

Wellesley Bancorp, Inc.
Form 10-Q
August 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2012

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 ☒ 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 ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

As of August 1, 2012, there were 2,407,151 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, 2012	December 31, 2011
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$5,230	\$3,882
Short-term investments	12,538	29,642
Total cash and cash equivalents	17,768	33,524
Certificates of deposit	600	100
Securities available for sale, at fair value	45,439	36,088
Federal Home Loan Bank of Boston stock, at cost	1,714	1,930
Loans held for sale	2,146	—
Loans	247,780	225,273
Less allowance for loan losses	(3,550)	(3,396)
Loans, net	244,230	221,877
Bank-owned life insurance	6,291	4,208
Premises and equipment, net	2,094	1,168
Accrued interest receivable	997	911
Net deferred tax asset	1,831	1,236
Prepaid FDIC assessment	496	589
Other assets	1,043	1,517
Total assets	\$324,649	\$303,148
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	\$33,051	\$31,017
Interest-bearing	215,928	214,229
	248,979	245,246
Short-term borrowings	7,595	7,059
Long-term debt	23,500	7,500
Stock subscriptions	$\frac{3}{4}$	19,666
Accrued expenses and other liabilities	868	946
Total liabilities	280,942	280,417
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value;	$\frac{3}{4}$	$\frac{3}{4}$

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1,000,000 shares authorized, none issued		
Common stock, \$0.01 par value;		
14,000,000 shares authorized, 2,407,151 shares issued		
and outstanding at June 30, 2012;		
none issued at December 31, 2011	24	$\frac{3}{4}$
Additional paid-in capital	22,804	$\frac{3}{4}$
Retained earnings	21,985	22,104
Accumulated other comprehensive income	766	627
Unearned compensation – ESOP	(1,872	) $\frac{3}{4}$
Total stockholders' equity	43,707	22,731
 Total liabilities and stockholders' equity	 \$324,649	 \$303,148

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands except per share data)			
Interest and dividend income:				
Interest and fees on loans	\$3,157	\$2,976	\$6,273	\$6,017
Debt securities:				
Taxable	199	149	382	285
Tax-exempt	67	61	136	109
Interest on short-term investments and certificates of deposit	14	19	29	38
Dividends on FHLB stock	2	2	4	3
Total interest and dividend income	3,439	3,207	6,824	6,452
Interest expense:				
Deposits	516	559	1,041	1,125
Short-term borrowings	22	20	43	40
Long-term debt	99	125	170	262
Total interest expense	637	704	1,254	1,427
Net interest income	2,802	2,503	5,570	5,025
Provision for loan losses	100	300	250	600
Net interest income, after provision for loan losses	2,702	2,203	5,320	4,425
Noninterest income:				
Customer service fees	46	46	73	78
Loss on sale of securities, net	(1	) —	(1) —
Income on bank-owned life insurance	46	37	83	73
Wealth management fees	46	27	89	52
Miscellaneous	11	12	21	24
Total noninterest income	148	122	265	227
Noninterest expenses:				
Salaries and employee benefits	1,245	944	2,345	1,886
Occupancy and equipment	318	204	604	402
Data processing	99	94	215	189
FDIC insurance	47	93	102	185
Contributions	1	6	1,801	14
Other general and administrative	462	258	817	477
Total noninterest expenses	2,172	1,599	5,884	3,153
Income (loss) before income taxes	678	726	(299	) 1,499
Provision (benefit) for income taxes	244	260	(180	) 541
Net income (loss)	434	466	(119	) 958
Other comprehensive income:				
Unrealized holding gains on available-for-sale securities	151	182	224	125

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Tax effect	(60)	(64)	(85)	(46)
Total other comprehensive income	91		118		139		79	
Comprehensive income	\$ 525		\$ 584		\$ 20		\$ 1,037	
Weighted average shares outstanding (basic and fully diluted)	2,216,184		N/A		N/A		N/A	
Earnings per common share (basic and fully diluted)	\$ 0.20		N/A		N/A		N/A	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Six Months Ended June 30, 2012 and 2011

	Common Stock		Additional	Retained	Accumulated Other Comprehensive	Unearned	Total
	Shares	Amount	Paid-in Capital	Earnings	Income	Compensation ESOP	Stockholders' Equity
(Dollars in thousands)							
Balance at December 31, 2010	3/4	\$3/4	\$3/4	\$20,099	\$ 309	\$ 3/4	\$ 20,408
Net income	3/4	3/4	3/4	958	3/4	3/4	958
Other comprehensive income	3/4	3/4	3/4	3/4	79	3/4	79
Balance at June 30, 2011	3/4	\$3/4	\$3/4	\$21,057	\$ 388	\$ 3/4	\$ 21,445
Balance at December 31, 2011	3/4	\$3/4	\$3/4	\$22,104	\$ 627	\$ 3/4	\$ 22,731
Net loss	3/4	3/4	3/4	(119)	3/4	3/4	(119)
Other comprehensive income	3/4	3/4	3/4	3/4	139	3/4	139
Issuance of common stock for initial public offering, net of expenses of \$1,260	2,249,674	22	21,214	3/4	3/4	3/4	21,236
Issuance of common stock to Wellesley Bank Charitable Foundation	157,477	2	1,573	3/4	3/4	3/4	1,575
Stock purchased by the ESOP	3/4	3/4	3/4	3/4	3/4	(1,926)	(1,926)
ESOP shares committed to be allocated (5,349)	3/4	3/4	17	3/4	3/4	54	71
Balance at June 30, 2012	2,407,151	\$24	\$22,804	\$21,985	\$ 766	\$ (1,872)	\$ 43,707

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
Cash flows from operating activities:		
Net (loss) income	\$(119)	) \$958
Adjustments to reconcile net (loss) income to net cash provided (used) by operating activities:		
Provision for loan losses	250	600
Depreciation and amortization	129	102
Net amortization of securities	111	75
Loans originated for sale	(5,750)	) $\frac{3}{4}$
Loans sold	3,604	$\frac{3}{4}$
Loss on sale of securities, net	1	$\frac{3}{4}$
Accretion of net deferred loan fees	(214)	) (179)
Income on bank-owned life insurance	(83)	) (73)
Deferred income tax benefit	(681)	) (164)
Issuance of common stock to Wellesley Bank Charitable Foundation	1,575	$\frac{3}{4}$
ESOP expense	71	$\frac{3}{4}$
Net change in:		
Accrued interest receivable	(86)	) 38
Other assets	474	(87)
Prepaid FDIC assessment	93	185
Accrued expenses and other liabilities	(78)	) (119)
Net cash provided by operating activities	(703)	) 1,336
Cash flows from investing activities:		
Activity in certificates of deposit:		
Maturities	$\frac{3}{4}$	1,742
Purchases	(500)	) $\frac{3}{4}$
Activity in securities available for sale:		
Maturities, prepayments and calls	2,818	2,938
Purchases	(12,057)	) (5,829)
Redemption of Federal Home Loan Bank stock	216	$\frac{3}{4}$
Loan originations, net	(22,388)	) (1,690)
Additions to premises and equipment	(1,055)	) (111)
Purchases of bank-owned life insurance	(2,000)	) $\frac{3}{4}$
Net cash used by investing activities	(34,966)	) (2,950)
Cash flows from financing activities:		
Net increase in deposits	3,733	6,235
Proceeds from long-term debt	16,000	$\frac{3}{4}$
Repayments of long-term debt	$\frac{3}{4}$	(5,000)
Increase in short-term borrowings	536	619
Conversion of stock subscriptions to common stock	(19,666)) $\frac{3}{4}$
Net proceeds from the issuance of common stock	21,236	$\frac{3}{4}$

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Acquisition of common stock by ESOP	(1,926) ¾
Net cash provided by financing activities	19,913	1,854
Net change in cash and cash equivalents	(15,756	) 240
Cash and cash equivalents at beginning period	33,524	18,397
Cash and cash equivalents at end of period	\$17,768	\$18,637
Supplementary information:		
Interest paid	\$1,255	\$1,433
Income taxes paid	475	799

See accompanying notes to consolidated financial statements.

WELLESLEY BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - STOCK CONVERSION

On July 20, 2011, the Board of Directors of Wellesley Bank (the “Bank”) adopted a Plan of Conversion (the “Plan”) whereby the Bank would convert from a Massachusetts mutual cooperative bank to a Massachusetts stock cooperative bank and become a wholly-owned subsidiary of a Maryland-chartered stock corporation, Wellesley Bancorp, Inc. (the “Company”). The Company would offer stock on a priority basis to qualifying depositors, tax-qualified employee plans, and employees, officers and directors of the Bank (the “Conversion”).

At December 31, 2011, stock subscriptions received aggregated \$19,666,000 and were included in liabilities in the accompanying consolidated balance sheet. Conversion costs amounting to \$1,260,000 were deferred and subsequently reduced the proceeds from the shares sold in the Conversion.

On January 25, 2012, the Conversion was completed and the Company became the parent holding company for the Bank. A total of 2,249,674 shares of the Company common stock were issued, including those issued to our employee stock ownership plan, at \$10.00 per share through which the Company received net offering proceeds of \$21.2 million. Additionally, the Company contributed \$225,000 in cash and 157,477 shares of common stock to the Wellesley Bank Charitable Foundation. The total number of shares of common stock outstanding upon completion of the Conversion was 2,407,151 shares. All eligible subscribers and community members who properly completed and timely submitted a stock order form were allocated the number of shares of common stock requested in their stock order form.

As part of the Conversion, the Bank established a liquidation account in an amount equal to the net worth of the Bank as of the date of the latest consolidated balance sheet appearing in the final prospectus distributed in connection with the Conversion, or \$22,148,000. The liquidation account will be maintained for the benefit of eligible account holders and supplemental eligible account holders who maintain their accounts at the Bank after the Conversion. The liquidation account will be reduced annually to the extent that such account holders have reduced their qualifying deposits as of each anniversary date. Subsequent increases will not restore an account holder’s interest in the liquidation account. In the event of a complete liquidation, each eligible account holder will be entitled to receive balances for accounts then held.

NOTE 2 - BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary; 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 for the purpose of providing investment management services for individuals, not-for-profit entities and businesses; and Central Linden, LLC, formed for the purpose of holding, managing and selling foreclosed real estate. All significant intercompany balances and transactions have been eliminated in consolidation. 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 2011 Annual Report on Form 10-K. The results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Loans

The loan portfolio consists of real estate, commercial and other loans to the Bank's customers in Wellesley, Massachusetts and surrounding communities. The ability of the Bank's debtors to honor their contracts is dependent upon the economy in general and the real estate and construction economic sectors.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally 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 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 as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management. 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, as further described below.

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, which generally ranges from 3-10 years. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume, concentrations and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no significant changes to the Bank's policies or methodology pertaining to the general component of the allowance during 2012 or 2011.

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 Bank generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not originate subprime loans. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower.

Commercial real estate – Loans in this segment are primarily income-producing properties in Wellesley, Massachusetts and surrounding communities. The underlying cash flows generated by the properties are 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 obtains rent rolls annually and continually monitors the cash flows of these loans.

Construction loans – Loans in this segment primarily include speculative real estate development loans for which payment is derived from sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

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

Allocated component

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 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 is lower than the carrying value of that loan. Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify performing individual consumer loans (residential, home equity lines of credit, personal and other consumer secured 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 Bank 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 Bank 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 uncertainties that could affect management's estimate 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, 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 and related tax effects are as follows:

	June 30, 2012	December 31, 2011
	(In thousands)	
Unrealized holding gains on securities available for sale	\$ 1,259	\$ 1,035
Tax effect	(493)	(408)
Net-of tax amount	\$ 766	\$ 627

NOTE 4 - RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU clarifies and expands the disclosures pertaining to unobservable inputs used in Level 3 fair value measurements. The guidance also requires, for public companies, disclosure of the level within the fair value hierarchy for assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed. The amendments in this ASU are to be applied prospectively. This guidance was adopted by the Company on January 1, 2012 and relevant additional disclosures have been provided in Note 7 to the accompanying consolidated financial statements.

In June 2011, the FASB issued ASU 2011-5, Comprehensive Income (Topic 220), Presentation of Comprehensive Income. This ASU provides an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. For public entities, this guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In December 2011, the FASB issued ASU 2011-12 to effectively defer only those changes in ASU 2011-05 that relate to presentation of reclassification adjustments out of accumulated other comprehensive income. The Company adopted this guidance on January 1, 2012 and has elected to present a single continuous statement of comprehensive income herein.

On January 1, 2012, the Company adopted the FASB ASU 2011-03, Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements. This Update provides additional guidance which affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendment removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The Company adopted this guidance on January 1, 2012 with no impact on its consolidated financial statements.

NOTE 5 – SECURITIES AVAILABLE FOR SALE

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

		June 30, 2012		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(In thousands)		
Residential mortgage-backed securities:				
Government National Mortgage Association	\$9,855	\$302	\$(1	) \$10,156
Government-sponsored enterprises	12,221	370	³ / ₄	12,591
SBA asset-backed securities	2,255	127	³ / ₄	2,382
State and municipal bonds	7,507	417	(1	) 7,923
Government-sponsored enterprise obligations	5,471	18	(5	) 5,484
Corporate bonds	6,871	43	(11	) 6,903
	\$44,180	\$1,277	\$(18	) \$45,439

		December 31, 2011		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(In thousands)		
Residential mortgage-backed securities:				
Government National Mortgage Association	\$10,861	\$268	\$(3	) \$11,126
Government-sponsored enterprises	10,627	246	(7	) 10,866
SBA asset-backed securities	2,402	106	(1	) 2,507
State and municipal bonds	7,815	431	³ / ₄	8,246
Government-sponsored enterprise obligations	2,349	20	(5	) 2,364
Corporate bonds	999	7	(27	) 979
	\$35,053	\$1,078	\$(43	) \$36,088

The amortized cost and fair value of debt securities by contractual maturity at June 30, 2012 and at December 31, 2011 are as follows. 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.

	June 30, 2012		December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Within 1 year	\$ ³ / ₄	\$ ³ / ₄	\$100	\$101
After 1 year to 5 years	8,627	8,775	3,582	3,670
After 5 years to 10 years	2,540	2,637	1,950	2,040
After 10 years	8,681	8,898	5,531	5,778
	19,848	20,310	11,163	11,589
Mortgage- and asset-backed securities	24,332	25,129	23,890	24,499
	\$44,180	\$45,439	\$35,053	\$36,088

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, 2012				
Residential mortgage-backed securities:				
Government National Mortgage Association	\$ ³ / ₄	\$ ³ / ₄	\$(1	) \$50
State and municipal bonds	(1	) 301	³ / ₄	³ / ₄
Government-sponsored enterprise obligations	(5	) 1,977	³ / ₄	³ / ₄
Corporate bonds	(6	) 2,109	(5	) 294
	\$(12	) \$4,387	\$(6	) \$344

December 31, 2011

Residential mortgage-backed securities:				
Government National Mortgage Association	\$(2	) \$519	\$(1	) \$50
Government-sponsored enterprises	(7	) 2,201	³ / ₄	³ / ₄
SBA asset-backed securities	³ / ₄	³ / ₄	(1	) 249
Government-sponsored enterprise obligations	(5	) 1,976	³ / ₄	³ / ₄
Corporate bonds	(27	) 542	³ / ₄	³ / ₄
	\$(41	) \$5,238	\$(2	) \$299

NOTE 6 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the balances of loans is as follows:

	June 30, 2012	December 31, 2011
	(In thousands)	
Real estate loans:		
Residential – fixed	\$ 15,770	\$ 16,400
Residential – variable	85,482	63,826
Commercial	71,694	71,880
Construction	39,747	39,267
	212,693	191,373
Commercial loans:		
Secured	12,240	12,224
Unsecured	972	1,038
	13,212	13,262
Consumer loans:		
Home equity lines of credit	21,661	20,463
Other	535	556
	22,196	21,019
Total loans	248,101	225,654
Less:		
Allowance for loan losses	(3,550)	(3,396)
Net deferred origination fees	(321)	(381)
Loans, net	\$ 244,230	\$ 221,877

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The following table summarizes the changes in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2012 and 2011:

	Residential							
	Real Estate	Commercial Real Estate	Construction	Commercial	Home Equity	Other Consumer	Unallocated	Total
	(In thousands)							
Three Months Ended June 30, 2012								
Allowance at March 31, 2012	\$686	\$ 1,010	\$ 1,209	\$ 378	\$154	\$ 14	\$ 5	\$3,456
Provision (credit) for loan losses	361	(54)	(288)	31	8	(1)	43	100
Loans charged off	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	(10)	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	(10)
Recoveries of loans previously charged off	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	4	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	4
Allowance at June 30, 2012	\$1,047	\$ 956	\$ 921	\$ 403	\$162	\$ 13	\$ 48	\$3,550
Three Months Ended June 30, 2011								
Allowance at March 31, 2011	\$451	\$ 448	\$ 1,277	\$ 469	\$88	\$ 18	\$ 178	\$2,929
Provision (credit) for loan losses	49	574	(453)	(28)	25	(2)	135	300
Loans charged off	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$
Allowance at June 30, 2011	\$500	\$ 1,022	\$ 824	\$ 441	\$113	\$ 16	\$ 313	\$3,229
	Residential							
	Real Estate	Commercial Real Estate	Construction	Commercial	Home Equity	Other Consumer	Unallocated	Total
	(In thousands)							
Six Months Ended June 30, 2012								
Allowance at December 31, 2011	\$626	\$ 988	\$ 1,119	\$ 382	\$153	\$ 16	\$ 112	\$3,396
Provision (credit) for loan losses	421	(32)	(198)	117	9	(3)	(64)	250

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Loans charged off	¾	¾	¾	(100)	¾	¾	¾	(100)
Recoveries of loans previously charged off	¾	¾	¾	4	¾	¾	¾	4
Allowance at June 30, 2012	\$1,047	\$ 956	\$ 921	\$ 403	\$162	\$ 13	\$ 48	\$3,550
Six Months Ended June 30, 2011								
Allowance at December 31, 2010	\$319	\$ 356	\$ 1,258	\$ 384	\$84	\$ 16	\$ 273	\$2,690
Provision (credit) for loan losses	242	666	(434)	57	29	¾	40	600
Loans charged off	(61)	¾	¾	¾	¾	¾	¾	(61)
Allowance at June 30, 2011	\$500	\$ 1,022	\$ 824	\$ 441	\$113	\$ 16	\$ 313	\$3,229

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Further information pertaining to the allowance for loan losses at June 30, 2012 and December 31, 2011 is as follows:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Home Equity	Other Consumer	Unallocated	Total
	(In thousands)							
June 30, 2012								
Allowance related to loans individually evaluated and deemed to be impaired	\$ 34	\$ 98	\$ 162	\$ 34	\$ 34	\$ 34	\$ 34	\$ 260
Allowance related to loans individually evaluated and not deemed impaired, and those collectively evaluated for impairment	1,047	858	759	403	162	13	48	3,290
Total allowance	\$ 1,047	\$ 956	\$ 921	\$ 403	\$ 162	\$ 13	\$ 48	\$ 3,550
Impaired loan balances individually evaluated and deemed to be impaired	\$ 1,311	\$ 183	\$ 3,050	\$ 34	\$ 108	\$ 34	\$ 34	\$ 4,652
Loan balances individually evaluated and not deemed impaired, and those collectively evaluated for impairment	99,941	71,511	36,697	13,212	21,553	535	34	243,449
Total loans	\$ 101,252	\$ 71,694	\$ 39,747	\$ 13,212	\$ 21,661	\$ 535	\$ 34	\$ 248,101
	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Home Equity	Other Consumer	Unallocated	Total
	(In thousands)							
December 31, 2011								
	\$ 34	\$ 142	\$ 437	\$ 41	\$ 34	\$ 34	\$ 34	\$ 620

Allowance related to
loans
individually evaluated
and
deemed to be impaired

Allowance related to
loans
individually evaluated
and
not deemed impaired,
and
those collectively
evaluated
for impairment

	626	846	682	341	153	16	112	2,776
Total allowance	\$626	\$ 988	\$ 1,119	\$ 382	\$153	\$ 16	\$ 112	\$3,396

Impaired loan balances
individually evaluated
and
deemed to be impaired

\$2,525	\$ 1,356	\$ 3,146	\$ 163	\$16	\$¾	\$¾	\$7,206
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Loan balances
individually
evaluated and not
deemed
impaired, and those
collectively
evaluated for
impairment

77,701	70,524	36,121	13,099	20,447	556	¾	218,448	
Total loans	\$80,226	\$ 71,880	\$ 39,267	\$ 13,262	\$20,463	\$556	\$¾	\$225,654

The following is a summary of past due and non-accrual loans at June 30, 2012 and December 31, 2011:

	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Past Due 90 Days or More and Still Accruing	Non-accrual Loans
(In thousands)						
June 30, 2012						
Residential real estate	\$909	\$34	\$1,074	\$1,983	\$34	\$ 1,311
Commercial real estate	2,580	34	34	2,580	34	183
Construction	150	34	34	150	34	3,050
Commercial	296	34	34	296	34	34
Consumer:						
Home equity lines of credit	274	34	34	274	34	108
Other consumer	11	34	7	18	34	7
Total	\$4,220	\$34	\$1,081	\$5,301	\$34	\$ 4,659
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Past Due 90 Days or More and Still Accruing	Non-accrual Loans
(In thousands)						
December 31, 2011						
Residential real estate	\$168	\$446	\$1,085	\$1,699	\$34	\$ 2,304
Commercial real estate	34	34	213	213	34	1,356
Construction	34	34	34	34	34	3,145
Commercial	34	34	34	34	34	73
Consumer:						
Home equity lines of credit	288	34	17	305	34	17
Total	\$456	\$446	\$1,315	\$2,217	\$34	\$ 6,895

The following is a summary of impaired loans at June 30, 2012 and December 31, 2011:

	June 30, 2012			December 31, 2011		
	Recorded	Unpaid	Related	Recorded	Unpaid	Related
	Investment	Principal	Allowance	Investment	Principal	Allowance
	(In thousands)					
Impaired loans without a valuation allowance:						
Residential real estate	\$1,311	\$1,311	$\frac{3}{4}$	\$2,525	\$2,525	$\frac{3}{4}$
Commercial real estate	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	261	261	$\frac{3}{4}$
Home equity lines of credit	108	108	$\frac{3}{4}$	17	17	$\frac{3}{4}$
Total	1,419	1,419	$\frac{3}{4}$	2,803	2,803	$\frac{3}{4}$
Impaired loans with a valuation allowance:						
Commercial real estate	183	183	98	1,095	1,095	142
Construction	3,050	3,050	162	3,145	3,145	437
Commercial	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	163	163	41
Total	3,233	3,233	260	4,403	4,403	620
Total impaired loans	\$4,652	\$4,652	\$260	\$7,206	\$7,206	\$620

Further information pertaining to impaired loans follows:

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Average	Interest	Interest	Average	Interest	Interest
	Recorded	Income	Recognized	Recorded	Income	Recognized
	Investment	Recognized	on Cash	Investment	Recognized	on Cash
	(In thousands)					
Residential real estate	\$1,305	\$ 16	\$ 16	\$1,827	\$ 55	\$ 55
Commercial real estate	101	1	1	545	38	38
Construction	2,701	41	41	2,692	80	80
Commercial	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	6	2	2
Home equity lines of credit	110	1	1	69	1	1
Other consumer loans	2	$\frac{3}{4}$	$\frac{3}{4}$	1	$\frac{3}{4}$	$\frac{3}{4}$
Total	\$4,219	\$ 59	\$ 59	\$5,140	\$ 176	\$ 176

	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	Average	Interest	Interest	Average	Interest	Interest
	Recorded	Income	Recognized	Recorded	Income	Recognized
	Investment	Recognized	on Cash	Investment	Recognized	on Cash
	(In thousands)					
Residential real estate	\$2,047	\$ 18	\$ 14	\$1,833	\$ 31	\$ 27

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Commercial real estate	1,401	4	4	1,294	15	15
Construction	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$
Commercial	7	$\frac{3}{4}$	$\frac{3}{4}$	147	2	2
Total	\$3,545	\$ 22	\$ 18	\$3,277	\$ 48	\$ 44

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

The following is a summary of troubled debt restructurings for the three months ended June 30, 2012:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Three Months Ended June 30, 2012			
Residential real estate	2	\$1,088	\$1,088

In the three month period ended June 30, 2012, monthly payment terms were modified on two residential real estate loans to a level comparable with rates offered to high quality borrowers. These loans are currently on non-accrual status. There are no reserves for expected uncollectable principal on either of these loans as of June 30, 2012.

The following is a summary of troubled debt restructurings for the three months ended March 31, 2012:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Three Months Ended March 31, 2012			
Commercial real estate	2	\$257	\$257

In the three month period ended March 31, 2012, monthly payment terms were modified on two commercial real estate loans to one borrower to reduce required payments to \$500 per month on each loan. These loans are currently on non-accrual and are in a principal only collection status. Reserves for expected uncollectable principal totaling \$137,000 and \$98,000 have been established and are a component of specific reserves in the allowance for loan losses of March 31, 2012 and June 30, 2012, respectively.

There were no troubled debt restructurings that defaulted during the three and six months ended June 30, 2012, and for which the default was within one year of the restructure date.

Credit Quality Information

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

Loans rated 1 – 31: Loans in these categories are considered “pass” rated loans with low to average risk.

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

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

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

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

Category 8: Loans in this category only include commercial loans under \$25,000 with no other outstandings or relationships with the Company. They are not rated in accordance with regulatory guidelines.

Category 9: 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.

Category 10: 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 a 10 rating, information is still not available to allow a standard rating, the credit will be rated 5.

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, 2012				December 31, 2011			
	Commercial Real Estate	Construction	Commercial	Total	Commercial Real Estate	Construction	Commercial	Total
	(In thousands)							
Loans rated 1 – 31	\$68,003	\$ 36,697	\$ 11,809	\$116,509	\$67,579	\$ 36,121	\$ 11,741	\$115,441
Loans rated 4	3,508	¾	1,403	4,911	2,945	¾	1,448	4,393
Loans rated 5	¾	3,050	¾	3,050	1,095	3,146	¾	4,241
Loans rated 6	183	¾	¾	183	261	¾	73	334
Loans rated 7	¾	¾	¾	¾	¾	¾	¾	¾
Categories 8 – 9	¾	¾	¾	¾	¾	¾	¾	¾
Category 10	¾	¾	¾	¾	¾	¾	¾	¾
Total	\$71,694	\$ 39,747	\$ 13,212	\$124,653	\$71,880	\$ 39,267	\$ 13,262	\$124,409

NOTE 7 – FAIR VALUES OF FINANCIAL INSTRUMENTS

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. The fair value of a financial instrument 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 financial instruments. 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 instrument.

Fair value hierarchy

The Company groups its assets generally measured at fair value in three levels, based on the markets in which the assets 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. 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; 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. 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. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments 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.

The following methods and assumptions were used by the Company in estimating fair value disclosures:

Cash, cash equivalents and certificates of deposit: The carrying amounts approximate fair values based on the short-term nature of the assets.

Securities available for sale: Fair value measurements are obtained from a third-party pricing service and are not adjusted by management. Securities measured at fair value in Level 2 are based on pricing 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.

Federal Home Loan Bank (FHLB) stock: The carrying value of FHLB stock is deemed to approximate fair value, based on the redemption provisions of the FHLB of Boston.

Loans held for sale: Fair values are based on commitments in effect from investors or prevailing market prices.

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

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

Short-term borrowings: The carrying amount of short-term borrowings approximates fair value, based on the short-term nature of the liabilities.

Long-term debt: The fair values of long-term debt are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance sheet instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair values of these instruments are considered immaterial.

Assets measured at fair value on a recurring basis

Assets measured at fair value on a recurring basis at June 30, 2012 and December 31, 2011 are summarized below. There are no liabilities measured at fair value on a recurring basis at June 30, 2012 or December 31, 2011.

	Level 1	June 30, 2012 (In thousands)		Fair Value
Residential mortgage-backed securities:				
Government National Mortgage Association	\$¾	\$10,156	\$¾	\$10,156
Government-sponsored enterprises	¾	12,591	¾	12,591
SBA asset-backed securities	¾	2,382	¾	2,382
State and municipal bonds	¾	7,923	¾	7,923
Government-sponsored enterprise obligations	¾	5,484	¾	5,484
Corporate bonds	¾	6,903	¾	6,903
Total assets	\$¾	\$45,439	\$¾	\$45,439

	Level 1	December 31, 2011 (In thousands)		Fair Value
Residential mortgage-backed securities:				
Government National Mortgage Association	\$¾	\$11,126	\$¾	\$11,126
Government-sponsored enterprises	¾	10,866	¾	10,866
SBA asset-backed securities	¾	2,507	¾	2,507
State and municipal bonds	¾	8,246	¾	8,246
Government-sponsored enterprise obligations	¾	2,364	¾	2,364
Corporate bonds	¾	979	¾	979
Total assets	\$¾	\$36,088	\$¾	\$36,088

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 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 accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of June 30, 2012 and December 31, 2011.

	June 30, 2012			Three Months Ended June 30,		Six Months Ended June 30,	
	Level 1	Level 2	Level 3	2012 Total Gains (Losses)	2011 Total Gains (Losses)	2012 Total Gains (Losses)	2011 Total Gains (Losses)
	(In thousands)						
Impaired loans	\$ ³ / ₄	\$ ³ / ₄	\$2,973	\$289	\$107	\$306	\$(145)
	December 31, 2011						
	Level 1	Level 2	Level 3				
	(In thousands)						
Impaired loans	\$ ³ / ₄	\$ ³ / ₄	\$ 2,864				

Losses applicable to certain impaired loans are estimated using the appraised value of the underlying collateral considering discounting factors and adjusted for selling costs. The loss is not recorded directly as an adjustment to current earnings, but rather as a component in determining the overall adequacy of the allowance for loan losses. Adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses.

There are no liabilities measured at fair value on a non-recurring basis at June 30, 2012 or December 31, 2011.

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.

			June 30, 2012		
	Carrying		Fair Value		
	Amount	Level 1	Level 2	Level 3	Total
			(In thousands)		
Financial assets:					
Cash and cash equivalents	\$17,768	\$17,768	\$—	\$—	\$17,768
Certificates of deposit	600	600	—	—	600
Securities available for sale	45,439	—	45,439	—	45,439
FHLB stock	1,714	—	—	1,714	1,714
Loans held for sale	2,146	—	2,158	—	2,158
Loans, net	244,230	—	—	243,077	243,077
Accrued interest receivable	997	—	—	997	997
Financial liabilities:					
Deposits	248,979	—	—	249,914	249,914
Short-term borrowings	7,595	—	7,595	—	7,595
Long-term debt	23,500	—	23,849	—	23,849
Accrued interest payable	26	—	—	26	26

	December 31, 2011	
	Carrying Amount	Fair Value
(In thousands)		
Financial assets:		
Cash and cash equivalents	\$33,524	\$33,524
Certificates of deposit	100	100
Securities available for sale	36,088	36,088
FHLB stock	1,930	1,930
Loans, net	221,877	222,143
Accrued interest receivable	911	911
Financial liabilities:		
Deposits	245,246	246,315
Short-term borrowings	7,059	7,059
Long-term debt	7,500	7,868
Accrued interest payable	25	25

NOTE 8 - EMPLOYEE STOCK OWNERSHIP PLAN

The Company maintains an Employee Stock Ownership Plan ("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 for the purchase of shares of the Company's common stock at the Conversion date. As of June 30, 2012, the ESOP holds 192,572 shares, or 8.00% of the common stock outstanding on that date. The loan obtained by the ESOP from the Company to purchase common stock 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 Company. 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 distributed to participants and cash dividends paid on unallocated shares are 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.

At June 30, 2012, the remaining principal balance on the ESOP debt is payable as follows:

Year Ending December 31,	Amount (In thousands)
2012	\$ 105
2013	105
2014	108
2015	112
2016	115
Thereafter	1,381
	\$ 1,926

Shares held by the ESOP include the following:

	June 30, 2012
Allocated	—
Committed to be allocated	5,349
Unallocated	187,223
	192,572

The fair value of unallocated shares was approximately \$2.6 million at June 30, 2012.

Total compensation expense recognized in connection with the ESOP for the three and six month periods ended June 30, 2012 was \$45,000 and \$71,000, respectively.

NOTE 9 - EARNINGS PER COMMON SHARE

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects 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. There were no potentially dilutive common stock equivalents as of June 30, 2012. Earnings per share is not presented for the six month period ended June 30, 2012 or for any period in 2011 as common shares had not been outstanding during the entire period. Unallocated ESOP shares are not deemed outstanding for earnings per share calculations.

Earnings per common share have been computed as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Net income (loss) applicable to common stock	\$434	\$466	\$(119)	) \$958
Average number of common shares outstanding	2,407,151	N/A	N/A	N/A
Less: Average unallocated ESOP shares	189,362	N/A	N/A	N/A
Average number of common shares outstanding used to calculate basic and fully diluted earnings per common share	2,216,184	N/A	N/A	N/A

N/A = not applicable

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 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 2011 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 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 to be critical accounting policies.

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 likelihood of 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 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 collectability 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 process, 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 and could have a negative impact on earnings. In addition, if actual factors and conditions differ materially from those used by management, we could incur penalties and interest imposed by taxing authorities. A valuation allowance was not required for the five-year charitable carry-forward created primarily by the contribution of 157,477 shares of the Company's common stock to the Wellesley Charitable Foundation as part of the mutual to stock conversion. Based on historical income it is expected that there will be sufficient income to be able to deduct the entire amount of the contribution over future years.

Comparison of Financial Condition at June 30, 2012 and December 31, 2011

General. Total assets increased \$21.5 million, or 7.1%, from \$303.1 million at December 31, 2011 to \$324.6 million at June 30, 2012. This increase was reflected in increases in securities available for sale of \$9.4 million, or 25.9%, and in net loans of \$22.4 million, or 10.1%, while cash and cash equivalents decreased \$15.8 million, or 47.0%. Asset growth was funded primarily by an increase in deposits of \$3.7 million, or 1.5%, and an increase in long-term Federal Home Loan Bank (“FHLB”) advances of \$16.0 million, or 213.3%.

Loans. Loans, net increased from \$221.9 million at December 31, 2011 to \$244.2 million at June 30, 2012. The increase in loans was due primarily to increases of \$21.0 million, or 26.2%, in residential real estate loans due, in part, to increased loan volume produced by new origination staff added this year. The increase in residential real estate loans reflected growth of \$21.7 million in adjustable-rate mortgage loans and a decrease of \$630,000 in fixed-rate loans.

Securities. Total securities increased from \$36.1 million at December 31, 2011 to \$45.4 million at June 30, 2012, primarily due to an increase in floating rate corporate bonds held in our portfolio.

Deposits. Total deposits increased \$3.7 million, or 1.5%, from \$245.2 million at December 31, 2011 to \$249.0 million at June 30, 2012. Non-interest-bearing accounts increased \$2.0 million, while savings accounts increased \$3.0 million. Term certificates of deposit decreased \$0.8 million during the six-month period ended June 30, 2012. The increase in non-interest-bearing accounts was reflective of increases in both personal and business checking accounts. Savings account balances increased primarily due to the movement of funds into our premium relationship savings account.

Borrowings. We use borrowings from a variety of sources to supplement our supply of funds for loans and securities. Long-term debt, consisting entirely of FHLB advances, increased \$16.0 million, or 213.3%, for the six months ended June 30, 2012. The increase in FHLB advances was in response to increased lending activity during the period and a desire to extend our liability maturities while longer-term interest rates remain low. Short-term borrowings, consisting entirely of securities sold under agreements to repurchase, were basically unchanged during the six months ended June 30, 2012.

Stockholders’ Equity. Stockholders’ equity increased \$21.0 million, or 92.3%, from \$22.7 million at December 31, 2011 to \$43.7 million at June 30, 2012, primarily as a result of the Company’s stock offering in January 2012.

Results of Operations for the Three Months Ended June 30, 2012 and 2011

Overview. Net income for the three months ended June 30, 2012 was \$434,000, compared to net income of \$466,000 for the three months ended June 30, 2011. The \$32,000 decrease was primarily due to increases in noninterest expenses, partially offset by an increase in net interest income and a decrease in the provision for loan losses. Net interest income increased \$299,000, or 11.9%, while noninterest expense increased \$573,000, or 35.8%.

Net Interest Income. Net interest income for the three months ended June 30, 2012 increased \$299,000 or 11.9%, as compared to the three months ended June 30, 2011. The increase in net interest income was primarily due to increases in the average balances of loans and on debt securities, partially offset by declines in yields.

Interest and dividend income increased \$232,000 or 7.2%, from \$3.2 million for the three-month period ended June 30, 2011 to \$3.4 million for the three months ended June 30, 2012. The average balance of interest-earning assets increased 17.5%, while the average rate earned on these assets decreased 47 basis points. The decline in yield was partially offset by the improvement in interest income attributable to asset growth. Interest and fees on loans

increased \$181,000, or 6.1%, due to a 13.5% increase in the average balance of loans partially offset by a 42 basis point decrease in the average rate received on loans. Interest income from taxable securities increased \$50,000, or 33.6%, due to a 80.3% increase in the average balance of taxable securities compared to the prior year period. The average rate earned on taxable securities of 2.3% fell 81 basis points compared to the same period in the prior year.

The decrease in interest expense was primarily due to a decrease in the average rates paid on interest-bearing deposits, in particular certificates of deposit. The average balance of FHLB advances increased from \$11.5 million to \$15.6 million, while rates paid on FHLB advances decreased from 4.4% to 2.6%, reducing the corresponding interest expense by \$26,000 from the comparative three-month period. The average rates paid on interest-bearing liabilities decreased by 23 basis points from the comparative three-month period. The decrease in the cost of deposits and borrowings was primarily due to a declining long-term interest rate environment and the decline in higher cost long-term FHLB advances. We experienced an increase in the average balance of interest-bearing deposits of 8.5% in the three-month period ended June 30, 2012 compared to the same period in 2011.

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,						
	Average Outstanding Balance	2012 Interest Earned/ Paid	Average Yield/ Rate (1)		Average Outstanding Balance	2011 Interest Earned/ Paid	Average Yield/ Rate (1)
(Dollars in thousands)							
Interest-earning assets:							
Short-term investments	\$18,673	\$13	0.23	%	\$17,170	\$10	0.23 %
Certificates of deposit	600	1	0.05		1,691	9	2.08
Debt securities:							
Taxable	35,401	199	2.26		19,634	149	3.07
Tax-exempt	8,062	67	3.34		7,295	61	3.37
Total loans and loans held for sale	236,914	3,157	5.36		208,817	2,976	5.78
FHLB stock	1,714	2	0.57		1,930	2	0.31
Total interest-earning assets	301,364	3,439	4.59		256,537	3,207	5.07
Allowance for loan losses	(3,501)				(3,032)		
Total interest-earning assets less allowance for loan losses	297,863				253,505		
Noninterest-earning assets	17,174				12,503		
Total assets	\$315,037				\$266,008		
Interest-bearing liabilities:							
Regular savings accounts	\$27,550	30	0.43	%	\$24,234	33	0.55 %
NOW checking accounts	15,276	7	0.19		13,783	7	0.20
Money market accounts	52,491	76	0.58		45,702	66	0.58
Certificates of deposit	119,018	403	1.36		113,869	453	1.62
Total interest-bearing deposits	214,335	516	0.97		197,588	559	1.15
Short-term borrowings	7,463	22	1.21		7,018	20	1.16
Long-term debt	15,588	99	2.55		11,509	125	4.41
Total interest-bearing liabilities	237,386	637	1.08		216,115	704	1.32
Noninterest-bearing demand deposits	33,417				27,937		
Other noninterest-bearing liabilities	865				865		
Total liabilities	271,668				244,917		
Stockholders' equity	43,369				21,091		
Total liabilities and stockholders' equity	\$315,037				\$266,008		
Net interest income		\$2,802				\$2,503	
Net interest rate spread (2)			3.51	%			3.75 %
Net interest-earning assets (3)	\$63,978				\$40,421		
Net interest margin (4)			3.74	%			3.95 %
Average total interest-earning assets to average total interest-bearing liabilities	126.95 %				118.70 %		

- (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) Represent 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.

(In thousands)	Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011		
	Increase (Decrease)		Total
	Due to Volume	Rate	Increase (Decrease)
Interest-earning assets:			
Short-term investments	\$2	\$1	\$3
Certificates of deposit	(4	) (4	) (8
Debt securities:			
Taxable	74	(24	) 50
Tax-exempt	6	$\frac{3}{4}$	6
Total loans and loans held for sale	337	(156	) 181
FHLB stock	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$
Total interest-earning assets	415	(183	) 232
Interest-bearing liabilities:			
Regular savings	8	(11	) (3
NOW checking	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$
Money market	14	(4	) 10
Certificates of deposit	26	(76	) (50
Total interest-bearing deposits	48	(91	) (43
Short-term borrowings	2	1	3
Long-term debt	55	(82	) (27
Total interest-bearing liabilities	105	(172	) (67
Increase (decrease) in net interest income	\$310	\$(11	) \$299

Provision for Loan Losses. The provision for loan losses was \$100,000 for the three months ended June 30, 2012 compared to \$300,000 for the three months ended June 30, 2011. The decrease in the provision reflects a reduction in loss allowances related to impaired loans, partially offset by additional provisions for portfolio growth.

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

(Dollars in thousands)	Three Months Ended June 30,			
	2012		2011	
Balance at beginning of period	\$3,456		\$2,929	
Provision for loan losses	100		300	
Charge-offs:				
Real estate loans:				
Residential	¾		¾	
Commercial	¾		¾	
Construction	¾		¾	
Commercial loans	(10	)	¾	
Consumer loans	¾		¾	
Total charge-offs	(10	)	¾	
Recoveries	4		¾	
Net charge- offs	(6	)	¾	
Allowance at end of period	\$3,550		\$3,229	
Allowance for loan losses to nonperforming loans at end of period	76.19	%	93.27	%
Allowance for loan losses to total loans at end of period	1.42	%	1.55	%
Net charge-offs to average loans outstanding during the period	0.00	%	0.00	%

Noninterest Income. Noninterest income totaled \$148,000, an increase of \$26,000, or 21.3%, as wealth management fees increased \$19,000 from the comparable 2011 period.

Noninterest Expenses. Noninterest expense increased \$573,000 to \$2.2 million during the three months ended June 30, 2012 from \$1.6 million for the three months ended June 30, 2011. Factors that contributed to the increase in noninterest expense during the 2012 period were increased salaries and employee benefits of \$301,000, or 31.9%, primarily attributable to our recent branch expansion, and additional personnel supporting our residential lending operations, our wealth management activities, and our public reporting and compliance efforts. Occupancy and equipment expense increased \$114,000 resulting from normal rent increases and additional rent and other expense associated with the new branch and related expanded office space. Professional service fees increased \$113,000 in support of legal, regulatory and other matters related to our conversion to a public company. These increases were partially offset by a decrease of \$46,000 in Federal Deposit Insurance Corporation assessments reflecting changes to the Federal Deposit Insurance Corporation assessment base and changes to the assessment formula.

Income Taxes. An income tax provision of \$244,000 was recorded during the quarter ended June 30, 2012 compared to expense of \$260,000 in the comparable 2011 quarter. The effective tax rate for the 2012 three-month period was 36.0%, compared with 35.7% for the 2011 three-month period.

Results of Operations for the Six Months Ended June 30, 2012 and 2011

Overview. The net loss for the six months ended June 30, 2012 was \$119,000, compared to net income of \$958,000 for the six months ended June 30, 2011. The \$1.1 million decrease was primarily due to the \$1.1 million after-tax expense associated with the funding of the Wellesley Bank Charitable Foundation. Net interest income increased \$545,000, or 10.8%, while noninterest expense, exclusive of the Foundation contribution, increased \$932,000, or 29.6%.

Net Interest Income. Net interest income for the six months ended June 30, 2012 increased \$545,000, or 10.9%, as compared to the six months ended June 30, 2011. The increase in net interest income was primarily due to an increase in interest income of \$372,000, or 5.8%, and a decrease in interest expense of \$173,000, or 12.1%, during the period.

Interest and dividend income increased \$372,000, or 5.8%, from \$6.5 million for the six-month period ended June 30, 2011 to \$6.8 million for the six months ended June 30, 2012. The average balance of interest-earning assets increased 16.1%, while the average rate earned on these assets decreased 45 basis points. The decline in yield was partially offset by the improvement in interest income attributable to asset growth. Interest and fees on loans increased \$256,000 or 4.2%, due to a 11.4% increase in the average balance of loans partially offset by a 39 basis point decrease in the average rate received on loans. Interest income from taxable securities increased \$97,000, or 34.0%, due to a 64.9% increase in the average balance of taxable securities compared to the prior year period. The average rate earned on taxable securities of 2.4% fell 54 basis points compared to the same period in the prior year.

The decrease in interest expense was primarily due to a decrease in the average rates paid on interest-bearing deposits, in particular certificates of deposit and regular savings accounts. The average balance of FHLB advances decreased slightly from \$12.0 million to \$11.6 million, while rates paid on the advances decreased 146 basis points, reducing the corresponding interest expense by \$92,000 from the comparative six-month period. The average rates paid on interest-bearing liabilities decreased by 25 basis points from the comparative six-month period. The decrease in the cost of deposits and borrowings was primarily due to a declining long-term interest rate environment. We experienced an increase in the average balance of interest-bearing deposits of 9.8% in the six-month period ended June 30, 2012 compared to the same period in 2011.

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,						
	Average Outstanding Balance	2012 Interest Earned/ Paid	Average Yield/ Rate (1)		Average Outstanding Balance	2011 Interest Earned/ Paid	Average Yield/ Rate (1)
(Dollars in thousands)							
Interest-earning assets:							
Short-term investments	\$21,063	\$28	0.24	%	\$16,206	\$18	0.22
Certificates of deposit	353	1	0.66		2,127	20	1.91
Debt securities:							
Taxable	32,152	382	2.40		19,495	285	2.94
Tax-exempt	8,174	136	3.35		6,643	109	3.30
Total loans and loans held for sale	232,860	6,273	5.42		209,000	6,017	5.81
FHLB stock	1,820	4	0.53		1,930	3	0.31
Total interest-earning assets	296,422	6,824	4.63		255,401	6,452	5.09
Allowance for loan losses	(3,473)				(2,913)		
Total interest-earning assets less allowance for loan losses	292,949				252,488		
Noninterest-earning assets	16,003				12,491		
Total assets	\$308,952				\$264,979		
Interest-bearing liabilities:							
Regular savings accounts	\$27,671	60	0.44	%	\$24,074	68	0.57
NOW checking accounts	15,487	15	0.20		13,496	13	0.19
Money market accounts	52,016	152	0.58		44,374	138	0.63
Certificates of deposit	119,501	814	1.37		113,534	906	1.61
Total interest-bearing deposits	214,675	1,041	0.97		195,478	1,125	1.16
Short-term borrowings	7,457	43	1.17		6,957	40	1.18
Long-term debt	11,577	170	2.95		12,002	262	4.41
Total interest-bearing liabilities	233,709	1,254	1.08		214,337	1,427	1.34
Noninterest-bearing demand deposits	34,430				28,833		
Other noninterest-bearing liabilities	970				878		
Total liabilities	269,109				244,048		
Stockholders' equity	39,843				20,931		
Total liabilities and stockholders' equity	\$308,952				\$264,979		
Net interest income		\$5,570				\$5,025	
Net interest rate spread (2)			3.55	%			3.75
Net interest-earning assets (3)	\$62,713				\$41,064		
Net interest margin (4)			3.78	%			3.97
Average total interest-earning assets to average total interest-bearing liabilities	126.83	%			119.16	%	

- (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) Represent 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.

(In thousands)	Six Months Ended June 30, 2012		
	Compared to		
	Six Ended June 30, 2011		
	Increase (Decrease)		Total
	Due to		Increase
	Volume	Rate	(Decrease)
Interest-earning assets:			
Short-term investments	\$8	\$2	\$10
Certificates of deposit	(11	) (8	) (19
Debt securities:			
Taxable	137	(40	) 97
Tax-exempt	26	1	27
Total loans and loans held for sale	621	(365	) 256
FHLB stock	$\frac{3}{4}$	1	1
Total interest-earning assets	781	(409	) 372
Interest-bearing liabilities:			
Regular savings	14	(22	) (8
NOW checking	1	1	2
Money market	21	(7	) 14
Certificates of deposit	52	(144	) (92
Total interest-bearing deposits	88	(172	) (84
Short-term borrowings	3	$\frac{3}{4}$	3
Long-term debt	(9	) (83	) (92
Total interest-bearing liabilities	82	(255	) (173
Increase (decrease) in net interest income	\$699	\$(154	) \$545

Provision for Loan Losses. The provision for loan losses was \$250,000 for the six months ended June 30, 2012 compared to \$600,000 for the six months ended June 30, 2011. The decrease in the provision reflects a reduction in the balances of nonaccrual loans from \$6.9 million at December 31, 2011 to \$4.7 million at June 30, 2012, leading to a reduction in related specific reserves. These changes were partially offset by changes in qualitative factors evaluated in setting the provision, and growth in the portfolio during the period.

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

(Dollars in thousands)	Six Months Ended June 30,			
	2012		2011	
Balance at beginning of period	\$3,396		\$2,690	
Provision for loan losses	250		600	
Charge-offs:				
Real estate loans:				
Residential	¾		(61)
Commercial	¾		¾	
Construction	¾		¾	
Commercial loans	(100	)	¾	
Consumer loans	¾		¾	
Total charge-offs	(100	)	(61)
Recoveries	4		¾	
Net charge-offs	(96	)	(61)
Allowance at end of period	\$3,550		\$3,229	
Allowance for loan losses to nonperforming loans at end of period	76.19	%	93.27	%
Allowance for loan losses to total loans at end of period	1.42	%	1.55	%
Net charge-offs to average loans outstanding during the period	0.04	%	0.03	%

Noninterest Income. Noninterest income totaled \$265,000, an increase of \$38,000, or 16.7%, as wealth management fees increased \$37,000 from the comparable 2011 period.

Noninterest Expenses. Noninterest expense, exclusive of the \$1.8 million pre-tax contribution to establish the Foundation, increased \$932,000 to \$4.1 million during the six months ended June 30, 2012 from \$3.2 million for the six months ended June 30, 2011. Factors that contributed to the increase in noninterest expense during the 2012 period were increased salaries and employee benefits of \$459,000, or 24.3%, primarily attributable to our recent branch expansion, and additional personnel supporting our residential lending operations, our wealth management activities, and our public reporting and compliance efforts. Occupancy and equipment expense increased \$202,000 resulting from normal rent increases and additional rent and other expense associated with the new branch and related expanded office space. Professional service fees increased \$168,000 in support of legal, regulatory and other matters related to our conversion to a public company. These increases were partially offset by a decrease of \$83,000 in Federal Deposit Insurance Corporation assessments reflecting changes to the Federal Deposit Insurance Corporation assessment base and changes to the assessment formula.

Income Taxes. An income tax benefit of \$180,000 was recorded during the six months ended June 30, 2012 compared to expense of \$541,000 in the comparable 2011 period. The tax benefit was primarily associated with the contribution to the Foundation as \$659,000 of deferred tax benefit has been recognized in connection with the contribution in the six month period ending June 30, 2012. The effective tax rate for the 2012 six-month period was 60.2%, compared with 36.1% for the 2011 six-month period as the impact of the tax benefit recognized during the period was disproportional to overall bank earnings.

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. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, borrowings from the Federal Home Loan Bank of Boston and securities sold under agreements to repurchase. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, calls of investment securities and borrowed funds and prepayments on loans are greatly influenced by general interest rates, economic conditions and competition.

Management regularly adjusts our investments in liquid assets based upon an assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, and (4) the objectives of our interest-rate risk and investment policies.

Our most liquid assets are cash and cash equivalents and interest-bearing deposits in other banks, and corporate bonds. The level of these assets depends on our operating, financing, lending and investing activities during any given period. At June 30, 2012, cash and cash equivalents, which include short-term investments, totaled \$17.8 million. Securities classified as available-for-sale, whose aggregate market value exceeds cost and had a market value of \$45.4 million, provide additional sources of liquidity.

At June 30, 2012, we had \$31.1 million in borrowings outstanding, including \$23.5 million Federal Home Loan Bank of Boston advances and \$7.6 million of securities under agreements to repurchase. In addition, at June 30, 2012, we had the ability to borrow a total of \$20.9 million in unused borrowing capacity from the Federal Home Loan Bank of Boston. At June 30, 2012, we also had the ability to borrow \$12.2 million from the Co-operative Central Bank and \$14.0 million from the Federal Reserve Bank under a collateralized borrowing program, none of which was outstanding at that date.

At June 30, 2012, we had \$54.1 million in loan commitments outstanding, which included \$16.3 million in unadvanced home equity lines of credit, \$7.7 million in unadvanced commercial lines of credit, \$14.8 million in unadvanced funds on construction loans, and \$14.8 million in new loan originations.

Term certificates of deposit due within one year of June 30, 2012 amounted to \$73.3 million, or 53.6% of total term certificates. This total has decreased \$3.5 million from December 31, 2011 while balances of term certificates maturing in more than one year have increased \$2.7 million. 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. Management believes, however, based on past experience that a significant portion of our term certificates will be renewed. 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 Federal Deposit Insurance Corporation regulations limit distributions of capital. In addition, the Company is subject to 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. Finally, in connection with its nonobjection to the conversion, the Federal Deposit Insurance Corporation has required the Bank to commit that for the three-year period immediately following the closing of the conversion it will not make any distribution of capital to the Company, including cash dividends, except in accordance with Federal Deposit Insurance Corporation laws and regulations and as provided for in the business plan submitted with the conversion application without the prior approval of the Boston Area Office of the Federal Deposit Insurance Corporation if such action would cause the Bank's tier 1 leverage and total risk-based capital ratios to fall below 8.0% and 12.0%, respectively. At June 30, 2012, the Company had \$8.1 million 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 Deposit Insurance Corporation and the Massachusetts Commissioner of Banks, including a risk-based capital measure. The Company is also subject to similar capital requirements set by the Federal Reserve Board. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2012, we exceeded all of our regulatory capital requirements. We are considered “well capitalized” under regulatory guidelines.

We strive to manage our capital for maximum shareholder benefit. The capital from our stock offering significantly increased our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of lending activities. Our financial condition and results of operations will be enhanced by the capital from the offering, resulting over time in increased net interest-earning assets and net income. However, the large increase in equity resulting from the capital raised in the offering will, initially, have an adverse impact on our return on equity. To help us better manage our capital, we may consider the use of such tools as common share repurchases and cash dividends as regulations permit. However, under FDIC regulations, we will not be allowed to repurchase any shares during the first year following the offering, except that stock repurchases of no greater than 5% of outstanding capital stock may be made during this one-year period where compelling and valid business reasons are established to the satisfaction of the Federal Deposit Insurance Corporation.

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 and Capital Resources herein.

For the six months ended June 30, 2012, the Bank did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Bank's financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

At June 30, 2012, there have not been any material changes to the market risk disclosure from that contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Qualitative Aspects of Market Risk

The primary 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: originating adjustable-rate loans for retention in our loan portfolio; selling in the secondary market substantially all newly originated conforming fixed rate residential mortgage loans, promoting core deposit products and short-term time deposits; adjusting the maturities of borrowings and adjusting the investment portfolio mix and duration. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

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 with the objective of managing 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 the changes in 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, 2012 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, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow 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, 2012 and on our projected net interest income from June 30, 2012 through June 30, 2013.

Basis Point ("bp") Change in Rates	As of June 30, 2012 Present Value of Equity			Over the Next 12 Months Ending June 30, 2013 Projected Net Interest Income		
	\$ Amount	\$ Change	% Change	\$ Amount	\$ Change	% Change
			(Dollars in thousands)			
300 bp	\$36,377	\$(7,071)	(16.28)%	\$10,801	\$(19)	(0.18)%
200	38,531	(4,917)	(11.32)	10,836	15	0.14
100	41,062	(2,386)	(5.49)	10,816	(4)	(0.03)
0	43,448	—	$\frac{3}{4}$	10,820	$\frac{3}{4}$	$\frac{3}{4}$
(100)	44,765	1,317	3.03	10,631	(189)	(1.75)

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") (1) is recorded, processed, summarized and

reported within the time periods specified in the SEC's rules and forms, and (2) 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, 2012 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, 2011, filed with the Securities and Exchange Commission on March 26, 2012. As of June 30, 2012, 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, 2011.

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 Bylaws of Wellesley Bancorp, Inc. (2)

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, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balances Sheets, (ii) the Consolidated Statements of Income and Comprehensive Income, (iii) the Consolidated Statement of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

* Furnished, not filed.

- (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 Registration Statement on Form S-1 (File No. 333-176764), filed with the Securities and Exchange Commission on September 9, 2011.

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 14, 2012

By:/s/ Thomas J. Fontaine
Thomas J. Fontaine
President and Chief Executive Officer
(principal executive officer)

Dated: August 14, 2012

By:/s/ Gary P. Culyer
Gary P. Culyer
Chief Financial Officer and Treasurer
(principal accounting and financial officer)