Wellesley Bancorp, Inc.
Form 10-Q
August 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from ______________ to _____________

Commission file number: 001-35352

WELLESLEY BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 ____ (Do not check if a smaller reporting company)	Smaller reporting company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ___ No X

As of August 1, 2013, there were 2,460,490 shares of the registrant's common stock outstanding.

WELLESLEY BANCORP, INC.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CONSOLIDATED BALANCE SHEETS

	June 30, 2013	December 31, 2012
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 2,553	$ 2,247
Short-term investments	9,636	15,971
Total cash and cash equivalents	12,189	18,218
Certificates of deposit	350	600
Securities available for sale, at fair value	35,276	39,256
Federal Home Loan Bank of Boston (FHLB) stock, at cost	2,799	2,005
Loans held for sale	2,487	9,130
Loans	334,103	297,935
Less allowance for loan losses	(4,008)	(3,844)
Loans, net	330,095	294,091
Bank-owned life insurance	6,487	6,385
Premises and equipment, net	2,447	2,044
Accrued interest receivable	1,080	1,019
Net deferred tax asset	2,081	1,933
Other assets	1,452	1,367
Total assets	$ 396,743	$ 376,048
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 39,370	$ 39,044
Interest-bearing	261,908	259,015
	301,278	298,059
Short-term borrowings	6,000	—
Long-term debt	42,500	31,500
Accrued expenses and other liabilities	1,294	1,518
Total liabilities	351,072	331,077
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value; 14,000,000 shares authorized, 2,460,490 shares issued and outstanding at June 30, 2013; 2,480,610 shares issued and outstanding at December 31, 2012	24	24

Additional paid-in capital	22,704	22,751
Retained earnings	24,381	23,203
Accumulated other comprehensive income	295	790
Unearned compensation – ESOP	(1,733)	(1,797)
Total stockholders' equity	45,671	44,971
Total liabilities and stockholders' equity	$ 396,743	$ 376,048

See accompanying notes to consolidated financial statements.

1

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Interest and dividend income:				
Interest and fees on loans and loans held for sale	$3,770	$3,157	$7,516	$6,273
Debt securities:				
Taxable	133	199	277	382
Tax-exempt	47	67	99	136
Interest on short-term investments and certificates of deposit	8	14	18	29
Dividends on FHLB stock	2	2	4	4
Total interest and dividend income	3,960	3,439	7,914	6,824
Interest expense:				
Deposits	538	516	1,077	1,041
Short-term borrowings	1	22	1	43
Long-term debt	134	99	256	170
Total interest expense	673	637	1,334	1,254
Net interest income	3,287	2,802	6,580	5,570
Provision for loan losses	100	100	200	250
Net interest income, after provision for loan losses	3,187	2,702	6,380	5,320
Noninterest income:				
Customer service fees	40	46	80	73
Mortgage banking activities	52	—	76	—
Gain (loss) on sale of securities, net	103	(1)	103	(1)
Income on bank-owned life insurance	57	46	102	83
Wealth management fees	93	46	181	89
Loss on extinguishment of debt	(93)	—	(93)	—
Miscellaneous	11	11	23	21
Total noninterest income	263	148	472	265
Noninterest expense:				
Salaries and employee benefits	1,521	1,245	2,951	2,345
Occupancy and equipment	356	318	696	604
Data processing	116	99	242	215
FDIC insurance	67	47	133	102
Contributions	1	1	2	1,801
Other general and administrative	434	462	888	817
Total noninterest expense	2,495	2,172	4,912	5,884
Income (loss) before income taxes	955	678	1,940	(299)
Provision (benefit) for income taxes	372	244	762	(180)
Net income (loss)	583	434	1,178	(119)
Other comprehensive income (loss):				
	(604)	151	(715)	224

Unrealized holding (losses) gains on available-for-sale securities				
Reclassification adjustment for net securities gains realized	(103)	—	(103)	—
Tax effect	279	(60)	323	(85)
Total other comprehensive income (loss)	(428)	91	(495)	139
Comprehensive income	$155	$525	$683	$20
Net income per common share (basic and diluted)	$0.26	$0.20	$0.52	N/A
Weighted average shares outstanding (basic and diluted)	2,285,860	2,216,184	2,289,699	N/A

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2013 and 2012

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Compensation-ESOP	Total Stockholders' Equity
	(Dollars in thousands)						
Balance at December 31, 2011	—	$ —	$ —	$ 22,104	$ 627	$ —	$ 22,731
Net loss	—	—	—	(119)	—	—	(119)
Other comprehensive income	—	—	—	—	139	—	139
Issuance of common stock for initial public offering, net of expenses of $1,260	2,249,674	22	21,214	—	—	—	21,236
Issuance of common stock to Wellesley Bank Charitable Foundation	157,477	2	1,573	—	—	—	1,575
Stock purchased by the ESOP	—	—	—	—	—	(1,926)	(1,926)
ESOP shares committed to be allocated (5,349)	—	—	17	—	—	54	71
Balance at June 30, 2012	2,407,151	$ 24	$ 22,804	$ 21,985	$ 766	$ (1,872)	$ 43,707
Balance at December 31, 2012	2,480,610	$ 24	$ 22,751	$ 23,203	$ 790	$ (1,797)	$ 44,971
Net income	—	—	—	1,178	—	—	1,178
Other comprehensive loss	—	—	—	—	(495)	—	(495)
Purchase and retirement of treasury shares	(20,120)	—	(314)	—	—	—	(314)
Shared- based compensation-equity incentive plan	—	—	228	—	—	—	228
ESOP shares committed to be allocated (6,419)	—	—	39	—	—	64	103
Balance at June 30, 2013	2,460,490	$ 24	$ 22,704	$ 24,381	$ 295	$ (1,733)	$ 45,671

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$1,178	$(119)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Provision for loan losses	200	250
Depreciation and amortization	179	129
Net amortization of securities	125	111
Loans originated for sale	(14,558)	(5,750)
Principal amount of loans sold	21,125	3,604
(Gain) loss on sale of securities, net	(103)	1
Accretion of net deferred loan fees	(224)	(214)
Income on bank-owned life insurance	(102)	(83)
Deferred income tax provision (benefit)	175	(681)
Issuance of common stock to Wellesley Bank Charitable Foundation	—	1,575
ESOP expense	103	71
Share-based compensation	228	—
Net change in:		
Accrued interest receivable	(61)	(86)
Other assets	(85)	474
Accrued expenses and other liabilities	(224)	15
Net cash provided (used) by operating activities	7,956	(703)
Cash flows from investing activities:		
Net decrease (increase) in certificates of deposit	250	(500)
Activity in securities available for sale:		
Maturities, prepayments and calls	4,967	2,818
Purchases	(3,256)	(12,057)
Proceeds from sales of securities	1,429	—
(Purchase) redemption of Federal Home Loan Bank stock	(794)	216
Loan originations, net	(35,904)	(22,388)
Additions to premises and equipment	(582)	(1,055)
Purchases of bank-owned life insurance	—	(2,000)
Net cash used by investing activities	(33,890)	(34,966)
Cash flows from financing activities:		
Net increase in deposits	3,219	3,733
Proceeds from long-term debt	17,500	16,000
Repayments of long-term debt	(6,500)	—
Increase in short-term borrowings	6,000	536
Conversion of stock subscriptions to common stock	—	(19,666)
Net proceeds from the issuance of common stock	—	21,236
Payment to acquire treasury shares	(314)	—
Acquisition of common stock by ESOP	—	(1,926)

Net cash provided by financing activities	19,905	19,913
Net change in cash and cash equivalents	(6,029)	(15,756)
Cash and cash equivalents at beginning period	18,218	33,524
Cash and cash equivalents at end of period	$12,189	$17,768
Supplementary information:		
Interest paid	$1,319	$1,255
Income taxes paid	873	475

See accompanying notes to consolidated financial statements.

WELLESLEY BANCORP, INC. AND SUBSIDIARY

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”).

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, net of conversion costs of $1.3 million. Additionally, the Company contributed $225 thousand in cash and 157,477 shares of common stock to the Wellesley Bank Charitable Foundation (the “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 $22.1 million. 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 fiscal year end. 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 2012 Annual Report on Form 10-K. The results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

NOTE 3 - LOAN POLICIES

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

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, 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 when 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 qualitative factors including: 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 Company's policies or methodology pertaining to the general component of the allowance during 2013 or 2012.

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

Residential real estate – The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not originate subprime loans. Most loans in this segment are collateralized by one- to four-family owner and non-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 the Company's primary market areas in eastern Massachusetts. 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 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 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 Company typically does not hold a first mortgage position on homes that secure home equity lines of credit. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

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

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

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

Unallocated component
An unallocated component is maintained to cover 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 4 - 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, 2013	December 31, 2012
	(In thousands)	

Unrealized holding gains on securities available for sale	$	479	$	1,297
Tax effect		(184)		(507)
Net-of tax amount	$	295	$	790

NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-02 related to disclosure of amounts reclassified out of other accumulated comprehensive income. The standard requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. The new requirements are effective for public companies in fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company adopted this standard on January 1, 2013, with no significant impact on the Company's consolidated financial statements for the three or six months ended June 30, 2013.

NOTE 6 – SECURITIES AVAILABLE FOR SALE

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

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Residential mortgage-backed securities:				
Government National Mortgage Association	$9,066	$249	$(4)	$9,311
Government-sponsored enterprises	8,841	168	(53)	8,956
SBA and other asset-backed securities	2,383	16	(50)	2,349
State and municipal bonds	4,212	136	(4)	4,344
Government-sponsored enterprise obligations	2,941	10	(27)	2,924
Corporate bonds	7,354	88	(50)	7,392
	$34,797	$667	$(188)	$35,276

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Residential mortgage-backed securities:				
Government National Mortgage Association	$9,235	$311	$—	$9,546
Government-sponsored enterprises	10,841	372	—	11,213
SBA and other asset-backed securities	3,988	139	—	4,127
State and municipal bonds	5,604	362	(3)	5,963
Government-sponsored enterprise obligations	2,105	13	(3)	2,115
Corporate bonds	6,186	106	—	6,292
	$37,959	$1,303	$(6)	$39,256

The amortized cost and fair value of debt securities by contractual maturity at June 30, 2013 and at December 31, 2012 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, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Within 1 year	$2,644	$2,656	$154	$155
After 1 year to 5 years	5,880	5,942	7,454	7,603
After 5 years to 10 years	1,816	1,867	2,912	2,990
After 10 years	4,167	4,195	3,375	3,622
	14,507	14,660	13,895	14,370
Mortgage- and asset-backed securities	20,290	20,616	24,064	24,886
	$34,797	$35,276	$37,959	$39,256

Unrealized losses generally reflect declines in the fair value of a security, as compared to the carrying value of the security. Recent increases in longer-term interest rates are reflected in lower fair values of certain securities in our portfolio than current carrying values, resulting in unrealized losses which we consider to be temporary in duration. 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)			
Residential mortgage-backed securities:				
Government National Mortgage Association	$(4)	$784	$—	$—
Government-sponsored enterprises	(53)	4,115	—	—
SBA and other asset-backed securities	(50)	1,204	—	—
State and municipal bonds	(1)	252	(3)	297
Government-sponsored enterprise obligations	(27)	1,956	—	—
Corporate bonds	(50)	1,109	—	—
	$(185)	$9,420	$(3)	$297
December 31, 2012				
State and municipal bonds	$(3)	$299	$—	$—
Government-sponsored enterprise obligations	(3)	998	—	—
	$(6)	$1,297	$—	$—

9

NOTE 7 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the balances of loans is as follows:

	June 30, 2013	December 31, 2012
	(In thousands)	
Real estate loans:		
Residential – fixed	$ 22,362	$ 19,524
Residential – variable	133,555	111,041
Commercial	77,753	80,200
Construction	59,742	48,158
	293,412	258,923
Commercial loans:		
Secured	15,842	14,854
Unsecured	754	871
	16,596	15,725
Consumer loans:		
Home equity lines of credit	23,900	23,111
Other	422	455
	24,322	23,566
Total loans	334,330	298,214
Less:		
Allowance for loan losses	(4,008)	(3,844)
Net deferred origination fees	(227)	(279)
Loans, net	$ 330,095	$ 294,091

10

The following table summarizes the changes in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2013 and 2012:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Home Equity	Other Consumer	Unallocated	Total
				(In thousands)				
Three Months Ended June 30, 2013								
Allowance at March 31, 2013	$ 1,259	$ 919	$ 976	$ 404	$ 192	$ 11	$ 147	$ 3,908
Provision (credit) for loan losses	134	11	11	43	(25)	(4)	(70)	100
Loans charged off	—	—	—	—	—	—	—	—
Recoveries of loans previously charged off	—	—	—	—	—	—	—	—
Allowance at June 30, 2013	$ 1,393	$ 930	$ 987	$ 447	$ 167	$ 7	$ 77	$ 4,008
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	—	—	—	(10)	—	—	—	(10)
Recoveries of loans previously charged off	—	—	—	4	—	—	—	4
Allowance at June 30, 2012	$ 1,047	$ 956	$ 921	$ 403	$ 162	$ 13	$ 48	$ 3,550

	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Home Equity	Other Consumer	Unallocated	Total
				(In thousands)				
Six Months Ended June 30, 2013								
Allowance at December 31, 2012	$ 1,157	$ 1,041	$ 918	$ 456	$ 171	$ 11	$ 90	$ 3,844

Provision (credit) for loan losses	236	(111)	69	27	(4)	(4)	(13)	200
Loans charged off	—	—	—	(36)	—	—	—	(36)
Recoveries of loans previously charged off	—	—	—	—	—	—	—	—
Allowance at June 30, 2013	$ 1,393	$ 930	$ 987	$ 447	$ 167	$ 7	$ 77	$ 4,008
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
Loans charged off	—	—	—	(100)	—	—	—	(100)
Recoveries of loans previously charged off	—	—	—	4	—	—	—	4
Allowance at June 30, 2012	$ 1,047	$ 956	$ 921	$ 403	$ 162	$ 13	$ 48	$ 3,550

Further information pertaining to the allowance for loan losses at June 30, 2013 and December 31, 2012 is as follows:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Home Equity	Other Consumer	Unallocated	Total
				(In thousands)				
June 30, 2013								
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	1,393	930	987	447	167	7	77	4,008
Total allowance	$ 1,393	$ 930	$ 987	$ 447	$ 167	$ 7	$ 77	$ 4,008
Impaired loan balances individually evaluated and deemed to be impaired	$ 621	$ 6,218	$ —	$ 354	$ 34	$ —	$ —	$ 7,227
Loan balances individually evaluated and not deemed impaired, and those collectively evaluated for impairment	155,296	71,535	59,742	16,242	23,866	422	—	327,103
Total loans	$ 155,917	$ 77,753	$ 59,742	$ 16,596	$ 23,900	$ 422	$ —	$ 334,330

	Residential	Commercial	Construction	Commercial	Home Equity	Other Consumer	Unallocated	Total

	Real Estate	Real Estate						
				(In thousands)				
December 31, 2012								
Allowance related to loans individually evaluated and deemed to be impaired	$ —	$ 94	$ —	$ 26	$ —	$ —	$ —	$ 120
Allowance related to loans individually evaluated and not deemed impaired, and those collectively evaluated for impairment	1,157	947	918	430	171	11	90	3,724
Total allowance	$ 1,157	$ 1,041	$ 918	$ 456	$ 171	$ 11	$ 90	$ 3,844
Impaired loan balances individually evaluated and deemed to be impaired	$ 541	$ 5,657	$ —	$ 76	$ 308	$ —	$ —	$ 6,582
Loan balances individually evaluated and not deemed impaired, and those collectively evaluated for impairment	130,024	74,543	48,158	15,649	22,803	455	—	291,632
Total loans	$ 130,565	$ 80,200	$ 48,158	$ 15,725	$ 23,111	$ 455	$ —	$ 298,214

The following is a summary of past due and non-accrual loans at June 30, 2013 and December 31, 2012:

June 30, 2013	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)			
Residential real estate	$1,459	$916	$283	$2,658	$—	$621
Commercial real estate	882	—	815	1,697	—	3,593
Commercial	22	4	—	26	—	354
Home equity lines of credit	109	765	—	874	—	34
Total	$2,472	$1,685	$1,098	$5,255	$—	$4,602

December 31, 2012	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)			
Residential real estate	$1,483	$217	$306	$2,006	$—	$540
Commercial real estate	—	—	2,756	2,756	—	2,932
Commercial	2,452	19	—	2,471	—	—
Home equity lines of credit	874	—	34	908	—	38
Total	$4,809	$236	$3,096	$8,141	$—	$3,510

The following is a summary of impaired loans at June 30, 2013 and December 31, 2012:

	June 30, 2013			December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
			(In thousands)			
Impaired loans without a valuation allowance:						
Residential real estate	$621	$621	$—	$541	$541	$—
Commercial real estate	6,218	6,218	—	5,481	5,481	—
Commercial	354	354	—	50	50	—
Home equity lines of credit	34	34	—	308	308	—
Total	7,227	7,227	—	6,380	6,380	—

Impaired loans with a valuation allowance:						
Commercial real estate	—	—	—	176	176	94
Commercial	—	—	—	26	26	26
Total	—	—	—	202	202	120
Total impaired loans	$7,227	$7,227	$—	$6,582	$6,582	$120

Further information pertaining to impaired loans follows:

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In thousands)					
Residential real estate	$623	$4	$4	$612	$11	$11
Commercial real estate	6,228	85	58	6,156	202	148
Commercial	385	4	4	363	6	6
Home equity lines of credit	34	—	—	74	—	—
Other consumer loans	—	—	—	—	1	1
Total	$7,270	$93	$66	$7,205	$220	$166

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In thousands)					
Residential real estate	$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	—	—	—	6	2	2
Home equity lines of credit	110	1	1	69	1	1
Other consumer loans	2	—	—	1	—	—
Total	$4,219	$59	$59	$5,140	$176	$176

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

There were no troubled debt restructurings recorded during the three and six month periods ended June 30, 2013. There were no troubled debt restructurings that defaulted during the three and six months periods ended June 30, 2013, and for which default was within one year of the restructure date.

The following is a summary of troubled debt restructurings for the three and six month periods ended June 30, 2012:

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

Six Months Ended June 30, 2012					
Residential real estate	2	$	1,088	$	1,088
Commercial real estate	2		257		257
Total	4	$	1,345	$	1,345

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 were on non-accrual status as of June 30, 2012. There were no reserves for expected uncollectible principal on either of these loans at June 30, 2012 as payments of all amounts owed are expected upon sale of the properties.

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 were on non-accrual status and in a principal-only collection status as of March 31, 2012. Reserves for expected uncollectible principal totaling $137 thousand and $98 thousand were established and a component of the specific reserve allowance for loan losses at 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 restructure.

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 1-3 and 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 thousand with no other outstandings or relationships with the Company. In accordance with regulatory guidelines, these loans are not rated.

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. Currently, there are no loans rated in categories 7-10.

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

	June 30, 2013				December 31, 2012			
	Commercial Real Estate	Construction	Commercial	Total	Commercial Real Estate	Construction	Commercial	Total
	(In thousands)							
Loans rated 1 -3 and 31	$70,303	$ 59,742	$ 15,978	$146,023	$73,312	$ 48,158	$ 14,002	$135,472
Loans rated 4	4,116	—	—	4,116	4,235	—	1,390	5,625
Loans rated 5	3,594	—	358	3,952	2,477	—	333	2,810
Loans rated 6	—	—	—	—	176	—	—	176
Total	$78,013	$ 59,742	$ 16,336	$154,091	$80,200	$ 48,158	$ 15,725	$144,083

NOTE 8 – 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 and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted market prices in active exchange markets for identical assets and liabilities. Valuations are obtained from readily available pricing sources.

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

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

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.

Forward loan sale commitments and derivative loan commitments: Fair value of derivative loan commitments are based on fair values of the underlying mortgage loans and related servicing rights, and the probability of such commitments being exercised. Fair value of forward loan sales commitments are based on changes in fair value of the underlying mortgage loans from the commitment date to the reporting date.

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 and liabilities measured at fair value on a recurring basis

Assets and liabilities measured at fair value on a recurring basis at June 30, 2013 and December 31, 2012 are summarized below.

	June 30, 2013			
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
Assets				
Residential mortgage-backed securities:				
Government National Mortgage Association	$—	$9,311	$—	$9,311
Government-sponsored enterprises	—	8,956	—	8,956
SBA and other asset-backed securities	—	2,349	—	2,349
State and municipal bonds	—	4,344	—	4,344
Government-sponsored enterprise obligations	—	2,924	—	2,924
Corporate bonds	—	7,392	—	7,392
Derivative loan commitments	—	—	19	19
Forward loan sale commitments	—	—	238	238
Total assets	$—	$35,276	$257	$35,533
Liabilities				
Derivative loan commitments	$—	$—	$67	$67

	December 31, 2012			
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
Assets				
Residential mortgage-backed securities:				
Government National Mortgage Association	$—	$9,546	$—	$9,546
Government-sponsored enterprises	—	11,213	—	11,213
SBA and other asset-backed securities	—	4,127	—	4,127
State and municipal bonds	—	5,963	—	5,963
Government-sponsored enterprise obligations	—	2,115	—	2,115
Corporate bonds	—	6,292	—	6,292
Derivative loan commitments	—	—	10	10
Forward loan sale commitments	—	—	22	22
Total assets	$—	$39,256	$32	$39,288
Liabilities				
Forward loan sale commitments	$—	$—	$18	$18

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 (LOCOM) 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, 2013 and December 31, 2012.

	June 30, 2013			December 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(In thousands)					
Loans held for sale	$—	$2,487	$—	$—	$—	$—
Impaired loans	—	—	—	—	—	82
	$—	$2,487	$—	$—	$—	$82

The following table presents the total (losses) gains on loans held for sale and impaired loans for the three and six month periods ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Loans held for sale	$(160)	$—	$(160)	$—
Impaired loans	—	289	94	306
	$(160)	$289	$(66)	$306

Loans held for sale (LHFS) are evaluated for losses associated with the application of LOCOM accounting. At June 30, 2013, a rise in market interest rates above contractual loan rates from the time LHFS were recorded is reflected as a reduction in the carrying value of the asset and a loss is recognized in current period earnings. There were no LOCOM adjustments as of December 31, 2012.

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, 2013 and December 31, 2012.

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, 2013				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
			(In thousands)		
Financial assets:					
Cash and cash equivalents	$12,189	$12,189	$—	$—	$12,189
Certificates of deposit	350	350	—	—	350
Securities available for sale	35,276	—	35,276	—	35,276
FHLB stock	2,799	—	—	2,799	2,799
Loans held for sale	2,487	—	2,487	—	2,487
Loans, net	330,095	—	—	329,392	329,392
Accrued interest receivable	1,080	—	—	1,080	1,080
Derivative loan commitments	19	—	—	19	19
Forward loan sale commitments	238	—	—	238	238
Financial liabilities:					
Deposits	$301,278	$—	$—	$302,104	$302,104
Short-term borrowings	6,000	—	6,000	—	6,000
Long-term debt	42,500	—	—	42,175	42,175
Accrued interest payable	42	—	—	42	42
Derivative loan commitments	67	—	—	67	67

	December 31, 2012				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
			(In thousands)		
Financial assets:					
Cash and cash equivalents	$18,218	$18,218	$—	$—	$18,218
Certificates of deposit	600	600	—	—	600
Securities available for sale	39,256	—	39,256	—	39,256
FHLB stock	2,005	—	—	2,005	2,005
Loans held for sale	9,130	—	9,130	—	9,130
Loans, net	294,091	—	—	294,618	294,618
Accrued interest receivable	1,019	—	—	1,019	1,019
Derivative loan commitments	10	—	—	10	10
Forward loan sale commitments	22	—	—	22	22
Financial liabilities:					
Deposits	$298,059	$—	$—	$298,949	$298,949
Long-term debt	31,500	—	—	31,961	31,961
Accrued interest payable	5	—	—	5	5
Forward loan sale commitments	18	—	—	18	18

NOTE 9 - 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, 2013, the ESOP holds 192,572 shares, or 7.83% 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 will be distributed to participants and cash dividends paid on unallocated shares will be used to repay the outstanding debt of the ESOP. Shares used as collateral to secure the loan are released and available for allocation to eligible employees as the principal and interest on the loan is paid.

Shares held by the ESOP include the following:

	June 30, 2013
Allocated	12,838
Committed to be allocated	6,419
Unallocated	173,315
	192,572

The fair value of unallocated shares was approximately $3.1 million at June 30, 2013.

Total compensation expense recognized in connection with the ESOP for the three and six month periods ended June 30, 2013 was $53 thousand and $103 thousand, respectively.

NOTE 10 - EQUITY INCENTIVE PLAN

Under the Company's Equity Incentive Plan (the "Plan"), approved by the Company's stockholders at the annual meeting on August 15, 2012, the Company may grant stock options to its management, employees and directors in the form of incentive stock options and non-qualified stock options for up to 240,751 shares. On October 1, 2012, the Board of Directors granted options to purchase 203,395 shares of its common stock to its management, employees and directors at an exercise price of $15.35 per share. The exercise price of each option equals the market price of the stock on the date of grant, and the maximum term of each option is 10 years. The vesting period is five years from the date of grant, with vesting at 20% per year. The weighted average fair value of stock options granted on October 1, 2012 using a Black-Scholes pricing model was $4.69.

For the three and six months ended June 30, 2013, share-based compensation expense applicable to the stock options was $47 thousand and $95 thousand, respectively, and the recognized tax benefit related to this expense was $9 thousand and $19 thousand, respectively.

Unrecognized compensation expense for the non-vested options totaled $811 thousand as of June 30, 2013, which will be recognized over the remaining vesting period of 4.25 years. The aggregate intrinsic value of unvested options at

June 30, 2013 was approximately $533 thousand. No options are exercisable as of June 30, 2013.

Under the Plan, the Company may also grant stock awards to management, employees and directors for up to 96,286 shares. Granted stock awards vest over five years at 20% per year. On October 1, 2012, the Board of Directors granted stock awards of 86,539 to its management, employees and directors. The fair market value of the stock awards, based on the market price of $15.35 at the grant date, will be amortized over the remaining vesting period of 4.25 years. Unrecognized compensation expense related to non-vested restricted stock totaled $1.1 million as of June 30, 2013.

For the three and six months ended June 30, 2013, compensation expense applicable to stock awards was $66 thousand and $133 thousand, respectively. The recognized tax benefit related to the expense was $27 thousand and $53 thousand, respectively.

There was no activity related to stock options or awards during the three or six months ended June 30, 2013.

NOTE 11 - 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 reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. There were no potentially dilutive common stock equivalents as of June 30, 2013. Under the Company's Equity Incentive Plan, stock awards granted on October 1, 2012 contain non-forfeitable dividend rights. Accordingly, these shares are considered outstanding for computation of basic earnings per share. Options to purchase 203,395 shares were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the three and six months ended June 30, 2013.

Earnings per common share have been computed as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Net income (loss) applicable to common stock	$583	$434	$1,178	$(119)
Average number of common shares outstanding	2,460,780	2,407,151	2,466,224	N/A
Less: Average unallocated ESOP shares	(174,920)	(190,967)	(176,525)	N/A
Average number of common shares outstanding used to calculate basic and fully diluted earnings per common share	2,285,860	2,216,184	2,289,699	N/A

N/A = not applicable

NOTE 12 – STOCK REPURCHASE PLAN

On October 1, 2012, the Board of Directors approved the repurchase of up to 96,286 shares, or approximately 4.0% of the Company's outstanding common stock. At June 30, 2013, the Company had repurchased and retired 33,200 shares.

23

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 2012 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 collectibility of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic or other conditions differ substantially from the assumptions used in making the evaluation. In addition, the Federal Deposit Insurance Corporation and Massachusetts Commissioner of Banks, as an integral part of their examination 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 expense 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, 2013 and December 31, 2012

General. Total assets increased $20.7 million, or 5.5%, from $376.0 million at December 31, 2012 to $396.7 million at June 30, 2013. Total assets increased primarily due to an increase in net loans of $36.0 million, or 12.2%, offset by a decrease in loans held for sale of $6.6 million and a decrease in cash and cash equivalents of $6.0 million.

Loans. Net loans increased $36.0 million, or 12.2%, from $294.1 million at December 31, 2012 to $330.1 million at June 30, 2013. The increase in loans was due primarily to an increase of $25.3 million, or 19.4%, in residential real estate loans. The strength in our residential lending activity is due to the efforts of our loan origination staff, a vibrant marketplace, and the expansion of our market area. Adjustable-rate residential mortgage loans increased $22.5 million, or 20.3%, to $133.6 million while fixed-rate residential loans increased $2.8 million, or 14.5%. We continue to sell longer-term fixed rate mortgage loans in the secondary market. At June 30, 2013, loans past due 30-89 days have decreased $888 thousand and loans past due 90 days or more have decreased $2.0 million as compared to December 31, 2012, primarily due to certain commercial loan relationships whose payment patterns have improved. No losses are expected on any relationship as collateral positions and the customers’ ability to pay remain strong.

Securities. Total securities decreased from $39.3 million at December 31, 2012 to $35.3 million at June 30, 2013, primarily due to the $3.4 million in principal repayments on mortgage-backed securities.

Deposits. Total deposits increased $3.2 million, or 1.1%, from $298.1 million at December 31, 2012 to $301.3 million at June 30, 2013. Savings accounts increased $5.6 million, NOW accounts increased $718 thousand, non-interest-bearing accounts increased $326 thousand, and term certificates of deposit increased $304 thousand during the six-month period ended June 30, 2013, while money market deposit accounts decreased $3.7 million. 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 $11 million, or 34.9%, for the six months ended June 30, 2013. The increase in longer-term 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 FHLB advances, increased $6.0 million for the six months ended June 30, 2013 in order to satisfy short-term funding needs.

Stockholders’ Equity. Stockholders’ equity increased $700 thousand, or 1.6%, from $45.0 million at December 31, 2012 to $45.7 million at June 30, 2013, primarily as a result of net income of $1.2 million, and the impact of share-based compensation related to the equity incentive plan of $228 thousand. Partially offsetting these results was the $495 thousand after-tax effect decrease in the fair market value of available-for-sale securities and the acquisition and retirement of treasury stock amounting to $314 thousand.

Results of Operations for the Three Months Ended June 30, 2013 and 2012

Overview. Net income for the three months ended June 30, 2013 was $583 thousand, compared to net income of $434 thousand for the three months ended June 30, 2012. The $149 thousand increase was primarily due to increases in net interest income, partially offset by an increase in noninterest expenses. Net interest income increased to $3.3 million from $2.8 million in the 2012 quarter while noninterest expense increased $323 thousand, to $2.5 million in the same period.

Net Interest Income. Net interest income for the three months ended June 30, 2013 increased $485 thousand or 17.3%, as compared to the three months ended June 30, 2012. The increase in net interest income was primarily due to increases in the average balances of loans, partially offset by declines in yields.

Interest and dividend income increased $521 thousand or 15.2%, from $3.4 million for the three-month period ended June 30, 2012 to $4.0 million for the three months ended June 30, 2013. The average balance of interest-earning assets increased 25.1%, while the average rate earned on these assets decreased 38 basis points. The decline in loan yields is due to new, lower yielding loans added to the portfolio and the downward re-pricing of floating rate loans in a continued low rate environment. The decline in yield was partially offset by the improvement in interest income attributable to asset growth. Interest and fees on loans increased $613 thousand, or 19.4%, due to a 37.9% increase in the average balance of loans partially offset by a 73 basis point decrease in the average rate received on loans. Interest income from taxable securities decreased $66 thousand, or 33.0%, due to a 14.6% decrease in the average balance of taxable securities compared to the prior year period. The average rate earned on taxable securities of 1.77% fell 49 basis points compared to the same period in the prior year. Declines in yields on investment securities are due to the downward re-pricing of certain floating rate securities and the reinvestment of funds from maturing securities into lower yielding securities.

The increase in interest expense was primarily due to a $35 thousand increase in interest expense related to FHLB long-term advances resulting from an increase in the average balances of FHLB long-term advances which increased from $15.6 million to $41.5 million. Rates paid on long-term FHLB advances decreased from 2.55% to 1.28%. The average rates paid on interest-bearing liabilities decreased by 20 basis points from the comparative three-month period. The decrease in the cost of deposits and borrowings was primarily due to the impact of a declining long-term interest rate environment on term certificates of deposit and the expansion of lower cost long-term FHLB advances. We experienced an increase in the average balance of interest-bearing deposits of 21.9% in the three-month period ended June 30, 2013 compared to the same period in 2012.

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,					
	2013			2012		
(Dollars in thousands)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate (1)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate (1)
Interest-earning assets:						
Short-term investments	$ 11,976	$ 7	0.25 %	$ 18,673	$ 13	0.23 %
Certificates of deposit	350	1	0.42	600	1	0.56
Debt securities:						
Taxable	30,242	133	1.77	35,401	199	2.26
Tax-exempt	5,034	47	3.71	8,062	67	3.34
Total loans and loans held for sale	326,802	3,770	4.63	236,914	3,157	5.36
FHLB stock	2,571	2	0.31	1,714	2	0.57
Total interest-earning assets	376,975	3,960	4.21	301,364	3,439	4.59
Allowance for loan losses	(3,959)			(3,501)		
Total interest-earning assets less allowance for loan losses	373,016			297,863		
Noninterest-earning assets	13,627			17,174		
Total assets	$ 386,643			$ 315,037		
Interest-bearing liabilities:						
Regular savings accounts	$ 47,657	58	0.49 %	$ 27,550	30	0.43 %
NOW checking accounts	24,623	22	0.36	15,276	7	0.19
Money market accounts	54,244	56	0.41	52,491	76	0.58
Certificates of deposit	134,677	402	1.20	119,018	403	1.36
Total interest-bearing deposits	261,201	538	0.83	214,335	516	0.97
Short-term borrowings	2,198	1	0.22	7,463	22	1.21
Long-term debt	41,456	134	1.28	15,588	99	2.55
Total interest-bearing liabilities	304,855	673	0.88	237,386	637	1.08
Noninterest-bearing demand deposits	38,129			33,417		
Other noninterest-bearing liabilities	1,903			865		
Total liabilities	344,887			271,668		
Stockholders' equity	41,756			43,369		
Total liabilities and stockholders' equity	$ 386,643			$ 315,037		
Net interest income		$ 3,287			$ 2,802	
Net interest rate spread (2)			3.33 %			3.51 %
Net interest-earning assets (3)	$ 69,306			$ 63,978		
Net interest margin (4)			3.50 %			3.74 %
Average total interest-earning assets to average total interest-bearing liabilities	122.73 %			126.95 %		

(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, 2013 Compared to Three Months Ended June 30, 2012 Increase (Decrease) Due to Volume	Rate	Total Increase (Decrease)
Interest-earning assets:			
Short-term investments	$ (4)	$ 1	$ (3)
Debt securities:			
Taxable	(27)	(39)	(66)
Tax-exempt	(30)	9	(21)
Total loans and loans held for sale	949	(336)	613
FHLB stock	2	(2)	—
Total interest-earning assets	890	(367)	523
Interest-bearing liabilities:			
Regular savings	24	4	28
NOW checking	6	9	15
Money market	3	(23)	(20)
Certificates of deposit	7	(6)	1
Total interest-bearing deposits	40	(16)	24
Short-term borrowings	(10)	(12)	(22)
Long-term debt	50	(15)	35
Total interest-bearing liabilities	80	(43)	37
Increase (decrease) in net interest income	$ 810	$ (324)	$ 486

Provision for Loan Losses and Analysis of Loan Loss Experience. The provision for loan losses was $100 thousand for each of the three month periods ended June 30, 2013 and June 30, 2012. Growth in the portfolio during the period, in combination with lower provisions, and a reduction in specific reserves has resulted in a lower ratio of the allowance for loan losses to total loans as of June 30, 2013 compared with the prior year. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Three Months Ended June 30,	
(Dollars in thousands)	2013	2012
Balance at beginning of period	$ 3,908	$ 3,456
Provision for loan losses	100	100
Charge-offs:		
Real estate loans:		
Residential	—	—
Commercial	—	—
Construction	—	—
Commercial loans	—	(10)
Consumer loans	—	—
Total charge-offs	—	(10)
Recoveries	—	4
Net charge-offs	—	(6)
Allowance at end of period	$ 4,008	$ 3,550
Allowance for loan losses to nonperforming loans at end of period	87.09 %	76.19 %
Allowance for loan losses to total loans at end of period	1.20 %	1.42 %
Net charge-offs to average loans outstanding during the period	0.00 %	0.17 %

Noninterest Income. Noninterest income totaled $263 thousand, an increase of $115 thousand, or 77.7%, as the gain on the sale of securities increased $104 thousand and wealth management fees increased $47 thousand from the comparable 2012 period. Income from mortgage banking activities in 2013 reflects the expansion of our residential mortgage origination and sales efforts during the past year. In June 2013, we recorded a loss of $93 thousand on the early extinguishment of $2.0 million of long-term FHLB advances, and deferred an additional $70 thousand of early retirement penalties over the life of a new $1.5 million long-term advance.

Noninterest Expenses. Noninterest expense increased $323 thousand to $2.5 million during the three months ended June 30, 2013 from $2.2 million for the three months ended June 30, 2012. Factors that contributed to the increase in noninterest expense during the 2013 period were increased salaries and employee benefits of $276 thousand, or 22.2%, primarily attributable to additional personnel supporting our residential and commercial lending operations and the cost of equity-based incentive compensation programs adopted in October 2012. Occupancy and equipment expense increased $38 thousand resulting from normal rent increases and additional rent and other expense associated with expanded office space. Partially offsetting these increases was a $28 thousand decrease in other general and administrative expenses.

Income Taxes. An income tax provision of $372 thousand was recorded during the quarter ended June 30, 2013 compared to a provision of $244 thousand in the comparable 2012 quarter. The effective tax rate for the 2013 three-month period was 38.9%, compared with 36.0% for the 2012 three-month period, as fewer tax-preference items were available to the Bank in 2013, compared to 2012.

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

Overview. Net income for the six months ended June 30, 2013 was $1.2 million, compared to a net loss of $119 thousand for the six months ended June 30, 2012. The $1.3 million increase was primarily due to recording a non-recurring $1.1 million after-tax expense associated with the funding of the Wellesley Bank Charitable Foundation in January 2012. Net interest income increased $1.0 million to $6.6 million, while noninterest expense, exclusive of the Foundation contribution, increased $827 thousand, or 20.3%.

Net Interest Income. Net interest income for the six months ended June 30, 2013 increased $1.0 million, or 18.13%, as compared to the six months ended June 30, 2012. The increase in net interest income was primarily due to an increase in interest income of $1.1 million, or 16.0%, offset by an increase in interest expense of $80 thousand, or 6.4%, during the period.

Interest and dividend income increased from $6.8 million for the six-month period ended June 30, 2012 to $7.9 million for the six months ended June 30, 2013. The average balance of interest-earning assets increased 25.9%, while the average rate earned on these assets decreased 35 basis points. The decline in yield was offset by the improvement in interest income attributable to asset growth. Interest and fees on loans increased $1.2 million or 19.8%, due to a 36.5% increase in the average balance of loans partially offset by a 65 basis point decrease in the average rate received on loans. Interest income from taxable securities decreased $106 thousand, or 27.6%, due to the 66 basis point decrease in the average rate earned on taxable securities to 1.74%, partially offset by a 0.05% decrease in the average balance of taxable securities compared to the prior year period.

The increase in interest expense was primarily due to an increase in the average balance of long-term FHLB advances which increased $26.6 million from $11.6 million to $38.2 million, partially offset by a decrease in rates paid on the advances of 162 basis points. The corresponding interest expense on the FHLB advances increased by $85 thousand, as compared to the same six-month period last year. The average rates paid on all interest-bearing liabilities decreased by 18 basis points from the comparative six-month period. The decrease in the cost of deposits and borrowings was primarily due to the extended period of declining interest rates. We experienced an increase in the average balance of interest-bearing deposits of 21.3% in the six-month period ended June 30, 2013 compared to the same period in 2012.

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, 2013					
	2013			2012		
(Dollars in thousands)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate (1)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate (1)
Interest-earning assets:						
Short-term investments	$ 14,851	$ 17	0.23 %	$ 21,063	$ 28	0.24 %
Certificates of deposit	473	1	0.43	353	1	0.66
Debt securities:						
Taxable	32,137	277	1.74	32,152	382	2.40
Tax-exempt	5,488	99	3.65	8,174	136	3.35
Total loans and loans held for sale	317,891	7,516	4.77	232,860	6,273	5.42
FHLB stock	2,298	4	0.33	1,820	4	0.53
Total interest-earning assets	373,138	7,914	4.28	296,422	6,824	4.63
Allowance for loan losses	(3,911)			(3,473)		
Total interest-earning assets less allowance for loan losses	369,227			292,949		
Noninterest-earning assets	13,919			16,003		
Total assets	$ 383,146			$ 308,952		
Interest-bearing liabilities:						
Regular savings accounts	$ 45,255	107	0.48 %	$ 27,671	60	0.44 %
NOW checking accounts	24,891	42	0.34	15,487	15	0.20
Money market accounts	55,074	113	0.41	52,016	152	0.58
Certificates of deposit	135,254	815	1.21	119,501	814	1.37
Total interest-bearing deposits	260,474	1,077	0.83	214,675	1,041	0.97
Short-term borrowings	1,094	1	0.22	7,457	43	1.17
Long-term debt	38,174	256	1.33	11,577	170	2.95
Total interest-bearing liabilities	299,742	1,334	0.90	233,709	1,254	1.08
Noninterest-bearing demand deposits	37,736			34,430		
Other noninterest-bearing liabilities	2,251			970		
Total liabilities	339,729			269,109		
Stockholders' equity	43,417			39,843		
Total liabilities and stockholders' equity	$ 383,146			$ 308,952		
Net interest income		$ 6,580			$ 5,570	
Net interest rate spread (2)			3.38 %			3.55 %
Net interest-earning assets (3)	$ 69,153			$ 62,713		
Net interest margin (4)			3.56 %			3.78 %

Average total interest-earning assets to average total interest-bearing liabilities	123.07 %	126.83 %

(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.

	Six Months Ended June 30, 2013 Compared to Six Ended June 30, 2012		
	Increase (Decrease) Due to		Total Increase
(In thousands)	Volume	Rate	(Decrease)
Interest-earning assets:			
Short-term investments	$ (7)	$ (1)	$ (8)
Certificates of deposit	—	(1)	(1)
Debt securities:			
Taxable	—	(106)	(106)
Tax-exempt	(50)	14	(36)
Total loans and loans held for sale	1,874	(632)	1,242
FHLB stock	2	(3)	(1)
Total interest-earning assets	1,819	(729)	1,090
Interest-bearing liabilities:			
Regular savings	41	7	48
NOW checking	12	14	26
Money market	10	(48)	(38)
Certificates of deposit	8	(7)	1
Total interest-bearing deposits	71	(34)	37
Short-term borrowings	(22)	(20)	(42)
Long-term debt	112	(27)	85
Total interest-bearing liabilities	161	(81)	80
Increase (decrease) in net interest income	$ 1,658	$ (648)	$ 1,010

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Provision for Loan Losses and Analysis of Loan Loss Experience. The provision for loan losses was $200 thousand for the six months ended June 30, 2013 compared to $250 thousand for the six months ended June 30, 2012. The decrease in the provision reflects a reduction in the related specific reserves on certain nonaccrual loans along with changes in qualitative factors evaluated in setting the provision. Growth in the portfolio during the period, in combination with lower provisions, and a reduction in specific reserves has resulted in a lower ratio of the allowance for loan losses to total loans as of June 30, 2013 compared with the prior year. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Six Months Ended June 30,	
(Dollars in thousands)	2013	2012
Balance at beginning of period	$ 3,844	$ 3,396
Provision for loan losses	200	250
Charge-offs:		
Real estate loans:		
Residential	—	—
Commercial	—	—
Construction	—	—
Commercial loans	(36)	(100)
Consumer loans	—	—
Total charge-offs	(36)	(100)
Recoveries	—	4
Net charge-offs	(36)	(96)
Allowance at end of period	$ 4,008	$ 3,550
Allowance for loan losses to nonperforming loans at end of period	87.09 %	76.19 %
Allowance for loan losses to total loans at end of period	1.20 %	1.42 %
Net charge-offs to average loans outstanding during the period	0.01 %	0.04 %

Noninterest Income. Noninterest income totaled $472 thousand, an increase of $207 thousand, or 78.1%, as the gains on sales of securities and wealth management fees increased $104 thousand and $92 thousand, respectively, from the comparable 2012 period. Income from mortgage banking activities in 2013 reflects the expansion of our residential mortgage origination and sales efforts during the past year. In June 2013, we recorded a loss of $93 thousand on the early extinguishment of $2.0 million of long-term FHLB advances, and deferred an additional $70 thousand of early retirement penalties over the life of a new $1.5 million long-term advance.

Noninterest Expense. Noninterest expense, exclusive of the $1.8 million pre-tax contribution to establish the Foundation, increased $828 thousand to $4.9 million during the six months ended June 30, 2013 from $4.1 million for the six months ended June 30, 2012. Factors that contributed to the increase in noninterest expense during the 2013 period were increased salaries and employee benefits of $606 thousand, or 25.8%, primarily attributable to additional personnel supporting our branch operations, residential and commercial lending operations and costs associated with the equity-based incentive compensation program adopted in October, 2012. Occupancy and equipment expense increased $92 thousand resulting from normal rent increases and additional rent and other expense associated with expanded office space.

Income Taxes. An income tax provision of $762 thousand was recorded during the six months ended June 30, 2013 compared to a benefit of $180 thousand in the comparable 2012 period. The effective tax rate for the 2013 six-month period was 39.3%, compared with 60.2% for the 2012 six-month period as tax preference items represented a higher percentage of pre-tax income in 2013.

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, and borrowings from the FHLB. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, calls of securities and 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 securities available for sale. The level of these assets depends on our operating, financing, lending and investing activities during any given period. At June 30, 2013, cash and cash equivalents, which include short-term investments, totaled \$12.2 million. Securities classified as available-for-sale, whose aggregate market value of \$35.3 million exceeds cost, and \$2.5 million of loans held for sale provide additional sources of liquidity.

At June 30, 2013, we had \$42.5 million in long-term borrowings outstanding, represented entirely by FHLB advances. We also had \$6.0 million of short-term borrowings represented by advances from the FHLB with original maturities less than one year. These borrowings are primarily used to fund temporary liquidity needs due to the timing of loan closings. In addition, at June 30, 2013, we had the ability to borrow a total of \$23.2 million in unused borrowing capacity from the FHLB. At June 30, 2013, we also had the ability to borrow \$15.4 million from the Co-operative Central Bank and \$12.3 million from the Federal Reserve Bank under a collateralized borrowing program, none of which was outstanding at that date.

At June 30, 2013, we had \$71.1 million in loan commitments outstanding, which included \$29.6 million in unadvanced funds on construction loans, \$19.3 million in unadvanced home equity lines of credit, \$10.6 million in unadvanced commercial lines of credit, and \$10.7 million in new loan originations.

Term certificates of deposit due within one year of June 30, 2013 amounted to \$74.0 million, or 54.1% of total term certificates. This total has decreased \$3.2 million from December 31, 2012. Balances of term certificates maturing in more than one year have increased \$3.5 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 FDIC 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 FDIC 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 FDIC on 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 FDIC 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, 2013, the Company had \$7.2 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, 2013, 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, this increased level of liquidity will be reduced as net proceeds from the stock offering will continue to be used for general corporate purposes, including the funding of lending activities. Our financial condition and results of operations have also been enhanced by the additional capital from the offering, over time in increased net interest-earning assets and net income. However, the increase in equity resulting from the capital raised in the offering has had 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.

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 Management herein.

For the six months ended June 30, 2013, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Company's financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

At June 30, 2013, 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, 2012.

Qualitative Aspects of Market Risk

One significant risk affecting the financial condition and operating results of the Company and the Bank is interest rate risk. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: originating adjustable-rate loans for retention in our loan portfolio; selling in the secondary market substantially all newly originated conforming longer term fixed rate residential mortgage loans, promoting core deposit products; adjusting the maturities of borrowings and adjusting the investment portfolio mix and duration. We 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, 2013 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, 2013 and on our projected net interest income from June 30, 2013 through June 30, 2014.

	As of June 30, 2013 Present Value of Equity			Over the Next 12 Months Ending June 30, 2014 Projected Net Interest Income		
Basis Point ("bp") Change in Rates	$ Amount	$ Change	% Change	$ Amount	$ Change	% Change
	(Dollars in thousands)					
300 bp	$ 47,276	$ (6,811)	(12.59%)	$ 13,196	$ 4	0.03%
200	49,304	(4,783)	(8.84%)	13,171	(21)	(0.16%)
100	51,257	(2,830)	(5.23%)	13,140	(52)	(0.40%)
0	54,087	—	—	13,192	—	—
(100)	56,927	2,840	5.25%	13,014	(178)	(1.35%)

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, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

36

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, 2012, filed with the Securities and Exchange Commission on March 27, 2013. As of June 30, 2013, 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, 2012.

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

Period	(a) Total number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Appropriate Dollar Value) of Shares (or units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2013 through April 30, 2013	11,920	$	15.89	11,920	63,086
May 1, 2013 through May 31, 2013	—		—	—	63,086
June 1, 2013 through June 30, 2013	—		—	—	63,086
Total	11,920	$	15.89	11,920	

(1) On October 1, 2012, the Company's Board of Directors approved the repurchase of up to 96,286 shares of the Company's common stock. The repurchase plan will continue until it is completed or terminated by the Company's Board of Directors

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, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balances Sheets, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

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* 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 9, 2013

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

Dated: August 9, 2013

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