PILGRIM BANCSHARES, INC.

FORM 10-K
(Annual Report)

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Address	40 SOUTH MAIN STREET COHASSET, MA 02025
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016.

or

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

For the transition period from _____________ to _____________.

Commission file number: **000-55290**

PILGRIM BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Maryland	**46-5110553**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
40 South Main Street, Cohasset, Massachusetts	**02025**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(781) 383-0541**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $0.01 par value**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the Registrant, as of June 30, 2016, the Registrant's most recently completed second fiscal quarter was $24.3 million.

As of March 22, 2017, there were issued and outstanding 2,253,439 shares of the Registrant's Common Stock with a par value of $0.01 per share.

Pilgrim Bancshares, Inc.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2016

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PART I

ITEM 1 . **Business**

This Annual Report contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “assume,” “plan,” “seek,” “expect,” “will,” “may,” “should,” “indicate,” “would,” “contemplate,” “continue,” “target” and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Annual Report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- our ability to manage our operations under the current adverse economic conditions nationally and in our market area;
- adverse changes in the financial industry, securities, credit and national local real estate markets (including real estate values);
- significant increases in our loan losses, including as a result of our inability to resolve classified and non-performing assets or reduce risks associated with our loans, and management’s assumptions in determining the adequacy of the allowance for loan losses;
- credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and in our allowance for loan losses and provision for loan losses;
- competition among depository and other financial institutions;
- our success in implementing our business strategy, particularly increasing our commercial real estate, multi-family, non-owner occupied residential and construction lending;
- our success in introducing new financial products;
- our ability to attract and maintain deposits;

- our ability to continue to improve our asset quality even as we increase our non-residential and non-owner occupied residential lending;
- changes in interest rates generally, including changes in the relative differences between short term and long term interest rates and in deposit interest rates, that may affect our net interest margin and funding sources;
- fluctuations in the demand for loans, which may be affected by the number of unsold homes, land and other properties in our market areas and by declines in the value of real estate in our market area;
- changes in consumer spending, borrowing and saving habits;
- declines in the yield on our assets resulting from the current low interest rate environment;
- risks related to a high concentration of loans secured by real estate located in our market area;
- the results of examinations by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses, write down assets, change our regulatory capital position, limit our ability to borrow funds or maintain or increase deposits, or prohibit us from paying dividends, which could adversely affect our dividends and earnings;
- changes in the level of government support of housing finance;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in laws or government regulations or policies affecting financial institutions, including the Dodd-Frank Act and the JOBS Act, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements (particularly the new capital regulations), regulatory fees and compliance costs and the resources we have available to address such changes;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans, and our ability to retain key members of our senior management team and to address staffing needs in response to product demand or to implement our strategic plans;
- loan delinquencies and changes in the underlying cash flows of our borrowers;
- our ability to control costs and expenses, particularly those associated with operating as a publicly traded company;
- the failure or security breaches of computer systems on which we depend;
- the ability of key third-party service providers to perform their obligations to us;
- changes in the financial condition or future prospects of issuers of securities that we own; and

- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing, products and services described elsewhere in this Report.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Pilgrim Bancshares, Inc.

Pilgrim Bancshares, Inc., a Maryland corporation, was formed on February 27, 2014 and owns all of the outstanding shares of common stock of Pilgrim Bank. On October 10, 2014, Pilgrim Bancshares, Inc. completed its initial public offering of common stock. In the offering, Pilgrim Bancshares, Inc. sold 2,182,125 shares of its common stock for an aggregate amount of $21,821,250 in total offering proceeds, and issued an additional 65,464 shares of its common stock to the Pilgrim Bank Foundation, resulting in an aggregate issuance of 2,247,589 shares of common stock.

Our executive and administrative office is located at 40 South Main Street, Cohasset, Massachusetts 02025, and our telephone number at this address is (781) 383-0541. Our website address is www.bankpilgrim.com. Information on our website is not incorporated into this Annual Report and should not be considered part of this Annual Report.

Pilgrim Bank

Pilgrim Bank is a Massachusetts stock co-operative bank that was originally organized in 1916 under the name Pilgrim Co-operative Bank as a Massachusetts mutual co-operative bank. In 2005, the Bank changed its name to Pilgrim Bank.

We conduct our operations from our main office and an adjacent operations center in Cohasset, Massachusetts and our two additional full-service banking offices located in Cohasset and Marion, Massachusetts. Our business consists primarily of attracting deposits from the general public and investing those deposits, together with funds generated from operations, in one- to four-family residential real estate, commercial real estate, multi-family and construction loans, and, to a lesser extent, commercial and industrial and consumer loans. We have historically conducted our lending operations with a view towards the specific needs of customers in the communities that we serve, measuring our success by customer satisfaction and the extent of our customer relationships, rather than on volume based loan origination.

Market Area and Competition

Our primary market area is the South Shore and South Coast areas of Massachusetts, which includes portions of Plymouth, Norfolk and Bristol counties. We serve customers located in a number of small towns in these areas, including Cohasset, Scituate, Hull, Hingham, Norwell, Marshfield, Marion, Mattapoisett, Plymouth, Rochester and Wareham. Although our current operations are not focused in Boston, we are affected by economic conditions in Boston because our loan portfolio includes a significant number of loans that are secured by real estate or that have borrowers located in Boston. In addition, a number of our customers who reside in our market area are employed in Boston and a number of our non-owner occupied residential and multi-family loan customers have properties in Boston as well as in our market area. We intend to continue to make loans, particularly commercial real estate, multi-family, non-owner occupied residential and construction loans, in Boston, so we will continue to be affected by economic conditions in Boston.

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long-term basis. Our profitability depends upon our continued ability to successfully compete in our market area. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected.

Lending Activities

General. As a traditional thrift institution, we have historically focused on one- to four-family owner occupied residential lending, including jumbo mortgages and owner occupied construction. In recent years, we have expanded to include non-owner occupied investment residential, commercial real estate, multi-family and construction loans, and, to a lesser extent, commercial and industrial and consumer loans. Subject to market conditions and our asset-liability analysis, we expect to continue to increase our focus on commercial real estate and multi-family, construction and commercial and industrial lending, in an effort to diversify our overall loan portfolio and increase the overall yield earned on our loans. From time to time, for purposes of managing interest rate risk, we also sell in the secondary market some of the long-term fixed-rate residential mortgage loans that we originate, generally on a servicing-retained, non-recourse basis. All of our loan sales to date have been to the Federal Home Loan Bank Mortgage Partnership Finance Program. In addition, for purposes of managing interest rate risk, generating income and diversifying our portfolio, we regularly purchase owner occupied residential real estate loans and consumer loans, particularly automobile loans. Residential real estate loans are purchased on either a servicing released or servicing retained basis. These loans are high quality loans and are usually purchased from another bank. Automobile loans are purchased at 90% of the outstanding balance and the seller retains 10% ownership as well as the servicing.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated, excluding loans held for sale.

	At December 31,									
	2016		2015		2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(In Thousands)									
Real estate loans:										
One- to four-family residential (1)	$ 133,997	63.45%	$ 104,861	61.27%	$ 96,440	66.78%	$ 92,383	69.16%	$ 76,199	67.07%
Commercial (2)	23,368	11.07	21,848	12.76	17,401	12.05	19,380	14.51	15,726	13.84
Multi-family	19,503	9.24	16,559	9.67	10,171	7.04	9,882	7.40	6,829	6.01
Home equity loans and lines of credit	2,294	1.09	2,093	1.22	2,854	1.98	3,976	2.98	4,748	4.18
Construction (3)	27,185	12.87	18,755	10.96	12,072	8.36	3,513	2.63	5,016	4.41
Commercial and industrial loans (4)	2,885	1.37	3,964	2.32	3,012	2.08	2,506	1.87	2,152	1.90
Consumer loans	1,932	0.91	3,080	1.80	2,467	1.71	1,938	1.45	2,946	2.59
Total loans	211,164	100.00%	171,160	100.00%	144,417	100.00%	133,578	100.00%	113,616	100.00%
Less:										
Net deferred loan origination fees, costs, premiums and discounts	371		153		100		87		(210)	
Allowance for loan losses	(1,049)		(886)		(743)		(742)		(788)	
Total loans, net	$ 210,486		$ 170,427		$ 143,774		$ 132,923		$ 112,618	

(1) Includes non-owner occupied residential loans of $26.5 million, $22.1 million, $18.3 million, $17.6 million and $16.8 million at December 31, 2016, 2015, 2014, 2013, and 2012, respectively.

(2) Does not include unfunded commitments of $3.2 million, $1.1 million, $1.2 million, $1.6 million, and $2.3 million at December 31, 2016, 2015, 2014, 2013, and 2012, respectively.

(3) Does not include unfunded commitments of $12.6 million, $13.0 million, $8.0 million, $1.6 million, and $2.3 million at December 31, 2016, 2015, 2014, 2013, and 2012, respectively.

(4) Does not include unfunded commitments of $664,000, $447,000, $347,000, $281,000, and $3,000 at December 31, 2016, 2015, 2014, 2013, and 2012, respectively.

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2016. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. The table presents contractual maturities and does not reflect repricing or the effect of prepayments. Actual maturities may differ.

	One- to Four-Family Residential (1)		Commercial Real Estate (2)		Multi-Family		Home Equity Loans and Lines of Credit	
December 31, 2016	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
				(Dollars in thousands)				
Amount due in:								
One year or less	$ 1,645	4.90%	$ 3,086	5.07%	$ 1,955	5.01%	$ -	-%
More than one to two years	1,752	4.69	569	5.00	-	-	-	-
More than two to three years	1,145	4.52	128	5.41	4,406	4.56	-	-
More than three to five years	4,076	4.69	4,715	4.50	-	-	-	-
More than five to ten years	11,548	4.59	6,748	4.60	8,768	4.27	566	5.32
More than ten to fifteen years	8,106	3.26	1,116	5.11	406	4.66	635	3.94
More than fifteen years	105,725	3.81	7,006	4.49	3,968	4.50	1,093	3.50
Total	$ 133,997	3.81%	$ 23,368	4.65%	$ 19,503	4.46%	$ 2,294	4.07%

	Construction (3)		Commercial and Industrial (4)		Consumer		Total	
December 31, 2016	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
				(Dollars in thousands)				
Amount due in:								
One year or less	$ 18,358	4.91%	$ 566	5.04%	$ 49	4.25%	$ 25,659	4.94%
More than one to two years	1,996	4.72	644	3.58	159	4.57	5,120	4.61
More than two to three years	44	4.38	48	5.30	479	3.77	6,250	4.48
More than three to five years	2,874	4.81	205	5.13	1,136	3.02	13,006	4.48
More than five to ten years	1,800	4.56	917	4.25	55	7.21	30,402	4.50
More than ten to fifteen years	-	-	505	4.34	-	-	10,768	3.60
More than fifteen years	2,113	4.22	-	-	54	7.44	119,959	3.77
Total	$ 27,185	4.80%	$ 2,885	4.35%	$ 1,932	3.61%	$ 211,164	4.10%

(1) Total includes $26.5 million of non-owner occupied residential real estate loans.
(2) Total does not include $3.2 million of unfunded commitments.
(3) Total does not include $12.6 million of unfunded commitments.
(4) Total does not include $664,000 of unfunded commitments.

Loan Approval Procedures and Authority **.** Pursuant to applicable law, the aggregate amount of loans that we are permitted to make to any one borrower or a group of related borrowers is generally limited to 20% of Pilgrim Bank's unimpaired capital and surplus. Our board of directors has adopted an in-house limit for loans to one borrower or a group of related borrowers equal to $4.0 million.

Our lending is subject to written underwriting standards and origination procedures. Decisions on loan applications are made on the basis of detailed applications submitted by the prospective borrower. In addition, for one- to four-family residential, non-owner occupied residential, commercial real estate and multi-family loans we generally obtain an appraisal from an independent licensed appraiser and a secondary review by a separate independent licensed appraiser. In certain circumstances where the total loan amount is less than $250,000, we may rely on internal valuations or tax assessments in lieu of an independent appraisal. All appraisers are approved by our board of directors, and the appraisers that we utilize to perform secondary reviews do not perform primary appraisals for us. The loan applications are designed primarily to determine the borrower's ability to repay the requested loan, and the more significant items on the application are verified through use of credit reports, financial statements and tax returns.

Lending personnel have approval authority commensurate with their experience and loan performance history. Loans in excess of any officer's individual authority and up to the "in-house limit" established by the board of directors and loans containing any exceptions to our loan policies must be approved by the Executive Committee, which is comprised of our President and Chief Executive Officer and three independent members of our board of directors. The Executive Committee serves as the Loan Committee. Loans in excess of the "in-house limit" must be approved by the board of directors. The Bank also engages an independent third party to conduct loan reviews on all lending relationships in excess of $1.0 million. This review is performed on an annual basis.

Fixed and Adjustable-Rate Loan Schedule. The following table sets forth our fixed- and adjustable-rate loans at December 31, 2016 that are contractually due after December 31, 2017.

	Due After December 31, 2017		
	Fixed	**Adjustable**	**Total**
		(In thousands)	
Real estate loans:			
One- to four-family residential (1)	$ 74,659	$ 57,693	$ 132,352
Commercial	5,621	14,661	20,282
Multi-family	9,540	8,008	17,548
Home equity loans and lines of credit	-	2,294	2,294
Construction	3,312	5,515	8,827
Total real estate	93,132	88,171	181,303
Commercial and industrial loans	942	1,377	2,319
Consumer loans	1,818	65	1,883
Total loans	$ 95,892	$ 89,613	$ 185,505

(1) Includes $6.2 million of fixed-rate and $19.1 million of adjustable-rate non-owner occupied residential real estate loans.

One- to Four-Family Residential Real Estate Lending . The focus of our lending program has historically been the origination of one- to four-family residential real estate loans. At December 31, 2016, we had $134.0 million of loans secured by one- to four-family real estate, representing 63.5% of our total loan portfolio, which includes $26.5 million of loans secured by non-owner occupied residential real estate, representing 12.5% of our total loan portfolio. We primarily originate adjustable-rate residential mortgage loans, but we also offer fixed-rate residential mortgage loans and home equity loans. At December 31, 2016, $93.3 million or 69.6%, of our one- to four-family residential real estate loans were fixed-rate loans, and $40.7 million, or 30.4% of such loans were adjustable-rate loans.

Our fixed-rate one- to four-family residential real estate loans are generally underwritten according to FHLB Mortgage Partnership Financing Program and Freddie Mac guidelines, and we refer to loans that conform to such guidelines as "conforming loans." We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency for Freddie Mac, which as of December 31, 2016, was generally greater than $424,000 for single-family homes in our market area. We also originate owner-occupied residential mortgage loans above the lending limit for conforming loans to borrowers, which are referred to as "jumbo loans," generally to borrowers in our market area. Our jumbo loans are generally adjustable-rate loans, although we have in the past, subject to market and competitive conditions, originated long-term fixed-rate jumbo loans. At December 31, 2016, we had jumbo loans of $69.4 million, or 64.6% of our owner occupied one- to four-family residential loans and 32.9% of our total loans, of which $21.9 million were originated by Pilgrim Bank and $47.5 million were purchased loans. The original balances on these loans were $74.0 million, of which $25.3 million were originated by Pilgrim Bank and $48.7 million were purchased loans.

We generally limit the loan-to-value ratios of our owner-occupied mortgage loans to 80% of the sales price or appraised value, whichever is lower. Private mortgage insurance is generally required on all loans with loan-to-value ratios above 80%.

Our fixed-rate one- to four-family residential real estate loans typically have terms of 10 to 30 years. Historically, we offered a wide variety of initial terms on our adjustable-rate one- to four-family residential real estate loans; however, in recent years we have begun offering initial terms of three or five years on our adjustable-rate loans. In both instances, the interest rate adjusts annually at a margin after the initial term. Our adjustable-rate one- to four-family residential real estate loans carry terms to maturity ranging from 10 to 30 years. Our loans on second homes typically have terms of 10 to 30 years.

Recent changes to residential mortgage lending regulations promulgated by the Consumer Finance Protection Bureau may have an impact on future mortgage business. We intend to underwrite Qualified Mortgages ("QM Loans") as defined by the regulations. In addition, our Board of Directors has authorized the origination of mortgage loans that qualify for the small creditor exemption. Based on our market area, many of our future residential mortgages will be covered by this exemption. We have no plans to issue non-QM loans at this time.

We also offer home equity loans (second mortgages) and lines of credit in both a first and second position. At December 31, 2016, we had $2.3 million, or 1.1% of our loan portfolio, in home equity lines of credit. Additionally, at December 31, 2016 the unadvanced amounts of home equity lines of credit totaled $4.1 million. Our home equity lines of credit are secured by residential property, and generally have terms of fifteen years with a 10- year draw period and 5-year or 10-year repayment periods. We generally do not originate home equity loans, or home equity lines of credit unless the loan-to-value ratio, combined with the first mortgage, is less than 75%, Our home equity lines of credit are all adjustable-rate, bearing interest rates based upon the Wall Street Journal Prime Rate.

We may sell a certain amount of the loans we originate into the secondary market. During the years ended December 31, 2016 and December 31, 2015, we sold $2.2 million and $3.5 million of residential mortgage loans, respectively. At December 31, 2016, we were servicing a portfolio of $18.0 million of residential mortgage loans that we had originated and sold. See "—Originations, Purchases and Sales of Loans."

Commercial Real Estate, Multi-Family and Non-Owner Occupied Residential Lending . Consistent with our strategy to diversify our loan portfolio and increase our yield, we are focused on increasing our origination of commercial real estate loans, with a target loan size of $1.0 million to $1.3 million. At December 31, 2016, we had $23.4 million in commercial real estate loans, representing 11.1% of our total loan portfolio, $19.5 million in multi-family loans, representing 9.2% of our total loan portfolio and $26.5 million in non-owner occupied residential loans, representing 12.5% of our total loan portfolio. Subject to future economic, market and regulatory conditions, we intend to engage in a disciplined increase in commercial real estate, multi-family and non-owner occupied residential lending in our market area.

Our commercial real estate and multi-family loans are all adjustable-rate loans, and historically had terms of 25 years. Recently, as we have endeavored to customize these loans to meet the needs of our customers, they generally have initial terms of up to five years and amortization terms of 20 to 25 years with a balloon payment at the end of the initial term. The maximum loan-to-value ratio of our commercial real estate loans and multi-family loans is generally 70% of the lower of cost or appraised value of the property securing the loan, subject to increase up to 75% upon the approval of the Executive Committee. Our commercial real estate loans are typically secured by retail, industrial, warehouse, service, medical or other commercial properties, and our multi-family loans are typically secured by five and six unit residential properties or apartment buildings.

We also offer mortgages on non-owner occupied, or "investment," one- to four-family residential mortgage loans, which we underwrite using the same guidelines and standards applicable to commercial real estate and multi-family loans. These loans have terms of five to ten years, subject to increase up to 30 years upon approval of the Executive Committee. We generally limit the loan-to-value ratios of non-owner occupied one- to four-family residential loans to 75% of the sales price or appraised value, whichever is lower, subject to an increase to 80% upon approval of the Executive Committee. These loans are all adjustable-rate loans, and require a minimum debt service coverage ratio of 1.20x.

We may hire additional experienced lenders in the future to increase our pipeline of commercial real estate, multi-family and investment property loans. During 2016, we also offered loans with guarantees through the Small Business Administration ("SBA") 504 Program. We intend to increase this activity in the future. The Section 504 Program effectively splits one loan into two, with Pilgrim Bank taking the first and the SBA taking the second. The reduction in loan to value provided under the Section 504 Program reduces our credit risk. In addition to utilizing the SBA 504 Program, we are approved as an SBA lender. We plan to participate in the SBA Express and SBA 7a Program for small business lending. We expect to utilize this relationship to support our efforts to diversify our lending into commercial and industrial lending as well as commercial real estate lending.

Construction and Land Lending . At December 31, 2016, we had an outstanding balance of $27.2 million, or 12.9% of our total loan portfolio, in construction and land loans, and $12.6 million in unfunded commitments. Of these, $12.1 million in outstanding loans and $5.9 million in unfunded commitments were for acquisition development and construction loans, $1.4 million in outstanding loans and $1.5 million in unfunded commitments were for non-owner occupied multi-family construction loans, $4.1 million in outstanding loans and $3.5 million in unfunded commitments were for one-to-four family speculative construction loans, $960,000 in outstanding loans and $200,000 in unfunded commitments were for commercial real estate investment construction loans, $2.1 million in outstanding loans and $26,000 in unfunded commitments were in one-to-four family investment loans, $2.6 million in outstanding loans and $1.2 million in unfunded commitments were for one-to-four family owner occupied construction loans, and $4.0 million in outstanding loans with no unfunded commitments were loans on vacant land.

Our owner-occupied residential construction loans generally have initial terms of up to 12 months, during which the borrower pays interest only. Upon completion of construction, these loans convert to conventional amortizing mortgage loans. Our residential construction loans have rates and terms comparable to one- to four-family residential real estate loans that we originate. The maximum loan-to-value ratio of our residential construction loans is generally 75% of the appraised value of the completed property. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent residential mortgage loans, except that all residential construction loans are appraised by independent appraisers and borrowers are generally required to exhibit the ability to absorb unforeseen cost overruns.

Our commercial real estate, multi-family, and non-owner occupied residential construction loans generally have initial terms of up to 24 months depending on the individual project, during which the borrower pays interest only. Multi-family and non-owner occupied residential construction loans are renovation loans, or ground up construction loans, that either automatically convert to permanent at the end of the construction period or are marketed for sale. These loans, particularly non-owner occupied residential, have been a significant lending opportunity during recent years. Commercial real estate construction projects are typically land acquisition and development projects of single family units that do not automatically convert to a permanent loan. The maximum “as completed” loan-to-value for non-owner occupied, commercial real estate and multi-family loans is 70%, however the Executive Committee has the authority to approve an exception for a higher limit, if warranted. Commercial real estate, multi-family and non-owner occupied residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent commercial real estate, multi-family and non-owner occupied residential loans. All loans are appraised by independent appraisers and subject to a review by a secondary independent appraiser. Borrowers are generally required to absorb cost overruns and be able to carry the property until it is sold or leased.

To a lesser extent, we make loans for the speculative construction and development of one- to four-family residential lots by well-known established builders in our market area. These loans are originated pursuant to the same standards as, and generally have terms similar to, commercial construction loans. The maximum loan-to-value ratio of speculative construction and land development loans is generally 70%. Land development loans require a 20% minimum down payment, or 40% where the development is not expected to commence immediately.

All construction and land development loans are appraised by independent appraisers. All borrowers are required to obtain title insurance, property and casualty insurance, and, if the property is determined to be located in a flood zone area, flood insurance. Either the Bank or an independent third party inspects the properties for progress and recommends all draws, consistent with the work performed to date. All draws are approved by the President and Chief Executive Officer.

Commercial and Industrial Lending **.** At December 31, 2016, we had $2.9 million of commercial and industrial loans outstanding, representing 1.4% of our total loan portfolio, and $314,000 of unfunded commitments. Our commercial and industrial loans are generally annual revolving loans, but we may also offer term loans with terms of five to ten years depending on the needs of the borrower. We make commercial and industrial loans to businesses operating in our market area for purchasing equipment, property improvements, business expansion or working capital. Our commercial and industrial term loans are generally secured by equipment, furniture and fixtures, inventory, accounts receivable or other business assets, or, in very limited circumstances, may be unsecured. If a commercial and industrial loan is secured by equipment, we fix the maturity of a term loan at up to seven years, depending on the useful life of equipment purchased, the source of repayment for the loan and the purpose of the loan. Our revolving lines of credit are generally used to finance short-term working capital needs such as accounts payable and inventory. We generally obtain personal guarantees with commercial and industrial loans. As of December 31, 2016 we had $876,000 of USDA-guaranteed agricultural loans.

We believe that commercial and industrial loans will provide growth opportunities for us, and we expect to increase, subject to our conservative underwriting standards and market conditions, this business line in the future.

Consumer Lending. At December 31, 2016, we had $1.9 million, or 0.9% of our loan portfolio, in consumer loans. Of these, $1.7 million were automobile loans that we purchased from a local credit union. We offer consumer loans on a very limited basis, and generally as a convenience to customers with whom we have banking relationships.

Originations, Purchases and Sales of Loans

We originate real estate and other loans through our loan originators, employee referrals, marketing and advertising efforts, our existing customer base, walk-in customers and referrals from customers, real estate brokers, builders and attorneys. All loans that we originate are underwritten pursuant to our policies and procedures. We may hire additional loan officers and originators to increase our residential lending activity, as needed.

We may sell a certain amount of the loans we originate into the secondary market based upon our analysis of our interest rate risk and market conditions, choosing the strategy that is most advantageous to us from a profitability and risk management standpoint. In recent years we have sold only fixed-rate long-term residential mortgages, and have sold these loans exclusively to the Federal Home Loan Bank in conjunction with its Mortgage Partnership Finance (MPF) Program. For the years ended December 31, 2016 and December 31, 2015, we sold $2.2 million and $3.5 million, respectively, of mortgage loans, all on a servicing-retained basis. At December 31, 2016, we serviced $18.0 million of fixed-rate, one- to four-family residential real estate loans that we originated and sold in the secondary market.

In addition, the purchase of loans or participations in which we are not the lead lender, is a key element of our strategy of maintaining a high loan-to-asset level on our balance sheets. When we purchase loans or participations, we follow the loan underwriting and approval policies that apply to the origination of the type of loan being purchased. During the year ended December 31, 2016, we purchased a total of $31.0 million of residential loans, on a servicing-released basis, and $5.0 million of commercial real estate loans. At December 31, 2016, we had $6.0 million of participations purchased, all of which were secured by real estate or USDA guarantees. We may also sell participation interests in loans that we originate and retain the servicing and lead position on the credit. This generally occurs when a loan or relationship either exceeds our lending limits or we determine that it would be prudent to reduce our credit risk exposure with respect to the particular relationship. At December 31, 2016, we had $6.3 million of participations sold.

The following table sets forth our loan originations, purchases and principal repayment activities during the periods indicated. We originated for sale and sold $2.2 million and $3.5 million, respectively, of loans during the years ended December 31, 2016 and December 31, 2015.

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Total loans at beginning of period	$ 171,160	$ 144,417	$ 133,578	$ 113,616	$ 109,791
Loans originated:					
Real estate loans:					
One- to four-family residential (1)	22,878	23,607	16,977	21,241	25,094
Commercial	7,389	8,060	3,274	4,978	7,735
Multi-family	7,330	9,306	1,150	4,500	838
Home equity loans and lines of credit	5,045	1,773	1,710	703	775
Construction	22,467	25,628	18,285	8,079	7,672
Total real estate	65,109	68,374	41,396	39,501	42,114
Commercial and industrial loans	1,284	3,634	983	861	17
Consumer loans	149	108	46	54	167
Total loans	66,542	72,116	42,425	40,416	42,298
Loans purchased:					
Real estate loans:					
One- to four-family residential (2)	31,247	6,066	9,435	11,037	-
Commercial	4,800	-	-	-	-
Multi-family	-	-	-	-	-
Home equity loans and lines of credit	-	-	-	-	-
Construction	-	-	-	-	-
Total real estate	36,047	6,066	9,435	11,037	-
Commercial and industrial loans	-	732	-	-	596
Consumer loans	-	1,760	1,410	-	958
Total loans	36,047	8,558	10,845	11,037	1,554
Other:					
Principal repayments /loans sold	(51,326)	(40,782)	(33,974)	(28,225)	(37,593)
Unadvanced funds on originations	(11,259)	(13,149)	(8,457)	(2,481)	(2,356)
Transfers to other real estate owned	-	-	-	(785)	(78)
Net loan activity	40,004	26,743	10,839	19,962	3,825
Total loans at end of period	$ 211,164	$ 171,160	$ 144,417	$ 133,578	$ 113,616

(1) Includes $26.5 million, $5.3 million, $4.9 million, $5.0 million, and $7.7 million of non-owner occupied residential real estate loans at December 31, 2016, 2015, 2014, 2013, and 2012, respectively.
(2) There were no non-owner occupied residential real estate loans purchased during any period presented.

Asset Quality

Delinquency Procedures. When a borrower fails to make a required monthly payment on any loan in the portfolio, we attempt to contact the borrower to determine the reason for nonpayment and to discuss future payments. Our policies provide that collection procedures commence when a loan is 15 days past due. The Executive Committee reviews the delinquencies on a monthly basis and reports collection activity to the Board.

We generally place a loan on non-accrual status when it is 90 days past due. When we acquire real estate as a result of foreclosure or by deed in lieu of foreclosure, the real estate is classified as foreclosed real estate until it is sold. The real estate is recorded at estimated fair value at the date of acquisition less estimated costs to sell, and any write-down resulting from the acquisition is charged to the allowance for loan losses. Estimated fair value is based on a new appraisal which is obtained as soon as practicable, typically after the foreclosure process is completed. Subsequent decreases in the value of the property are charged to operations. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell.

Troubled Debt Restructurings. During the financial crisis, we were aggressive in our efforts to identify borrower weaknesses and to structure modifications to qualified borrowers in order to help them during periods of financial difficulty. These modifications were either temporary or permanent. Borrowers were granted modifications after a detailed analysis of their current financial situation and future expectations. We modified loans to extend the term or make other concessions to help a borrower stay current on his or her loan and to avoid foreclosure. We generally do not forgive principal on loans or extend the maturity on loans. We may modify the terms of loans to lower interest rates (which may be at below market rates) or to provide for temporary interest-only terms, or to forgive or defer the payment of interest. These modifications are made only when there is a reasonable and attainable workout plan that has been agreed to by the borrower and that is in our best interests. Since 2009, the Bank has modified approximately 21 loans, primarily owner-occupied residential loans, some of which did not meet the definition of a troubled debt restructuring. During 2016, we modified five loans. During 2016, three of the five modified loans paid off following restructuring. At December 31, 2016, we had seven remaining loans totaling $4.1 million that were designated as troubled debt restructurings. Two loans designated as troubled debt restructurings, were classified as substandard on December 31, 2016, but were contractually performing at that date. Once the borrower has demonstrated sustained performance with the modified terms, the loan may be upgraded from its classified and / or non performing status. Any loan categorized as a troubled debt restructuring will continue to retain that designation through the life of the loan, even if the loan is performing under its original contractual terms.

Delinquent Loans . The following table sets forth our loan delinquencies, including non-accrual loans, by type and amount at the dates indicated.

	Loans Delinquent For		
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due
	(In Thousands)		
At December 31, 2016			
Real estate loans:			
One- to four-family residential (1) (2)	$ 118	$ -	$ -
Commercial	-	-	-
Multi-family	-	-	-
Home equity loans and lines of credit	-	-	-
Construction	-	-	-
Total real estate	118	-	-
Commercial and industrial loans	-	-	-
Consumer loans	-	-	
Total loans	$ 118	$ -	$ -
At December 31, 2015			
Real estate loans:			
One- to four-family residential (1) (2)	$ 1,088	$ 18	$ 1,393
Commercial	-	-	-
Multi-family	-	-	-
Home equity loans and lines of credit	-	59	-
Construction	-	-	-
Total real estate	1,088	77	1,393
Commercial and industrial loans	-	-	-
Consumer loans	16	-	
Total loans	$ 1,104	$ 77	$ 1,393
At December 31, 2014			
Real estate loans:			
One- to four-family residential (1) (2)	$ 728	$ -	$ 1,393
Commercial	-	-	-
Multi-family	938	-	-
Home equity loans and lines of credit	-	53	-
Construction	-	-	-
Total real estate	1,666	53	1,393
Commercial and industrial loans	-	-	-
Consumer loans	9	-	-
Total loans	$ 1,675	$ 53	$ 1,393
At December 31, 2013			
Real estate loans:			
One- to four-family residential (1) (2)	$ -	$ 240	$ 2,075
Commercial	-	-	-
Multi-family	-	-	-
Home equity loans and lines of credit	-	-	-
Construction	-	-	-
Total real estate	-	240	2,075
Commercial and industrial loans	-	-	-
Consumer loans	-	-	
Total loans	$ -	$ 240	$ 2,075
At December 31, 2012			
Real estate loans:			
One- to four-family residential (1) (2)	$ 388	$ 1,488	$ 2,688
Commercial	842	-	-
Multi-family	-	-	-
Home equity loans and lines of credit	108	-	-
Construction	-	-	-

Total real estate	1,338	1,488	2,688
Commercial and industrial loans	-	-	-
Consumer loans	-	-	-
Total loans	$ 1,338	$ 1,488	$ 2,688

(1) There were no delinquent non-owner occupied residential real estate loans at December 31, 2016, 2015, 2014, 2013, or 2012.
(2) During January of 2016, the loan delinquent 90 days or more past due totaling $1.4 million was paid off.

The following table sets forth information regarding our non-performing assets and troubled debt restructurings at the dates indicated. The information reflects net charge-offs but not specific reserves. Troubled debt restructurings include loans that may or may not be on non-accrual status, and loans that have renegotiated loan terms to assist borrowers who are unable to meet the original terms of their loans, with modifications to loan terms including temporary or permanent reduction in interest rates (which may be at below market rates), temporary interest-only terms, or forgiveness or deferral the payment of interest.

	At December 31,				
	2016	2015	2014	2013	2012
	(Dollars In Thousands)				
Non-accrual loans:					
Real estate loans:					
One- to four-family residential [1]	$ -	$ 1,410	$ 1,419	$ 2,344	$ 4,666
Commercial	-	-	-	-	-
Multi-family	-	-	-	-	-
Home equity loans and lines of credit	-	-	-	8	-
Construction	-	-	-	-	-
Total real estate	-	1,410	1,419	2,352	4,666
Commercial and industrial loans	-	-	-	-	-
Consumer loans	-	-	-	-	-
Total non-accrual loans	-	1,410	1,419	2,352	4,666
Accruing loans past due 90 days or more:					
Real estate loans:					
One- to four-family residential	-	-	-	-	-
Commercial	-	-	-	-	-
Multi-family	-	-	-	-	-
Home equity loans and lines of credit	-	-	-	-	-
Construction	-	-	-	-	-
Total real estate	-	-	-	-	-
Commercial and industrial loans	-	-	-	-	-
Consumer loans		-		-	-
Total accruing loans past due 90 days or more	-	-	-	-	-
Total of nonaccrual loans and accruing 90 days or more past due	-	1,410	1,419	2,352	4,666
Other real estate owned:					
One- to four-family residential	-	-	-	-	245
Commercial	-	-	-	-	-
Multi-family	-	-	-	-	-
Home equity loans and lines of credit	-	-	-	-	-
Construction	-	-	-	-	-
Total other real estate owned	-	-	-	-	245
Other non-performing assets	-	-	-	-	-
Total non-performing assets	-	1,410	1,419	2,352	4,911
Performing troubled debt restructurings:					
Real estate loans:					
One- to four-family residential [2]	3,406	4,272	5,180	3,908	3,628
Commercial	650	679	695	703	709
Multi-family	-	-	-	-	-
Home equity loans and lines of credit	6	59	53	-	-
Total real estate	4,062	5,010	5,928	4,611	4,337
Commercial and industrial loans	-	-	-	-	-
Consumer loans	-	-	-	-	-
Total troubled debt restructurings	4,062	5,010	5,928	4,611	4,337
Total non-performing loans and troubled debt restructurings	$ 4,062	$ 6,420	$ 7,347	$ 6,963	$ 9,248
Non-performing loans to total loans	0.00%	0.82%	0.98%	1.76%	4.11%
Non-performing assets to total assets	0.00%	0.67%	0.75%	1.37%	2.85%
Non-performing assets and troubled debt restructurings to total assets	1.61%	3.05%	3.91%	4.06%	5.36%

(1) There were no non-performing non-owner occupied residential real estate loans at December 31, 2016, 2015, 2014, 2013, or 2012.
(2) There were no troubled debt restructurings related to non-owner occupied residential real estate loans at December 31, 2016, 2015, 2014, 2013, or 2012.

Allowance for Loan Losses

Analysis and Determination of the Allowance for Loan Losses . Our allowance for loan losses is the amount considered necessary to reflect probable incurred losses in our loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of two key elements: (1) specific allowances for identified impaired loans; and (2) a general valuation allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

We identify loans that may need to be charged off as a loss by reviewing all delinquent loans, classified loans, and other loans about which management may have concerns about collectability. For individually reviewed loans, the borrower's inability to make payments under the terms of the loan as well as the shortfall in collateral value would result in our charging off the loan or the portion of the loan that was impaired.

Among other factors, we consider current general economic conditions, including current housing price depreciation, in determining the appropriateness of the allowance for loan losses for our residential real estate portfolio. We use evidence obtained from our own loan portfolio as well as published housing data on our local markets from third party sources we believe to be reliable as a basis for assumptions about the impact of housing depreciation.

Substantially all of our loans are secured by collateral. Loans 90 days past due and other classified loans are evaluated for impairment and general or specific allowances are established. Typically for a non-performing real estate loan in the process of collection, the value of the underlying collateral is estimated using the original independent appraisal or a new appraisal as well as other current estimates of value, adjusted for current economic conditions and other factors. Related general or specific reserves are adjusted on a quarterly basis. If a non-performing real estate loan is in the process of foreclosure and/or there are serious doubts about further collectability of principal or interest, and there is uncertainty about the value of the underlying collateral, we will order a new independent appraisal. Any shortfall would result in immediately charging off the portion of the loan that was impaired.

Specific Allowances for Identified Problem Loans . We establish a specific allowance when loans are determined to be impaired. Loss is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral less estimated selling expenses. Factors in identifying a specific problem loan include: (1) the strength of the customer's personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency. In addition, for loans secured by real estate, we consider the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

General Valuation Allowance on the Remainder of the Loan Portfolio . We establish a general allowance for loans that are not classified as impaired to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends and management's evaluation of the collectability of the loan portfolio. The allowance may be adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary market area, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current real estate environment.

Allowance for Loan Losses . The following table sets forth activity in our allowance for loan losses for the periods indicated.

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars In Thousands)				
Allowance at beginning of period	$ 886	$ 743	$ 742	$ 788	$ 869
Charge offs:					
Real estate loans:					
One-to four-family residential (1)	-	-	-	48	142
Commercial	-	-	-	-	-
Multi-family	-	-	-	-	-
Home equity loans and lines of credit	-	-	-	-	-
Construction	-	-	-	-	82
Commercial business loans	-	-	-	-	-
Consumer loans	8	1	-	3	6
Total charge-offs	8	1	-	51	230
Recoveries:					
Real estate loans:					
One-to four-family residential	-	-	1	-	-
Commercial	-	-	-	-	-
Multi-family	-	-	-	-	-
Home equity loans and lines of credit	-	-	-	-	-
Construction	-	-	-	-	-
Commercial business loans	-	-	-	-	-
Consumer loans	1	-	-	5	-
Total recoveries	1	-	1	5	-
Net (charge-offs) recoveries	(7)	(1)	1	(46)	(230)
Transfer for off-balance sheet loan commitments	-	-	-	-	(7)
Provision for loan losses	170	144	-	-	156
Allowance at end of period	$ 1,049	$ 886	$ 743	$ 742	$ 788
Allowance to non-performing loans at the end of the period	-	62.84%	52.36%	31.55%	16.89%
Allowance to total loans outstanding at the end of the period	0.50%	0.52%	0.51%	0.56%	0.69%
Net (charge-offs) recoveries to average loans outstanding during the period	0.00%	0.00%	0.00%	0.04%	0.21%

(1) There were no charge-offs related to non-owner occupied residential real estate loans during any of the periods presented.

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,									
	2016		2015		2014		2013		2012	
	Allowance for Loan Losses	Percent of Loans in Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Category to Total Loans
	(Dollars in thousands)									
Real estate loans:										
One- to four-family residential (1)	$ 449	63.45%	$ 373	61.27%	$ 362	66.78%	$ 323	69.16%	$ 362	67.07%
Commercial	134	11.07	146	12.76	134	12.05	195	14.51	152	13.84
Multi-family	74	9.24	62	9.67	36	7.04	51	7.40	35	6.01
Home equity loans and lines of credit	12	1.09	14	1.22	27	1.98	30	2.98	46	4.18
Construction	340	12.87	216	10.96	121	8.36	49	2.63	50	4.41
Commercial and industrial loans	10	1.37	13	2.32	8	2.08	16	1.87	7	1.90
Consumer loans	16	0.91	30	1.80	21	1.71	21	1.45	39	2.59
Total allocated allowance	1,035	100.00%	854	100.00%	709	100.00%	685	100.00%	691	100.00%
Unallocated	14		32		34		57		97	
Total allowance for loan losses	$ 1,049		$ 886		$ 743		$ 742		$ 788	

(1) Includes $105,000, or 9.96% of the allowance for loan losses, $76,000, or 8.58% of the allowance for loan losses, $64,000, or 8.61% of the allowance for loan losses, $62,000, or 8.36% of allowance for loan losses, and $67,000, or 8.50% of allowance for loan losses, allocated to non-owner occupied residential loans at December 31, 2016, 2015, 2014, 2013, and 2012, respectively.

At December 31, 2016, our allowance for loan losses represented 0.50% of total loans and there were no non-performing loans. At December 31, 2015, our allowance for loan losses represented 0.52% of total loans and 62.84% of non-performing loans. There were $8,000 in charge-offs and $1,000 in recoveries during the year ended December 31, 2016. There were $1,000 in charge-offs and no recoveries during the year ended December 31, 2015.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Because future events affecting borrowers and collateral cannot be predicted with certainty, the existing allowance for loan losses may not be adequate and management may determine that increases in the allowance are necessary if the quality of any portion of our loan portfolio deteriorates as a result. Furthermore, as an integral part of its examination process, the Massachusetts Commissioner of Banks and FDIC will periodically review our allowance for loan losses. The regulators may require that we increase our allowance based on its judgments of information available to it at the time of its examination. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of the operations.

Securities Activities

General . The goals of our investment policy are to provide and maintain liquidity to meet deposit withdrawal and loan funding needs, to help mitigate interest rate and market risk, to diversify our assets, and to generate a reasonable rate of return on funds within the context of our interest rate and credit risk objectives. In recent years, beginning with the recession which began in 2008 and the subsequent challenging economic environment, our strategy has been to manage the maturities of our investment securities portfolio within our interest rate risk strategies.

Our Board of Directors is responsible for adopting our investment policy. The investment policy is reviewed annually by the Board of Directors and our Executive Committee and any changes to the policy are recommended to and subject to the approval of the Board of Directors. Authority to make investments under the approved investment policy guidelines is delegated to our President and Chief Executive Officer and our Chief Financial Officer. All investment transactions are reviewed at regularly scheduled monthly meetings of the board of directors.

U.S. Government and Agency Obligations. At December 31, 2016, we had U.S. government and agency securities with a carrying value of $8.9 million, which constituted 52% of our securities portfolio. While these securities generally provide lower yields than other investments in our securities investment portfolio, we maintain these investments, to the extent appropriate, for liquidity purposes, as collateral for borrowings and for prepayment protection.

Mortgage-Backed Securities and Collateralized Mortgage Obligations . At December 31, 2016, we had mortgage-backed securities with a carrying value of $5.5 million, which constituted 32% of our securities portfolio. Mortgage-backed securities are securities issued in the secondary market that are collateralized by pools of mortgages. Certain types of mortgage-backed securities are commonly referred to as “pass-through” certificates because the principal and interest of the underlying loans is “passed through” to investors, net of certain costs, including servicing and guarantee fees. Mortgage-backed securities typically are collateralized by pools of one- to four-family or multifamily mortgages, although we invest primarily in mortgage-backed securities backed by one- to four-family mortgages. The issuers of such securities pool and resell the participation interests in the form of securities to investors such as Pilgrim Bank. The interest rate of the security is lower than the interest rates of the underlying loans to allow for payment of servicing and guaranty fees.

Residential mortgage-backed securities issued by United States Government agencies and government-sponsored enterprises are more liquid than individual mortgage loans because there is an active trading market for such securities. In addition, residential mortgage-backed securities may be used to collateralize our borrowings. Investments in residential mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of any discount relating to such interests, thereby affecting the net yield on our securities. Current prepayment speeds determine whether prepayment estimates require modification that could cause amortization or accretion adjustments.

Municipal Securities. At December 31, 2016, we had municipal securities with a carrying value of $2.6 million, which constituted 16% of our securities portfolio. All of our current municipal securities are issued by municipalities in Massachusetts and have maturities not in excess of 15 years. These securities generally provide slightly higher yields than U.S. government and agency securities and mortgage-backed securities, but are not as liquid as such other investments, so we typically maintain investments in municipal securities, to the extent appropriate, for generating returns in our investment portfolio.

Investment Certificates of Deposit With Other Institutions. We invest in certificates of deposit with insured financial institutions in order to increase yields on short-term investments and manage the maturity of our investment portfolio. At December 31, 2016 and 2015, we had $1.1 million in certificates of deposit with other institutions.

Federal Home Loan Bank Stock . We held common stock of the Federal Home Loan Bank of Boston in connection with our borrowing activities totaling $2.3 million and $971,000 at December 31, 2016 and 2015, respectively. The Federal Home Loan Bank common stock is carried at cost and classified as restricted equity securities. We may be required to purchase additional Federal Home Loan Bank stock if we increase borrowings in the future.

Other Securities . At December 31, 2016 and 2015, we had $384,000 invested in The Co-operative Central Bank reserve fund. The Co-operative Central Bank reserve fund is an illiquid investment.

Bank-Owned Life Insurance . We invest in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable. At December 31, 2016 and 2015, our balance in bank-owned life insurance totaled $2.3 million and was issued by one insurance company.

Securities Portfolio Composition . The following table sets forth the amortized cost and fair value of our available-for-sale and held-to-maturity securities portfolio (excluding Federal Home Loan Bank of Boston common stock) at the dates indicated. Securities available-for-sale are carried at fair value.

	At December 31,					
	2016		2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Securities available-for-sale:						
Debt securities:						
U.S. government and agency securities	$ 8,980	$ 8,934	$ 6,339	$ 6,311	$ 1,985	$ 1,975
State and political subdivisions	2,696	2,646	2,456	2,444	3,258	3,233
Mortgage-backed securities	5,557	5,461	7,908	7,801	6,606	6,559
Total securities available-for-sale	$ 17,233	$ 17,041	$ 16,703	$ 16,556	$ 11,849	$ 11,767
Securities held-to-maturity:						
Mortgage-backed securities	$ 104	$ 135	$ 120	$ 155	$ 149	$ 196
Total securities held-to-maturity	$ 104	$ 135	$ 120	$ 155	$ 149	$ 196
Certificates of deposit with other institutions	$ 1,092	$ 1,098	$ 1,087	$ 1,086	$ 2,575	$ 2,578

At December 31, 2016, we had no investments in a single entity (other than United States government or agency sponsored securities) that had an aggregate book value in excess of 10% of total stockholders' equity.

Securities Portfolio Maturities and Yields . The following table sets forth the stated maturities and weighted average yields of our securities at December 31, 2016. Securities available-for-sale are carried at fair value. Mortgage-backed securities, including collateralized mortgage obligations, are anticipated to be repaid in advance of their contractual maturities as a result of projected mortgage loan repayments. In addition, under the structure of some of our CMOs, the short- and intermediate-term tranche interests have repayment priority over the longer term tranche interests of the same underlying mortgage pool. Finally, some of our U.S. Treasury and other securities are callable at the option of the issuer. Certain securities have interest rates that are adjustable and will reprice annually within the various maturity ranges. These repricing schedules have not been reflected in the table below.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Fair Value
	(Dollars in thousands)										
Securities available-for-sale:											
Debt securities:											
U.S. government and agency securities	$ 499	0.87%	$ 8,481	1.23%	$ -	-%	$ -	-%	$ 8,980	1.21%	$ 8,934
State and political subdivisions	-	-%	1,133	2.57%	1,304	2.95%	259	3.00%	2,696	2.79%	2,646
Mortgage-backed securities	-	-%	203	3.22%	1,728	2.65%	3,626	2.63%	5,557	2.66%	5,461
Total securities available-for-sale	$ 499	0.87%	$ 9,817	1.42%	$ 3,032	2.78%	$ 3,885	2.65%	$ 17,233	1.91%	$ 17,041
Securities held-to-maturity:											
Mortgage-backed securities	$ 1	6.00%	$ -	-%	$ -	-%	$ 103	4.46%	$ 104	4.47%	$ 135
Total securities held-to-maturity	$ 1	6.00%	$ -	%	$ -	-%	$ 103	4.46%	$ 104	4.47%	$ 135
Certificates of deposit with other institutions	$ 1,092	1.00%	$ -	%	$ -	-%	$ -	-%	$ 1,092	1.00%	$ 1,098

Sources of Funds

General. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also use borrowings, primarily Federal Home Loan Bank of Boston advances, to supplement cash flow needs, lengthen the maturities of liabilities for interest rate risk purposes and to manage the cost of funds. In addition, we receive funds from scheduled loan payments, investment maturities, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition. To a lesser extent, we may utilize repurchase agreements or federal funds sold as funding sources.

Deposits. Our deposits are generated primarily from residents within our primary market area. We offer a selection of deposit accounts, including noninterest-bearing and interest-bearing checking accounts, passbook and statement savings accounts, variable rate money market accounts, and certificates of deposit. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. We have not in the past used, and currently do not hold any, internet deposits, and we do not accept deposit accounts opened on-line. In 2015, we began to use brokered deposits as a funding source for lending and investment activities. We have established an internal policy limit on brokered deposits as the lower of $20.0 million or 10% of total deposits. At December 31, 2016 and 2015, brokered deposits totaled $7.3 million, or 4.0% and 4.3%, of total deposits, respectively. At December 31, 2016, our core deposits, which are deposits other than certificates of deposit, were $93.1 million, representing 51.1% of total deposits.

In recent years, we have relied for deposit generation on promotional programs and advertising efforts, our reputation in the community for superior customer service, the variety of deposit accounts that we offer, our competitive rates, customer referrals, and cross-marketing efforts with loan customers. We may use promotional rates to meet asset/liability and market segment goals. We intend to continue to focus on increasing our core deposits by providing incentives on new transaction accounts, enhanced online services and mobile banking, and by leveraging commercial lending relationships to increase transaction accounts.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. The flow of deposits is influenced significantly by general economic conditions, changes in interest rates and competition. The variety of deposit accounts that we offer allows us to be competitive in generating deposits and to respond with flexibility to changes in our customers' demands. Our ability to gather deposits is impacted by the competitive market in which we operate, which includes numerous financial institutions of varying sizes offering a wide range of products. We believe that deposits are a stable source of funds, but our ability to attract and maintain deposits at favorable rates will be affected by market conditions, including competition and prevailing interest rates as consumers become more conscious of interest rates.

The following table sets forth the distribution of total deposits by account type, for the periods indicated.

	For the Years Ended December 31,								
	2016			2015			2014		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Noninterest-bearing demand	$ 17,091	9.59%	-%	$ 14,130	9.25%	-%	$ 15,718	10.23%	-%
Money market	29,301	16.45	0.38	30,859	20.20	0.38	35,681	23.23	0.38
Savings	20,817	11.68	0.15	18,663	12.21	0.18	16,545	10.77	0.20
NOW accounts	20,535	11.52	0.05	19,700	12.89	0.08	18,667	12.15	0.10
Certificates of deposit	90,444	50.76	1.35	69,453	45.45	1.23	66,992	43.62	1.25
Total deposits	$ 178,188	100.00%	0.85%	$ 152,805	100.00%	0.74%	$ 153,603	100.00%	0.74%

As of December 31, 2016, the aggregate amount of all our certificates of deposit in amounts equal to or greater than $100,000 was approximately $55.5 million. The following table sets forth the maturity of these certificates as of December 31, 2016.

	At December 31, 2016
	(In thousands)
Maturity Period:	
Three months or less	$ 8,264
Over three through six months	11,096
Over six through twelve months	10,565
Over twelve months	25,567
Total	$ 55,492

Borrowings. We may obtain advances from the Federal Home Loan Bank of Boston (FHLB) upon the security of certain of our mortgage loans and investment securities. Such advances may be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. To the extent such borrowings have different terms to repricing than our deposits, they can change our interest rate risk profile. At December 31, 2016 and 2015, we had $37.3 million and $8.5 million, respectively, in outstanding advances from the FHLB. At December 31, 2016, based on available collateral and our ownership of FHLB stock, we had access to additional FHLB advances of up to $52.0 million.

The following table sets forth information concerning balances and interest rates on our borrowings at the date and for the periods indicated.

	At or For the Years Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Balance outstanding at end of period	$ 37,329	$ 8,500	$ 5,000
Average amount outstanding during the period	$ 21,506	$ 8,804	$ 3,927
Maximum outstanding at any month end	$ 37,644	$ 12,500	$ 7,000
Weighted average interest rate during the period	0.97%	0.74%	1.09%
Weighted average interest rate at end of period	0.99%	1.12%	0.63%

Subsidiary and Other Activities

Pilgrim Bank is the wholly-owned subsidiary of Pilgrim Bancshares, Inc. Pilgrim Bank has three wholly-owned subsidiaries. 48 South Main Street Corporation is a Massachusetts investment corporation formed to hold certain of our investment securities for tax purposes. 40 South Main Street Realty Trust is a Massachusetts realty trust formed to hold our main office. 800 CJC Realty Corporation is a Massachusetts realty trust formed to hold certain real estate owned, although it did not hold any property at December 31, 2016.

Expense and Tax Allocation

Pilgrim Bank entered into an agreement with Pilgrim Bancshares, Inc. to provide it with certain administrative support services for compensation not less than the fair market value of the services provided. In addition, Pilgrim Bank and Pilgrim Bancshares, Inc. entered into an agreement to establish a method for allocating and for reimbursing the payment of their consolidated tax liability.

REGULATION AND SUPERVISION

General

Pilgrim Bank is a Massachusetts stock co-operative bank and is the wholly-owned subsidiary of Pilgrim Bancshares, Inc., a Maryland corporation, which is a registered bank holding company. Pilgrim Bank's deposits are insured up to applicable limits by the FDIC, and by the Share Insurance Fund of the Co-Operative Central Bank of Massachusetts for amounts in excess of the FDIC insurance limits. Pilgrim Bank is subject to extensive regulation by the Massachusetts Commissioner of Banks, as its chartering agency, and by the FDIC, its primary federal regulator and deposit insurer. Pilgrim Bank is required to file reports with, and is periodically examined by, the FDIC and the Massachusetts Commissioner of Banks concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, including, but not limited to, mergers with or acquisitions of other financial institutions. Pilgrim Bank must comply with consumer protection regulations issued by the Consumer Financial Protection Bureau. Pilgrim Bank also is a member of and owns stock in the Federal Home Loan Bank of Boston, which is one of the twelve regional banks in the Federal Home Loan Bank System.

As a bank holding company, Pilgrim Bancshares, Inc. is subject to examination and supervision by, and is required to file certain reports with, the Federal Reserve Board. Pilgrim Bancshares, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

The regulatory and supervisory structure establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors and the deposit insurance funds, rather than for the protection of stockholders and creditors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies concerning the establishment of deposit insurance assessment fees, classification of assets and establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Massachusetts legislature, the Massachusetts Commissioner of Banks, the FDIC, the Federal Reserve Board or Congress, could have a material adverse impact on the financial condition and results of operations of Pilgrim Bancshares, Inc. and Pilgrim Bank. As is further described below, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") has significantly changed the bank regulatory structure and may affect the lending, investment and general operating activities of depository institutions and their holding companies.

Set forth below are certain material regulatory requirements that are applicable to Pilgrim Bank and Pilgrim Bancshares, Inc. This description of statutes and regulations is not intended to be a complete description of such statutes and regulations and their effects on Pilgrim Bank and Pilgrim Bancshares, Inc. Any change in these laws or regulations, whether by Congress or the applicable regulatory agencies, could have a material adverse impact on Pilgrim Bancshares, Inc., Pilgrim Bank and their operations.

Dodd-Frank Act

The Dodd-Frank Act made significant changes to the regulatory structure for depository institutions and their holding companies. However, the Dodd-Frank Act's changes go well beyond that and affect the lending, investments and other operations of all depository institutions. The Dodd-Frank Act required the Federal Reserve Board to set minimum capital levels for bank holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital for holding companies were restricted to capital instruments that were then currently considered to be Tier 1 capital for insured depository institutions. The legislation also established a floor for capital of insured depository institutions that cannot be lower than the standards in effect upon passage and directed the federal banking regulators to implement new leverage and capital requirements that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

During 2015, The Federal Reserve Board amended its Small Bank Holding Company Policy Statement (the "Policy Statement"). Pursuant to the Policy Statement, the Basel III capital rules do not apply to bank holding companies with less than $1 billion in total assets that meet certain criteria. As Pilgrim Bancshares Inc., meets the criteria specified in the Policy Statement, the Company is not subject to regulatory capital requirements on a consolidated basis.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has extensive rule-making authority for a wide range of consumer protection laws that apply to all banks, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets are still examined for compliance by their applicable bank regulators. The new legislation also weakened the federal preemption available for national banks and federal savings associations, and gave state attorneys general the ability to enforce applicable federal consumer protection laws.

The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than on total deposits. The legislation also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments. The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not. Further, the legislation mandated regulations requiring that originators of securitized loans retain a percentage of the risk for transferred loans, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees and contained a number of reforms related to mortgage origination.

The Dodd-Frank Act also required the Consumer Financial Protection Board to issue regulations requiring lenders to make a reasonable good faith determination as to a prospective borrower's ability to repay a residential mortgage loan. The final "Ability to Repay" rules, which were effective January 10, 2014, establish a "qualified mortgage" safe harbor for loans whose terms and features are deemed to make the loan less risky.

Many provisions of the Dodd-Frank Act involve delayed effective dates and/or require implementing regulations or have not been issued in final form. Their impact on our operations cannot yet fully be assessed. However, there is a significant possibility that the Dodd-Frank Act will result in an increased regulatory burden and compliance, operating and interest expense for Pilgrim Bank and Pilgrim Bancshares, Inc.

Massachusetts Banking Laws and Supervision

General. As a Massachusetts-chartered co-operative bank, Pilgrim Bank is subject to supervision, regulation and examination by the Massachusetts Commissioner of Banks and to various Massachusetts statutes and regulations which govern, among other things, investment powers, lending and deposit-taking activities, borrowings, maintenance of surplus and reserve accounts, distribution of earnings and payment of dividends. In addition, Pilgrim Bank is subject to Massachusetts consumer protection and civil rights laws and regulations. The approval of the Massachusetts Commissioner of Banks or the Massachusetts Board of Bank Incorporation is required for a Massachusetts-chartered bank to establish or close branches, merge with other financial institutions, issue stock and undertake certain other activities. Any Massachusetts bank that does not operate in accordance with the regulations, policies and directives of the Massachusetts Commissioner of Banks may be sanctioned. The Massachusetts Commissioner of Banks may suspend or remove directors or officers of a bank who have violated the law, conducted a bank's business in a manner that is unsafe, unsound or contrary to the depositors' interests, or been negligent in the performance of their duties. In addition, the Massachusetts Commissioner of Banks has the authority to appoint a receiver or conservator if it is determined that the bank is conducting its business in an unsafe or unauthorized manner, and under certain other circumstances.

Massachusetts regulations generally allow Massachusetts banks to, with appropriate regulatory approvals, engage in activities permissible for federally chartered banks or banks chartered by another state. The Massachusetts Commissioner of Banks also has adopted procedures reducing regulatory burdens and expense and expediting branching by well-capitalized and well-managed banks.

In 2015, the Commonwealth of Massachusetts adopted a law modernizing the Massachusetts banking law, which affords Massachusetts chartered banks with greater flexibility compared to federally chartered and out-of-state banks.

Lending Activities. A Massachusetts-chartered co-operative bank may make a wide variety of mortgage loans including fixed-rate loans, adjustable-rate loans, variable-rate loans, participation loans, graduated payment loans, construction and development loans, condominium and co-operative loans, second mortgage loans and other types of loans that may be made in accordance with applicable regulations. Commercial loans may be made to corporations and other commercial enterprises with or without security. Consumer and personal loans may also be made with or without security.

Insurance Sales. Massachusetts banks may engage in insurance sales activities if the Massachusetts Commissioner of Banks has approved a plan of operation for insurance activities and the bank obtains a license from the Massachusetts Division of Insurance. A bank may be licensed directly or indirectly through an affiliate or a subsidiary corporation established for this purpose. Pilgrim Bank does not sell or refer insurance products, and has not sought approval for insurance sales activities.

Dividends. A Massachusetts co-operative bank may declare cash dividends from net profits not more frequently than quarterly. Non-cash dividends may be declared at any time. No dividends may be declared, credited or paid if the bank's capital stock is impaired. A Massachusetts co-operative bank with outstanding preferred stock may not, without the prior approval of the Massachusetts Commissioner of Banks, declare dividends on the common stock without also declaring dividends on the preferred stock. The approval of the Massachusetts Commissioner of Banks is required if the total of all dividends declared in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years, less any required transfer to surplus or a fund for the retirement of any preferred stock. Net profits for this purpose means the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets after deducting current operating expenses, actual losses, accrued dividends on preferred stock, if any, and all federal and state taxes. Dividends from Pilgrim Bancshares, Inc. may depend, in part, upon receipt of dividends from Pilgrim Bank. The payment of dividends from Pilgrim Bank would be restricted by federal law if the payment of such dividends resulted in Pilgrim Bank failing to meet regulatory capital requirements.

Parity Regulation. A Massachusetts bank may, in accordance with Massachusetts law and regulations issued by the Massachusetts Commissioner of Banks, exercise any power and engage in any activity that has been authorized for national banks, federal thrifts or state banks in a state other than Massachusetts, provided that the activity is permissible under applicable federal law and not specifically prohibited by Massachusetts law. Such powers and activities must be subject to the same limitations and restrictions imposed on the national bank, federal thrift or out-of-state bank that exercised the power or activity. Beginning in April 2015, a Massachusetts bank must provide the Massachusetts Commissioner of Banks advance written notice prior to engaging in certain activities permissible for national banks, federal thrifts, or out-of-state banks.

Loans to One Borrower Limitations. Massachusetts banking law grants broad lending authority. However, with certain limited exceptions, total obligations to one borrower may not exceed 20% of the total of the bank's capital stock.

Loans to a Bank's Insiders. Massachusetts banking laws currently prohibit any executive officer or director of a bank from borrowing or guaranteeing extensions of credit by such bank except for any of the following loans or extensions of credit with the approval of a majority of the board of directors: (i) loans or extension of credit, secured or unsecured, to an officer of the bank in an amount not exceeding $100,000; (ii) loans or extensions of credit intended or secured for educational purposes to an officer of the bank in an amount not exceeding $200,000; (iii) loans or extensions of credit secured by a mortgage on residential real estate to be occupied in whole or in part by the officer to whom the loan or extension of credit is made, in an amount not exceeding $750,000; and (iv) loans or extensions of credit to a director of the bank who is not also an officer of the bank in an amount permissible under the bank's loan to one borrower limit. No such loan or extension of credit may be granted with an interest rate or other terms that are preferential in comparison to loans granted to persons not affiliated with the bank.

Beginning in April 2015, Massachusetts law provides that a Massachusetts bank shall comply with Regulation O of the Federal Reserve Board. See "—Federal Banking Regulation—Transactions with Related Parties."

Investment Activities. In general, Massachusetts-chartered co-operative banks may invest in preferred and common stock of any corporation organized under the laws of the United States or any state provided such investments do not involve control of any corporation and do not, in the aggregate, exceed 4% of the bank's deposits. Federal law imposes additional restrictions on Pilgrim Bank's investment activities. See "—Federal Banking Regulation—Business Activities."

Regulatory Enforcement Authority. Any Massachusetts co-operative bank that does not operate in accordance with the regulations, policies and directives of the Massachusetts Commissioner of Banks may be subject to sanctions for non-compliance, including revocation of its charter. The Massachusetts Commissioner of Banks may, under certain circumstances, suspend or remove officers or directors who have violated the law, conducted the bank's business in an unsafe or unsound manner or contrary to the depositors interests or been negligent in the performance of their duties. Upon finding that a bank has engaged in an unfair or deceptive act or practice, the Massachusetts Commissioner of Banks may issue an order to cease and desist and impose a fine on the bank concerned. The Massachusetts Commissioner of Banks also has authority to take possession of a bank and appoint a liquidating agent under certain conditions such as conducting business in an unsafe, unsound and or unauthorized manner. In addition, Massachusetts consumer protection and civil rights statutes applicable to Pilgrim Bank permit private individual and class action law suits and provide for the rescission of consumer transactions, including loans, and the recovery of statutory and punitive damage and attorney's fees in the case of certain violations of those statutes.

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

Protection of Personal Information. Massachusetts has adopted regulatory requirements intended to protect personal information. The requirements are similar to existing federal laws such as the Gramm-Leach-Bliley Act that require organizations to establish written information security programs to prevent identity theft. The Massachusetts regulation also contains technology system requirements, especially for the encryption of personal information sent over wireless or public networks or stored on portable devices.

Massachusetts has other statutes or regulations that are similar to certain of the federal provisions discussed below.

Federal Banking Regulation

Business Activities. Under federal law, all state-chartered FDIC-insured banks, including co-operative banks, have been limited in their activities as principal and in their equity investments to the type and the amount authorized for national banks, notwithstanding state law. Federal law permits exceptions to these limitations. For example, certain state-chartered co-operative banks may, with FDIC approval, continue to exercise state authority to invest in common or preferred stocks listed on a national securities exchange and in the shares of an investment company registered under the Investment Company Act of 1940. The maximum permissible investment is the lesser of 100.0% of Tier 1 capital or the maximum amount permitted by Massachusetts law. Such grandfathered authority may be terminated under certain circumstances including a change in charter or a determination by the FDIC that such investments pose a safety and soundness risk.

The FDIC is also authorized to permit state banks to engage in state authorized activities or investments not permissible for national banks (other than non-subsidiary equity investments) if they meet all applicable capital requirements and it is determined that such activities or investments do not pose a significant risk to the FDIC insurance fund. The FDIC has adopted regulations governing the procedures for institutions seeking approval to engage in such activities or investments. The Gramm-Leach-Bliley Act of 1999 specified that a state bank may control a subsidiary that engages in activities as principal that would only be permitted for a national bank to conduct in a "financial subsidiary," if a bank meets specified conditions and deducts its investment in the subsidiary for regulatory capital purposes.

Capital Requirements. The FDIC requires federally-insured state-chartered banks that are not members of the Federal Reserve System ("state non-member banks") to meet minimum capital standards: a 4.5% common equity Tier 1 capital to risk-weighted assets ratio, a 6% Tier 1 to risk-weighted assets ratio, a 4% Tier 1 capital to total average assets leverage ratio, and a 8% total capital to risk-weighted assets ratio.

As noted, the risk-based capital standard requires the maintenance of common capital (also referred to as common equity Tier 1 capital), core capital (also referred to as Tier 1 capital) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of 4.5%, 6.0% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet exposures, are multiplied by a risk-weight factor of 0% to 1,250%, assigned by the regulations, based on the risks believed inherent in the type of asset. Core or Tier 1 capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. Common equity Tier 1 capital adjusts core or Tier 1 capital for several types of deferred tax assets and liabilities and significant investments in unconsolidated financial institutions. The components of supplementary capital (also referred to as Tier 2 capital) include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. Additionally, an institution that retains credit risk in connection with an asset sale is required to maintain additional regulatory capital because of the purchaser's recourse against the institution. In assessing an institution's capital adequacy, the FDIC takes into consideration not only these numeric factors, but qualitative factors as well and has the authority to establish higher capital requirements for individual associations where necessary. At December 31, 2016 and 2015, Pilgrim Bank's capital exceeded all applicable requirements.

Capital Rule. Effective January 1, 2015 (with a phase-in period of two to four years for certain components), the Bank became subject to the capital regulations adopted by the Board of Governors of the Federal Reserve System ("FRB") and the FDIC, which implement the Basel III regulatory capital reforms and the changes required by the Dodd-Frank Act. The regulations require a common equity Tier 1 ("CET1") capital ratio of 4.5%, a minimum Tier 1 capital to risk-weighted assets ratio of 6.0% a minimum total capital to risk-weighted assets ratio of 8.0% and a minimum Tier 1 leverage ratio of 4.0%. CET1 generally consists of common stock and retained earnings, subject to applicable adjustments and deductions. Under prompt corrective action regulations, in order to be considered "well capitalized," the Bank must maintain a CET1 capital ratio of 6.5% and a Tier 1 risk based capital ratio of 8.0%, a total risk based capital ratio of 10.0% and a Tier 1 leverage ratio of 5.0%. In addition, the regulations establish a capital conservation buffer above the required capital ratios that phases in beginning January 1, 2016 at 0.625% of risk-weighted assets and increases each year by 0.625% until it is fully phased in at 2.5% effective January 1, 2019. Beginning January 1, 2016, failure to maintain the capital conservation buffer limits the ability of the Bank and the Company to pay dividends, repurchase shares or pay discretionary bonuses.

A state non-member bank may not make a capital distribution that would reduce its regulatory capital below the amount required by the FDIC's regulatory capital regulations or for the liquidation account established in connection with its conversion to stock form. Pilgrim Bank's ability to pay dividends is limited by the capital conservation buffer required by the capital rules, which limit the ability of Pilgrim Bancshares, Inc. to pay dividends to its stockholders.

Community Reinvestment Act and Fair Lending Laws. All institutions have a responsibility under the Community Reinvestment Act (the "CRA") and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a state non-member bank, the FDIC is required to assess the institution's record of compliance with the CRA. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA does require the FDIC, in connection with its examination of a non-member bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to acquire branches and other financial institutions. The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. An institution's failure to comply with the provisions of the CRA could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The CRA requires all institutions insured by the FDIC to publicly disclose their rating. Pilgrim Bank received a "Satisfactory" CRA rating in its most recent federal examination.

Massachusetts has its own statutory counterpart to the CRA that is applicable to Pilgrim Bank. The Massachusetts version is generally similar to the CRA but utilizes a five-tiered descriptive rating system. Massachusetts law requires the Massachusetts Commissioner of Banks to consider, but not be limited to, a bank's record of performance under Massachusetts law in considering any application by the bank to establish a branch or other deposit-taking facility, to relocate an office or to merge or consolidate with or acquire the assets and assume the liabilities of any other banking institution. Pilgrim Bank's most recent rating under Massachusetts law was "Satisfactory."

In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the FDIC, as well as other federal regulatory agencies and the Department of Justice.

Transactions with Related Parties. An institution's authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and federal regulation. An affiliate is generally a company that controls, or is under common control with an insured depository institution such as Pilgrim Bank. Pilgrim Bancshares, Inc. will be an affiliate of Pilgrim Bank because of its control of Pilgrim Bank. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. Transactions with affiliates also must be consistent with safe and sound banking practices, generally not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.

Pilgrim Bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and

- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Pilgrim Bank's capital.

In addition, extensions of credit in excess of certain limits must be approved by Pilgrim Bank's loan committee or board of directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Enforcement. The FDIC has extensive enforcement responsibility over state non-member banks and has authority to bring enforcement action against all "institution-affiliated parties," including directors, officers, stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an institution. Formal enforcement action by the FDIC may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was "critically undercapitalized" on average during the calendar quarter beginning 270 days after the date on which the institution became "critically undercapitalized." The FDIC may also appoint itself as conservator or receiver for an insured state non-member bank under specified circumstances, including: (1) insolvency; (2) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (3) existence of an unsafe or unsound condition to transact business; (4) insufficient capital; or (5) the incurrence of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment without federal assistance. The FDIC also has the authority to terminate deposit insurance.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Interstate Banking and Branching. Federal law permits well-capitalized and well-managed bank holding companies to acquire banks in any state, subject to Federal Reserve Board approval, certain concentration limits and other specified conditions. Interstate mergers of banks are also authorized, subject to regulatory approval and other specified conditions. In addition, among other things, recent amendments made by the Dodd-Frank Act permit banks to establish *de novo* branches on an interstate basis provided that branching is authorized by the law of the host state for the banks chartered by that state.

Prompt Corrective Action Regulations **.** The FDIC is required by law to take supervisory actions against undercapitalized institutions under its jurisdiction, the severity of which depends upon the institution's level of capital.

Under prompt corrective action regulations, in order to be considered "well capitalized," the Bank must maintain a CET1 capital ratio of 6.5%, a Tier 1 risk-based capital ratio of 8.0%, a total risk-based capital ratio of 10.0% and a Tier 1 leverage ratio of 5.0%. An institution that has a CET1 risk based capital ratio less than 4.5%, a Tier 1 risk based capital ratio less than 6.0%, a total risk based capital ratio less than 8.0% and a Tier 1 leverage ratio less than 4.0%, is considered to be undercapitalized. An institution that has a CET1 risk based capital ratio less than 3.0%, a Tier 1 risk based capital ratio less than 4.0%, a total risk based capital ratio less than 6.0% and a Tier 1 leverage ratio less than 3.0%, is considered to be "significantly undercapitalized." An institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." In addition, the regulations established a capital conservation buffer above the required capital ratios that phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increases each year by 0.625% until it is fully phased in at 2.5% effective January 1, 2019

Generally, a receiver or conservator must be appointed for an institution that is “critically undercapitalized” within specific time frames. The regulations also provide that a capital restoration plan must be filed with the FDIC within 45 days of the date that an institution is deemed to have received notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Any holding company of an institution that is required to submit a capital restoration plan must guarantee performance under the plan in an amount of up to the lesser of 5% of the institution’s assets at the time it was deemed to be undercapitalized by the FDIC or the amount necessary to restore the institution to adequately capitalized status. This guarantee remains in place until the FDIC notifies the institution that it has maintained adequately capitalized status for each of four consecutive calendar quarters. Institutions that are undercapitalized become subject to certain mandatory measures such as a restrictions on capital distributions and asset growth. The FDIC may also take any one of a number of discretionary supervisory actions against undercapitalized institutions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

Insurance of Deposit Accounts. The Deposit Insurance Fund of the FDIC insures deposits at FDIC-insured financial institutions such as Pilgrim Bank. Deposit accounts in Pilgrim Bank are insured by the FDIC generally up to a maximum of $250,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund.

Under the FDIC’s risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other risk factors. Rates are based on each institution’s risk category and certain specified risk adjustments. Stronger institutions pay lower rates while riskier institutions pay higher rates. Assessments are based on an institution’s average consolidated total assets minus average tangible equity instead of total deposits. Assessment rates (inclusive of possible adjustments) currently range from 2 1/2 to 45 basis points of each institution’s total assets less tangible capital. The FDIC may increase or decrease the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment rulemaking. The FDIC’s current system represents a change, required by the Dodd-Frank Act, from its prior practice of basing the assessment on an institution’s volume of deposits.

In addition to the FDIC assessments, the Financing Corporation (“FICO”) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended December 31, 2016, the annualized FICO assessment was less than 1 basis point of total assets less tangible capital.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the Federal Deposit Insurance Corporation and the Federal Deposit Insurance Corporation has exercised that discretion by establishing a long range fund of 2.0%.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Pilgrim Bank. Management cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

***Prohibitions Against Tying Arrangements* .** State non-member banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Reserve System. Federal Reserve Board regulations require depository institutions to maintain noninterest-earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The Federal Reserve Board regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating $89.0 million or less (which may be adjusted by the Federal Reserve Board) the reserve requirement is 3.0% and the amounts greater than $89.0 million require a 10.0% reserve (which may be adjusted annually by the Federal Reserve Board between 8.0% and 14.0%). The first $15.5 million of otherwise reservable balances (which may be adjusted by the Federal Reserve Board) are exempted from the reserve requirements. Pilgrim Bank is in compliance with these requirements.

Federal Home Loan Bank System. Pilgrim Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Boston, Pilgrim Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of December 31, 2016, Pilgrim Bank was in compliance with this requirement. Based on redemption provisions of the Federal Home Loan Bank of Boston, the stock has no quoted market value and is carried at cost. Pilgrim Bank reviews for impairment based on the ultimate recoverability of the cost basis of the Federal Home Loan Bank of Boston stock. As of December 31, 2016, no impairment has been recognized.

At its discretion, the Federal Home Loan Bank of Boston may declare dividends on its stock. The Federal Home Loan Banks are required to provide funds for certain purposes including the resolution of insolvent thrifts in the late 1980s and to contributing funds for affordable housing programs. These requirements could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. As a result of losses incurred, the Federal Home Loan Bank of Boston suspended and did not pay dividends in 2009 and 2010. However, the Federal Home Loan Bank of Boston resumed payment of quarterly dividends in 2011 equal to an annual yield of 0.30% and continued to pay quarterly dividends in 2012 equal to an annual yield of 0.50%, in 2013 equal to an annual yield of 0.38%, in 2014 equal to an annual yield of 1.49%, in 2015 equal to an annual yield of 2.41%, and in 2016 equal to an annual yield of 2.86%. There can be no assurance that such dividends will continue in the future. Further, there can be no assurance that the impact of recent or future legislation on the Federal Home Loan Banks also will not cause a decrease in the value of the Federal Home Loan Bank of Boston stock held by Pilgrim Bank.

Other Regulations

Interest and other charges collected or contracted for by Pilgrim Bank are subject to state usury laws and federal laws concerning interest rates. Pilgrim Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

- Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;

- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;

- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;

- Truth in Savings Act;

- the Biggert-Watters Flood Insurance Reform Act of 2012; and

- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

In addition, the Consumer Financial Protection Bureau issues regulations and standards under these federal consumer protection laws that affect our consumer businesses. These include regulations setting "ability to repay" and "qualified mortgage" standards for residential mortgage loans and mortgage loan servicing and originator compensation standards. Pilgrim Bank is evaluating recent regulations and proposals, and devotes significant compliance, legal and operational resources to compliance with consumer protection regulations and standards.

The operations of Pilgrim Bank also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;

- The USA PATRIOT Act, which requires depository institutions to, among other things, establish broadened anti-money laundering compliance programs, and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements that also apply to financial institutions under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and

- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

General . Pilgrim Bancshares, Inc. is a bank holding company within the meaning of the Bank Holding Company Act of 1956. As such, Pilgrim Bancshares, Inc. is registered with the Federal Reserve Board and is subject to regulations, examinations, supervision and reporting requirements applicable to bank holding companies. In addition, the Federal Reserve Board has enforcement authority over Pilgrim Bancshares, Inc. and its non-bank subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary institution.

Permissible Activities. Pilgrim Bancshares, Inc. is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as administered by the Federal Reserve Board. Pilgrim Bancshares, Inc. is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval also is required for Pilgrim Bancshares, Inc. to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after such acquisition, it would directly or indirectly own or control more than 5% of any class of voting shares of the bank or bank holding company. In evaluating applications by holding companies to acquire depository institutions, the Federal Reserve Board must consider, among other things, the financial and managerial resources and future prospects of the company and institutions involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors. In addition to the approval of the Federal Reserve Board, prior approval may also be necessary from other agencies having supervisory jurisdiction over the bank to be acquired before any bank acquisition can be completed.

A bank holding company is generally prohibited from engaging in non-banking activities, or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies. A bank holding company that meets certain criteria, such as being well-capitalized and well-managed within the meaning of applicable regulations, may elect to become a "financial holding company." Such an election allows a bank holding company to engage in a broader array of financial activities, including insurance and investment banking.

Capital. When it reaches $1 billion in total assets, Pilgrim Bancshares, Inc. will be subject to the Federal Reserve Board's capital adequacy regulations for bank holding companies (on a consolidated basis). These capital standards have historically been similar to, though less stringent than, those of the FDIC for Pilgrim Bank. The Dodd-Frank Act, however, required the Federal Reserve Board to establish, for all bank holding companies with total assets of $1 billion or more, minimum consolidated capital requirements that are as stringent as those required for the insured depository subsidiaries. Under regulations recently enacted by the Federal Reserve Board and effective January 1, 2015, all such bank holding companies are subject to regulatory capital requirements that are the same as the new capital requirements for Pilgrim Bank. These new capital requirements include provisions that, when applicable, might limit the ability of Pilgrim Bancshares, Inc. to pay dividends to its stockholders or repurchase its shares. See "—Federal Banking Regulation—New Capital Rule."

Source of Strength. The Dodd-Frank Act codified the "source of strength" doctrine. The Federal Reserve Board has issued regulations requiring that all bank holding companies serve as a source of managerial and financial strength to their subsidiary banks by providing capital, liquidity and other support in times of financial stress.

Dividends. The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate or earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a bank holding company to pay dividends may be restricted if a subsidiary institution becomes undercapitalized. The policy statement also states that a bank holding company should inform the Federal Reserve Board supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the bank holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of Pilgrim Bancshares, Inc. to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Acquisition. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a bank holding company. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the company's outstanding voting stock, unless the Federal Reserve Board has found that the acquisition will not result in control of the company. A change in control definitively occurs upon the acquisition of 25% or more of the company's outstanding voting stock. Under the Change in Bank Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition.

Massachusetts Holding Company Regulation. Under the Massachusetts banking laws, a company owning or controlling two or more banking institutions, including a co-operative bank, is regulated as a bank holding company. The term "company" is defined by the Massachusetts banking laws similarly to the definition of "company" under the Bank Holding Company Act. Each Massachusetts bank holding company: (i) must obtain the approval of the Massachusetts Board of Bank Incorporation before engaging in certain transactions, such as the acquisition of more than 5% of the voting stock of another banking institution; (ii) must register and file reports with the Massachusetts Commissioner of Banks; and (iii) is subject to examination by the Massachusetts Commissioner of Banks.

Federal Securities Laws

Pilgrim Bancshares, Inc.'s common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Pilgrim Bancshares, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Emerging Growth Company Status

The Jumpstart Our Business Startups Act (the "JOBS Act"), which was enacted in April 2012, has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than $1.0 billion during its most recently completed fiscal year qualifies as an "emerging growth company." Pilgrim Bancshares, Inc. qualifies as an emerging growth company under the JOBS Act.

An "emerging growth company" may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting, and can provide scaled disclosure regarding executive compensation; however, Pilgrim Bancshares, Inc. will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as it remains a "smaller reporting company" under Securities and Exchange Commission regulations (generally less than $75 million of voting and non-voting equity held by non-affiliates). Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. Pilgrim Bancshares, Inc. has elected to comply with new or amended accounting pronouncements in the same manner as a private company.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of $1.0 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (iii) the date on which such company has, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a "large accelerated filer" under Securities and Exchange Commission regulations (generally, at least $700 million of voting and non-voting equity held by non-affiliates).

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer will be required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting. We are subject to further reporting and audit requirements under the requirements of the Sarbanes-Oxley Act. We have implemented policies, procedures and systems designed to ensure compliance with these regulations.

TAXATION

Federal Taxation

General. Pilgrim Bancshares, Inc. and Pilgrim Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to Pilgrim Bancshares, Inc. and Pilgrim Bank.

Method of Accounting . For federal income tax purposes, Pilgrim Bancshares, Inc. and Pilgrim Bank currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31st for filing its consolidated federal income tax returns. The Small Business Protection Act of 1996 eliminated the use of the percentage method of accounting for bad debt reserves by banks and savings institutions, effective for taxable years beginning after 1995.

Minimum Tax. The Internal Revenue Code of 1986, as amended, imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, referred to as "alternative minimum taxable income." The alternative minimum tax is payable to the extent alternative minimum taxable income is in excess of an exemption amount. Net operating losses can, in general, offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. At December 31, 2016, Pilgrim Bank had no minimum tax credit carryforward.

Corporate Dividends. We may exclude from our income 100% of dividends received from Pilgrim Bank as a member of the same affiliated group of corporations.

Audit of Tax Returns. Pilgrim Bancshares, Inc.'s and Pilgrim Bank's federal income tax returns, including tax returns of Pilgrim Bancshares, Inc.'s predecessors, have not been audited in the most recent five-year period.

State Taxation

Massachusetts generally requires corporations engaged in a unitary business to calculate their income on a combined basis with corporations which are under common control. Accordingly, Pilgrim Bancshares, Inc. and Pilgrim Bank currently file combined annual income tax returns.

A financial institution or business corporation is generally entitled to special tax treatment as a "security corporation" under Massachusetts law provided that: (a) its activities are limited to buying, selling, dealing in or holding securities on its own behalf and not as a broker; and (b) it has applied for, and received, classification as a "security corporation" by the Commissioner of the Massachusetts Department of Revenue. A security corporation that is not a bank holding company under the Internal Revenue Code must pay a tax equal to 1.32% of its gross income.

Pilgrim Bank, under current law, files a Massachusetts combined excise tax return with its affiliates who do not qualify as security corporations. During the 2016 tax year, Pilgrim Bank was subject to an annual Massachusetts tax at a rate of 9.0% of its net income, adjusted for certain items. Massachusetts net income is defined as gross income, other than 95% of dividends received in any taxable year beginning on or after January 1, 1999 from or on account of the ownership of any class of stock if the institution owns 15% or more of the voting stock of the institution paying the dividend, less the deductions, but not the credits allowable under the provisions of the Internal Revenue Code, as amended and in effect for the taxable year. The dividends must meet the qualifications under Massachusetts law. Dividends paid to affiliates participating in a combined return will be 100% excluded to the extent paid from earnings and profits of a unitary business included in the Massachusetts combined return. Deductions with respect to the following items, however, shall not be allowed except as otherwise provided: (a) dividends received, except as otherwise provided; (b) losses sustained in other taxable years; (c) taxes on or measured by income, franchise taxes measured by net income, franchise taxes for the privilege of doing business and capital stock taxes imposed by any state; or (d) the deduction allowed by section 168(k) of the Code **.**

Other applicable state taxes include generally applicable sales and use taxes plus real and personal property taxes. None of the state tax returns of Pilgrim Bank is currently under audit, nor have any of these tax returns been audited during the past five years.

As a Maryland business corporation, Pilgrim Bancshares, Inc. is required to file annual returns and pay annual fees to the State of Maryland.

Availability of Annual Report on Form 10-K

This Annual Report on Form 10-K is available on our website at www.bankpilgrim.com. Information on the website is not incorporated into, and is not otherwise considered a part of, this Annual Report on Form 10-K.

ITEM 1A. Risk Factors

The presentation of Risk Factors is not required for smaller reporting companies like Pilgrim Bancshares, Inc.

ITEM 1B. Unresolved Staff Comments

Not applicable.

ITEM 2 . Properties

The net book value of our premises, land and equipment was $6.5 million at December 31, 2016. The following table provides certain information with respect to our properties as of December 31, 2016.

Location	Leased or Owned	Year Acquired or Leased	Square Footage	Net Book Value of Real Property (In thousands)
Main Office:				
40 South Main Street Cohasset, MA 02025	Owned	2011	3,465	$ 2,484
Full Service Branches:				
800 Chief Justice Cushing Highway Cohasset, MA 02025	Owned	2002	4,400	1,147
350-354 Front Street Marion, MA 02738	Owned (1)	2007	10,778	1,728
Other Properties:				
48-50 South Main Street Cohasset, MA 02025	Owned (2)	1969	6,094	368
8 Brewster Road Cohasset, MA 02025	Owned (3)	2008	2,064	348

(1) We occupy approximately 2,500 square feet, and the remainder is leased to unaffiliated tenants. Net book value represents net book value of the entire property.
(2) We occupy approximately 1,900 square feet for our Operations Department, and the remainder is leased to unaffiliated tenants. Net book value represents net book value of the entire property.
(3) The Brewster Road property is currently rented. .

ITEM 3 . Legal Proceedings

Legal Proceedings

We are not involved in any pending legal proceedings as a plaintiff or defendant other than routine legal proceedings occurring in the ordinary course of business, and at December 31, 2016, we were not involved in any legal proceedings, the outcome of which would be material to our financial condition or results of operations.

ITEM 4 . Mine Safety Disclosure.

Not applicable.

PART II

ITEM 5 . Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) ***Market, Holder and Dividend Information.*** Our common stock is traded on the OTC Pink Marketplace under the symbol "PLRM." The number of holders of record of Pilgrim Bancshares, Inc.'s common stock as of March 15, 2017, was 193. Certain shares of Pilgrim Bancshares, Inc. are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

The following table sets forth the high and low closing bid prices per share of common stock for the period indicated.

Year Ended December 31, 2016	High	Low	Dividends
Quarter ended March 31, 2016	$ 13.15	$ 12.70	$ 0.00
Quarter ended June 30, 2016	$ 13.10	$ 12.80	$ 0.00
Quarter ended September 30, 2016	$ 13.25	$ 12.85	$ 0.00
Quarter ended December 31, 2016	$ 15.00	$ 13.00	$ 0.00

Year Ended December 31, 2015	High	Low	Dividends
Quarter ended March 31, 2015	$ 11.18	$ 10.85	$ 0.00
Quarter ended June 30, 2015	$ 12.80	$ 11.09	$ 0.00
Quarter ended September 30, 2015	$ 12.75	$ 11.86	$ 0.00
Quarter ended December 31, 2015	$ 13.15	$ 12.01	$ 0.00

Pilgrim Bancshares, Inc. has not declared dividends on its common stock. Dividend payments by Pilgrim Bancshares, Inc. are dependent in part on dividends it receives from Pilgrim Bank because Pilgrim Bancshares, Inc. has no source of income other than dividends from Pilgrim Bank, earnings from the investment of proceeds from the sale of shares of common stock retained by Pilgrim Bancshares, Inc. and interest payments with respect to Pilgrim Bancshares, Inc.'s loan to the Employee Stock Ownership Plan.

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

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

(d) ***Securities Authorized for Issuance Under Equity Compensation Plans.***

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (1)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by stockholders	240,450	$ 12.85	74,161
Equity compensation plans not approved by stockholders	-	-	-

(1) Reflects weighted average price of stock options only

(e) ***Stock Repurchases.*** On November 24, 2015, the Board of Directors of the Company authorized a stock repurchase program pursuant to which the Company may repurchase up to 89,903 shares of the Company's common stock, equal to 4.0% of the Company's outstanding common stock.

The Company did not purchase any shares during the quarter ended December 31, 2016.

(f) ***Stock Performance Graph.*** Not required for smaller reporting companies.

ITEM 6. Selected Financial Data

	At December 31,				
	2016	2015	2014	2013	2012
	(In Thousands)				
Selected Financial Condition Data:					
Total assets	$ 252,933	$ 210,507	$ 188,035	171,556	172,541
Cash and cash equivalents	11,188	10,670	18,295	8,991	21,141
Interest-bearing time deposits with other banks	1,092	1,087	2,575	4,511	10,730
Investment securities (1)	17,145	16,676	11,916	13,750	16,114
Federal Home Loan Bank stock	2,299	971	694	667	757
Loans receivable, net	210,486	170,427	143,774	132,923	112,618
Premises and equipment, net	4,919	5,177	5,409	5,571	5,632
Investment in real estate, net	1,534	1,578	1,623	1,662	1,707
Bank-owned life insurance	2,314	2,276	2,230	2,181	2,129
Total liabilities	220,286	178,538	156,433	159,052	160,167
Deposits	182,086	169,372	151,010	153,732	156,653
Federal Home Loan Bank advances	37,329	8,500	5,000	5,000	3,307
Total stockholders' equity	$ 32,647	$ 31,969	$ 31,602	12,504	12,374

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(In Thousands)				
Selected Operating Data:					
Interest and dividend income	$ 8,223	$ 6,897	$ 5,993	$ 5,963	$ 6,045
Interest expense	1,581	1,085	1,066	1,175	1,314
Net interest and dividend income	6,642	5,812	4,927	4,788	4,731
Provision for loan losses	170	144	-	-	156
Net interest and dividend income after provision for loan losses	6,472	5,668	4,927	4,788	4,575
Noninterest income	562	597	615	351	977
Noninterest expense	5,525	5,246	5,595	4,611	4,423
Income (loss) before income taxes	1,509	1,019	(53)	528	1,129
Income tax expense	502	365	66	160	387
Net income (loss)	$ 1,007	$ 654	$ (119)	$ 368	$ 742

(1) Investment securities include securities available-for-sale & securities held-to-maturity

	At or For the Years Ended December 31,				
	2016	2015	2014	2013	2012
Performance Ratios:					
Return (loss) on average assets	0.43%	0.34%	(0.07)%	0.21%	0.44%
Return (loss) on average stockholders' equity	3.13%	2.05%	(0.74)%	2.98%	6.16%
Interest rate spread	2.85%	3.04%	2.97%	2.99%	3.03%
Net interest margin	3.01%	3.19%	3.06%	3.05%	3.07%
Non-interest expense to average assets	2.38%	2.70%	3.22%	2.69%	2.62%
Efficiency ratio	76.69%	81.85%	100.96%	89.73%	77.49%
Average interest-earning assets to average interest-bearing liabilities	121.32%	124.49%	114.41%	107.73%	105.55%
Loans to deposits	115.60%	100.62%	95.21%	86.89%	72.53%
Average equity to average assets	13.85%	16.42%	9.24%	7.21%	7.13%
Stockholders' equity to total assets at end of period	12.91%	15.19%	16.81%	7.29%	7.17%
Capital Ratios:					
Total capital to risk-weighted assets	14.56%	16.18%	21.92%	13.49%	14.02%
Tier 1 capital to risk-weighted assets	13.93%	15.55%	21.17%	12.74%	13.16%
Common Equity Tier 1 Capital to risk weighted assets	13.93%	15.55%	NR	NR	NR
Tier 1 capital to average assets	9.38%	10.86%	11.65%	7.49%	7.21%
Asset Quality Ratios:					
Allowance for loan losses as a percentage of total loans	0.50%	0.52%	0.51%	0.56%	0.69%
Allowance for loan losses as a percentage of non-performing loans	NM	62.84%	52.36%	31.55%	16.89%
Net charge-offs (recoveries) to average outstanding loans during the period	0.00%	0.00%	0.00%	0.04%	0.21%
Non-performing loans as a percentage of total loans	0.00%	0.83%	0.98%	1.76%	4.11%
Non-performing loans as a percentage of total assets	0.00%	0.67%	0.75%	1.37%	2.85%
Other Data:					
Number of :					
Offices	3	3	3	3	3
FTE	33	33	32	32	33

ITEM 7 . Management's Discussion and Analysis of Financial Condition and Results of Operations

This section is intended to help potential investors understand the financial performance of Pilgrim Bancshares, Inc. and its subsidiaries through a discussion of the factors affecting our financial condition at December 31, 2016 and December 31, 2015 and our results of operations for the years ended December 31, 2016 and December 31, 2015. This section should be read in conjunction with the consolidated financial statements and notes thereto that appear elsewhere in this Annual Report on Form 10-K.

Critical Accounting Policies

Certain of our accounting policies are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. Our significant accounting policies are discussed in detail in Note 2 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

The recently enacted JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we have elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the consolidated financial statements. Management currently views the determination of the allowance for loan losses and deferred tax assets 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: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and 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 quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic or other conditions differ substantially from the assumptions used in making the evaluation. In addition, bank regulators, 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 . We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred tax asset will not be realized. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets.

Comparison of Financial Condition at December 31, 2016 and December 31, 2015

Total Assets. Total assets increased $42.4 million, or 20.2%, to $252.9 million at December 31, 2016 from $210.5 million at December 31, 2015. The increase was primarily driven by an increase in net loans of $40.1 million.

Cash and Cash Equivalents. Total cash and cash equivalents increased $518,000, or 4.9%, to $11.2 million at December 31, 2016 from $10.7 million at December 31, 2015.

Net Loans. Net loans increased $40.1 million, or 23.5%, to $210.5 million at December 31, 2016 from $170.4 million at December 31, 2015. One- to-four-family residential real estate loans increased $29.1 million, or 27.7%, to $134.0 million at December 31, 2016 from $104.9 million at December 31, 2015, multifamily loans increased $2.9 million, or 17.8%, to $19.5 million at December 31, 2016 from $16.6 million at December 31, 2015, and construction loans increased $8.4 million, or 45.0%, to $27.2 million at December 31, 2016 from $18.8 million at December 31, 2015. Commercial real estate loans increased $1.6 million, or 7.0%, to $23.4 million at December 31, 2016 from $21.8 million at December 31, 2015, commercial and industrial loans decreased $1.0 million, or 27.2%, to $2.9 million at December 31, 2016 from $4.0 million at December 31, 2015, and home equity loans and lines of credit increased $201,000, or 9.6%, to $2.3 million at December 31, 2016 from $2.1 million at December 31, 2015. The Company originated $66.5 million and purchased $35.7 million of new loans during 2016. Partially offsetting the loan originations and purchases were $50.7 million of loan payoffs and amortizations, and $11.3 million of unadvanced funds on 2016 originations.

Investment Securities. Investment securities classified as available-for-sale increased $485,000, or 2.9%, to $17.0 million at December 31, 2016 from $16.6 million at December 31, 2015, due to purchases of securities. Investment securities classified as held-to-maturity decreased $16,000, or 13.3%, to $104,000 at December 31, 2016 from $120,000 at December 31, 2015 due to payments. At December 31, 2016, investment securities classified as available-for-sale consisted primarily of debt securities issued by U.S. government corporations and agencies, debt securities issued by states and political subdivisions, and government-sponsored mortgage-backed securities, with a focus on suitable government-sponsored securities to augment risk-based capital.

Bank Owned Life Insurance. Bank-owned life insurance at December 31, 2016 increased $38,000, or 1.7%, compared to December 31, 2015 due to normal increases in cash surrender value.

Deposits. Deposits increased $12.7 million, or 7.5%, to $182.1 million at December 31, 2016 from $169.4 million at December 31, 2015. During the year ended December 31, 2016, demand deposits increased $3.5 million, or 22.9%, to $18.8 million from $15.3 million, NOW account deposits decreased $1.1 million, or 4.9%, to $21.2 million from $22.3 million, savings accounts increased $1.5 million, or 7.5%, to $21.3 million from $19.8 million, money market accounts increased $3.1 million, or 10.9%, to $31.8 million from $28.7 million, while certificates of deposit increased $5.7 million, or 6.9%, to $89.0 million from $83.2 million. Core deposits, which we consider to be our noninterest demand accounts, NOW accounts, savings accounts and money market accounts, increased $7.0 million, or 8.1%, to $93.1 million at December 31, 2016 from $86.1 million at December 31, 2015. The growth in certificates of deposit resulted from the use of a listing service and various promotional campaigns designed to attract new customers to the bank.

Borrowings and Other Liabilities. Federal Home Loan Bank advances increased $28.8 million, or 339.2%, to $37.3 million at December 31, 2016 from $8.5 million at December 31, 2015. Other liabilities, which include interest payable, accruals for employee benefits and medical plans, income taxes payable and normal accruals for expenses, increased $205,000, or 30.8%, to $871,000 at December 31, 2016 from $666,000 at December 31, 2015.

Total Stockholders' Equity. Total stockholders' equity increased $678,000, or 2.1%, to $32.6 million at December 31, 2016 from $32.0 million at December 31, 2015. The increase resulted from $1.0 million of net income for the year ended December 31, 2016, partially offset by $550,000 of shares repurchased during the year ended December 31, 2016.

Comparison of Results of Operations for the Years Ended December 31, 2016 and December 31, 2015

General. The Company realized net income of $1.0 million for the year ended December 31, 2016, compared to net income of $654,000 for the year ended December 31, 2015. The improvement in net income was primarily driven by a 20.8% increase in average earnings assets for the year ended December 31, 2016 versus average earning assets for the year ended 2015.

Interest and Dividend Income. On a tax-equivalent basis, total interest and dividend income increased $1.3 million, or 19.0%, to $8.2 million for 2016 from $6.9 million for 2015. Interest on loans increased $1.3 million for 2016. The increase was primarily driven by higher levels of average loans. The average balance of loans during the year ended December 31, 2016 increased $33.1 million to $191.9 million from $158.8 million for the year ended December 31, 2015. The average yield on loans decreased 5 basis points to 4.11% for the year ended December 31, 2016 from 4.16% for the year ended December 31, 2015. The average balance of lower yielding, interest-bearing deposits increased $1.2 million to $10.8 million for the year ended December 31, 2016 from $9.6 million for the year ended December 31, 2015. The yield on investment securities (on a tax-equivalent basis) decreased 48 basis points to 1.56% for the year ended December 31, 2016 from 2.04% for the year ended December 31, 2015. The total earning asset yield decreased 6 basis points to 3.72% for the year ended December 31, 2016 compared to 3.78% for the year ended December 31, 2015.

Interest Expense. Total interest expense increased $496,000, or 45.7%, to $1.6 million for the year ended December 31, 2016 from $1.1 million in 2015. Interest expense on interest-bearing deposit accounts increased $352,000, or 34.5% for the year ended December 31, 2016. The average rate paid on interest-bearing deposits was 0.85% for the year ended December 31, 2016 compared to 0.74% for the year ended December 31, 2015. The average balance of interest-bearing deposits increased $22.4 million, or 16.2%, to $161.1 million for the year ended December 31, 2016 from $138.7. million for the year ended December 31, 2015.

Interest expense on Federal Home Loan Bank of Boston advances increased $144,000 to $209,000 for the year ended December 31, 2016 from $65,000 for the year ended December 31, 2015. The average balance of FHLB advances increased $12.9 million to $21.5 million for 2016 from $8.6 million for 2015. The cost increased 21 basis points to 0.97% for 2016 from 0.76% for 2015.

Net Interest and Dividend Income . On a tax-equivalent basis, net interest and dividend income increased $819,000 or 14.0%, for the year ended December 31, 2016 from the year ended December 31, 2015. The increase resulted from a $1.3 million increase in interest income partially offset by a $496,000 increase in interest expense. Average interest-earning assets increased to $221.5 million for the year ended December 31, 2016 from $183.4 million for 2015, and our net interest rate spread contracted 19 basis points to 2.85% for 2016 from 3.04% for 2015. Our net interest margin contracted to 3.01% for 2016 from 3.19% for 2015. The decline of our interest rate spread and net interest margin was primarily driven by decreasing rates on earning assets and increasing rates on interest bearing liabilities for the year ended December 31, 2016.

Provision for Loan Losses. Based on our analysis of the factors described in "Critical Accounting Policies—Allowance for Loan Losses," we recorded a provision for loan losses of $170,000 for the year ended December 31, 2016 and a provision of $144,000 for the year ended December 31, 2015. The allowance for loan losses was $1.0 million, or 0.50% of total loans at December 31, 2016 and $886,000, or 0.52% of total loans at December 31, 2015. There were no non-performing loans at December 31, 2016 compared to $1.4 million at December 31, 2015. As a percentage of non-performing loans, the allowance for loan losses was not measurable at December 31, 2016 and was 62.8% at December 31, 2015. Total classified loans were $573,000 at December 31, 2016 compared to $4.5 million at December 31, 2015. The allowance for loan losses reflects the estimate we believe to be appropriate to cover incurred probable losses, which were inherent in the loan portfolio at December 31, 2016 and 2015.

Noninterest Income . Noninterest income decreased $35,000, or 5.9%, to $562,000 for the year ended December 31, 2016 from $597,000 for the year ended December 31, 2015. The decline was primarily driven by lower levels of loan gains. The net gain on sales of loans was $43,000 for the year ended December 31, 2016, compared to $64,000 for the year ended December 31, 2015. Service charges on deposit accounts were $105,000 for the year ended December 31, 2016, compared to $120,000 for the year ended December 31, 2015.

Noninterest Expense. Noninterest expense increased $279,000 to $5.5 million for the year ended December 31, 2016 from $5.2 million for the year ended December 31, 2015. The increase was primarily driven by the salaries and employee benefits expense which increased $263,000.

Income Taxes. Income tax expense was $502,000 for the year ended December 31, 2016 compared to $365,000 for the year ended December 31, 2015. The effective tax rate as a percent of pre-tax income was 33.3% and 35.8% for the years ended December 31, 2016 and 2015, respectively. The decrease in the effective tax rate for 2016 was due to a $92,000 reduction of the deferred tax valuation allowance. We performed an evaluation of our deferred tax assets at December 31, 2016 and December 31, 2015. In making the determination whether a deferred tax asset is more likely than not to be realized, we seek to evaluate all available positive and negative evidence including the possibility of future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial results. A deferred tax asset valuation allowance is established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not that all or some portion of the deferred tax asset will not be realized. Based on projected taxable income at December 31, 2016 our deferred tax asset valuation allowance was reduced by $92,000 to $37,000 at December 31, 2016 from $129,000 at December 31, 2015. The remaining $37,000 of the deferred tax valuation allowance at December 31, 2016, relates to the $218,000 write-down of our mutual fund investment managed by Shay Financial. At December 31, 2015, $83,000 of the deferred tax asset valuation allowance related to uncertainty regarding the utilization of the $725,000 charitable contribution to the Pilgrim Bank Foundation. The deferred tax asset related to the charitable contribution expires during the year ended December 31, 2019. Approximately $46,000 of our net deferred tax asset at December 31, 2015 related to the $218,000 write-down of our mutual fund investment managed by Shay Financial. As a result of the termination of this mutual fund investment in January 2014, we must generate future capital gains in order to utilize this portion of our deferred tax asset, which expires during the year ending December 31, 2019.

Average Balances and Yields

The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. Tax-equivalent yield adjustments have been made because we had tax-free interest-earning assets during the years. All average balances are daily average balances based upon amortized costs. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense.

	For the Years Ended December 31,								
	2016			2015			2014		
	Average Outstanding Balance	Interest	Average Yield/Rate (1)	Average Outstanding Balance	Interest	Average Yield/Rate (1)	Average Outstanding Balance	Interest	Average Yield/Rate (1)
					(In Thousands)				
Interest-earning assets:									
Loans	$ 191,904	$ 7,880	4.11%	$ 158,758	$ 6,599	4.16%	$ 132,897	$ 5,683	4.28%
Interest-earning deposits	10,770	57	0.53%	9,613	30	0.31%	15,591	49	0.31%
Investment securities (2)	16,968	264	1.56%	13,758	281	2.04%	12,670	288	2.27%
Federal Home Loan Bank stock and The Co- operative Central Reserve Fund	1,885	44	2.34%	1,241	21	1.77%	1,086	11	1.01%
Total interest-earning assets	221,527	8,245	3.72%	183,370	6,931	3.78%	162,244	6,031	3.72%
Noninterest-earning assets	10,999			11,320			11,692		
Total assets	$ 232,526			$ 194,690			$ 173,936		
Interest-bearing liabilities:									
Savings accounts	$ 20,817	31	0.15%	$ 18,663	33	0.18%	$ 16,545	33	0.20%
NOW accounts	20,535	10	0.05%	19,700	15	0.08%	18,667	19	0.10%
Money market accounts	29,301	110	0.38%	30,859	116	0.38%	35,681	135	0.38%
Certificates of deposit	90,444	1,221	1.35%	69,453	856	1.23%	66,992	836	1.25%
Total interest-bearing deposits	161,097	1,372	0.85%	138,675	1,020	0.74%	137,885	1,023	0.74%
Federal Home Loan Bank advances	21,506	209	0.97%	8,618	65	0.76%	3,927	43	1.09%
Total interest-bearing liabilities	182,603	1,581	0.87%	147,293	1,085	0.74%	141,812	1,066	0.75%
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	17,091			14,130			15,718		
Other noninterest-bearing liabilities	634			1,305			340		
Total noninterest-bearing liabilities	17,725			15,435			16,058		
Total liabilities	200,328			162,728			157,870		
Total stockholders' equity	32,198			31,962			16,066		
Total liabilities and total stockholders' equity	$ 232,526			$ 194,690			$ 173,936		
Net interest income		$ 6,664			$ 5,846			$ 4,965	
Net interest rate spread (3)			2.85%			3.04%			2.97%
Net interest-earning assets (4)	$ 38,924			$ 36,077			$ 20,432		
Net interest margin (5)			3.01%			3.19%			3.06%
Average interest-earning assets to interest-bearing liabilities	121.32%			124.49%			114.41%		

(1) Includes securities available-for-sale and held-to-maturity. A tax-equivalent adjustment of $22,000, $34,000 and $38,000 was applied to tax-exempt income for the years ended December 31, 2016, December 31, 2015 and 2014 respectively, using a tax rate of 34%.
(2) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate of interest-bearing liabilities.
(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by average total interest-earning assets .

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. 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 column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Years Ended December 31,					
	2016 vs. 2015			2015 vs. 2014		
	Increase (Decrease) Due to		Total Increase	Increase (Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest-earning assets:						
Loans	$ 1,360	$ (79)	$ 1,281	$ 1,070	$ (154)	$ 916
Interest-earning deposits	4	23	27	(19)	-	(19)
Investment securities (1)	57	(74)	(17)	24	(31)	(7)
Federal Home Loan Bank stock and The Co-operative Central Reserve Fund	14	9	23	2	8	10
Total interest-earning assets	1,435	(121)	1,314	1,077	(177)	900
Interest-bearing liabilities:						
Savings accounts	5	(7)	(2)	-	-	-
NOW accounts	1	(6)	(5)	1	(5)	(4)
Money market accounts	(6)	-	(6)	(18)	(1)	(19)
Certificates of deposit	277	88	365	30	(10)	20
Total interest-bearing deposits	277	75	352	13	(16)	(3)
Federal Home Loan Bank advances	122	22	144	30	(8)	22
Total interest-bearing liabilities	399	97	496	43	(24)	19
Change in net interest income	$ 1,036	$ (218)	$ 818	$ 1,034	$ (153)	$ 881

(1) Includes securities available-for-sale and held-to-maturity. A tax-equivalent adjustment of $22,000, $34,000 and $38,000 was applied to tax-exempt income for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, respectively, using a tax rate of 34%.

Management of Market Risk

General. Our asset/liability management strategy attempts to manage the impact of changes in interest rates on net interest income, our primary source of earnings.

Over the past several years, management has implemented an asset/liability strategy to manage, subject to our profitability goals, our interest rate risk. Among the techniques we use to manage interest rate risk are:

- originating commercial real estate, multi-family and construction loans, all of which tend to have shorter terms and higher interest rates than one- to four-family residential real estate loans, and which generate customer relationships that can result in larger noninterest bearing checking accounts;
- selectively selling the majority of the fixed rate residential mortgage loans that we originate and retaining all of the adjustable-rate residential real estate loans that we originate;
- lengthening the weighted average maturity of our liabilities through retail deposit pricing strategies and through longer-term wholesale funding sources such as fixed-rate advances from the Federal Home Loan Bank of Boston;
- increasing our generation of core deposits to support lending and investment activity;

- investing in shorter- to medium-term investment securities; and

- increasing noninterest income as a percentage of total income to decrease our reliance on net interest margin and interest rate spread.

Our board of directors is responsible for the review and oversight of our asset/liability committee . This c ommittee is charged with developing and implementing an asset/liability management plan, and meets at least quarterly to review pricing and liquidity needs and assess our interest rate risk. We currently utilize a third-party modeling program, prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. In addition, we regularly perform a "gap analysis" of the discrepancy between the repricing of our assets and liabilities.

Net Interest Income Analysis. We analyze our sensitivity to changes in interest rates through our net interest income simulation model which is provided to us by an independent third party. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a one-year period based on current interest rates. We then calculate what the net interest income would be for the same period under different interest rate assumptions. We also estimate the impact over a two year time horizon. The following table shows the estimated impact on net interest income for the one-year period beginning January 1, 2017 resulting from potential changes in interest rates. The model is run at least quarterly showing shocks from +400bp to -400bp, although we believe a decline of greater than -100bp is currently improbable. These estimates require certain assumptions to be made, including loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain. As a result, no simulation model can precisely predict the impact of changes in interest rates on our net interest income. Although the net interest income table below provides an indication of our interest rate risk exposure at a particular point in time, such estimates are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Rate Shift (1)	Net Interest Income Year 1 Forecast	Year 1 Change from Level
	(Dollars in thousands)	
+400	$ 8,102	8.28%
+300	7,940	6.11%
+200	7,815	4.44%
+100	7,670	2.50%
Level	7,483	—
-100	7,189	(3.93)%
-200	6,773	(9.49)%
-300	6,320	(15.53)%
-400	6,023	(19.51)%

(1) The calculated changes assume an immediate shock of the static yield curve.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in net portfolio value requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the tables presented assume that the composition of our interest- sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. The tables also do not measure the changes in credit and liquidity risk that may occur as a result of changes in general interest rates. Accordingly, although the tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our economic value of equity and will differ from actual results.

Net Present Value of Equity Analysis. In order to monitor and manage interest rate risk, we also use the net present value of equity at risk ("NPV") methodology. This methodology calculates the difference between the present value of expected cash flows from assets and liabilities. The comparative scenarios assume an immediate parallel shift in the yield curve in increments of 100 basis point (bp) rate movements. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the "Change in Interest Rates" column below. The model is run at least quarterly showing shocks from +300bp to -100bp, because a decline of greater than -100bp is currently improbable. The board of directors and management review the methodology's measurements on a quarterly basis.

The interest rate scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. Results of the modeling are used to provide a measure of the degree of volatility interest rate movements may influence our earnings. Modeling the sensitivity of earnings to interest rate risk is decidedly reliant on numerous assumptions embedded in the model. These assumptions include, but are not limited to, management's best assessment of the effect of changing interest rates on the prepayment speeds of certain assets and liabilities, projections for account balances in each of the product lines offered and the historical behavior of deposit rates and balances in relation to changes in interest rates. These assumptions are inherently changeable, and as a result, the model is not expected to precisely measure net interest income or precisely predict the impact of fluctuations in interest rate on net interest income. Actual results will differ from the simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions. Assumptions are supported with annual back testing of the model to actual market rate shifts.

The table below sets forth, as of December 31, 2016, the estimated changes in the net present value of equity that would result from the designated changes in the United States Treasury yield curve under an instantaneous parallel shift for Pilgrim Bank. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

At December 31, 2016					
		Estimated Increase (Decrease) in EVE		EVE as Percentage of Economic Value of Assets (3)	
Changes in Interest Rates (basis points) (1)	Estimated EVE (2)	Amount	Percent	EVE Ratio	Changes in Basis Points
		(Dollars in thousands)			
+300	$ 29,598	$ (17,941)	(37.74)%	12.23%	(5.61)%
+200	35,244	(12,295)	(25.86)%	14.11%	(3.73)%
+100	40,854	(6,685)	(14.06)%	15.86%	(1.98)%
0	47,539	—	—	17.84%	—
-100	52,691	5,152	10.84%	19.32%	1.48%

(1) Assumes instantaneous parallel changes in interest rates.
(2) EVE or Economic Value of Equity at Risk measures the Bank's exposure to equity due to changes in a forecast interest rate environment.
(3) EVE Ratio represents Economic Value of Equity divided by the economic value of assets which should translate into built in stability for future earnings.

The table above indicates that at December 31, 2016, in the event of an instantaneous parallel 100 basis point decrease in interest rates, we would experience a 10.84% increase in net portfolio value. In the event of an instantaneous 100 basis point increase in interest rates, we would experience a 14.06% decrease in net portfolio value.

Depending on the relationship between long-term and short-term interest rates, market conditions and consumer preference, we may place greater emphasis on maximizing our net interest margin than on strictly matching the interest rate sensitivity of our assets and liabilities. We believe that the increased net income which may result from an acceptable mismatch in the actual maturity or re-pricing of our assets and liabilities can, during periods of declining or stable interest rates, provide sufficient returns to justify an increased exposure to sudden and unexpected increases in interest rates. We believe that our level of interest rate risk is acceptable using this approach.

We do not engage in hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

Liquidity and Capital Resources

Our primary sources of funds are deposits, principal and interest payments on loans and securities, proceeds from the sale of loans, proceeds from maturities and calls of securities, maturities of certificate of deposit investments and Federal Home Loan Bank advances. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and short-term investments including interest-bearing demand deposits. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by operating activities was $1.5 million and $1.3 million for the years ended December 31, 2016 and December 31, 2015, respectively. Net cash used in investing activities, which consists primarily of disbursements for loan originations, the purchase of securities and the purchase of time deposits with other banks, offset by principal collections on loans, proceeds from the sale of securities, proceeds from redemption of time deposits and proceeds from maturing securities and pay downs on mortgage-backed securities, was $41.9 million and $30.5 million for the years ended December 31, 2016 and December 31, 2015, respectively. During the year ended December 31, 2016, we purchased $7.2 million and sold $1.2 million in securities held as available-for-sale, and during the year ended December 31, 2015, we purchased $8.6 million and sold $428,000 in securities held as available-for-sale. Net cash provided by financing activities, consisting of the activity in deposit accounts and Federal Home Loan Bank advances for 2016 and 2015, was $41.0 million and $21.5 million for the years ended December 31, 2016 and December 31, 2015, respectively.

At December 31, 2016, we exceeded all of our regulatory capital requirements to be considered well capitalized with a tier 1 leverage capital level of $23.4 million, or 9.4% of average assets, which is above the required level of $12.5 million, or 5.0%; and total risk-based capital of $24.4 million, or 14.6% of risk-weighted assets, which is above the required level of $16.8 million, or 10.0%. Management is not aware of any conditions or events since the most recent notification that would change our category.

At December 31, 2016, we had outstanding commitments to originate loans of $6.0 million and unadvanced funds on loans of $20.6 million. We anticipate that we will have sufficient funds available to meet our current loan origination commitments. Certificates of deposit that are scheduled to mature in less than one year from December 31, 2016 totaled $47.8 million. Management expects, based on historical experience, that a substantial portion of the maturing certificates of deposit will be renewed. However, if a substantial portion of these deposits is not retained, we may utilize Federal Home Loan Bank advances or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. 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, lines of credit and standby letters of credit.

We have not engaged in any other off-balance sheet transactions in the normal course of our lending activities.

ITEM 7A . Quantitative and Qualitative Disclosures about Market Risk

Not required for smaller reporting companies.

ITEM 8 . Financial Statements and Supplementary Data

The Company's Consolidated Financial Statements are presented in this Annual Report on Form 10-K beginning at page F-1.

ITEM 9 . Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

(a) ***Disclosure Controls and Procedures.*** An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2016. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

(b) ***Management's Annual Report on Internal Control over Financial Reporting.*** Manage-ment of the Company is responsible for establishing and maintaining adequate internal control over financial reporting.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the principal executive officer and principal financial officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control-Integrated Framework (2013)." Based on such assessment, management believes that, as of December 31, 2016, the Company's internal control over financial reporting is effective, based on those criteria.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to provisions of the Dodd-Frank Act that permit the Company to provide only management's report in this annual report.

ITEM 9B. **Other Information**

None.

PART III

ITEM 10. **Directors, Executive Officers and Corporate Governance**

The Company has adopted a Code of Ethics that applies to the Company's principal executive officer, principal financial officer, controller or persons performing similar functions. The Code of Ethics may be accessed on the Bank's website at ww.bankpilgrim.com.

Information concerning directors and executive officers of the Company is incorporated herein by reference from our definitive Proxy Statement related to the 2017 Annual Meeting of Stockholders (the "Proxy Statement"), specifically the section captioned "Proposal 1 – Election of Directors."

ITEM 11. **Executive Compensation**

Information concerning executive compensation is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Proposal 1 – Election of Directors."

ITEM 12. **Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information concerning security ownership of certain owners and management is incorporated herein by reference from our Proxy Statement, specifically the sections captioned "Security Ownership of Certain Beneficial Owners" and "Proposal 1 – Election of Directors."

ITEM 13. **Certain Relationships and Related Transactions and Director Independence**

Information concerning relationships and transactions is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Transactions with Certain Related Persons" and section captioned "Proposal 1 – Election of Directors."

ITEM 14. Principal Accountant Fees and Services

Information concerning principal accountant fees and services is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Proposal 2 – Ratification of Appointment of Independent Registered Public Accounting Firm."

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The documents filed as a part of this Form 10-K are:

(A) Report of Independent Registered Public Accounting Firm;
(B) Consolidated Balance Sheets at December 31, 2016 and 2015;
(C) Consolidated Statements of Income for the years ended December 31, 2016 and 2015;
(D) Consolidated Statements of Comprehensive Income for the years ended December 31, 2016 and 2015;
(E) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2016 and 2015;
(F) Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015;
(G) Notes to Consolidated Financial Statements for the years ended December 31, 2016 and 2015.

(a)(2) Financial Statement Schedules

All financial statement schedules have been omitted as the required information is inapplicable or has been included in the Notes to Consolidated Financial Statements.

(a)(3) Exhibits

3.1	Articles of Incorporation of Pilgrim Bancshares, Inc. (1)
3.2	Bylaws of Pilgrim Bancshares, Inc. (1)
4	Form of Common Stock Certificate of Pilgrim Bancshares, Inc. (1)
10.1	Employment Agreement between Pilgrim Bank and Francis E. Campbell (2)
10.2	Change in Control Agreement between Pilgrim Bank and Christopher G. McCourt (2)
10.3	Change in Control Agreement between Pilgrim Bank and Joan A. MacIntyre (2)
10.4	Pilgrim Bank Supplemental Executive Retirement Plan (2)
10.5	Pilgrim Bank Executive Annual Incentive Plan (2)
10.6	Pilgrim Bank Employee Stock Ownership Plan (2)
10.7	2015 Equity Incentive Plan (3)
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Francis E. Campbell, President and Chief Executive Officer, Pursuant to Rule 15d-14(a)
31.2	Certification of Christopher G. McCourt, Executive Vice President and Chief Financial Officer, Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
32	Certification of Francis E. Campbell, President and Chief Executive Officer, and Christopher G. McCourt, Senior Vice President and Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements

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(1) Incorporated herein by reference to the Registration Statement on Form S-1, as amended (File No. 333-194485), initially filed March 11, 2014.
(2) Incorporated herein by reference to the Quarterly Report on Form 10-Q (File No. 000-55290), filed November 11, 2014.
(3) Incorporated by reference to our proxy statement filed with the SEC on October 13, 2015.

ITEM 16. Form 10-K Summary

None.

Signatures

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		Pilgrim Bancshares, Inc.
Date: March 22, 2017	By:	/s/ Francis E. Campbell
		Francis E. Campbell, President and Chief Executive Officer (duly authorized representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Francis E. Campbell Francis E. Campbell	President and Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 22, 2017
/s/ Christopher G. McCourt Christopher G. McCourt	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 22, 2017
/s/ Melissa J. Browne Melissa J. Browne	Director	March 22, 2017
/s/ J. Michael Buckley J. Michael Buckley	Director	March 22, 2017
/s/ Steven T. Golden Steven T. Golden	Director	March 22, 2017
/s/ Ronald H. Goodwin Ronald H. Goodwin	Director	March 22, 2017
/s/ Mary E. Granville Mary E. Granville	Director	March 22, 2017
/s/ William H. Ohrenberger, III William H. Ohrenberger, III	Director	March 22, 2017
/s/ Brian W. Noonan Brian W. Noonan	Director	March 22, 2017
/s/ Joseph P. Reilly Joseph P. Reilly	Director	March 22, 2017

EXHIBIT INDEX

23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Stockholders’ Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF
PILGRIM BANCSHARES, INC. AND SUBSIDIARY

Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Pilgrim Bancshares, Inc.
Cohasset, Massachusetts

We have audited the accompanying consolidated balance sheets of Pilgrim Bancshares, Inc. and Subsidiary (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pilgrim Bancshares, Inc. and Subsidiary as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Baker Newman & Noyes LLC

Peabody, Massachusetts
March 22, 2017

PILGRIM BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In Thousands, except share data)

	December 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 2,036	$ 2,351
Interest-bearing demand deposits with other banks	9,152	8,319
Total cash and cash equivalents	11,188	10,670
Interest-bearing time deposits with other banks	1,092	1,087
Investments in available-for-sale securities (at fair value)	17,041	16,556
Investments in held-to-maturity securities (fair value of $135 at December 31, 2016, and $155 at December 31, 2015)	104	120
Federal Home Loan Bank stock, at cost	2,299	971
Investment in The Co-operative Central Reserve Fund, at cost	384	384
Loans, net of allowance for loan losses of $1,049 at December 31, 2016, and $886 at December 31, 2015	210,486	170,427
Premises and equipment, net	4,919	5,177
Investment in real estate, net	1,534	1,578
Accrued interest receivable	599	508
Deferred income tax asset, net	740	496
Bank-owned life insurance	2,314	2,276
Other assets	233	257
Total assets	$ 252,933	$ 210,507
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 18,791	$ 15,290
Interest-bearing	163,295	154,082
Total deposits	182,086	169,372
Federal Home Loan Bank advances	37,329	8,500
Other liabilities	871	666
Total liabilities	220,286	178,538
Stockholders' equity:		
Common stock $.01 par value per share: 10,000,000 shares authorized, 2,253,439 shares issued at December 31, 2016 and 2,224,489 shares issued at December 31, 2015	23	22
Additional paid-in capital	20,910	20,466
Retained earnings	14,260	13,253
Unearned compensation - ESOP (161,826 shares unallocated at December 31, 2016 and 167,820 shares unallocated at December 31, 2015)	(1,619)	(1,679)
Unearned compensation - Restricted Stock	(806)	-
Accumulated other comprehensive loss	(121)	(93)
Total stockholders' equity	32,647	31,969
Total liabilities and stockholders' equity	$ 252,933	$ 210,507

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

PILGRIM BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, except share and per share data)

	Years Ended December 31, 2016	Years Ended December 31, 2015
Interest and dividend income:		
Interest and fees on loans	$ 7,880	$ 6,599
Interest on debt securities:		
Taxable	199	181
Tax-exempt	43	66
Other interest and dividends	101	51
Total interest and dividend income	8,223	6,897
Interest expense:		
Interest on deposits	1,372	1,020
Interest on Federal Home Loan Bank advances	209	65
Total interest expense	1,581	1,085
Net interest and dividend income	6,642	5,812
Provision for loan losses	170	144
Net interest and dividend income after provision for loan losses	6,472	5,668
Noninterest income:		
Service charges on deposit accounts	105	120
Gain on sales/calls of securities, net	30	29
Writedown of securities (includes losses of $3 for the year ended December 31, 2015, no amounts recognized in other comprehensive income)	-	(3)
Gain on sales of loans, net	43	64
Rental income	253	258
Other income	131	129
Total noninterest income	562	597
Noninterest expense:		
Salaries and employee benefits	3,298	3,035
Occupancy expense	486	533
Equipment expense	189	182
Data processing expense	415	394
Professional fees	400	374
Federal Deposit Insurance Corporation assessment	150	140
Communications expense	117	117
Advertising and public relations expense	140	129
Insurance expense	61	76
Supplies expense	55	58
Other expense	214	208
Total noninterest expense	5,525	5,246
Income before income taxes	1,509	1,019
Income tax expense	502	365
Net income	$ 1,007	$ 654
Weighted-average number of common shares outstanding:		
Basic	2,024,918	2,076,337
Diluted	2,026,099	2,076,337
Earnings per share:		
Basic	$ 0.50	$ 0.31
Diluted	$ 0.50	$ 0.31

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

PILGRIM BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Years Ended December 31, 2016	2015
Net income	$ 1,007	$ 654
Other comprehensive loss, net of tax:		
Net unrealized holding loss on available-for-sale securities	(15)	(36)
Reclassification adjustment for net realized gains in net income [1]	(30)	(29)
Other comprehensive loss before income tax effect	(45)	(65)
Income tax benefit	17	23
Other comprehensive loss, net of tax	(28)	(42)
Comprehensive income	$ 979	$ 612

(1) Reclassification adjustments are comprised of realized security gains. The gains have been reclassified out of accumulated other comprehensive loss and have affected certain lines in the consolidated statements of income as follows: the pre-tax amount is included in gain on sales/calls of securities, net; the tax expense amount which was $11,000 and $10,000 for the years ended December 31, 2016 and 2015, respectively, is included in income tax expense. The after tax amount included in net income was $19,000 and $19,000 for the years ended December 31, 2016 and 2015.

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

PILGRIM BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2016 and 2015

(In Thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unearned Compensation-ESOP	Unearned Compensation-Restricted Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2014	2,247,589	$ 22	$ 20,770	$ 12,599	$ (1,738)	$ -	$ (51)	$ 31,602
Net income	-	-	-	654	-	-	-	654
Shares purchased and retired	(23,100)	-	(298)	-	-	-	-	(298)
Common stock held by ESOP committed to be allocated (5,993 shares)	-	-	11	-	59	-	-	70
Other comprehensive loss, net of tax effect	-	-	-	-	-	-	(42)	(42)
Issuance costs related to initial public offering	-	-	(17)	-	-	-	-	(17)
Balance, December 31, 2015	2,224,489	22	20,466	13,253	(1,679)	-	(93)	31,969
Net income	-	-	-	1,007	-	-	-	1,007
Shares purchased and retired	(42,000)	-	(550)	-	-	-	-	(550)
Common stock held by ESOP committed to be allocated (5,994 shares)	-	-	20	-	60	-	-	80
Restricted stock granted in connection with equity incentive plan	70,950	1	911	-	-	(912)	-	-
Share based compensation-restricted stock	-	-	-	-	-	106	-	106
Share based compensation-options	-	-	63	-	-	-	-	63
Other comprehensive loss, net of tax effect	-	-	-	-	-	-	(28)	(28)
Balance, December 31, 2016	2,253,439	$ 23	$ 20,910	$ 14,260	$ (1,619)	$ (806)	$ (121)	$ 32,647

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

PILGRIM BANCSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Years Ended December 31, 2016	Years Ended December 31, 2015
Cash flows from operating activities:		
Net income	$ 1,007	$ 654
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	170	144
Capitalized interest on interest-bearing time deposits	(5)	(12)
Amortization of securities, net	88	86
Gain on sales/calls of securities, net	(30)	(29)
Loans originated for sale	(2,205)	(3,544)
Proceeds from sales of loans originated for sale	2,248	3,608
Gain on sales of loans, net	(43)	(64)
Change in net deferred origination fees, costs, premiums and discounts	(218)	(53)
Writdown of securities	-	3
Depreciation and amortization	337	339
Stock based compensation expense	249	70
Increase in accrued interest receivable	(91)	(61)
Increase in bank-owned life insurance	(38)	(46)
Decrease in other assets	24	159
Deferred tax benefit	(227)	(63)
Increase in other liabilities	205	105
Net cash provided by operating activities	1,471	1,296
Cash flows from investing activities:		
Proceeds from redemption and maturities of interest-bearing time deposits	-	1,500
Purchase of Federal Home Loan Bank stock	(1,407)	(320)
Redemption of Federal Home Loan Bank stock	79	43
Purchases of available-for-sale securities	(7,241)	(8,597)
Proceeds from maturities/calls/pay downs of available-for-sale securities	5,435	3,251
Proceeds from sales of available-for-sale securities	1,211	428
Proceeds from maturities of held-to-maturity securities	23	33
Loan principal originations and collections, net	(8,999)	(19,836)
Loans purchased	(36,047)	(8,558)
Loan participations sold	5,035	1,650
Capital expenditures	(35)	(62)
Net cash used in investing activities	(41,946)	(30,468)
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	6,968	1,595
Net increase in time deposits	5,746	16,767
Payments on Federal Home Loan Bank long-term advances	(6,171)	(1,000)
Proceeds from Federal Home Loan Bank long-term advances	36,100	8,500
Net change in short-term Federal Home Loan Bank advances	(1,100)	(4,000)
Issuance costs related to initial public offering	-	(17)
Purchase and retirement of common stock	(550)	(298)
Net cash provided by financing activities	40,993	21,547
Net increase (decrease) in cash and cash equivalents	518	(7,625)
Cash and cash equivalents at beginning of period	10,670	18,295
Cash and cash equivalents at end of period	$ 11,188	$ 10,670
Supplemental disclosures:		
Interest paid	$ 1,554	$ 1,080
Income taxes paid	705	205

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

NOTE 1 - NATURE OF OPERATIONS

Pilgrim Bancshares, Inc. (the "Company"), was incorporated in February 2014 under the laws of the State of Maryland. The Company owns all of the outstanding shares of common stock of Pilgrim Bank (the "Bank"). The Bank is a Massachusetts chartered stock bank which was incorporated in 1916 and is headquartered in Cohasset, Massachusetts. The Bank operates its business from three banking offices located in Massachusetts. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential and commercial real estate loans, and in commercial, consumer and small business loans. The Bank is subject to the regulations of, and periodic examination by, the Massachusetts Division of Banks ("DOB") and the Federal Deposit Insurance Corporation ("the FDIC").

NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America and predominant practices within the banking industry. The consolidated financial statements were prepared using the accrual basis of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

USE OF ESTIMATES:

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank, and the Bank's wholly-owned subsidiaries, 48 South Main Street Corporation, which was formed to hold securities for its own account; 40 South Main Street Realty Trust, which was formed to hold our main office, and 800 CJC Realty Corporation, which was formed to invest in and develop residential and commercial property. All significant intercompany accounts and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks and interest-bearing demand deposits with other banks.

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2016 and 2015, these reserve balances amounted to $836,000 and $820,000, respectively.

SECURITIES:

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

The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale, or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

— Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of stockholders' equity. They are merely disclosed in the notes to the consolidated financial statements.

— Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of stockholders' equity until realized.

— Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

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

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

FEDERAL HOME LOAN BANK STOCK:

The Company is required to own shares of capital stock in the Federal Home Loan Bank of Boston (FHLB) in order to borrow from the FHLB. The stock is carried at its cost and evaluated for impairment based on the ultimate recoverability of the cost basis of the FHLB stock.

LOANS:

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

Interest on loans is recognized on a simple interest basis.

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

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

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

ALLOWANCE FOR LOAN LOSSES:

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

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

General Component:

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, multi-family real estate, home equity loans and lines of credit, construction, commercial and industrial, and consumer. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies and underlying collateral values; trends in volume 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 changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the years ended December 31, 2016 and 2015.

The qualitative factors 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 grant subprime loans. Loans in this segment are primarily collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial and multi-family real estate: Loans in this segment are primarily income-producing properties throughout Eastern Massachusetts, specifically the South Shore. 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 periodically obtains rent rolls and continually monitors the cash flows of these loans.

Construction loans: Loans in this segment include land, speculative residential properties, investment, multifamily, rehab to permanent investment properties and owner occupied residential properties. Payment is derived from sale of the property or long term rental cash flows once converted to permanent financing. Credit risk is affected by cost overruns, time to sell at an adequate price, vacancies and market conditions.

Commercial and industrial loans: Loans in this segment are made to businesses, are generally secured by assets of the business and are primarily guaranteed by the United States Government. 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.

Consumer loans: Loans in this segment are primarily secured by automobiles 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 for commercial and industrial, commercial and multi-family real estate and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan are lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer, home equity loans and lines of credit and residential real estate 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 on a temporary or permanent basis. 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.

PREMISES AND EQUIPMENT AND INVESTMENT IN REAL ESTATE:

Land is stated at cost. Premises, investment in real estate and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises, investment in real estate and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on a straight-line basis over the estimated useful lives of the assets. Useful lives are dependent upon the nature and condition of the asset and range from three years to 40 years.

Premises and equipment and investment in real estate are periodically evaluated for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of premises and equipment and investment in real estate are less than their carrying amounts. In that event, the Company records a loss of the difference between the carrying amount and the fair value of the asset based on quoted market prices, if applicable, or a discounted cash flow analysis.

OTHER REAL ESTATE OWNED AND IN-SUBSTANCE FORECLOSURES:

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures in accordance with Accounting Standards Codification (ASC) 310-40, "Receivables - Troubled Debt Restructurings by Creditors." These properties are initially recorded at their estimated fair value less estimated cost to sell at the date of foreclosure or transfer, establishing a new cost basis. Subsequent to foreclosure or transfer, valuations are periodically performed by management and assets are carried at the lower of carrying amount or fair value less cost to sell. Any write-down from cost to estimated fair value required at the time of foreclosure or classification as an in-substance foreclosure is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets, subsequent write-downs and gains or losses recognized upon sale are included in other expense.

The Company classifies commercial loans as in-substance repossessed or foreclosed if the Company receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place. An in-substance repossession or foreclosure occurs, and the Company is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either: (1) obtaining legal title to the residential real estate property upon completion of a foreclosure; or (2) the borrower conveying all interest in the residential real estate property to the Company to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

BANK-OWNED LIFE INSURANCE:

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

ADVERTISING:

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

EMPLOYEE STOCK OWNERSHIP PLAN:

Compensation expense for the Employee Stock Ownership Plan ("ESOP") is recorded at an amount equal to the shares allocated by the ESOP multiplied by the average fair value of the shares during the period. The Company recognizes compensation expense ratably over the year based upon the Company's estimate of the number of shares expected to be allocated by the ESOP. Unearned compensation applicable to the ESOP is reflected as a reduction of stockholders' equity in the consolidated balance sheet. The difference between the average fair value and the cost of shares allocated by the ESOP is recorded as an adjustment to additional paid-in capital.

STOCK BASED COMPENSATION:

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

INCOME TAXES:

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

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of December 31, 2016 and 2015, there were no material uncertain tax positions related to federal and state income tax matters. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended December 31, 2013 through December 31, 2016. Interest and penalties, if any, are recorded as income tax expense.

FAIR VALUES OF FINANCIAL INSTRUMENTS:

ASC 825, "Financial Instruments," requires that the Company disclose estimated fair values for its financial instruments. Fair value methods and assumptions used by the Company in estimating its fair value disclosures are as follows:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate those assets' fair values.

Interest-bearing time deposits with other banks: The fair value of interest-bearing time deposits with other banks was determined by discounting the cash flows associated with these instruments using current market rates for deposits with similar characteristics.

Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated by discounting the future cash flows, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

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

Deposit liabilities: The fair values disclosed for demand deposits, regular savings, NOW accounts, and money market accounts are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

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

Off-balance sheet instruments: The fair value of commitments to originate loans is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments and the unadvanced portion of loans, fair value also considers the difference between current levels of interest rates and the committed rates.

EARNINGS PER SHARE (EPS):

The Company has adopted the EPS guidance included in ASC 260-10. As presented below, basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. For purposes of computing diluted EPS, the treasury stock method is used.

Unallocated ESOP shares and unearned shares of restricted stock are not deemed outstanding for earnings per share calculations.

EPS for the years ended December 31, 2016 and 2015 have been computed based on the following:

	Years Ended December 31,	
	2016	2015
Net income (In thousands)	$ 1,007	$ 654
Basic and diluted common shares:		
Weighted average common shares outstanding	2,225,397	2,247,153
Weighted average unearned shares-restricted stock	(35,657)	-
Weighted average unallocated ESOP shares	(164,822)	(170,816)
Basic weighted average shares outstanding	2,024,918	2,076,337
Dilutive effect of unearned restricted stock	1,181	-
Diluted weighted average shares outstanding	2,026,099	2,076,337
Basic earnings per share	$ 0.50	$ 0.31
Diluted earnings per share (1)	$ 0.50	$ 0.31

(1) Options to purchase 169,500 shares, representing all outstanding options, were not included in the computation of diluted earnings per share for the year ended December 31, 2016 because the impact was anti-dilutive. There were no options to purchase shares for the year ended December 31, 2015.

RECENT ACCOUNTING PRONOUNCEMENTS:

As an “emerging growth company,” as defined in Title 1 of Jumpstart Our Business Startups (JOBS) Act, the Company has elected to use the extended transition period to delay adoption of new or reissued accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, the consolidated financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards. As of December 31, 2016, there is no significant difference in the comparability of the consolidated financial statements as a result of this extended transition period.

In May 2014 and August 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers (Topic 606).” The objective of this ASU is to clarify principles for recognizing revenue and to develop a common revenue standard for Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards. The guidance in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the extended transition period for an emerging growth company, the amendments in ASU 2015-14 defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 31, 2017, and interim periods within that period. Earlier application is permitted only as of an annual reporting period beginning after December 31, 2016, including interim reporting periods within that reporting period. The adoption of ASU 2014-09 is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, “Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).” The objective of this update is to address the diversity in practice related to how certain investments measured at net asset value with redemption dates in the future are categorized within the fair value hierarchy. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. Under the extended transition period for an emerging growth company, the amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

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

1. Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same manner.
2. Simplify the impairment assessment of equity investments without determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value.
3. Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.
4. Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
5. Require an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.
6. Require separate presentation of financial assets and financial liabilities by measurement category and form of financial assets (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.
7. Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

Under the extended transition period for an emerging growth company, the amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application of item 5 above is permitted for fiscal years, or interim periods for which financial statements have not yet been issued. Early application of all other amendments in this ASU is not permitted. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

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

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-based Payment Accounting." The ASU simplifies several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. Under the extended transition period for an emerging growth company, the amendments in this ASU are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Company is currently reviewing this ASU to determine if it will have an impact on its consolidated financial statements.

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

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments.” Current GAAP is unclear or does not include specific guidance on how to classify certain transactions in the statement of cash flows. This ASU is intended to reduce diversity in practice in how eight particular transactions are classified in the statement of cash flows. Under the extended transition period for an emerging growth company, the amendments in ASU 2016-15 are effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, provided that all of the amendments are adopted in the same period. Entities will be required to apply the guidance retrospectively. If it is impracticable to apply the guidance retrospectively for an issue, the amendments related to that issue would be applied prospectively. As this guidance only affects the classification within the statement of cash flows, ASU 2016-15 is not expected to have a material impact on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 “Statement of Cash Flows – Restricted Cash (Topic 230).” The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. Under the extended transition period for an emerging growth company, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. As this guidance only affects the classification within the statement of cash flows, ASU 2016-18 is not expected to have a material impact on the Company’s consolidated financial statements.

NOTE 3 - INVESTMENTS IN SECURITIES

Investments in securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost basis of securities and their approximate fair values are as follows as of December 31:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
December 31, 2016:				
Debt securities issued by U.S. government corporations and agencies	$ 8,980	$ 7	$ 53	$ 8,934
Debt securities issued by states of the United States and political subdivisions of the states	2,696	-	50	2,646
Mortgage-backed securities	5,557	5	101	5,461
	$ 17,233	$ 12	$ 204	$ 17,041
December 31, 2015:				
Debt securities issued by U.S. government corporations and agencies	$ 6,339	$ 6	$ 34	$ 6,311
Debt securities issued by states of the United States and political subdivisions of the states	2,456	7	19	2,444
Mortgage-backed securities	7,908	6	113	7,801
	$ 16,703	$ 19	$ 166	$ 16,556

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Held-to-maturity securities:				
December 31, 2016:				
Mortgage-backed securities	$ 104	$ 31	$ -	$ 135
	$ 104	$ 31	$ -	$ 135
December 31, 2015:				
Mortgage-backed securities	$ 120	$ 35	$ -	$ 155
	$ 120	$ 35	$ -	$ 155

The scheduled maturities of debt securities were as follows as of December 31, 2016:

	Available-For-Sale	Held-To-Maturity	
	Fair Value	Amortized Cost Basis	Fair Value
	(In Thousands)		
Due within one year	$ 499	$ -	$ -
Due after one year through five years	9,555	-	-
Due after five years through ten years	1,267	-	-
Due after ten years	259	-	-
Mortgage-backed securities	5,461	104	135
	$ 17,041	$ 104	$ 135

During 2016, proceeds from sales of available-for-sale securities amounted to $1.2 million. Gross realized gains on those sales amounted to $27,000, and there were no gross realized losses. During 2015, proceeds from sales of available-for-sale securities amounted to $428,000. Gross realized gains on those sales amounted to $10,000 and there were no gross realized losses. The tax expense applicable to these net realized gains for the years ended December 31, 2016 and 2015 amounted to $10,000 and $4,000, respectively.

As of December 31, 2016 and 2015, there were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders' equity.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, and are not other-than-temporarily impaired, are as follows as of December 31:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
December 31, 2016:						
Debt securities issued by U.S. government corporations and agencies	$ 7,430	$ 53	$ -	$ -	$ 7,430	$ 53
Debt securities issued by states of the United States and political subdivisions of the states	2,215	35	431	15	2,646	50
Mortgage-backed securities	3,342	52	1,660	49	5,002	101
Total temporarily impaired securities	$ 12,987	$ 140	$ 2,091	$ 64	$ 15,078	$ 204
December 31, 2015:						
Debt securities issued by U.S. government corporations and agencies	$ 5,320	$ 21	$ 487	$ 13	$ 5,807	$ 34
Debt securities issued by states of the United States and political subdivisions of the states	-	-	912	19	912	19
Mortgage-backed securities	4,302	46	2,101	67	6,403	113
Total temporarily impaired securities	$ 9,622	$ 67	$ 3,500	$ 99	$ 13,122	$ 166

As of December 31, 2016, investment securities with unrealized losses consist of 17 debt securities issued by U.S. government corporations and government-sponsored agencies, 12 debt securities issued by states of the United States and political subdivisions of the states and mortgage-backed securities consisting of 28 government agencies and government sponsored enterprises and 1 private label. The Company reviews investments for other-than-temporary impairment using a number of factors including the length of time and the extent to which the market value has been less than cost and by examining any credit deterioration or ratings downgrades. The unrealized losses in the above tables are primarily attributable to changes in market interest rates. As Company management has the intent and ability to hold impaired debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

For those debt securities for which the fair value of the security is less than its amortized cost and the Company does not intend to sell such security and it is more likely than not that it will not be required to sell such security prior to the recovery of its amortized cost basis less any credit losses, ASC 320-10, "Investments - Debt and Equity Securities," requires that the credit component of the other-than-temporary impairment losses be recognized in earnings while the noncredit component is recognized in other comprehensive income, net of related taxes.

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of debt securities within the scope of the guidance for investments in debt and equity securities. For securities where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial assets impairment model. For securities where the security is not a beneficial interest in securitized financial assets, the Company uses the debt and equity securities impairment model.

No other-than-temporary impairment losses were recognized for the year ended December 31, 2016. For the year ended December 31, 2015, debt securities with other-than-temporary impairment losses related to credit quality that were recognized in earnings consisted of one non-agency mortgage-backed security. The Company estimated the credit component portion of loss for the non-agency mortgage-backed securities using a discounted cash flow model. Significant inputs for the non-agency mortgage-backed securities included estimated cash flows of the underlying collateral based on key assumptions such as default rate, loss severity and prepayment rate. The present value of the expected cash flows were compared to the Company's holdings to determine the credit-related impairment loss. Based on the expected cash flows derived from the model, the Company expects to recover the remaining unrealized losses on non-agency mortgage-backed securities.

NOTE 4 - LOANS

Loans consisted of the following:

	December 31, 2016	December 31, 2015
	(In Thousands)	
Real estate loans:		
One-to four- family residential	$ 133,997	$ 104,861
Commercial	23,368	21,848
Multi-family	19,503	16,559
Home equity loans and lines of credit	2,294	2,093
Construction	27,185	18,755
Commercial and industrial loans	2,885	3,964
Consumer loans:		
Consumer lines of credit	22	20
Other consumer loans	1,910	3,060
	211,164	171,160
Net deferred loan origination fees, costs, premiums and discounts	371	153
Allowance for loan losses	(1,049)	(886)
Net loans	$ 210,486	$ 170,427

The following tables set forth information regarding the allowance for loan losses as of and for the years ended December 31:

	Real Estate:						Consumer			
	One- to four-family Residential	Commercial	Multi-family	Home Equity Loans and Lines of Credit	Construction	Commercial and Industrial Loans	Consumer Lines of Credit	Other Consumer	Unallocated	Total
					(In Thousands)					
December 31, 2016:										
Allowance for loan losses:										
Beginning balance	$ 373	$ 146	$ 62	$ 14	$ 216	$ 13	$ 1	$ 29	$ 32	$ 886
Charge-offs	-	-	-	-	-	-	-	(8)	-	(8)
Recoveries	-	-	-	-	-	-	-	1	-	1
Provision (benefit)	76	(12)	12	(2)	124	(3)	-	(7)	(18)	170
Ending balance	$ 449	$ 134	$ 74	$ 12	$ 340	$ 10	$ 1	$ 15	$ 14	$ 1,049
Ending balance: Individually evaluated for impairment	$ 21	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 21
Ending balance: Collectively evaluated for impairment	428	134	74	12	340	10	1	15	14	1,028
Total allowance for loan losses ending balance	$ 449	$ 134	$ 74	$ 12	$ 340	$ 10	$ 1	$ 15	$ 14	$ 1,049
Loans:										
Ending balance: Individually evaluated for impairment	$ 3,406	$ 650	$ -	$ 6	$ -	$ -	$ -	$ -	$ -	$ 4,062
Ending balance: Collectively evaluated for impairment	130,591	22,718	19,503	2,288	27,185	2,885	22	1,910	-	207,102
Total loans ending balance	$ 133,997	$ 23,368	$ 19,503	$ 2,294	$ 27,185	$ 2,885	$ 22	$ 1,910	$ -	$ 211,164

	Real Estate:						Consumer			
	One- to four-family Residential	Commercial	Multi-family	Home Equity Loans and Lines of Credit	Construction	Commercial and Industrial Loans	Consumer Lines of Credit	Other Consumer	Unallocated	Total
					(In Thousands)					
December 31, 2015:										
Allowance for loan losses:										
Beginning balance	$ 362	$ 134	$ 36	$ 27	$ 121	$ 8	$ 1	$ 20	$ 34	$ 743
Charge-offs	-	-	-	-	-	-	-	(1)	-	(1)
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision (benefit)	11	12	26	(13)	95	5	-	10	(2)	144
Ending balance	$ 373	$ 146	$ 62	$ 14	$ 216	$ 13	$ 1	$ 29	$ 32	$ 886
Ending balance: Individually evaluated for impairment	$ 21	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 21
Ending balance: Collectively evaluated for impairment	352	146	62	14	216	13	1	29	32	865
Total allowance for loan losses ending balance	$ 373	$ 146	$ 62	$ 14	$ 216	$ 13	$ 1	$ 29	$ 32	$ 886
Loans:										
Ending balance: Individually evaluated for impairment	$ 5,665	$ 679	$ -	$ 59	$ -	$ -	$ -	$ -	$ -	$ 6,403
Ending balance: Collectively evaluated for impairment	99,196	21,169	16,559	2,034	18,755	3,964	20	3,060	-	164,757
Total loans ending balance	$ 104,861	$ 21,848	$ 16,559	$ 2,093	$ 18,755	$ 3,964	$ 20	$ 3,060	$ -	$ 171,160

Certain directors and executive officers of the Company and companies in which they have significant ownership interest were customers of the Bank during 2016. Total loans to such persons and their companies amounted to $281,000 and $401,000 as of December 31, 2016 and 2015, respectively. During 2016, principal payments were $120,000 and there were no principal advances.

The following tables set forth information regarding nonaccrual loans and past-due loans as of December 31:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Current	Total	90 Days or More Past Due and Accruing	Nonaccrual Loans
	(In Thousands)							
December 31, 2016:								
Real estate loans:								
One- to four-family residential	$ 118	$ -	$ -	$ 118	$ 133,879	$ 133,997	$ -	$ -
Commercial	-	-	-	-	23,368	23,368	-	-
Multi-family	-	-	-	-	19,503	19,503	-	-
Home equity loans and lines of credit	-	-	-	-	2,294	2,294	-	-
Construction	-	-	-	-	27,185	27,185	-	-
Commercial and industrial loans	-	-	-	-	2,885	2,885	-	-
Consumer loans:								
Consumer lines of credit	-	-	-	-	22	22	-	-
Other consumer	-	-	-	-	1,910	1,910	-	-
Total	$ 118	$ -	$ -	$ 118	$ 211,046	$ 211,164	$ -	$ -
December 31, 2015:								
Real estate loans:								
One- to four-family residential	$ 1,088	$ 18	$ 1,393	$ 2,499	$ 102,362	$ 104,861	$ -	$ 1,410
Commercial	-	-	-	-	21,848	21,848	-	-
Multi-family	-	-	-	-	16,559	16,559	-	-
Home equity loans and lines of credit	-	59	-	59	2,034	2,093	-	-
Construction	-	-	-	-	18,755	18,755	-	-
Commercial and industrial loans	-	-	-	-	3,964	3,964	-	-
Consumer loans:								
Consumer lines of credit	-	-	-	-	20	20	-	-
Other consumer	16	-	-	16	3,044	3,060	-	-
Total	$ 1,104	$ 77	$ 1,393	$ 2,574	$ 168,586	$ 171,160	$ -	$ 1,410

Information about loans that meet the definition of an impaired loan in ASC 310-10-35, "Receivables – Overall Subsequent Measurement," is as follows at December 31, 2016 and 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In Thousands)		
December 31, 2016:			
With no related allowance recorded:			
Real estate loans:			
One- to four-family residential	$ 2,839	$ 2,839	$ -
Commercial	650	650	-
Home equity loans and lines of credit	6	88	-
Total impaired with no related allowance	$ 3,495	$ 3,577	$ -
With an allowance recorded:			
Real estate loans:			
One- to four-family residential	$ 567	$ 567	$ 21
Commercial	-	-	-
Home equity loans and lines of credit	-	-	-
Total impaired with an allowance recorded	$ 567	$ 567	$ 21
Total			
Real estate loans:			
One- to four-family residential	$ 3,406	$ 3,406	$ 21
Commercial	650	650	-
Home equity loans and lines of credit	6	88	-
Total impaired loans	$ 4,062	$ 4,144	$ 21
December 31, 2015:			
With no related allowance recorded:			
Real estate loans:			
One- to four-family residential	$ 5,098	$ 5,098	$ -
Commercial	679	679	-
Home equity loans and lines of credit	59	141	-
Total impaired with no related allowance	$ 5,836	$ 5,918	$ -
With an allowance recorded:			
Real estate loans:			
One- to four-family residential	$ 567	$ 567	$ 21
Commercial	-	-	-
Home equity loans and lines of credit	-	-	-
Total impaired with an allowance recorded	$ 567	$ 567	$ 21
Total			
Real estate loans:			
One- to four-family residential	$ 5,665	$ 5,665	$ 21
Commercial	679	679	-
Home equity loans and lines of credit	59	141	-
Total impaired loans	$ 6,403	$ 6,485	$ 21

The following presents, by class, information related to average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2016 and 2015.

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Real estate loans:				
One- to four-family residential	$ 3,417	$ 156	$ 5,657	$ 183
Commercial	666	42	689	44
Home equity loans and lines of credit	37	5	54	4
Total impaired with no related allowance	$ 4,120	$ 203	$ 6,400	$ 231
With an allowance recorded:				
Real estate loans:				
One- to four-family residential	$ 567	$ 24	$ 571	$ 19
Commercial	-	-	-	-
Home equity loans and lines of credit	-	-	-	-
Total impaired with an allowance recorded	$ 567	$ 24	$ 571	$ 19
Total				
Real estate loans:				
One- to four-family residential	$ 3,984	$ 180	$ 6,228	$ 202
Commercial	666	42	689	44
Home equity loans and lines of credit	37	5	54	4
Total impaired loans	$ 4,687	$ 227	$ 6,971	$ 250

The following tables present the Company's loans by risk rating as of December 31:

	Real Estate:						Consumer		
	One- to four-family Residential	Commercial	Multi-family	Home Equity Loans and Lines of Credit	Construction	Commercial and Industrial Loans	Consumer Lines of Credit	Other Consumer	Total
	(In Thousands)								
December 31, 2016:									
Grade:									
Pass	$ -	$ 22,718	$ 19,503	$ -	$ 27,185	$ 2,885	$ -	$ -	$ 72,291
Special mention	2,016	650	-		-	-	-	-	2,666
Substandard	567	-	-	6	-	-	-	-	573
Loans not formally rated	131,414	-	-	2,288	-	-	22	1,910	135,634
Total	$ 133,997	$ 23,368	$ 19,503	$ 2,294	$ 27,185	$ 2,885	$ 22	$ 1,910	$ 211,164
December 31, 2015:									
Grade:									
Pass	$ -	$ 21,169	$ 16,559	$ -	$ 18,755	$ 3,964	$ -	$ -	$ 60,447
Special mention	539	-	-	53	-	-	-	-	592
Substandard	3,796	679	-	6	-	-	-	-	4,481
Loans not formally rated	100,526	-	-	2,034	-	-	20	3,060	105,640
Total	$ 104,861	$ 21,848	$ 16,559	$ 2,093	$ 18,755	$ 3,964	$ 20	$ 3,060	$ 171,160

At December 31, 2016 and 2015, there were no loans rated "doubtful" or "loss."

Credit Quality Information

The Company utilizes a seven grade internal loan rating system for commercial and multi-family real estate, construction and commercial loans as follows:

Loans rated 1 - 3: 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.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial and multi-family real estate, construction and commercial loans. For residential real estate, home equity loans and lines of credit and consumer loans, the Company initially assesses credit quality based upon the borrower’s ability to pay and subsequently monitors these loans based on the borrower’s payment activity.

The Company classifies loans modified as TDRs as impaired loans with an allowance established as part of the allocated component of the allowance for loan losses when the discounted cash flows or value of the underlying collateral of the impaired loan is lower than its carrying value.

During the year ended December 31, 2016, there were five loans modified as TDRs. Three of the modified loans, with a total post-modification recorded investment of $1.6 million, paid off by December 31, 2016. The following tables set forth information regarding loans modified as TDRs during the years ended December 31, 2016 and 2015:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars In Thousands)	
December 31, 2016:			
Troubled Debt Restructurings:			
Real estate loans:			
One- to four- family residential	3	$ 2,121	$ 2,121
Home equity loans and lines of credit	2	59	59
	5	$ 2,180	$ 2,180

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars In Thousands)	
December 31, 2015:			
Troubled Debt Restructurings:			
Real estate loans:			
One- to four- family residential	2	$ 1,088	$ 1,088
Home equity loans and lines of credit	2	59	59
	4	$ 1,147	$ 1,147

There were no loans modified as TDRs that subsequently defaulted within one year of modification during the years ended December 31, 2016 and 2015.

As of December 31, 2016 and 2015, there were no commitments to lend additional funds to borrowers whose loans were modified as troubled debt restructurings.

The following tables provide information on how loans were modified as TDRs during the years ended December 31 :

	Rate Reduction	Interest Only Period	Rate Reduction and Interest Only Period
		(In Thousands)	
December 31, 2016:			
Real estate loans:			
One- to four- family residential	$ -	$ 2,121	$ -
Home equity loans and lines of credit	-	59	-
Total	$ -	$ 2,180	$ -
December 31, 2015:			
Real estate loans:			
One- to four- family residential	$ -	$ 1,088	$ -
Home equity loans and lines of credit	-	59	-
Total	$ -	$ 1,147	$ -

An analysis of the loans modified as TDRs was performed as of December 31, 2016. An allowance of $21,000 was assigned to one one-to-four family residential loan. All loans were accruing as of December 31, 2016.

As of December 31, 2016, there were no consumer mortgage loans collateralized by residential real estate in the process of foreclosure.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid balances of mortgage and other loans serviced for others were $24.3 million $21.8 million at December 31, 2016 and 2015, respectively.

On March 25, 2016, the Company entered into an agreement to purchase $20.0 million of residential mortgages, with 50% of the purchase being fixed rate loans and 50% being adjustable rate mortgages of varying maturities. The purchase premium is fixed at 1%. As of December 31, 2016, the Company had fulfilled the terms of the agreement.

NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment:

	December 31, 2016	December 31, 2015
	(In Thousands)	
Land	$ 864	$ 864
Buildings and improvements	5,383	5,380
Furniture and equipment	2,283	2,251
	8,530	8,495
Accumulated depreciation and amortization	(3,611)	(3,318)
	$ 4,919	$ 5,177

NOTE 6 - INVESTMENT IN REAL ESTATE

The following is a summary of investment in real estate:

	December 31, 2016	December 31, 2015
	(In Thousands)	
Land	$ 453	$ 453
Buildings and improvements	1,489	1,489
	1,942	1,942
Accumulated depreciation	(408)	(364)
	$ 1,534	$ 1,578

The Company’s rental income for the years ended December 31, 2016 and 2015, amounted to $253,000 and $258,000, respectively.

NOTE 7 - DEPOSITS

The aggregate amount of time deposit accounts in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit (currently $250,000) at December 31, 2016 and December 31, 2015 was $22.3 million and $20.9 million, respectively. The totals exclude $5.0 million of brokered time deposits which were bifurcated into amounts below the FDIC insurance limit, as of December 31, 2016 and December 31, 2015.

For time deposits as of December 31, 2016, the scheduled maturities for each of the following five years ended December 31 are:

	(In Thousands)
2017	$ 47,847
2018	25,303
2019	2,767
2020	9,349
2021	3,730
Total	$ 88,996

There were $7.3 million of brokered certificates of deposit at December 31, 2016 and 2015.

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

Maturities of advances from the FHLB for the years ending after December 31, 2016 are summarized as follows:

	(In Thousands)
2017	$ 5,842
2018	8,911
2019	3,739
2020	1,713
2021	1,124
Thereafter	16,000
	$ 37,329

Interest rates ranged from 0.39% to 1.51% with a weighted-average interest rate of 0.99% at December 31, 2016. Interest rates ranged from 0.80% to 1.30% with a weighted-average interest rate of 1.12% at December 31, 2015.

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one-to-four family properties, certain unencumbered investment securities and other qualified assets.

NOTE 9 - INCOME TAXES

The components of income tax expense are as follows:

	Years Ended December 31, 2016	2015
	(In Thousands)	
Current:		
Federal	$ 572	$ 338
State	157	90
	729	428
Deferred:		
Federal	(103)	(46)
State	(32)	(17)
Change in valuation allowance	(92)	-
	(227)	(63)
Total income tax expense	$ 502	$ 365

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	Years Ended December 31, 2016	2015
	% of Income	% of Income
Statutory federal income tax rate	34.0%	34.0%
Increase (decrease) in tax rates resulting from:		
Tax-exempt income	(1.8)	(3.7)
Other	1.7	0.7
State taxes, net of federal tax	5.5	4.8
Change in valuation allowance	(6.1)	-
Effective tax rates	33.3%	35.8%

The Company had gross deferred tax assets and gross deferred tax liabilities as follows:

	December 31,	
	2016	2015
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 423	$ 358
Securities capital loss carryforwards	37	46
Writedown of securities	17	16
Interest on nonaccrual loans	-	46
Net unrealized holding loss on available-for-sale securities	71	54
Charitable contribution carryovers	178	249
Stock expense	50	-
ESOP expense	11	2
Deferred compensation	73	-
Other	7	-
Gross deferred tax assets	867	771
Valuation allowance	(37)	(129)
Gross deferred tax assets after valuation allowance	830	642
Deferred tax liabilities:		
Book basis in excess of tax basis of premises and equipment	(90)	(146)
Gross deferred tax liabilities	(90)	(146)
Net deferred tax asset	$ 740	$ 496

As of December 31, 2016 and 2015, the Company had no operating loss and tax credit carryovers for tax purposes. As of December 31, 2016, the Company had capital loss carryovers of $110,000 which are due to expire in 2019. The capital losses can only be utilized against realized capital gains; therefore, as of December 31, 2016 a valuation allowance in the amount of $37,000 exists against the deferred tax benefit to the extent management deems it probable the deferred tax benefits will not be fully realized.

In connection with its initial public offering, the Company donated common stock and cash in the amount of $725,000 to the Foundation. The remaining charitable contribution carryforward was $446,000 at December 31, 2016 and expires in 2019. The related tax benefit included in net deferred tax assets is $178,000. A valuation allowance in the amount of $83,000 was released in 2016 based on management's assessment that the Company will be able to fully utilize the deferred tax asset related to the charitable contribution before it expires.

In prior years, the Bank was allowed a special tax-basis bad debt deduction under certain provisions of the Internal Revenue Code. As a result, retained earnings of the Bank as of December 31, 2016 includes approximately $1,094,000 for which federal and state income taxes have not been provided. If the Bank no longer qualifies as a bank as defined in certain provisions of the Internal Revenue Code, this amount will be subject to recapture in taxable income using a combined federal and state tax rate of approximately 40%.

NOTE 10 - EMPLOYEE BENEFITS

401(k) Plan

The Company provides a savings and retirement plan for employees through the Co-operative Banks' Employees Retirement Association (CBERA) 401(k) Plan, which is a multiple employer tax-qualified profit sharing plan with a salary deferral feature under Section 401(k) of the Internal Revenue Code ("401(k) Plan"). All employees who have attained age 21 and have completed three months of employment during which they worked at least 250 hours are eligible to participate in the 401(k) Plan.

The plan provides for voluntary contributions by participating employees ranging from 1% to 75% of their compensation, subject to the limitations imposed by the Internal Revenue Code. In addition to salary deferral contributions, the Company will make a matching contribution to each participant's account equal to 100% of the participant's contribution, up to 5% of the participant's pre-tax and after-tax contributions. For the years ended December 31, 2016 and 2015, contribution expense attributable to the plan amounted to $88,000 and $82,000, respectively.

Incentive Plan
The Company has a discretionary Incentive Plan whereby all employees are eligible to receive a payment if the Company meets or exceeds certain base performance standards for its fiscal year. The structure of the Incentive Plan is to be reviewed on an annual basis by the Board of Directors.

Executive Annual Incentive Plan
The Company adopted an executive incentive plan effective January 1, 2015, which superseded and replaced the discretionary bonus arrangement above for certain named executive officers. For each plan year (which is the calendar year), each participant will receive an award agreement, which will provide the annual bonus award amount, designated as a percentage of base salary, and the performance objectives that must be satisfied for the participant to receive the annual bonus award. The specific performance objectives will be determined annually by the Company, but generally include objective performance targets on financial performance, growth, asset quality and risk management and subjective performance objectives, such as particular qualitative factors for the participant, based on his or her duties to the Company. Each performance objective will specify level of achievements at “threshold,” “target” and “maximum” levels and will be weighted by priority as a percentage of the total annual bonus award payable to the participant.

Incentive compensation expense for the Incentive and the Executive Annual Incentive Plans for the years ended December 31, 2016 and 2015 amounted to $126,000 and $132,000, respectively.

Executive Supplemental Retirement Plan
The Company adopted a supplemental executive retirement plan (“SERP”) effective January 1, 2014. The SERP is a non-qualified retirement plan that provides supplemental retirement benefits to participants who are key employees as designated by the Compensation Committee. The President and Chief Executive Officer is currently the only participant in the SERP. Total expense for the plan for the years ended December 31, 2016 and 2015 amounted to $48,000 and $46,000, respectively.

Equity Incentive Plan
On November 24, 2015, stockholders of the Company approved the 2015 Equity Incentive Plan (“2015 EIP”). The 2015 EIP provides for the award of up to 314,661 shares of common stock pursuant to grants of restricted stock awards and stock options. Pursuant to the terms of the 2015 EIP, on June 1, 2016, the Board of Directors granted 70,950 shares of restricted stock and 169,500 stock options to employees and directors. Of the 70,950 shares of restricted stock granted, 47,600 shares vest evenly over a five year period and 23,350 shares vest over a four year period. Of the 169,500 stock options granted, 122,500 options vest evenly over a five year period and 47,000 options vest over a four year period. The maximum term of each option is ten years. At December 31, 2016, there were 18,953 restricted stock awards and 55,258 stock options available for future grants.

The fair value of each option awarded for the 2015 EIP is estimated on the date of the grant using the Black-Scholes Option-Pricing Model. The expected life represents the period of time that the option is expected to be outstanding, taking into account the contractual term and the vesting period. The expected volatility is based on peer group volatility because the Company does not have sufficient trading history. The dividend yield is based on the Company’s expectation of no dividend payouts. The risk-free rate was based on the U.S. Treasury yield curve in effect at the date of the grant for a period equivalent to the expected life of the option.

The weighted average assumptions used and fair value for options granted during the year ended December 31, 2016 are as follows:

		Stock Option Assumptions
Expected life		6.40 years
Expected dividend yield		0%
Expected volatility		20.24%
Expected forfeiture rate		0%
Risk free rate		1.67%
Fair value per option	$	3.17

A summary of activity for the 2015 Equity Incentive Plan as of and for the year ended December 31, 2016 is as follows:

		Stock Options
		2016
		Number of Shares
Outstanding at beginning of period		-
Granted		169,500
Outstanding at end of period		169,500
Exercisable at end of period		-
Weighted average fair value of options granted during the period	$	3.17
Weighted average contractual life remaining		9.4 years
Weighted average exercise price	$	12.85
Aggregate intrinsic value	$	364,000

		Non-vested Restricted Stock
		2016
		Number of Shares
Outstanding at beginning of period		-
Granted		70,950
Outstanding at end of period		70,950
Weighted average grant date fair value	$	12.85

As of December 31, 2016, unrecognized share-based compensation expense related to non-vested options amounted to $474,000 and the unrecognized share-based compensation expense related to non-vested restricted stock amounted to $806,000. The unrecognized expense related to the non-vested options and non-vested restricted stock will be recognized over a weighted average period of 4.1 years.

For the year ended December 31, 2016, the Company recognized stock option related compensation expense of $63,000, and the recognized tax benefit related to this expense was $8,000. For the year ended December 31, 2016, the Company recognized restricted stock related compensation expense of $106,000, and the recognized tax benefit related to this expense was $42,000.

Employee Stock Ownership Plan

The Company adopted a tax-qualified employee stock ownership plan ("ESOP") for the benefit of eligible employees. On October 10, 2014, in accordance with a Plan of Conversion (the "Conversion"), Conahasset Bancshares, MHC, the Bank's former mutual holding company, completed a mutual-to-stock conversion pursuant to which the Bank became a wholly owned subsidiary of Pilgrim Bancshares, Inc., (the "Company") a stock holding company incorporated in February 2014. The Company completed its initial public offering in connection with the conversion transaction by selling a total of 2,182,125 shares of common stock at a purchase price of $10.00 per share in a subscription offering, of which 179,807 shares were purchased by the Bank's ESOP.

The ESOP funded its stock purchase through a loan from the Company equal to 100% of the aggregate purchase price of the common stock. The ESOP trustee will repay the loan principally through the Bank's contributions to the ESOP and, possibly, dividends paid on common stock held by the plan over the remaining loan term of 28.2 years.

The trustee will hold the shares purchased by the ESOP in an unallocated suspense account. Shares will be released from the suspense account on a pro-rata basis as the loan is repaid. The trustee will allocate the shares released among the participants' accounts on the basis of each participant's proportional share of compensation relative to all participants. Participants will vest in their benefit at a rate of 20% per year, beginning after the completion of their second year of service, such that the participants will be 100% vested upon completion of six years of credited service. Participants who were employed by the Bank immediately prior to the conversion will receive credit for vesting purposes for years of service prior to adoption of the ESOP. Participants also will become fully vested upon normal retirement, death or disability, a change in control, or termination of the employee stock ownership plan. Generally, participants will receive distributions from the ESOP upon severance from employment. The ESOP reallocates any unvested shares forfeited upon termination of employment among the remaining participants.

Under applicable accounting requirements, the Company will record a compensation expense for the ESOP equal to the fair market value of the shares when they are committed to be released from the suspense account to participants' accounts under the plan.

At December 31, 2016 and 2015, the remaining principal balance on the ESOP debt was $1.6 million and $1.7 million, respectively.

Total compensation expense recognized in connection with the ESOP was $80,000 and $70,000 for the years ended December 31, 2016 and 2015, respectively. The remaining principal balance on the ESOP debt as of December 31, 2016 is payable as follows:

Years Ending December 31,		Amount (In Thousands)
2017	$	36
2018		38
2019		39
2020		40
2021		42
Thereafter		1,451
	$	1,646

Shares held by the ESOP are as follows as of December 31:

	2016	2015
Allocated	11,987	5,994
Committed to be allocated	5,994	5,993
Unallocated	161,826	167,820
Paid out to participants	(6)	-
Shares held by ESOP	179,801	179,807

The fair value of unallocated ESOP shares was $2.4 million and $2.2 million at December 31, 2016 and 2015, respectively.

Employment Agreements

The Bank has entered into an employment agreement with its President and Chief Executive Officer, with an initial term of three years. The agreement provides for a specified minimum annual compensation and the continuation of benefits currently received upon termination events, including a change in control, as defined in the agreement. The Bank has also entered into change in control agreements with two officers of the Bank with an initial term of two years, which provide for a lump sum severance payment, subject to limitations. These agreements must be approved by the Board of Directors on an annual basis after the initial term, with an extension for an additional year. If the Board of Directors determines not to extend the term, a notice of non-renewal must be issued.

NOTE 11 - OFF-BALANCE SHEET ACTIVITIES

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but usually includes income-producing commercial properties or residential real estate.

Financial instrument liabilities whose contract amounts represent off-balance sheet credit risk are as follows:

	At December 31, 2016	At December 31, 2015
	(In Thousands)	
Commitments to originate loans	$ 5,958	$ 5,747
Unadvanced funds on loans:		
Home equity lines of credit	4,087	4,257
Construction loans	12,608	13,006
Commercial lines of credit	3,816	1,513
Consumer	117	118
	$ 26,586	$ 24,641

The Company accrues credit losses related to off-balance sheet financial instruments. Potential losses on off-balance sheet loan commitments are estimated using the same risk factors used to determine the allowance for loan losses. The allowance for off-balance sheet credit losses is recorded within other liabilities on the consolidated balance sheet. The balance as of December 31, 2016 and 2015 was $11,000 and $9,000, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

In April 2012, the Company amended its agreement originally dated March 10, 2007 with a third party in which the third party is to provide the Company with data processing and other related services. The effective date of the amendment was May 1, 2012 for a seven-year term and will automatically renew for successive seven-year terms unless either party notifies the other of its intention not to renew. Each month, the Company shall pay certain minimum monthly charges, as defined in the agreement, as well as charges for any additional services provided.

NOTE 13 - FAIR VALUE MEASUREMENTS

ASC 820-10, "Fair Value Measurement - Overall," provides a framework for measuring fair value under generally accepted accounting principles. This guidance also allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis.

In accordance with ASC 820-10, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. Government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other methodologies, including option pricing models, discounted cash flow models and similar techniques, are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value as of December 31, 2016 and 2015. The Company did not have any significant transfers between level 1 and level 2 of the fair value hierarchy during the year ended December 31, 2016.

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

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

The Company's impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using level 2 inputs based upon appraisals of similar properties obtained from a third party. For level 3 inputs, fair value is based upon management estimates of the value of the underlying collateral or the present value of the expected cash flows.

The following summarizes assets measured at fair value on a recurring basis as of December 31, 2016 and 2015:

		Fair Value Measurements at Reporting Date Using:		
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
December 31, 2016 :				
Debt securities issued by U.S. government corporations and agencies	$ 8,934	$ -	$ 8,934	$ -
Debt securities issued by states of the United States and political subdivisions of the states	2,646	-	2,646	-
Mortgage-backed securities	5,461	-	5,461	-
Totals	$ 17,041	$ -	$ 17,041	$ -
December 31, 2015 :				
Debt securities issued by U.S. government corporations and agencies	$ 6,311	$ -	$ 6,311	$ -
Debt securities issued by states of the United States and political subdivisions of the states	2,444	-	2,444	-
Mortgage-backed securities	7,801	-	7,801	-
Totals	$ 16,556	$ -	$ 16,556	$ -

Under certain circumstances we make adjustments to fair value for certain assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2016 and 2015 for which a nonrecurring change in fair value has been recorded:

		Fair Value Measurements at Reporting Date Using:		
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
December 31, 2016:				
Impaired loans	$ 552	$ -	$ -	$ 552
Totals	$ 552	$ -	$ -	$ 552
December 31, 2015:				
Impaired loans	$ 552	$ -	$ -	$ 552
Totals	$ 552	$ -	$ -	$ 552

The estimated fair values of the Company's financial instruments, all of which are held or issued for purposes other than trading, are as follows:

	December 31, 2016				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	$ 11,188	$ 11,188	$ -	$ -	$ 11,188
Interest-bearing time deposits with other banks	1,092	-	1,098	-	1,098
Available-for-sale securities	17,041	-	17,041	-	17,041
Held-to-maturity securities	104	-	135	-	135
Federal Home Loan Bank stock	2,299	2,299	-	-	2,299
Investment in The Co-operative Central Reserve Fund	384	384	-	-	384
Loans, net	210,486	-	-	211,328	211,328
Accrued interest receivable	599	599	-	-	599
Financial liabilities:					
Deposits	182,086	-	182,676	-	182,676
FHLB advances	37,329	-	37,089	-	37,089

	December 31, 2015				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	$ 10,670	$ 10,670	$ -	$ -	$ 10,670
Interest-bearing time deposits with other banks	1,087	-	1,086	-	1,086
Available-for-sale securities	16,556	-	16,556	-	16,556
Held-to-maturity securities	120	-	155	-	155
Federal Home Loan Bank stock	971	971	-	-	971
Investment in The Co-operative Central Reserve Fund	384	384	-	-	384
Loans, net	170,427	-	-	171,150	171,150
Accrued interest receivable	508	508	-	-	508
Financial liabilities:					
Deposits	169,372	-	170,134	-	170,134
FHLB advances	8,500	-	8,458	-	8,458

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets as of December 31, 2016 and 2015 under the indicated captions. Accounting policies related to financial instruments are described in Note 2.

NOTE 14 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Bank's business activity is with customers located within the Commonwealth of Massachusetts. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Bank's loan portfolio is comprised of loans collateralized by real estate located in the Commonwealth of Massachusetts.

NOTE 15 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Effective January 1, 2015 (with a phase-in period of two to four years for certain components), the Bank became subject to capital regulations adopted by the Board of Governors of the Federal Reserve System ("FRB") and the FDIC, which implement the Basel III regulatory capital reforms and the changes required by the Dodd-Frank Act. The regulations require a common equity Tier 1 ("CET 1") capital ratio of 4.5%, a minimum Tier 1 capital to risk-weighted assets ratio of 6.0%, a minimum total capital to risk-weighted assets ratio of 8.0% and a minimum Tier 1 leverage ratio of 4.0%. CET1 generally consists of common stock and retained earnings, subject to applicable adjustments and deductions. Under prompt corrective action regulations, in order to be considered "well capitalized," the Bank must maintain a CET1 capital ratio of 6.5%, a Tier 1 risk-based capital ratio of 8.0%, a total risk-based capital ratio of 10.0% and a Tier 1 leverage ratio of 5.0%. In addition, the regulations establish a capital conservation buffer above the required capital ratios that phases in beginning January 1, 2016 at 0.625% of risk-weighted assets and increases each year by 0.625% until it is fully phased in at 2.5% effective January 1, 2019. Beginning January 1, 2016, failure to maintain the capital conservation buffer will limit the ability of the Bank and the Company to pay dividends, repurchase shares or pay discretionary bonuses. At December 31, 2016, the Bank exceeded the fully phased in regulatory requirement for the capital conservation buffer.

Management believes, as of December 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum Common Equity Tier 1, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table as of December 31.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars In Thousands)			
As of December 31, 2016:						
Total Capital (to Risk Weighted Assets)	$ 24,440	14.56%	$ 13,424	8.0%	$ 16,781	10.0%
Tier 1 Capital (to Risk Weighted Assets)	23,380	13.93	10,068	6.0	13,424	8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	23,380	13.93	7,551	4.5	10,907	6.5
Tier 1 Capital (to Average Assets)	23,380	9.38	9,970	4.0	12,463	5.0
As of December 31, 2015:						
Total Capital (to Risk Weighted Assets)	$ 23,066	16.18%	$ 11,408	8.0%	$ 14,260	10.0%
Tier 1 Capital (to Risk Weighted Assets)	22,171	15.55	8,556	6.0	11,408	8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	22,171	15.55	6,417	4.5	9,269	6.5
Tier 1 Capital (to Average Assets)	22,171	10.86	8,169	4.0	10,211	5.0

NOTE 16 - RECLASSIFICATION

Certain amounts in the 2015 consolidated financial statements have been reclassified to be consistent with the current period presentation.

NOTE 17 – CONDENSED PARENT COMPANY FINANCIAL STATEMENTS

The condensed balance sheets of the parent company only are as follows:

Pilgrim Bancshares, Inc.
BALANCE SHEETS

	At December 31,	
	2016	2015
	(In Thousands)	
ASSETS		
Noninterest bearing deposits	$ 7,702	$ 8,158
Loan to the ESOP	1,646	1,682
Investment in subsidiary	23,259	22,078
Other assets	353	221
Total assets	$ 32,960	$ 32,139
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	$ 313	$ 170
Stockholders' equity	32,647	31,969
Total liabilities and stockholders' equity	$ 32,960	$ 32,139

The condensed statements of income of the parent company only are as follows:

Pilgrim Bancshares, Inc.
STATEMENTS OF INCOME

	Years Ended December 31,	
	2016	2015
	(In Thousands)	
Interest income from ESOP loan	$ 59	$ 56
Other noninterest expense	119	137
Loss before income tax benefit and equity in undistributed net income of the Bank	(60)	(81)
Income tax benefit	(107)	(32)
Income (loss) before equity in undistributed net income of subsidiary	47	(49)
Equity in undistributed net income of subsidiary	960	703
Net income	$ 1,007	$ 654

The condensed statements of cash flows of the parent company only are as follows:

Pilgrim Bancshares, Inc.

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
	(In Thousands)	
Cash flows from operating activities:		
Net income	$ 1,007	$ 654
Adustments to reconcile net income to net cash provided by operating activities:		
Repayment of principal on ESOP loan	36	37
Equity in undistributed income of subsidiary	(960)	(703)
Deferred tax (benefit) expense	(37)	40
Increase in other assets	(95)	(72)
Increase in other liabilities	143	137
Net cash provided by operating activities	94	93
Cash flows from financing activities:		
Retirement of common stock	(550)	(298)
Issuance costs related to initial public offering	-	(17)
Net cash used in financing activities	(550)	(315)
Net change in cash and cash equivalents	(456)	(222)
Cash and cash equivalents at beginning of period	8,158	8,380
Cash and cash equivalents at end of period	$ 7,702	$ 8,158

NOTE 18 - QUARTERLY DATA (UNAUDITED)

A summary of consolidated operating results on a quarterly basis is as follows:

	Years Ended December 31,							
	2016				2015			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In Thousands)							
Interest and dividend income	$ 2,235	$ 2,194	$ 1,928	$ 1,866	$ 1,837	$ 1,772	$ 1,682	$ 1,606
Interest expense	429	426	374	352	310	268	253	254
Net interest and dividend income	1,806	1,768	1,554	1,514	1,527	1,504	1,429	1,352
Provision for loan losses	36	62	36	36	48	36	38	22
Net interest and dividend income, after provision for loan losses	1,770	1,706	1,518	1,478	1,479	1,468	1,391	1,330
Total noninterest income	114	155	146	147	149	156	133	159
Total noninterest expense	1,381	1,401	1,365	1,378	1,285	1,304	1,313	1,344
Income before income taxes	503	460	299	247	343	320	211	145
Provision for income taxes	113	184	114	91	127	117	77	44
Net income	$ 390	$ 276	$ 185	$ 156	$ 216	$ 203	$ 134	$ 101
Earnings per share:								
Basic	$ 0.19	$ 0.14	$ 0.09	$ 0.08	$ 0.10	$ 0.10	$ 0.06	$ 0.05
Diluted	$ 0.19	$ 0.14	$ 0.09	$ 0.08	$ 0.10	$ 0.10	$ 0.06	$ 0.05

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement Form S-8, File No. 333-211826, of our report dated March 22, 2017, on the consolidated financial statements of Pilgrim Bancshares, Inc. as of and for the years ended as of December 31, 2016 and 2015, which report appears in this Annual Report on Form 10-K of Pilgrim Bancshares, Inc. for the year ended December 31, 2016.

/s/ Baker Newman & Noyes LLC
Peabody, Massachusetts
March 22, 2017

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Francis E. Campbell, certify that:

1. I have reviewed this Annual Report on Form 10-K of Pilgrim Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e) and 15(d) – 15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a –15(f) and 15(d) –15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 22, 2017

/s/ Francis E. Campbell
Francis E. Campbell
President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Christopher G. McCourt, certify that:

1. I have reviewed this Annual Report on Form 10-K of Pilgrim Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a –15(e) and 15d –15(e) and 15(d) –15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13(a) –15(f) and 15(d) – 15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 22, 2017

/s/ Christopher G. McCourt
Christopher G. McCourt
Executive Vice President and Chief Financial Officer

Exhibit 32

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Francis E. Campbell, President and Chief Executive Officer of Pilgrim Bancshares, Inc., (the “Company”) and Christopher G. McCourt, Executive Vice President and Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that he has reviewed the annual report on Form 10-K for the year ended December 31, 2016 (the “Report”) and that to the best of his knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 22, 2017	/s/ Francis E. Campbell
	Francis E. Campbell President and Chief Executive Officer
Date: March 22, 2017	/s/ Christopher G. McCourt
	Christopher G. McCourt Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.