations. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that, in turn, affect the rate sensitivity position. When interest rates rise, loan prepayments tend to slow. When interest rates fall, loan prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slowed and would increase if prepayments accelerated. While we believe such assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security and loan repayment activity.

The following table reflects the estimated effects of changes in interest rates on the present value of our equity at June 30, 2018 and on our projected net interest income from June 30, 2018 through June 30, 2019. These estimates are in compliance with our internal policy limits.

	As of June 30, 2018			**Over the Next 12 Months Ending June 30, 2019**		
	Present Value of Equity			Projected Net Interest Income		
Basis Point ("bp") Change in Rates	$ Amount	$ Change	% Change	$ Amount	$ Change	% Change
	(Dollars in thousands)					
300 bp	$84,205	$(15,585)	(15.62)%	$23,750	$(1,419)	(5.64)%
200	90,814	(8,976)	(8.99)	24,312	(857)	(3.41)
0	99,790	--	--	25,169	--	--
(100)	96,823	(2,967)	(2.97)	24,796	(373)	(1.48)

Item 4. Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, no change in the Company's internal control over financial reporting occurred during the quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. The Company's management believes that such routine legal proceedings, in the aggregate, are immaterial to the Company's financial condition and results of operations.

Item 1A. Risk Factors

For information regarding the Company's risk factors, see Part I, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 29, 2018. As of June 30, 2018, the risk factors of the Company have not changed materially from those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of equity Securities and use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

3.1	Amended and Restated Articles of Incorporation of Wellesley Bancorp, Inc. (1)
3.2	Amended and Restated Bylaws of Wellesley Bancorp, Inc. (2)
4.1	Form of 6.00% Fixed to Floating Subordinated Note Due 2025 (3)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Section 1350 Certification
101.1	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

(1) Incorporated herein by reference to the exhibits to Wellesley Bancorp, Inc.'s Pre-Effective Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-176764), filed with the Securities and Exchange Commission on November 7, 2011.

(2) Incorporated herein by reference to the exhibits to Wellesley Bancorp, Inc.'s Annual Report on Form 10-K (File No. 001-35352), filed with the Securities and Exchange Commission on March 29, 2018.

(3) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 17, 2015 (included as Exhibit A to the Purchase Agreement filed as Exhibit 10.1 thereto).

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.

			WELLESLEY BANCORP, INC.
Dated:	August 9, 2018	By:	/s/ Thomas J. Fontaine Thomas J. Fontaine President and Chief Executive Officer (principal executive officer)
Dated:	August 9, 2018	By:	/s/ Michael W. Dvorak Michael W. Dvorak Chief Financial Officer and Treasurer (principal accounting and financial officer)

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