

ANNUAL
REPORT
2018



THE CO-OPERATIVE
CENTRAL BANK

THE CO-OPERATIVE CENTRAL BANK

EIGHTY SEVENTH ANNUAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

OPERATED AND WHOLLY OWNED BY ALL
MASSACHUSETTS CO-OPERATIVE BANKS, SOLELY FOR THE
MUTUAL BENEFIT OF ALL OF THEIR DEPOSITORS, AS A
SOURCE OF CASH RESERVES AND TO PROVIDE INSURANCE
IN FULL OF DEPOSITS UNDER MASSACHUSETTS LAW.



75 PARK PLAZA, BOSTON, MASSACHUSETTS 02116

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THE CO-OPERATIVE CENTRAL BANK

OFFICERS AND BOARD OF DIRECTORS

OFFICERS

Edward F. Manzi Jr.....Chairman
Julieann M. Thurlow.....Vice Chairman
Andrew J. Calamare.....President and Chief Executive Officer
Judith M. Javidpour.....Senior Vice President & Treasurer
Annemarie Lee.....Vice President

BOARD OF DIRECTORS

TERM EXPIRES

Joseph T. Baptista Jr., President & CEO	Mechanics Cooperative Bank	2018
Joseph A. De Vito, President & CEO	The Village Bank	2019
Mark R. Haranas, President & CEO	MutualOne Bank	2020
Edward F. Manzi Jr., Chairman & CEO	Fidelity Bank	2018
Eileen McAnneny, President	Massachusetts Taxpayers Foundation	2020
Andrew J. Raczka, CEO	Abington Bank	2020
Joseph V. Scholl, President & CEO	Walpole Co-operative Bank	2020
Julieann M. Thurlow, President & CEO	Reading Cooperative Bank	2019
Michael E. Tucker, President & CEO	Greenfield Co-operative Bank	2020
Raija Vaisanen, Director of Research	Commonwealth Corporation	2019



The Co-operative Central Bank

75 Park Plaza • Boston, Massachusetts 02116 • (617) 695-0400

I am pleased to present the 2018 Annual Report of The Co-operative Central Bank.

As a result of the work of capable management and active and informed member bank directors the industry has reported another year of solid performance.

Since its inception, The Co-operative Central Bank has capably provided deposit insurance through its Share Insurance Fund, liquidity through its Reserve Fund as well as capital, managerial, and technical assistance to state chartered co-operative banks across the Commonwealth of Massachusetts.

Our Member Banks

The industry finished the year with forty-one member banks with assets totaling \$23 billion. The average asset size of our members is now \$540 million.

For the first six months of 2018 our members reported net income of \$76 million which reflects an increase of \$16 million or 27% compared with the first six months of 2017. This positive trend was due to a combination of higher net interest income and lower income taxes. Higher net interest income is due to the increase in the yield on earning assets outpacing the increasing cost of funding. For the six months ended June 2018 net interest income of our members rose by 8% compared with the first six month of 2017. Likewise, our members are benefiting from lower corporate income tax rates which has resulted in a decrease of 23% in income tax expense for the first six months of 2018 compared to the same six months of 2017.

Share Insurance Fund and Reserve Fund

In the year ended June 30th overall industry deposits increased 2% to \$18.1 billion. During this same twelve month period, deposits in excess of FDIC limits grew 4% to \$3.7 billion to represent 20% of total industry deposits.

While most banks tested their lines of credit with the Reserve Fund, no member borrowed for liquidity purposes.

We remain steadfast in our commitment to the vital work of the Bank in protecting depositors of co-operative banks across the Commonwealth of Massachusetts.

Sincerely,

Andrew J. Calamare
President & Chief Executive Officer

THE CO-OPERATIVE CENTRAL BANK

SHARE INSURANCE FUND

EXCESS DEPOSIT INSURANCE COVERAGE RATIO

August 31, 2018 and 2017

	2018	2017
Share Insurance Fund Equity	\$ 96,849,000	\$ 97,519,694
Less: Capital Assistance	-	1,963,750
Less: Restricted or Unavailable Assets - Other Assets	<u>5,702,438</u>	<u>5,702,438</u>
Available for Insurance Purposes	<u>\$ 91,146,562</u>	<u>\$ 89,853,506</u>
Insured Excess Deposits	\$ 3,658,515,629	\$ 3,531,057,443
Insurance Coverage Ratio	2.49%	2.54%



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Co-operative Central Bank
Boston, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of The Co-operative Central Bank (the "Bank"), which comprise the individual funds and combining statement of financial condition as of August 31, 2018, and the related individual funds and combining statements of income and retained earnings, comprehensive loss, and cash flows for the year then ended and the related notes to the financial statements. We have also audited the accompanying combined financial statements of the Bank, which comprise the combined statement of financial condition as of August 31, 2017, and the related combined statements of income and retained earnings, comprehensive loss, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combining financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combining financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combining financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the combining financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combining financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2018 combining financial statements referred to above present fairly, in all material respects, the individual funds and combining financial position of The Co-operative Central Bank as of August 31, 2018 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2017 combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Co-operative Central Bank as of August 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP
Boston, Massachusetts
October 24, 2018



THE CO-OPERATIVE CENTRAL BANK

COMBINING STATEMENTS OF FINANCIAL CONDITION

August 31, 2018 and 2017			2018	2017
	Reserve Fund	Share Insurance Fund	Combined	Combined
ASSETS				
Cash and cash equivalents	\$ 895,851	\$ 485,106	\$ 1,380,957	\$ 1,531,910
Investment securities:				
Securities available-for-sale	35,186,919	83,503,204	118,690,123	119,071,976
Certificates of deposit	4,660,000	6,873,000	11,533,000	11,778,000
Capital assistance	-	-	-	1,963,750
Assessment receivables	-	-	-	33,363
Accrued interest receivable	145,400	278,124	423,524	419,442
Office equipment, net	-	14,293	14,293	11,629
Other assets	80,356	5,708,273	5,788,629	5,783,651
Total Assets	<u>\$ 40,968,526</u>	<u>\$ 96,862,000</u>	<u>\$ 137,830,526</u>	<u>\$ 140,593,721</u>
LIABILITIES AND EQUITY				
Deposits by member banks	\$ 30,416,397	\$ -	\$ 30,416,397	\$ 31,771,807
Accrued expenses and other liabilities	216,440	13,000	229,440	186,768
Total Liabilities	<u>30,632,837</u>	<u>13,000</u>	<u>30,645,837</u>	<u>31,958,575</u>
Retained earnings	11,380,957	99,449,291	110,830,248	109,083,745
Accumulated other comprehensive loss	(1,045,268)	(2,600,291)	(3,645,559)	(448,599)
Total Equity	<u>10,335,689</u>	<u>96,849,000</u>	<u>107,184,689</u>	<u>108,635,146</u>
Total Liabilities and Equity	<u>\$ 40,968,526</u>	<u>\$ 96,862,000</u>	<u>\$ 137,830,526</u>	<u>\$ 140,593,721</u>

See accompanying notes to combining financial statements.

THE CO-OPERATIVE CENTRAL BANK

COMBINING STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended August 31, 2018 and 2017			2018	2017
	Reserve Fund	Share Insurance Fund	Combined	Combined
Income:				
Interest income	\$ 734,678	\$ 1,746,835	\$ 2,481,513	\$ 2,421,894
Assessments	-	1,504,608	1,504,608	677,582
Total Income	734,678	3,251,443	3,986,121	3,099,476
 Expenses:				
Salaries and related benefits	427,491	997,600	1,425,091	1,380,521
Occupancy	32,548	75,800	108,348	102,991
Legal	108,568	259,123	367,691	219,052
Director fees	29,106	68,000	97,106	93,617
Other operating expenses	71,024	170,358	241,382	225,909
Total Expenses	668,737	1,570,881	2,239,618	2,022,090
	65,941	1,680,562	1,746,503	1,077,386
 Noninterest Income				
Gain on sales of securities	-	-	-	5,626
Total Noninterest Income	-	-	-	5,626
 Net Income				
	65,941	1,680,562	1,746,503	1,083,012
 Retained Earnings:				
Beginning of year	11,315,016	97,768,729	109,083,745	108,000,733
End of year	\$ 11,380,957	\$ 99,449,291	\$ 110,830,248	\$ 109,083,745

See accompanying notes to combining financial statements.

THE CO-OPERATIVE CENTRAL BANK
COMBINING STATEMENTS OF COMPREHENSIVE LOSS

<u>Years ended August 31, 2018 and 2017</u>			<u>2018</u>	<u>2017</u>
	<u>Reserve Fund</u>	<u>Share Insurance Fund</u>	<u>Combined</u>	<u>Combined</u>
Net Income	<u>\$ 65,941</u>	<u>\$ 1,680,562</u>	<u>\$ 1,746,503</u>	<u>\$ 1,083,012</u>
Other Comprehensive Loss:				
Unrealized holding losses on available-for-sale securities arising during the period	(845,704)	(2,351,256)	(3,196,960)	(1,498,190)
Reclassification adjustment for gains realized in net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,626)</u>
Other Comprehensive Loss	<u>(845,704)</u>	<u>(2,351,256)</u>	<u>(3,196,960)</u>	<u>(1,503,816)</u>
Comprehensive Loss	<u>\$ (779,763)</u>	<u>\$ (670,694)</u>	<u>\$ (1,450,457)</u>	<u>\$ (420,804)</u>

See accompanying notes to combining financial statements.

THE CO-OPERATIVE CENTRAL BANK

COMBINING STATEMENTS OF CASH FLOWS

Years ended August 31, 2018 and 2017			2018	2017
	Reserve Fund	Share Insurance Fund	Combined	Combined
Cash flows from operating activities:				
Net Income	\$ 65,941	\$ 1,680,562	\$ 1,746,503	\$ 1,083,012
Adjustments to reconcile net income to net cash provided by operating activities:				
Net amortization of securities premiums / discounts	267,025	472,211	739,236	748,401
Gain on sales of securities	-	-	-	(5,626)
Depreciation expense	-	6,240	6,240	6,602
Net change in:				
Assessment receivables	-	33,363	33,363	225,135
Accrued interest receivable	(6,675)	2,593	(4,082)	(27,059)
Other assets	(5,810)	832	(4,978)	(1,486)
Accrued expenses and other liabilities	37,692	4,980	42,672	(13,642)
Net cash provided by operating activities	<u>358,173</u>	<u>2,200,781</u>	<u>2,558,954</u>	<u>2,015,337</u>
Cash flows from investing activities:				
Proceeds from maturities and calls of available-for-sale securities	1,000,000	4,000,000	5,000,000	5,000,000
Proceeds from sales of available-for-sale securities	-	-	-	7,617,201
Purchases of available-for-sale securities	(1,993,591)	(17,326,251)	(19,319,842)	(26,132,487)
Principal payments received on mortgage-backed securities	1,651,304	9,114,195	10,765,499	9,619,662
Purchases of certificates of deposit	-	(490,000)	(490,000)	(1,472,000)
Proceeds from maturities of certificates of deposit	735,000	-	735,000	-
Purchase of office equipment	-	(8,904)	(8,904)	-
Principal collected on loans	2,800,000	-	2,800,000	3,300,000
Principal disbursed for loans	(2,800,000)	-	(2,800,000)	(3,300,000)
Net cash provided by (used in) investing activities	<u>1,392,713</u>	<u>(4,710,960)</u>	<u>(3,318,247)</u>	<u>(5,367,624)</u>
Cash flows from financing activities:				
Return of member bank deposits	(1,355,410)	-	(1,355,410)	-
Repayment of capital assistance	-	1,963,750	1,963,750	-
Net cash provided by (used in) financing activities	<u>(1,355,410)</u>	<u>1,963,750</u>	<u>608,340</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	395,476	(546,429)	(150,953)	(3,352,287)
Cash and cash equivalents at beginning of year	<u>500,375</u>	<u>1,031,535</u>	<u>1,531,910</u>	<u>4,884,197</u>
Cash and cash equivalents at end of year	<u>\$ 895,851</u>	<u>\$ 485,106</u>	<u>\$ 1,380,957</u>	<u>\$ 1,531,910</u>

See accompanying notes to combining financial statements.

THE CO-OPERATIVE CENTRAL BANK

NOTES TO COMBINING FINANCIAL STATEMENTS

1 - ORGANIZATION AND NATURE OF THE BUSINESS

The Co-operative Central Bank (the “Bank”) was established by an Act of the Massachusetts legislature in 1932, as amended. The Bank is comprised of two separate and distinct funds.

The Reserve Fund was established in 1932 for the purpose of centralizing reserve funds to promote elasticity and flexibility of resources. Member banks maintain deposit balances with the Reserve Fund and may borrow from the Fund on a demand basis from time to time for liquidity or other short term purposes.

The Share Insurance Fund (SIF) was established in 1934 for the insurance of all deposits in Massachusetts co-operative banks. In 1987, deposits in all Massachusetts co-operative banks became insured by the Federal Deposit Insurance Corporation (FDIC) up to current FDIC limits. Since that date the Share Insurance Fund insures deposits in member co-operative banks which are in excess of the current FDIC limit.

The two funds may not be commingled and the assets of one do not stand behind the liabilities of the other. The combining financial statements include the financial statements of these two separate and distinct funds.

In the event a member bank converts to a federal charter or is acquired by a non-member bank in a merger, its membership in the Bank is terminated, its deposit in the Reserve Fund is returned and the withdrawing member retains no further rights or interest in the Bank.

A member bank that is determined by the Board of Directors of the Bank to pose a greater than normal loss exposure risk to the SIF may, with the approval of the Commissioner of Banks of the Commonwealth of Massachusetts, be required to take action(s) to mitigate the risk. The member bank then has the option of complying with the requested mitigation or withdrawing from membership. If the member elects to withdraw, its excess deposit insurance coverage from the Share Insurance Fund is phased out and the withdrawing member receives back its Reserve Fund deposit.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following items comprise the significant accounting policies which the Bank follows in preparing and presenting its financial statements.

METHOD OF ACCOUNTING

The combining financial statements are prepared on the accrual basis of accounting.

THE CO-OPERATIVE CENTRAL BANK
NOTES TO COMBINING FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the accrued loss contingency.

CASH EQUIVALENTS

For purposes of the statements of cash flows, the Bank considers all highly liquid debt instruments, with an initial maturity of three months or less, when purchased, to be cash equivalents.

RECOGNITION OF INCOME

Generally, interest income on loans, capital assistance in the form of perpetual preferred stock, income on advances, subordinated debentures and capital certificates to member banks is recognized when earned. Interest income may be recognized when received in those instances where the ultimate collection of interest is uncertain.

INVESTMENT SECURITIES

Available-for-sale securities are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Premiums and discounts are recognized in interest income using a method which approximates the interest method over the period to contractual maturity, adjusted for anticipated prepayments. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method. Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities.

Each reporting period, the Bank evaluates all securities with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other than temporary (“OTTI”). OTTI is required to be recognized if (1) the Bank intends to sell the security; (2) it is “more likely than not” that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt securities that the Bank intends to sell, or more likely than not will be required to sell, the full amount of the

THE CO-OPERATIVE CENTRAL BANK
NOTES TO COMBINING FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT SECURITIES (CONTINUED)

depreciation is recognized as OTTI through earnings. Credit related OTTI for all other impaired debt securities is recognized through earnings while non-credit related OTTI is recognized in other comprehensive income /loss.

OFFICE EQUIPMENT

Office equipment is reported at cost, less accumulated depreciation. Depreciation is charged to operations over the estimated useful lives of the respective assets (ranging from three to five years) using the straight-line method. Those items which are not determined to be capital expenditures are immediately expensed.

INSURANCE ASSESSMENTS

The Bank recognizes income from insurance assessments at the time a member bank is assessed.

CONTINGENCY LOSS PROVISION

An accrued loss contingency is established through a contingency loss provision charged to operations. The accrued loss contingency is an amount that management reasonably believes will be adequate to absorb possible excess deposit insurance losses, net of recoveries and adjustments, if any, from the final disposition of any member banks that have or may fail. The estimated loss provision has been determined based upon reviews of financial statements and regulatory examination reports of member banks, consultations with bank regulators, and historical experience.

INCOME TAXES

The Bank is exempt from federal income taxes under the provisions of Section 501(c)14 of the Internal Revenue Code. The Bank's policy is to analyze its tax positions for all open years and has not identified any uncertain tax positions. The Bank is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any periods in progress. The Bank believes it is no longer subject to income tax examinations prior to 2015.

THE CO-OPERATIVE CENTRAL BANK

NOTES TO COMBINING FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPARATIVE FINANCIAL INFORMATION

The combining financial statements include certain prior-year comparative information in total but not by individual fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Bank's combining financial statements for the year ended August 31, 2017, from which the comparative information was derived.

COMPREHENSIVE INCOME (LOSS)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, none of which have related tax effects, are reported as a separate component of the equity section of the combining statements of financial condition, such items, along with net income, are components of comprehensive income (loss).

3 - CERTIFICATES OF DEPOSIT

A summary of certificates of deposit by contractual maturity as of August 31, 2018 are shown below:

	Reserve Fund	Share Insurance Fund
	<u> </u>	<u> </u>
Due in one year or less	\$ 490,000	\$ 1,225,000
Due after one year through five years	<u>4,170,000</u>	<u>5,648,000</u>
	<u>\$ 4,660,000</u>	<u>\$ 6,873,000</u>

THE CO-OPERATIVE CENTRAL BANK

NOTES TO COMBINING FINANCIAL STATEMENTS

4 - INVESTMENT SECURITIES

The amortized cost and approximate fair values of investment securities classified as available-for-sale are summarized as follows as of August 31, 2018 and 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2018				
Reserve Fund				
U.S. government and government sponsored agency obligations	\$ 12,912,052	\$ -	\$ (248,842)	\$ 12,663,210
Mortgage-backed securities	23,320,135	-	(796,426)	22,523,709
	<u>36,232,187</u>	<u>-</u>	<u>(1,045,268)</u>	<u>35,186,919</u>
Share Insurance Fund				
U.S. government and government sponsored agency obligations	23,453,326	258	(412,539)	23,041,045
Mortgage-backed securities	62,650,169	5,809	(2,193,819)	60,462,159
	<u>86,103,495</u>	<u>6,067</u>	<u>(2,606,358)</u>	<u>83,503,204</u>
Combined	<u>\$ 122,335,682</u>	<u>\$ 6,067</u>	<u>\$ (3,651,626)</u>	<u>\$ 118,690,123</u>
2017				
Reserve Fund				
U.S. government and government sponsored agency obligations	\$ 11,932,046	\$ 27,041	\$ (40,317)	\$ 11,918,770
Mortgage-backed securities	25,224,879	38,855	(225,143)	25,038,591
	<u>37,156,925</u>	<u>65,896</u>	<u>(265,460)</u>	<u>36,957,361</u>
Share Insurance Fund				
U.S. government and government sponsored agency obligations	19,497,392	107,140	(22,152)	19,582,380
Mortgage-backed securities	62,866,258	279,291	(613,314)	62,532,235
	<u>82,363,650</u>	<u>386,431</u>	<u>(635,466)</u>	<u>82,114,615</u>
Combined	<u>\$ 119,520,575</u>	<u>\$ 452,327</u>	<u>\$ (900,926)</u>	<u>\$ 119,071,976</u>

During the year ended August 31, 2018 there were no sales of available-for-sale securities.

During the year ended August 31, 2017 proceeds from sales of available-for-sale securities amounted to \$7,617,201. Gross realized gains on those sales amounted to \$53,449 and gross realized losses amounted to \$47,823.

THE CO-OPERATIVE CENTRAL BANK

NOTES TO COMBINING FINANCIAL STATEMENTS

4 - INVESTMENT SECURITIES (CONTINUED)

Information pertaining to securities with gross unrealized losses at August 31, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	Less Than Twelve Months		Twelve Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
2018				
Reserve Fund				
U.S. government and government sponsored agency obligations	\$ 86,258	\$ 5,818,410	\$ 162,584	\$ 6,844,800
Mortgage-backed securities	146,698	6,182,966	649,728	16,340,743
	232,956	12,001,376	812,312	23,185,543
Share Insurance Fund				
U.S. government and government sponsored agency obligations	260,590	16,403,070	151,949	5,152,675
Mortgage-backed securities	708,349	28,088,437	1,485,470	28,848,311
	968,939	44,491,507	1,637,419	34,000,986
Combined	\$ 1,201,895	\$ 56,492,883	\$ 2,449,731	\$ 57,186,529
2017				
Reserve Fund				
U.S. government and government sponsored agency obligations	\$ 26,218	\$ 6,972,900	\$ 14,099	\$ 1,005,300
Mortgage-backed securities	92,212	12,476,051	132,931	5,647,382
	118,430	19,448,951	147,030	6,652,682
Share Insurance Fund				
U.S. government and government sponsored agency obligations	22,152	5,298,400	-	-
Mortgage-backed securities	257,128	19,558,822	356,186	16,305,995
	279,280	24,857,222	356,186	16,305,995
Combined	\$ 397,710	\$ 44,306,173	\$ 503,216	\$ 22,958,677

Management periodically reviews the investment portfolio to evaluate securities for other than temporary impairment. As of August 31, 2018, one hundred and seven debt securities with unrealized losses which have aggregate depreciation of approximately 3% of their amortized cost. The unrealized losses were primarily caused by increases in interest rates. The principal and accrued interest on all of these securities are guaranteed by the U.S. government, an agency of the U.S. government, or both. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in fair value is attributable to changes in interest rates and not to credit quality, and because the Bank

THE CO-OPERATIVE CENTRAL BANK

NOTES TO COMBINING FINANCIAL STATEMENTS

4 - INVESTMENT SECURITIES (CONTINUED)

does not intend to sell the securities nor is it likely the Bank will be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these securities to be other than temporarily impaired as of August 31, 2018.

The amortized cost and approximate fair values of available-for-sale securities by contractual maturity, at August 31, 2018, are shown below.

	Reserve Fund		Share Insurance Fund	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,001,095	\$ 1,995,600	\$ -	\$ -
Due after one year through five years	10,910,957	10,667,610	22,441,345	22,064,745
Due after five years through ten years	-	-	1,011,981	976,300
	12,912,052	12,663,210	23,453,326	23,041,045
Mortgage-backed securities	23,320,135	22,523,709	62,650,169	60,462,159
	<u>\$ 36,232,187</u>	<u>\$ 35,186,919</u>	<u>\$ 86,103,495</u>	<u>\$ 83,503,204</u>

Mortgage backed securities are shown in total as their maturities are highly variable.

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

5 - CAPITAL ASSISTANCE AND SUBORDINATED DEBT

Where advisable, the Bank may enter into agreements to provide financial or capital assistance agreements to member banks under Sections 3A, 3B or 4 of Chapter 73 of the Acts of 1934, as amended. The capital assistance may take the form of subordinated debentures, mutual capital certificates, capital certificates and/or perpetual preferred stock. All of the aforementioned instruments are subordinated to depositors' accounts and liabilities of equal or higher priority.

Principal and interest on these instruments are required when earnings and capital levels of the assisted member bank exceed certain minimum regulatory requirements. All payments of principal and/or interest are subject to the prior consent or approval of the Federal Deposit Insurance Corporation and/or the Federal Reserve Bank of Boston and/or the Commissioner of Banks for the Commonwealth of Massachusetts.

THE CO-OPERATIVE CENTRAL BANK

NOTES TO COMBINING FINANCIAL STATEMENTS

5 - CAPITAL ASSISTANCE AND SUBORDINATED DEBT (CONTINUED)

As of August 31, 2017, there was \$1,963,750 of capital assistance outstanding in the form of 196,375 shares of perpetual preferred stock. During 2018 capital assistance was repaid in full.

6 - ASSESSMENT RECEIVABLE

On September 3, 2013, the Bank entered into a new member agreement with Mutual Bank, as a result of its conversion from a mutual federal savings bank to a cooperative bank. The assessment was payable to the Bank in equal annual installments of \$33,363 through September 3, 2017. As of August 31, 2018 and 2017, the caption assessment receivable in the accompanying combining statements of financial condition includes \$0 and \$33,363, respectively related to Mutual Bank.

7 - OFFICE EQUIPMENT

Office equipment consisted of the following at August 31, 2018 and 2017:

	Reserve Fund	Share Insurance Fund	Combined	
			2018	2017
Office furniture and equipment	\$ -	\$ 44,242	\$ 44,242	\$ 35,338
Software	-	20,490	20,490	20,490
	-	64,732	64,732	55,828
Less accumulated depreciation	-	(50,439)	(50,439)	(44,199)
	\$ -	\$ 14,293	\$ 14,293	\$ 11,629

Depreciation expense for the years ended August 31, 2018 and 2017 amounted to \$6,240 and \$6,602, respectively.

8 - RESERVE FUND LOANS TO MEMBER BANKS

Member banks may borrow from the Reserve Fund to meet their liquidity needs. Such loans are payable on demand at an interest rate of 50 basis points above the target federal funds rate as maintained by the Federal Reserve Bank, adjusted periodically. There were no loans outstanding as of August 31, 2018 and 2017.

THE CO-OPERATIVE CENTRAL BANK

NOTES TO COMBINING FINANCIAL STATEMENTS

9 - PENSION, RETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS

As a participating employer in the Co-operative Banks Employees Retirement Association (CBERA), the Bank has in effect a pension plan covering substantially all eligible officers and employees. Under the plan, the Bank contributes amounts so that upon retirement, the officer or employee will receive a percent of their annual compensation as defined by the plan. The required disclosures follow:

Name of Plan:	The Defined Benefit Plan (Plan C) of the CBERA Retirement Program	
Plan's Tax ID #:	04-6035593	
Plan Number:	334	
Plan Year End:	December 31, 2017	December 31, 2016
Actuarial Valuation	January 1, 2017	January 1, 2016
FTAP Percentage: (Funded Target Attainment Percentage)	115.3% (Green)	111.1% (Green)
Employer Plan Year Contributions:	\$128,418	\$140,624
	Did Not Exceed 5%	Did Not Exceed 5%
Funding Improvement:	This employer was not subject to any specific minimum contributions other than amounts, determined by the Trustees of the Plan that maintain the funded status of the Plan in accordance with the requirements of the Pension Protection Act (PPA) and ERISA.	

In addition to the pension plan, the Bank also participates through CBERA in a 401(k) savings plan, under which eligible employees may contribute a portion of their salary subject to limitations. The Bank will match the employee's contributions up to a maximum 10%. The Bank's contributions to the plans were \$203,636 and \$217,927 for the years ended August 31, 2018 and 2017, respectively.

In order to provide key executives with supplemental retirement benefits, the Bank previously purchased insurance contracts on behalf of certain retired executives. The Bank, by assignment, is entitled to the cash surrender value at policy termination, not to exceed the cumulative premiums paid (first contract) or the single premium plus accrued interest (additional contracts). The remaining insurance proceeds would accrue to the beneficiaries of the insured executives. Of the total annual premiums paid, the portion representing the increase in cash surrender value of the policy has been recorded in other assets, and the remainder of the premium has been expensed. At August 31, 2018 and 2017, cash surrender value totaling \$5,702,438, is included in the caption other assets in the accompanying combining statements of financial condition.

THE CO-OPERATIVE CENTRAL BANK

NOTES TO COMBINING FINANCIAL STATEMENTS

9 - PENSION, RETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS (CONTINUED)

The Bank also provides post-retirement medical benefits to certain retired employees and spouses, where applicable, until age 65. Employees who have reached the age of 62 and have met the Bank's minimum service requirements, become eligible for medical benefits under the voluntary early retirement program. The Bank has accrued the expected cost of providing these benefits, which amounted to approximately \$70,000 at August 31, 2018 and 2017.

10 - COMMITMENTS AND CONTINGENCIES

The Bank may in the normal course of its business make binding commitments to enter into financial instruments for the purpose of meeting financial assistance or other statutory obligations of the Share Insurance Fund.

Various legal claims may arise from time to time in the normal course of business which, in the opinion of management, have no material effect on the financial position of the Bank.

The Bank has entered into agreements with certain officers which provide for specified annual compensation and benefits in the event of a change in control, as defined in the agreements.

The Bank is obligated under a non-cancelable lease agreement amendment which expires in October 2019.

Under the amendment, the following represents future fixed minimum annual rental payments for the years subsequent to August 31, 2018:

Year Ending August 31:	
2019	\$97,722
2020	16,333

The lease contains options to extend and also contain provisions for reimbursement of real estate taxes and operating expenses.

Rent expense charged to operations for the years ended August 31, 2018 and 2017 was \$95,923 and \$94,262, respectively.

THE CO-OPERATIVE CENTRAL BANK

NOTES TO COMBINING FINANCIAL STATEMENTS

11 - FAIR VALUES OF ASSETS AND LIABILITIES

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

FAIR VALUE HIERARCHY:

The Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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

Level 2 – Valuation is based on inputs other than Level 1 prices that are observable for the asset or liability, either directly or indirectly. The valuation must be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A description of the valuation techniques applied to the Bank's major categories of assets and liabilities measured at fair value on a recurring basis follows:

U.S. government and government sponsored agency obligations and mortgage-backed securities are measured at fair value in Level 2 and are based on independent unadjusted market-based prices received from a third-party pricing service that utilizes pricing models that consider standard input factors such as observable market data. These securities include debt and mortgage-backed securities issued by the U.S. government or government sponsored enterprises including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Bank, Federal Home Loan Bank, and Government National Mortgage Association.

THE CO-OPERATIVE CENTRAL BANK
NOTES TO COMBINING FINANCIAL STATEMENTS

11 - FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS:

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level of input that is significant to the fair value measurement in its entirety.

Fair values of financial instruments measured on a recurring basis at August 31, 2018 and 2017 are as follows:

	Fair Value Measurements Using:			
	Level 1	Level 2	Level 3	Total
<u>August 31, 2018</u>				
U.S. government and government sponsored agency obligations	\$ -	\$ 35,704,255	\$ -	\$ 35,704,255
Mortgage-backed securities	-	82,985,868	-	82,985,868
Combined	<u>\$ -</u>	<u>\$ 118,690,123</u>	<u>\$ -</u>	<u>\$ 118,690,123</u>
<u>August 31, 2017</u>				
U.S. government and government sponsored agency obligations	\$ -	\$ 31,501,150	\$ -	\$ 31,501,150
Mortgage-backed securities	-	87,570,826	-	87,570,826
Combined	<u>\$ -</u>	<u>\$ 119,071,976</u>	<u>\$ -</u>	<u>\$ 119,071,976</u>

There were no transfers among the three levels during the years ended August 31, 2018 or 2017. There were no liabilities measured at fair value on a recurring basis at either August 31, 2018 or 2017.

12 - CONCENTRATION OF CREDIT RISK

The Bank maintains cash deposits in two banks located in Massachusetts. Deposits at each bank are insured by the FDIC up to \$250,000. At times, account balances may have exceeded the insured limit.

THE CO-OPERATIVE CENTRAL BANK
NOTES TO COMBINING FINANCIAL STATEMENTS

13 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Information on the Bank's accumulated other comprehensive income (loss) is comprised of the following components:

	Reserve Fund	Share Insurance Fund	Combined
Balances at August 31, 2016	\$ 178,471	\$ 876,746	\$ 1,055,217
Net change in unrealized holding losses on available-for-sale securities	<u>(378,035)</u>	<u>(1,125,781)</u>	<u>(1,503,816)</u>
Balances at August 31, 2017	(199,564)	(249,035)	(448,599)
Net change in unrealized holding losses on available-for-sale securities	<u>(845,704)</u>	<u>(2,351,256)</u>	<u>(3,196,960)</u>
Balances at August 31, 2018	<u><u>\$ (1,045,268)</u></u>	<u><u>\$ (2,600,291)</u></u>	<u><u>\$ (3,645,559)</u></u>

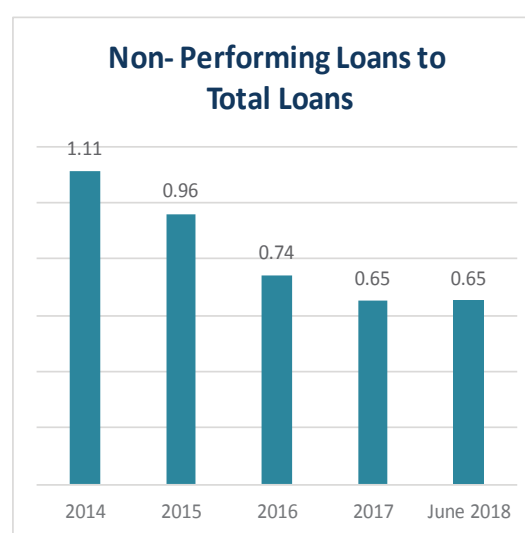
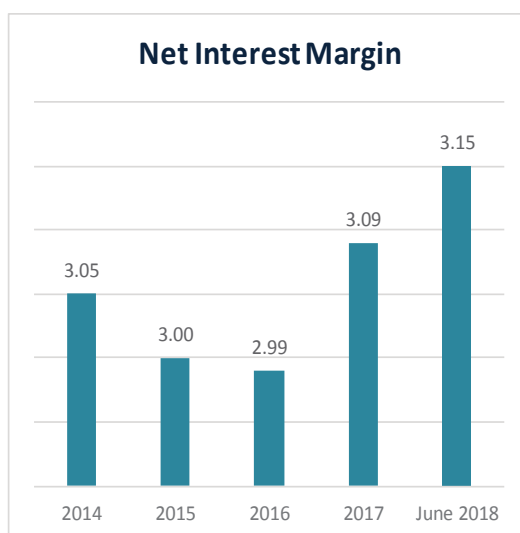
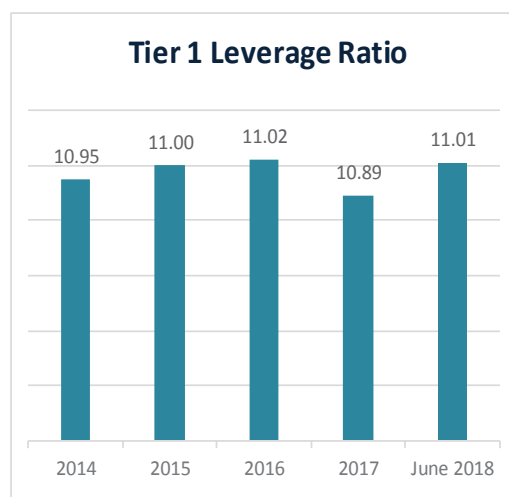
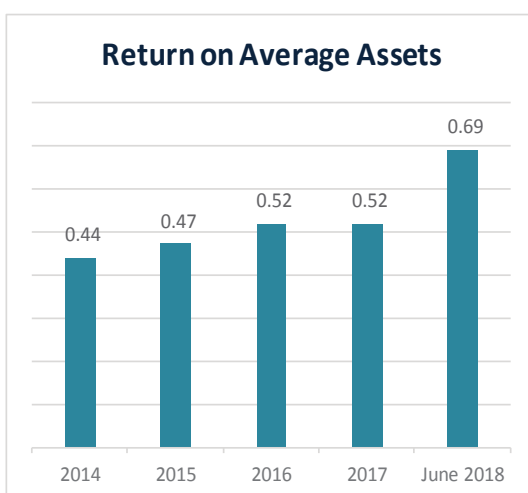
14 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 24, 2018, which is the date the combining financial statements were available to be issued and concluded that there were no subsequent events requiring adjustment to or disclosure in these combining financial statements.

THE CO-OPERATIVE CENTRAL BANK

INDUSTRY HIGHLIGHTS SUMMARY DATA (in thousands)

	<u>Total Assets</u>	<u>Loans</u>	<u>Deposits</u>	<u>Capital</u>
2014	\$18,075,310	\$13,847,212	\$14,208,226	\$2,005,979
2015	19,597,283	15,306,872	15,644,165	2,133,218
2016	21,281,362	16,755,027	17,141,155	2,333,545
2017	22,053,075	17,716,420	17,553,709	2,422,671
Jun-18	22,630,745	18,231,767	18,081,797	2,471,666



THE CO-OPERATIVE CENTRAL BANK

MEMBER BANKS

Abington Bank	Mutual Bank
Bank of Easton	Needham Bank
Bank Gloucester	North Cambridge Co-operative Bank
Beverly Bank	North Shore Bank
Canton Co-operative Bank	Norwood Bank
Charles River Bank	Patriot Community Bank
Commonwealth Cooperative Bank	Pilgrim Bank
Coastal Heritage Bank	Pittsfield Co-operative Bank
Dean Bank	Reading Cooperative Bank
Equitable Bank	Savers Bank
Everett Co-operative Bank	Stoneham Bank
Fidelity Bank	Stoughton Co-operative Bank
Greenfield Co-operative Bank	The Cooperative Bank
HarborOne Bank	The Cooperative Bank of Cape Cod
Haverhill Bank	The Village Bank
Hometown Bank	Wakefield Co-operative Bank
Mansfield Bank	Walpole Co-operative Bank
Mechanics Cooperative Bank	Wellesley Bank
Melrose Cooperative Bank	Winchester Co-operative Bank
Methuen Co-operative Bank	Wrentham Co-operative Bank
MutualOne Bank	



THE CO-OPERATIVE CENTRAL BANK

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Deposits in every Massachusetts co-operative bank are insured in full.
The Federal Deposit Insurance Corporation (FDIC) insures each depositor to at least \$250,000.
All amounts above that are insured by the Share Insurance Fund
of The Co-operative Central Bank.