BSB Bancorp, Inc.
Form 10-Q
May 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

Commission file number: 001-35309

BSB BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**80-0752082**
(State or Other Jurisdiction of	**(I.R.S Employer**

Incorporation or Organization)	**Identification No.)**
2 Leonard Street	
Belmont, Massachusetts	**02478**
(Address of Principal Executive Officers)	**(Zip Code)**

(617) 484-6700

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if 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 Exchange Act). Yes ¨ No x

The Registrant had 9,172,860 shares of common stock, par value $0.01 per share, outstanding as of May 9, 2012.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BSB BANCORP, INC

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$ 1,238	$ 1,196
Interest-bearing deposits in other banks	58,907	21,599
Cash and cash equivalents	60,145	22,795
Interest-bearing time deposits with other banks	119	119
Investments in held-to-maturity securities (fair value of $73,875 as of March 31, 2012 (unaudited) and $91,096 as of December 31, 2011)	72,181	89,391
Federal Home Loan Bank stock, at cost	7,627	8,038
Loans held-for-sale	30,860	15,877
Loans, net of allowance for loan losses of $5,176 as of March 31, 2012 (unaudited) and $4,776 as of December 31, 2011	524,487	509,964
Premises and equipment, net	2,061	2,000
Accrued interest receivable	2,061	2,185
Deferred tax asset, net	4,315	4,315
Income taxes receivable	66	
Bank-owned life insurance	12,527	12,420
Other assets	2,233	1,901
Total assets	$ 718,682	$ 669,005
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	$ 70,276	$ 55,900
Interest-bearing	423,272	374,754
Total deposits	493,548	430,654
Federal Home Loan Bank advances	81,600	95,600
Securities sold under agreements to repurchase	3,310	2,985
Other borrowed funds	1,489	1,502
Accrued interest payable	217	177
Deferred compensation liability	4,328	4,173
Income taxes payable		121
Other liabilities	2,195	2,287
Total liabilities	586,687	537,499
Stockholders Equity:		
Common stock; $0.01 par value, 100,000,000 shares authorized; 9,172,860 issued and outstanding at March 31, 2012 (unaudited) and December 31, 2011	92	92
Preferred stock; $0.01 par value, 50,000,000 shares authorized; none issued		
Additional paid-in capital	90,020	90,016

Retained earnings		46,398		45,951
Accumulated other comprehensive loss		(5)		(5)
Unearned compensation - ESOP		(4,510)		(4,548)
Total equity		131,995		131,506
Total liabilities and stockholders equity	$	718,682	$	669,005

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

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BSB BANCORP, INC

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands)

	Three months ended March 31, 2012	Three months ended March 31, 2011
	(unaudited)	
Interest and dividend income:		
Interest and fees on loans	$ 5,877	$ 4,386
Interest on taxable debt securities	610	595
Dividends	10	90
Other interest income	13	2
Total interest and dividend income	6,510	5,073
Interest expense:		
Interest on deposits	938	888
Interest on Federal Home Loan Bank advances	298	605
Interest on securities sold under agreements to repurchase	3	5
Interest on other borrowed funds	11	45
Total interest expense	1,250	1,543
Net interest and dividend income	5,260	3,530
Provision for loan losses	481	476
Net interest and dividend income after provision for loan losses	4,779	3,054
Noninterest income:		
Customer service fees	198	109
Income from bank-owned life insurance	102	108
Net gain on sales of loans	578	70
Net gain on sales and calls of securities		2,788
Other income	86	29
Total noninterest income	964	3,104
Noninterest expense:		
Salaries and employee benefits	3,155	2,397
Trustee fees	107	68
Occupancy expense	183	209
Equipment expense	104	78
Deposit insurance	125	139
Data processing	390	195
Professional fees	318	127
Marketing	239	222
Other expense	463	286
Total noninterest expense	5,084	3,721

Income before income tax expense	659	2,437
Income tax expense	212	908
Net income	$ 447	$ 1,529
Earnings per share:		
Basic	$ 0.05	N/A
Diluted	$ 0.05	N/A
Weighted-average shares outstanding		
Basic	8,719,950	N/A
Diluted	8,719,950	N/A

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

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BSB BANCORP, INC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	Three months ended March 31, 2012	2011
	(unaudited)	
Net income	$ 447	$ 1,529
Other comprehensive loss:		
Net unrealized holding gains on available-for-sale securities		668
Less: reclassification adjustment for realized gains in net income		(2,788)
Other comprehensive loss before income tax effect		(2,120)
Income tax benefit		847
Other comprehensive loss, net of tax		(1,273)
Comprehensive income	$ 447	$ 256

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

BSB BANCORP, INC

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(Dollars in thousands)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Compensation	Total Stockholders Equity
Balance at December 31, 2010		$	$	$ 45,652	$ 1,275	$	$ 46,927
Net income				1,529			1,529
Other comprehensive loss					(1,273)		(1,273)
Balance at March 31, 2011		$	$	$ 47,181	$ 2	$	$ 47,183
Balance at December 31, 2011	9,172,860	$ 92	$ 90,016	$ 45,951	$ (5)	$ (4,548)	$ 131,506
Net income				447			447
Other comprehensive income							
Release of ESOP stock			4			38	42
Balance at March 31, 2012	9,172,860	$ 92	$ 90,020	$ 46,398	$ (5)	$ (4,510)	$ 131,995

Accumulated other comprehensive (loss) income consists of the following:

	March 31, 2012 (unaudited)	December 31, 2011
Unrecognized net actuarial (loss) gain pertaining to defined benefit plan, net of tax	$ (5)	$ (5)
Accumulated other comprehensive (loss) income	$ (5)	$ (5)

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

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BSB BANCORP, INC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Three months ended March 31, 2012	2011
Cash flows from operating activities:		
Net income	$ 447	$ 1,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	170	291
Net gain on sales and calls of securities		(2,788)
Gain on sales of loans, net	(578)	(70)
Loans originated for sale	(51,570)	(8,278)
Proceeds from sales of loans	65,520	11,057
Provision for loan losses	481	476
Change in unamortized mortgage premium	2	(3)
Change in net deferred loan costs	(30)	(886)
ESOP expense	42	
Depreciation and amortization expense	116	107
Deferred income tax expense		600
Increase in bank-owned life insurance	(102)	(108)
Net change in:		
Accrued interest receivable	124	159
Other assets	(332)	33
Income taxes receivable	(66)	308
Income taxes payable	(121)	
Accrued interest payable	40	(25)
Deferred compensation liability	155	7
Other liabilities	(162)	502
Net cash provided by operating activities	14,136	2,911
Cash flows from investing activities:		
Purchases of available-for-sale securities		(709)
Proceeds from sales of available-for-sale securities		15,650
Proceeds from maturities, payments, and calls of held-to-maturity securities	17,040	15,612
Purchases of held-to-maturity securities		(1,000)
Redemption of Federal Home Loan Bank stock	411	
Recoveries of loans previously charged off	6	4
Loan originations and principal collections, net	(19,795)	(45,012)
Purchases of loans	(23,542)	(1,345)
Capital expenditures	(177)	(106)
Premiums paid on bank-owned life insurance	(5)	(13)
Net cash used in investing activities	(26,062)	(16,919)

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

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BSB BANCORP, INC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

(Continued)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	57,698	20,042
Net increase in time deposits	5,196	10,393
Proceeds from Federal Home Loan Bank advances		4,500
Principal payments on Federal Home Loan Bank advances	(10,000)	(12,000)
Net change in short-term advances	(4,000)	8,500
Net increase in securities sold under agreement to repurchase	325	432
Repayment of principal on other borrowed funds	(13)	(3,610)
Net increase (decrease) in mortgagors escrow accounts	70	(10)
Net cash provided by financing activities	49,276	28,247
Net increase in cash and cash equivalents	37,350	14,239
Cash and cash equivalents at beginning of period	22,795	20,967
Cash and cash equivalents at end of period	$ 60,145	$ 35,206
Supplemental disclosures:		
Interest paid	$ 1,210	$ 1,568
Income taxes paid	399	
Transfer of loans receivable to loans held for sale	28,355	

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

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BSB BANCORP, INC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of BSB Bancorp, Inc. have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulations S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The consolidated financial statements of BSB Bancorp, Inc. include the balances and results of operations of BSB Bancorp, Inc., a Maryland corporation, and its wholly-owned subsidiary Belmont Savings Bank (referred to herein as the Company, we, us, or our). Intercompany transactions and balances are eliminated in the consolidation.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company s financial position as of March 31, 2012 and December 31, 2011 and the results of operations and cash flows for the interim periods ended March 31, 2012 and 2011. All interim amounts have not been audited, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the fiscal year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

NOTE 2 RECENT PRONOUNCEMENTS

In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements. This update revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. This update removes from the assessment of effective control: the criterion requiring the transferor to have the ability to repurchase or redeem the financial asset on substantially the agreed terms, even in the event of default by the transferee, and the related requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The amendments in this update will be effective for interim and annual reporting periods beginning on or after December 15, 2011. The amendments will be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date and early adoption is permitted. The Company adopted this pronouncement on January 1, 2012 and this adoption did not have a material effect on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The guidance clarifies and expands the disclosures pertaining to unobservable inputs used in Level 3 fair value measurements, including the disclosure of quantitative information related to (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset s highest and best use. The guidance also requires, for public entities, disclosure of the level within the fair value hierarchy for assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company adopted this pronouncement on January 1, 2012 and this adoption did not have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income. This ASU amends the disclosure requirements for the presentation of comprehensive income. The amended guidance eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholder s equity. Under the amended guidance, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. The changes are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with retrospective application required. Early application is permitted. We adopted this standard during the first quarter of 2012 and present net income and other comprehensive income in two separate but contiguous statements. The adoption of this standard did not have a material effect on our financial statement disclosures.

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In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. This ASU is to enhance current disclosures. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The amendments in this ASU are effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The amendments in this update defer those changes in ASU 2011-05 that relate to the presentation of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 are not affected by this update. The amendments are effective during interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

NOTE 3 EARNINGS PER SHARE

Basic earnings per share (EPS) excludes dilution and is calculated by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted EPS is computed in a manner similar to that of basic EPS except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares (computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents (such as stock options and unvested restricted stock not meeting the definition of a participating security) were issued during the period.

For the quarter ended March 31, 2012, there were no potentially dilutive common stock equivalents. Earnings per share are not applicable for periods prior to March 31, 2012 as the Company did not issue stock until October 4, 2011. Unallocated common shares held by the ESOP are shown as a reduction in stockholders equity and are not included in the weighted-average number of common shares outstanding for either basic or diluted earnings per share calculations.

NOTE 4 INVESTMENTS IN SECURITIES

The amortized cost of held-to-maturity securities and their approximate fair values are as follows:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity securities:				
March 31, 2012 (unaudited):				
U.S. government and federal agency obligations	$ 3,799	$ 12	$	$ 3,811
U.S. government sponsored mortgage-backed securities	44,148	1,201	96	45,253
Corporate debt securities	24,234	577		24,811
	$ 72,181	$ 1,790	$ 96	$ 73,875
December 31, 2011:				
U.S. government and federal agency obligations	$ 5,600	$ 59	$	$ 5,659
U.S. government sponsored mortgage-backed securities	46,432	1,168	97	47,503
Corporate debt securities	37,359	600	25	37,934
	$ 89,391	$ 1,827	$ 122	$ 91,096

The amortized cost and estimated fair value of debt securities by contractual maturity at March 31, 2012 and December 31, 2011 is as follows. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

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	March 31, 2012 Held-to-Maturity (unaudited)		December 31, 2011 Held-to-Maturity	
	Amortized Cost Basis	Fair Value	Amortized Cost Basis	Fair Value
Due within one year	$ 12,994	$ 13,124	$ 25,741	$ 25,915
Due after one year through five years	15,039	15,498	17,218	17,678
U.S. government sponsored mortgage-backed securities	44,148	45,253	46,432	47,503
	$ 72,181	$ 73,875	$ 89,391	$ 91,096

During the three months ended March 31, 2011 (unaudited), proceeds from sales of available-for-sale securities amounted to $15.7 million. For the three months ended March 31, 2011 (unaudited) gross realized gains and gross realized losses on those sales amounted to $2.8 million and $56,000, respectively. For the three months ended March 31, 2011 (unaudited) the income tax expense (benefit) related to the gross gains and losses were $1.1 million and ($23,000), respectively. During the three months ended March 31, 2012 (unaudited), there were no security sales.

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

	Less than 12 Months		Over 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2012 (unaudited):				
U.S. government sponsored mortgage-backed securities	$ 6,469	$ 45	$ 889	$ 51
Total temporarily impaired securities	$ 6,469	$ 45	$ 889	$ 51
December 31, 2011:				
U.S. government sponsored mortgage-backed securities	$ 6,799	$ 48	$ 965	$ 49
Corporate debt securities	7,039	25		
Total temporarily impaired securities	$ 13,838	$ 73	$ 965	$ 49

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. At March 31, 2012 (unaudited), unrealized losses related to four government- sponsored mortgage-backed securities with a 1.3% unrealized loss were caused primarily by changes in market interest rates. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Based on the Company s March 31, 2012 (unaudited) quarterly review of securities in the investment portfolio, management deemed securities with unrealized losses as of March 31, 2012 (unaudited) to be temporarily impaired. At December 31, 2011, unrealized losses related to nine debt securities with aggregate depreciation of 0.8% from the Company s amortized cost basis were caused primarily by changes in market interest rates. Based on the Company s December 31, 2011 review of securities in the investment portfolio, management deemed securities with unrealized losses as of December 31, 2011 to be temporarily impaired.

The investment securities portfolio is generally evaluated for other-than-temporary impairment under ASC 320-10, Investments Debt and Equity Securities. However, certain purchased beneficial interests, including non-agency mortgage-backed securities, are evaluated using ASC 325-40, Investments Other Beneficial Interests in Securitized Financial Assets.

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NOTE 5   LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans.

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on all loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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 is 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. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General Component:

The general component 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, equity lines of credit, commercial real estate, construction, commercial, indirect auto 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; 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 three months ended March 31, 2012 or during 2011.

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 and home equity loans   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 generally 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 real estate   Loans in this segment are primarily secured by income-producing properties throughout New England. The underlying cash flows generated by the properties may be adversely impacted by a downturn in the economy and increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans.

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

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

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Indirect auto loans   Loans in this segment are secured installment loans that are originated through a network of select regional automobile dealerships. The Company s interest in the vehicle is secured with a recorded lien on the state title of each automobile. Repayments are sensitive to changes in borrower financial circumstances, and the collateral can depreciate or be damaged at the time of repossession. Repayment is dependent on the credit quality and the cash flow of the individual borrower.

Consumer loans   Loans in this segment include secured and unsecured consumer loans. Repayment is dependent on the credit quality and the cash flow of the individual borrower.

Allocated Component:

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

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

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral-dependent. Generally, TDRs are measured using the discounted cash flow method except in instances where foreclosure is probable in which case the fair value of the collateral is used. All other impaired loans are collateral dependent and are measured through the collateral method. All TDRs are considered to be impaired. Beginning in 2011, all loans on non-accrual status, with the exception of indirect auto and consumer loans, are considered to be impaired. Prior to 2011, all loans on non-accrual status, with the exception of homogeneous residential loans, indirect auto and consumer loans, were considered to be impaired. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through the valuation allowance.

Unallocated Component:

An unallocated component may be 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. At March 31, 2012 (unaudited) and December 31, 2011, the Company did not have an unallocated component.

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Loans consisted of the following:

	March 31, 2012 Amount (unaudited)	Percent	December 31, 2011 Amount	Percent
Mortgage loans:				
Residential one-to-four family	$ 174,415	33.12%	$ 192,295	37.57%
Commercial real estate loans (1)	194,225	36.87	166,261	32.49
Equity lines of credit	54,210	10.29	50,015	9.77
Construction loans	13,216	2.51	15,198	2.97
Total mortgage loans	436,066	82.79	423,769	82.80
Commercial loans	22,920	4.35	20,626	4.03
Consumer loans:				
Indirect auto loans	66,918	12.71	66,401	12.97
Other consumer loans (2)	785	0.15	998	0.20
	90,623	17.21	88,025	17.20
Total loans	526,689	100.00%	511,794	100.00%
Net deferred loan costs	2,553		2,523	
Net unamortized mortgage premiums	421		423	
Allowance for loan losses	(5,176)		(4,776)	
Total loans, net	$ 524,487		$ 509,964	

(1) Includes multi-family real estate loans.

(2) Other consumer loans consist primarily of passbook loans, consumer lines of credit and overdraft protection, and consumer unsecured loans.

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The following tables present the activity in the allowance for loan losses for the three months ended March 31, 2012 and 2011 (unaudited) and the balances of the allowance for loan losses and recorded investment in loans by portfolio class based on impairment method at March 31, 2012 (unaudited) and December 31, 2011. The recorded investment in loans in any of the following tables does not include accrued and unpaid interest or any deferred loan fees or costs, as amounts are not significant.

	Three Months Ended March 31, 2012				
	Beginning balance	Provision (benefit)	Charge-offs	Recoveries	Ending Balance
Residential one-to-four family	$ 986	$ 27	$	$	$ 1,013
Commercial real estate	1,969	333			2,302
Construction	188	(25)			163
Commercial	321	35			356
Equity lines of credit	632	19			651
Indirect auto	664	78	(77)	4	669
Consumer	16	14	(10)	2	22
Total	$ 4,776	$ 481	$ (87)	$ 6	$ 5,176

	Three Months Ended March 31, 2011				
	Beginning balance	Provision (benefit)	Charge-offs	Recoveries	Ending Balance
Residential one-to-four family	$ 1,057	$ (71)	$	$	$ 986
Commercial real estate	1,136	278			1,414
Construction	140	7			147
Commercial	261	28	(37)		252
Equity lines of credit	236	(36)			200
Indirect auto	38	272			310
Consumer	21	(2)	(4)	4	19
Total	$ 2,889	$ 476	$ (41)	$ 4	$ 3,328

	March 31, 2012 (unaudited)					
	Individually evaluated for impairment		Collectively evaluated for impairment		Total	
	Loan balance	Allowance	Loan balance	Allowance	Loan Balance	Allowance
Residential one-to-four family	$ 3,348	$ 158	$ 171,067	$ 855	$ 174,415	$ 1,013
Commercial real estate			194,225	2,302	194,225	2,302
Construction			13,216	163	13,216	163
Commercial	5		22,915	356	22,920	356
Equity lines of credit	1,123	311	53,087	340	54,210	651
Indirect auto			66,918	669	66,918	669
Consumer			785	22	785	22
Total	$ 4,476	$ 469	$ 522,213	$ 4,707	$ 526,689	$ 5,176

	December 31, 2011					
	Individually evaluated for impairment		Collectively evaluated for impairment		Total	
	Loan balance	Allowance	Loan balance	Allowance	Loan Balance	Allowance

Residential one-to-four family	$ 3,149	$ 97	$ 189,146	$ 889	$ 192,295	$ 986
Commercial real estate			166,261	1,969	166,261	1,969
Construction			15,198	188	15,198	188
Commercial	155		20,471	321	20,626	321
Equity lines of credit	1,123	314	48,892	318	50,015	632
Indirect auto			66,401	664	66,401	664
Consumer			998	16	998	16
Total	$ 4,427	$ 411	$ 507,367	$ 4,365	$ 511,794	$ 4,776

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Information about loans that meet the definition of an impaired loan in ASC 310-10-35 is as follows as of March 31, 2012 (unaudited):

	Impaired loans with a related allowance for credit losses				
	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Specific Allowance	Income Recognized
Residential one-to-four family	$ 1,080	$ 1,289	$ 1,031	$ 158	$ 5
Commercial real estate					
Construction					
Commercial					
Equity lines of credit	731	731	731	311	
Indirect auto					
Consumer					
Totals	$ 1,811	$ 2,020	$ 1,762	$ 469	$ 5

	Impaired loans with no related allowance for credit losses			
	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Income Recognized
Residential one-to-four family	$ 2,269	$ 2,269	$ 2,269	$ 1
Commercial real estate				
Construction				
Commercial	5	5	80	2
Equity lines of credit	392	475	392	5
Indirect auto				
Consumer				
Totals	$ 2,666	$ 2,749	$ 2,741	$ 8

Information about loans that meet the definition of an impaired loan in ASC 310-10-35 is as follows as of December 31, 2011:

	Impaired loans with a related allowance for credit losses				
	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Specific Allowance	Income Recognized
Residential one-to-four family	$ 705	$ 705	$ 403	$ 97	$ 21
Commercial real estate					
Construction					
Commercial			3		
Equity lines of credit	731	731	514	314	8
Indirect auto					
Consumer					
Totals	$ 1,436	$ 1,436	$ 920	$ 411	$ 29

Impaired loans with no related allowance for credit losses

	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Income Recognized
Residential one-to-four family	$ 2,444	$ 2,653	$ 1,685	$ 53
Commercial real estate				
Construction				
Commercial	155	155	56	7
Equity lines of credit	392	475	374	12
Indirect auto				
Consumer				
Totals	$ 2,991	$ 3,283	$ 2,115	$ 72

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The following is a summary of past due and non-accrual loans:

	March 31, 2012 (unaudited)					
	30 59 Days	60 89 Days	90 Days or More	Total Past Due	90 days or more and accruing	Loans on Non-accrual
Real estate loans:						
Residential one-to-four family	$ 2,043	$ 1,036	$ 2,084	$ 5,163	$	$ 3,349
Commercial real estate						
Equity lines of credit	500	24	923	1,447		1,123
Construction	1,210			1,210		
Other loans:						
Commercial			133	133		133
Indirect auto	198	41		239		
Consumer	5		1	6		1
	$ 3,956	$ 1,101	$ 3,141	$ 8,198	$	$ 4,606

	December 31, 2011					
	30 59 Days	60 89 Days	90 Days or More	Total Past Due	90 days or more and accruing	Loans on Non-accrual
Real estate loans:						
Residential one-to-four family	$ 51	$ 1,188	$ 1,880	$ 3,119	$	$ 3,149
Commercial real estate						
Equity lines of credit	634		847	1,481		1,123
Construction						
Other loans:						
Commercial	10		7	17		155
Indirect auto	209	23		232		
Consumer		1		1		
	$ 904	$ 1,212	$ 2,734	$ 4,850	$	$ 4,427

Credit Quality Information

The Company utilizes a seven grade internal loan rating system for commercial, commercial real estate and construction loans, and a five grade internal loan rating system for certain residential real estate, home equity and consumer loans that are rated if the loans become delinquent.

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, commercial real estate loans, and construction loans. On an annual basis, the Company engages an independent third party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

On a quarterly basis, the Company formally reviews the ratings on all residential real estate and home equity loans if they have become delinquent. Criteria used to determine rating consists of loan-to-value and days delinquent.

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The following table presents the Company s loans by risk rating at March 31, 2012 (unaudited) and December 31, 2011. There were no loans rated as 6 (doubtful) or 7 (loss) at the dates indicated.

	March 31, 2012				
	Loans rated 1-3	Loans rated 4	Loans rated 5	Loans not rated (A)	Total
Residential one-to-four family	$ 824	$ 2,197	$ 3,770	$ 167,624	$ 174,415
Commercial real estate	192,621	1,604			194,225
Construction	11,661		1,555		13,216
Commercial	22,874	19	27		22,920
Home equity	224	499	1,123	52,364	54,210
Indirect auto				66,918	66,918
Consumer				785	785
Total	$ 228,204	$ 4,319	$ 6,475	$ 287,691	$ 526,689

	December 31, 2011				
	Loans rated 1-3	Loans rated 4	Loans rated 5	Loans not rated (A)	Total
Residential one-to-four family	$ 1,940	$ 1,238	$ 3,573	$ 185,544	$ 192,295
Commercial real estate	165,134	1,127			166,261
Construction	13,642		1,556		15,198
Commercial	20,446		180		20,626
Home equity		359	1,123	48,533	50,015
Indirect auto				66,401	66,401
Consumer				998	998
Total	$ 201,162	$ 2,724	$ 6,432	$ 301,476	$ 511,794

(A) Residential real estate, home equity, indirect auto loans and consumer loans are not formally risk rated by the Company unless the loans become delinquent.

The Company periodically modifies loans to extend the term or make other concessions to help a borrower stay current on their loan and to avoid foreclosure. The Company generally does not forgive principal or interest on loans or modify the interest rates on loans to those not otherwise available in the market for loans with similar risk characteristics as the restructured debt. During the three months ended March 31, 2012 and for the year ended December 31, 2011, no loans were modified under a troubled debt restructuring. At March 31, 2012, the Company had $608,000 of troubled debt restructurings related to two loans which were both modified in 2010. One of these loans was a one-to-four family residential mortgage loan and the other was a home equity line of credit. Both of these loans are performing under their terms as modified.

Certain residential mortgage loans are periodically sold by the Company to the secondary market. Most of these loans are sold without recourse and the Company releases the servicing rights. For loans sold with servicing rights retained, we provide the servicing for the loans on a per-loan fee basis. The Company also periodically sells auto loans to other financial institutions without recourse, and the Company generally provides servicing for these loans. At March 31, 2012 (unaudited) and December 31, 2011, residential loans previously sold and serviced by the Company were $44.8 million and $28.3 million, respectively. At March 31, 2012 (unaudited) and December 31, 2011, indirect auto loans previously sold and serviced by the Company were $51.3 million and $28.3 million, respectively.

As of March 31, 2012 (unaudited) and December 31, 2011, loans sold with recourse amounted to $1.5 million. The Company has not incurred, nor expects to incur, any losses related to the loans sold with recourse.

NOTE 6 FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

ASC 820-10, Fair Value Measurements and Disclosures, provides a framework for measuring fair value under generally accepted accounting principles. The guidance 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.

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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 for March 31, 2012 (unaudited) and December 31, 2011.

The Company s cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. There were no significant transfers between level 1 and 2 of the fair value hierarchy for the three months ended March 31, 2012 (unaudited) and the year ended December 31, 2011.

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, the Company obtains 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 as of March 31, 2012 (unaudited) and December 31, 2011.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

There were no assets and liabilities measured at fair value on a recurring basis as of March 31, 2012 (unaudited) and December 31, 2011. There were no transfers between Level 1 and Level 2 assets and liabilities for the three months ended March 31, 2012 (unaudited) and the year ended December 31, 2011.

Assets Measured at Fair Value on a Non-recurring Basis

The Company may also be required, from time to time, to measure certain other financial assets on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. There were no liabilities measured at fair value on a non-recurring basis at March 31, 2012 (unaudited) and December 31, 2011.

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The following tables summarize the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of March 31, 2012 (unaudited) and December 31, 2011:

	March 31, 2012		
	Level 1	Level 2	Level 3
Impaired loans	$	$	$ 1,459
Totals	$	$	$ 1,459

	December 31, 2011		
	Level 1	Level 2	Level 3
Impaired loans	$	$	$ 1,315
Totals	$	$	$ 1,315

Certain impaired loans were adjusted to the fair value, less the costs to sell, of the underlying collateral securing these loans resulting in losses. The loss is either recorded directly as an adjustment to current earnings through a partial charge off or is recorded as a component in determining the allowance for loan losses. Fair value was measured using appraised values of collateral and adjusted as necessary by management based on unobservable inputs for specific properties. However, the choice of observable data is subject to significant judgment, and there are often adjustments based on judgment in order to make observable data comparable and to consider the impact of time, the condition of properties, interest rates, and other market factors on current values. Additionally, commercial real estate appraisals frequently involve discounting of projected cash flows, which relies inherently on unobservable data. Therefore, real estate collateral related nonrecurring fair value measurement adjustments have generally been classified as Level 3. Estimates of fair value used for other collateral supporting commercial loans generally are based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3. Charge offs and specific allocations on impaired loans for the three months ended March 31, 2012 and the year ended December 31, 2011 were $58,000 and $704,000, respectively.

The estimated fair values, and related carrying or notional amounts, of the Company s financial instruments are as follows. Certain financial instruments and all nonfinancial instruments are exempt from its disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

	March 31, 2012 (unaudited)				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 60,145	$ 60,145	$ 60,145	$	$
Interest-bearing time deposits with other banks	119	122		122	
Investments in available-for-sale securities					
Held-to-maturity securities	72,181	73,875		73,875	
Federal Home Loan Bank stock	7,627	7,627		7,627	
Loans held-for-sale	30,860	32,578			32,578
Loans, net	524,487	532,390			532,390
Accrued interest receivable	2,061	2,061	2,061		
Financial liabilities:					
Deposits	493,548	496,745		496,745	
Federal Home Loan Bank advances	81,600	82,004		82,004	
Securities sold under agreements to repurchase	3,310	3,310		3,310	
Other borrowed funds	1,489	1,456		1,456	

Accrued interest payable	217	217	217
Mortgagor s escrow accounts	512	512	512

	December 31, 2011	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 22,795	$ 22,795
Interest-bearing time deposits with other banks	119	123
Held-to-maturity securities	89,391	91,096
Federal Home Loan Bank stock	8,038	8,038
Loans held-for-sale	15,877	15,918
Loans, net	509,964	515,948
Accrued interest receivable	2,185	2,185
Financial liabilities:		
Deposits	430,654	433,267
Federal Home Loan Bank advances	95,600	96,001
Securities sold under agreements to repurchase	2,985	2,985
Other borrowed funds	1,502	1,469
Accrued interest payable	177	177
Mortgagors escrow accounts	442	442

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NOTE 7 SECURITIES SOLD UNDER AGREEMENTS AND OTHER BORROWED FUNDS

The securities sold under agreements to repurchase as of March 31, 2012 (unaudited) and December 31, 2011 are securities sold on a short-term basis by the Company that have been accounted for not as sales but as borrowings. The securities consisted of U.S. government and federal agency obligations. The securities were held in the Company s safekeeping account at the Federal Home Loan Bank of Boston under the control of the Company. The securities are pledged to the purchasers of the securities. The purchasers have agreed to sell to the Company substantially identical securities at the maturity of the agreements.

Other borrowed funds consist of the balance of loans sold with recourse. On March 16, 2006, seventeen loans with an aggregate principal balance of $10.5 million were sold to another financial institution (investor). As of March 31, 2012 (unaudited) and December 31, 2011, the principal balance of these loans totaled $1.5 million. The agreement related to this sale contains provisions requiring the Company during the initial 120 months to repurchase any loan that becomes 90 days past due. The Company will repurchase the past due loan for 100 percent of the unpaid principal plus interest to repurchase date.

NOTE 8 POST RETIREMENT BENEFITS

Supplemental Retirement Plans

The Company has supplemental retirement plans for eligible executive officers that provide for a lump sum benefit upon termination of employment at or after age 55 and completing 10 or more years of service (certain reduced benefits are available prior to attaining age 55 or fewer than 10 years of service), subject to certain limitations as set forth in the agreements. The present value of these future payments is being accrued over the service period. The estimated liability at March 31, 2012 (unaudited) and December 31, 2011 relating to these plans was $1.2 million for both period ends.

The Company has a supplemental retirement plan for eligible directors that provides for monthly benefits based upon years of service to the Company, subject to certain limitations as set forth in the agreements. The present value of these future payments is being accrued over the estimated period of service. The estimated liability at March 31, 2012 (unaudited) and December 31, 2011 relating to this plan was $564,000 and $566,000, respectively.

Effective October 1, 2010, the Company established the Belmont Savings Bank Supplemental Executive Retirement Plan (Plan). The purpose of the Plan is to permit certain employees of the Company to receive supplemental retirement income from the Company. At March 31, 2012 (unaudited) and December 31, 2011, there were three participants in the Plan. Participants are fully vested after the completion of between five and ten years of service. The plan is unfunded. The estimated liability at March 31, 2012 (unaudited) and December 31, 2011 relating to this plan was $329,000 and $265,000, respectively.

Incentive Compensation Plan

The Incentive Compensation Plan is a discretionary annual cash-based incentive plan that is an integral part of the participant s total compensation package and supports the continued growth, profitability and risk management of Belmont Savings Bank. Each year participants are awarded for the achievement of certain performance objectives on a company-wide and individual basis. Compensation expense recognized was $249,000 and $198,000 for the three months ended March 31, 2012 and 2011 (unaudited), respectively.

Defined Contribution Plan

The Company sponsors a 401(k) plan covering substantially all employees meeting certain eligibility requirements. Under the provisions of the plan, employees are able to contribute up to an annual limit of the lesser of 75% of eligible compensation or the maximum allowed by the Internal Revenue Service. The Company s contributions for the three months ended March 31, 2012 and 2011 (unaudited) totaled $142,000 and $144,000, respectively.

Salary Deferral Plan

The Company has a salary deferral plan by which selected employees and Directors of the Company are entitled to elect, prior to the beginning of each year, to defer the receipt of an amount of their compensation for the forthcoming year. The recorded liability at March 31, 2012 (unaudited) and December 31, 2011 relating to this plan was $2.1 million for both period ends.

Capital Appreciation Plan

Effective September 30, 2010, the Company established the Capital Appreciation Plan. The purpose of this plan is to attract, retain, and motivate certain key employees and directors of the Company. Eligible participants may receive an award based on capital appreciation of the Bank and the Bank s return on average assets, entitling the employee or director to a specific percentage of the Employee or Trustee Capital Appreciation Pool as outlined in the plan. The value of any award payable to a participant shall be paid

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in the form of a single lump sum. The vesting period associated with the Plan begins the date a participant is awarded a Capital Appreciation Award and ends on June 30, 2014. The Company recognized no expense in relation to the plan during the three months ended March 31, 2012 and 2011 (unaudited).

Severance Agreements

During 2011, the Company entered into severance agreements with five executive officers, which provide severance payments in the event of the executive s involuntary or constructive termination of employment, including upon a termination following a change in control as defined in the agreements.

Employee Stock Ownership Plan

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

The Company contributed funds to a subsidiary to enable it to grant a loan to the ESOP for the purchase of 458,643 shares of the Company s common stock at a price of $10.00 per share. The loan obtained by the ESOP from the Company to purchase Company common stock is payable annually over 30 years at a rate per annum equal to the Prime Rate (3.25% at March 31, 2012). Loan payments are principally funded by cash contributions from the Bank. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. Cash dividends paid on allocated shares are distributed to participants and cash dividends paid on unallocated shares are used to repay the outstanding debt of the ESOP. Shares used as collateral to secure the loan are released and available for allocation to eligible employees as the principal and interest on the loan is paid.

NOTE 9 PLEDGED ASSETS

The following securities and loans were pledged to secure securities sold under agreements to repurchase, FHLBB advances and credit facilities available.

March 31, 2012 (unaudited)	Securities held-to-maturity (at cost)	Loans receivable	Total pledged assets
Repurchase agreements	$ 4,513	$	$ 4,513
FHLBB borrowings	21,222	164,177	185,399
Total pledged assets	$ 25,735	$ 164,177	$ 189,912

December 31, 2011	Securities held-to-maturity (at cost)	Loans receivable	Total pledged assets
Repurchase agreements	$ 5,715	$	$ 5,715
FHLBB borrowings	25,098	176,574	201,672
Federal Reserve Bank LOC	10,352		10,352
Total pledged assets	$ 41,165	$ 176,574	$ 217,739

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

The following analysis discusses the changes in financial condition and results of operation of the Company, and should be read in conjunction with both the unaudited consolidated interim financial statements and notes thereto, appearing in Part 1, Item 1 of this report.

Forward-Looking Statements

This report contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, expect, will, may and words of similar meaning. These forward-looking statements include, but are not limited to:

statements of our goals, intentions and expectations;

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- 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 do not undertake any obligation to update any forward-looking statements after the date of this document, except as required by law.

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 successfully implement our new business strategy, which includes significant asset and liability growth;
- our ability to increase our market share in our market areas and capitalize on growth opportunities;
- our ability to successfully implement our branch network expansion strategy;
- general economic conditions, either nationally or in our market areas, and conditions in the real estate markets that could affect the demand for our loans and other products and the ability of borrowers to repay loans, lead to declines in credit quality and increased loan losses, and negatively affect the value and salability of the real estate that is the collateral for many of our loans;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to successfully integrate acquired entities, if any;
- changes in consumer spending, borrowing and savings habits;

- 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;

- changes in our financial condition or results of operations that reduce capital available; and

- changes in the financial condition or future prospects of issuers of securities that we own.

Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the filings made by BSB Bancorp, Inc. with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 under the heading Item 1A. Risk Factors . 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.

Critical Accounting Policies

There are no material changes to the critical accounting policies from those disclosed in BSB Bancorp, Inc. s 2011 Annual Report on Form 10-K. In applying these accounting policies, management is required to exercise judgment in determining many of the methodologies, assumptions and estimates to be utilized. As discussed in the Company s 2011 Annual Report on Form 10-K, the three most significant areas in which management applies critical assumptions and estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses, investment classification and impairment, and deferred income taxes. Management s estimates and assumptions affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ from the amount derived from management s estimates and assumptions under different conditions.

Comparison of Financial Condition at March 31, 2012 and December 31, 2011

Total Assets. Total assets increased $49.7 million to $718.7 million at March 31, 2012, from $669.0 million at December 31, 2011. The increase was primarily the result of a $14.5 million, or 2.8%, increase in net loans, a $15.0 million, or 94.4%, increase in loans held-for-sale, and a $37.4 million increase in cash and cash equivalents, partially offset by a $17.2 million decrease in securities held to maturity.

Loans. Net loans increased by $14.5 million to $524.5 million at March 31, 2012 from $510.0 million at December 31, 2011. The increase in net loans was primarily due to increases of $28.0 million, or 16.8%, in commercial real estate loans, $4.2 million, or 8.4%, in home equity lines of credit, $2.3 million, or 11.1%, in commercial loans, and $517,000, or 0.8%, in indirect auto loans, partially offset by a $17.9 million, or 9.3%, decrease in one-to four family residential loans and a $2.0 million, of 13.0%, decrease in commercial construction loans. While we have continued to originate significant amounts of one-to-four family residential loans and indirect auto loans in 2012, we have sold these loan types at an increased pace from the prior years. Further, our plan to prudently build new commercial and consumer loan businesses is working as solid growth was experienced in each of our new strategic business lines.

Investment Securities. Total investment securities decreased $17.2 million to $72.2 million at March 31, 2012, from $89.4 million at December 31, 2011, reflecting our funding of higher-yielding loans during the three month period ended March 31, 2012. The decrease in investment securities resulted from decreases of $1.8 million, or 32.2%, in U.S. government and federal agency obligations, $2.3 million, or 4.9%, in U.S. government sponsored mortgage-backed securities, and $13.1 million, or 35.1%, in corporate debt securities.

Cash and Cash Equivalents. Cash and cash equivalents increased by $37.4 million to $60.1 million at March 31, 2012, from $22.8 million at December 31, 2011. The significant influx of cash was due to the success in deposit growth.

Bank-Owned Life Insurance. We invest in bank-owned life insurance to provide a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides noninterest income that is nontaxable. At March 31, 2012, our investment in bank-owned life insurance was $12.5 million, an increase of $107,000 from $12.4 million at December 31, 2011, reflecting premiums paid and an increase in cash value.

Deposits. Deposits increased $62.9 million, or 14.6%, to $493.5 million at March 31, 2012 from $430.7 million at December 31, 2011. The increase in deposits was due to a $34.6 million, or 15.5% increase in savings accounts, a $14.4 million, or 25.7%, increase in non-interest bearing deposits, and an $8.5 million, or 37.6%, increase in interest-bearing checking accounts. The strong deposit growth was a result of our customer-centric, relationship-based, product line coupled with increased marketing and sales efforts. The strong deposit growth is due to a continuing focus on select premium savings products tied directly to active checking. On the commercial side, our Commercial Real Estate and Small Business Banking teams are working together to insure we have active deposit relationships with all lending relationships. These ongoing initiatives have been critical to building core deposits.

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The following table sets forth the Company s deposit accounts at the dates indicated (dollars in thousands):

	March 31, 2012		December 31, 2011	
	Amount	Percent	Amount	Percent
	(unaudited)			
Deposit type:				
Demand deposits	$ 70,276	14.24%	$ 55,900	12.98%
Interest-bearing checking accounts	31,164	6.31	22,646	5.26
Savings accounts	257,207	52.12	222,630	51.69
Money market deposits	10,860	2.20	10,633	2.47
Total transaction accounts	369,507	74.87	311,809	72.40
Term certificates less than $100,000	54,439	11.03	53,877	12.51
Term certificates $100,000 or more	69,602	14.10	64,968	15.09
Total certificate accounts	124,041	25.13	118,845	27.60
Total deposits	$ 493,548	100.00%	$ 430,654	100.00%

Borrowings. At March 31, 2012, borrowings consisted of advances from the Federal Home Loan Bank of Boston, securities sold to customers under agreements to repurchase, or repurchase agreements , and other borrowed funds consisting of the balance of loans that we sold with recourse to another financial institution in March of 2006.

Total borrowings decreased $13.7 million, or 13.7%, to $86.4 million at March 31, 2012, from $100.1 million at December 31, 2011. Advances from the Federal Home Loan Bank of Boston decreased $14.0 million to $81.6 million at March 31, 2012, from $95.6 million at December 31, 2011, and repurchase agreements increased $325,000 to $3.3 million at March 31, 2012, from $3.0 million at December 31, 2011.

The following table sets forth the Company s short-term borrowings and long-term debt for the dates indicated (in thousands):

	March 31, 2012	December 31, 2011
	(unaudited)	
Long-term borrowed funds:		
Federal Home Loan Bank of Boston long-term advances	$ 72,600	$ 82,600
Other borrowed funds	1,489	1,502
	74,089	84,102
Short-term borrowed funds:		
Federal Home Loan Bank of Boston short-term advances	9,000	13,000
Repurchase agreements	3,310	2,985
	12,310	15,985
Total borrowed funds	$ 86,399	$ 100,087

Stockholders Equity. Total equity capital increased $489,000 to $132.0 million at March 31, 2012, from $131.5 million at December 31, 2011. This increase in stockholders equity was primarily due to earnings for the quarter of $447,000. Stockholder s equity was further increased by $38,000 as a result of the release of shares under the Employee Stock Ownership Plan.

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Non-Performing Assets. The following table sets forth the amounts and categories of our non-performing assets at the dates indicated (dollars in thousands):

	At March 31, 2012 (unaudited)	At December 31, 2011
Non-accrual loans:		
Mortgage loans:		
One-to-four family	$ 3,349	$ 3,149
Commercial real estate		
Construction loans		
Equity lines of credit	1,123	1,123
Commercial loans	133	155
Consumer loans:		
Indirect auto loans		
Other consumer loans	1	
Total non-accrual loans	$ 4,606	$ 4,427
Loans delinquent 90 days or greater and still accruing:		
Mortgage loans:		
Residential one-to-four family		
Commercial real estate		
Construction loans		
Equity lines of credit		
Commercial loans		
Consumer loans:		
Indirect auto loans		
Other consumer loans		
Total loans 90 days delinquent and still accruing		
Total non-performing loans	$ 4,606	$ 4,427
Other real estate owned	$	$
Repossessed automobiles	78	
Total non-performing assets (NPAs)	$ 4,684	$ 4,427
Troubled debt restructures included in NPAs	$ 608	$ 609
Troubled debt restructures not included in NPAs		
Total troubled debt restructures	$ 608	$ 609
Ratios:		
Non-performing loans to total loans	0.87%	0.86%
Non-performing assets to total assets	0.65%	0.61%

It is the general policy of the Bank to consider any loan on non-accrual as an impaired loan. Exceptions to this policy can be made when, in the opinion of Senior Management, a loan is adequately secured, properly documented and clearly in the process of collection. Any exceptions to policy are reviewed on a monthly basis and must be approved by Senior Management. At March 31, 2012, we had one commercial secured credit amounting to $133,000 that management did not consider to be impaired based on all facts and circumstances surrounding the collectibility of the credit.

Troubled Debt Restructurings. We periodically modify loans to extend the term or make other concessions to help a borrower stay current on their loan and to avoid foreclosure. We generally do not forgive principal or interest on loans or modify the interest rates on loans to those not otherwise available in the market for loans with similar risk characteristics as the restructured debt. At March 31, 2012, we had $608,000 of troubled debt restructurings related to two loans. One of these loans was a one-to four-family residential mortgage loan and the other was a home equity line of credit. Both of these loans are performing under their terms as modified.

Comparison of Operating Results for the Three Months Ended March 31, 2012 and 2011

General. Net income for the three months ended March 31, 2012 was $447,000, compared to net income of $1.5 million for the three months ended March 31, 2011. The change in operating results for the three months ended March 31, 2012 compared to the 2011 period resulted primarily from a decrease of $2.1 million in noninterest income and an increase of $1.4 million in noninterest expense, partially offset by an increase of $1.7 million in net interest and dividend income.

Net Interest and Dividend Income. Net interest and dividend income increased $1.7 million to $5.3 million for the three months ended March 31, 2012, compared to $3.5 million for the three months ended March 31, 2011. The increase in net interest and dividend income was primarily due to an increase in our net interest earning assets, a shift in asset focus to higher-yielding loans, the ability to attract lower cost core deposits and the cost of our interest-bearing liabilities decreasing faster than the yields on our interest-earning assets in a period of declining market interest rates. Net average interest-earning assets increased $106.1 million, or 178.5% to $165.5 million for the three months ended March 31, 2012 from $59.4 million for the three months ended March 31, 2011. Our net interest margin increased 25 basis points to 3.23% for the three months ended March 31, 2012, compared to 2.98% for the three months ended March 31, 2011, and our net interest rate spread increased 17 basis points to 2.96% for the three months ended March 31, 2012, compared to 2.79% for the three months ended March 31, 2011.

Interest and Dividend Income. Interest and dividend income increased $1.7 million to $5.3 million for the three months ended March 31, 2012, from $3.5 million for the three months ended March 31, 2011. The increase in interest and dividend income was primarily due to a $1.5 million increase in interest income on loans partially offset by a $54,000 decrease in interest and dividend income on securities and other interest-earning assets. The increase in interest income on loans resulted from a 46 basis point decrease in the average yield on loans to 4.50% from 4.96%, primarily due to lower market interest rates during the period which was more than offset by an increase in the average balance of loans of $166.0 million to $524.9 million for the three months ended March 31, 2012, from $358.9 million for the three months ended March 31, 2011. The decrease in interest and dividend income on securities was primarily due to a decrease in the average balance of $19.8 million to $80.4 million for the three months ended March 31, 2012, from $100.2 million for the three months ended March 31, 2011, offset by a 30 basis point increase in the average yield on securities to 3.05% from 2.75%. Dividends on Federal Home Loan Bank stock increased to $10,000 for the three months ended March 31, 2012, from $6,000 paid for the three months ended March 31, 2011. Interest income on other interest-earning assets increased to $13,000 for the three months ended March 31, 2012 from $2,000, primarily due to the increase of $28.9 million in the average balance to $42.5 million for the three months ended March 31, 2012, from $13.6 million for the three months ended March 31, 2011.

Interest Expense. Interest expense decreased $293,000 to $1.3 million for the three months ended March 31, 2012, from $1.5 million for the three months ended March 31, 2011. The decrease resulted from a 46 basis point decrease in the cost of interest-bearing liabilities, partially offset by a $68.9 million, or 16.4%, increase in the average balance of interest-bearing liabilities.

Interest expense on interest-bearing deposits increased by $50,000 to $938,000 for the three months ended March 31, 2012, from $888,000 for the three months ended March 31, 2011. This increase was primarily due to a $69.7 million increase in the average balance of interest-bearing deposits to $394.7 million for the three months ended March 31, 2012, from $325.0 million for the three months ended March 31, 2011. Offsetting the increase in average balance was a 15 basis point decrease in the average cost of interest-bearing deposits to 0.96% for the three months ended March 31, 2012, from 1.11% for the three months ended March 31, 2011. We experienced decreases in the average cost within money market accounts and certificates of deposit for the three months ended March 31, 2012, reflecting lower market interest rates compared to the prior period, while the average cost of savings and checking accounts remained consistent for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011.

Interest expense on total borrowings decreased $343,000 to $312,000 for the three months ended March 31, 2012, from $655,000 for the three months ended March 31, 2011. This decrease was primarily due to a, 143 basis point decrease in the average cost of such advances to 1.32% for the three months ended March 31, 2012, from 2.75% for the three months ended March 31, 2011, partially offset by a $1.7 million increase in the average balance of Federal Home Loan Bank advances to $90.8 million for the three months ended March 31, 2012, from $89.1 million for the three months ended March 31, 2011.

Provision for Loan Losses. Based on our methodology for establishing our allowance for loan losses and provisions for loan losses discussed in Note 5 to the Consolidated Financial Statements included in this Form 10-Q, we recorded a provision for loan losses of $481,000 for the three months ended March 31, 2012, compared to $476,000 for the three months ended March 31, 2011. The allowance for loan losses was $5.2 million, or 0.98% of total loans, at March 31, 2012, compared to $4.8 million, or 0.93% of total loans, at December 31, 2011.

Noninterest Income. Noninterest income decreased by $2.1 million to $964,000 for the three months ended March 31, 2012, from $3.1 million for the three months ended March 31, 2011. The decline was primarily due to $2.8 million in net realized gains on investment securities that occurred in the three-month period ended March 31, 2011, compared to no such activity in the 2012 period, as our entire equity portfolio was liquidated in the first quarter of 2011. This decrease was partially offset by an increase on the gain on sale of loans of $508,000 to $578,000 for the three months ended March 31, 2012, from $70,000 for the three months ended March 31, 2011. The loan sales for both periods were made up of residential mortgages and indirect auto loans. In addition, customer service fees increased by $89,000, or 81.7%, due primarily to a $54,000, or 107.6%, increase in insufficient funds fees. Other non-interest income was increased by $57,000 to $86,000 for the three months ended March 31, 2012, from $29,000 for the three months ended March 31, 2011, due primarily to a $58,000, or 100.0%, increase in loan servicing fees on indirect auto loans sold.

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Noninterest Expense. Noninterest expense increased $1.4 million to $5.1 million for the three months ended March 31, 2012, from $3.7 million for the three months ended March 31, 2011. The largest components of this increase were salaries and employee benefits, which increased $758,000, or 31.6%, data processing, which increased $195,000, or 100.0%, professional fees, which increased $191,000, or 150.4%, and other noninterest expense, which increased $177,000, or 61.9%. These increases were primarily the result of an investment in human resources and our infrastructure to help execute our commercial and consumer business strategies, and increased costs related to becoming a public company.

Income Tax Expense. We recorded income tax expense of $212,000 for the three months ended March 31, 2012, compared to income tax expense of $908,000 for the three months ended March 31, 2011. The decrease was primarily the result of lower pre-tax earnings for the quarter ended March 31, 2012 from the same period in 2011. The effective tax rate for the three months ended March 31, 2012 was 32.2% compared to 37.3% for the same period in 2011.

The following tables set forth average balance balances of assets and liabilities, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

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	For the Three Months Ended March 31,					
	2012			2011		
	(Dollars in thousands)					
	Average Outstanding Balance	Interest	Yield/Rate[1]	Average Outstanding Balance	Interest	Yield/Rate[1]
Interest-earning assets:						
Total loans	$ 524,802	$ 5,877	4.50%	$ 358,826	$ 4,386	4.96%
Securities	80,360	610	3.05%	100,158	679	2.75%
FHLB stock	8,033	10	0.50%	8,038	6	0.30%
Other	42,455	13	0.12%	13,598	2	0.06%
Total interest-earning assets	655,650	6,510	3.99%	480,620	5,073	4.28%
Non-interest-earning assets	33,979			23,931		
Total assets	$ 689,629			$ 504,551		
Interest-bearing liabilities:						
Savings accounts	234,548	411	0.70%	162,272	280	0.70%
Checking accounts	27,371	8	0.12%	23,518	7	0.12%
Money market accounts	13,724	5	0.15%	13,416	10	0.30%
Certificates of deposit	119,097	514	1.74%	125,808	591	1.91%
Total interest-bearing deposits	394,740	938	0.96%	325,014	888	1.11%
Federal Home Loan Bank advances	90,754	298	1.32%	89,094	605	2.75%
Securities sold under agreements to repurchase	3,141	3	0.38%	2,863	5	0.71%
Other borrowed funds	1,498	11	2.95%	4,225	45	4.28%
Total interest-bearing liabilities	490,133	1,250	1.03%	421,196	1,543	1.49%
Non-interest-bearing liabilities	67,750			36,265		
Total liabilities	557,883			457,461		
Stockholders Equity	131,746			47,090		
Total liabilities and equity	$ 689,629			$ 504,551		
Net interest and dividend income		$ 5,260			$ 3,530	
Net interest rate spread [2]			2.96%			2.79%
Net interest-earning assets [3]	165,517			59,424		
Net interest margin [4]			3.23%			2.98%
Average interest-earning assets to interest-bearing liabilities			133.77%			114.11%

(1) Yields and rates for the three-month periods ended March 31, 2012 and 2011 are annualized.
(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(4) Net interest margin represents net interest and dividend income divided by average total interest-earning assets.

The following table presents the effects of changing rates and volumes on our net interest and dividend income for the fiscal years and 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). 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.

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	Three Months Ended March 31, 2012 vs. 2011		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(In thousands)		
Interest-earning assets:			
Loans	$ 1,865	$ (374)	$ 1,491
Securities	(154)	85	(69)
Federal Home Loan Bank stock		4	4
Other	7	4	11
Total interest-earning assets	1,718	(281)	1,437
Interest-bearing liabilities:			
Savings accounts	131		131
Checking accounts	1		1
Money market accounts		(5)	(5)
Certificates of deposit	(29)	(48)	(77)
Total interest-bearing deposits	103	(53)	50
Federal Home Loan Bank advances	11	(318)	(307)
Securities sold under agreements to repurchase	1	(3)	(2)
Other borrowed funds	(23)	(11)	(34)
Total interest-bearing liabilities	92	(385)	(293)
Change in net interest and dividend income	$ 1,626	$ 104	$ 1,730

Management of Market Risk

General. Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Asset/Liability Management Committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our Board of Directors.

Exposure to interest rate risk is managed by Belmont Savings Bank through periodic evaluations of the current interest rate risk inherent in its rate-sensitive assets and liabilities, primarily deposits, borrowings, loans and investment securities, coupled with determinations of the level of risk considered appropriate given Belmont Savings Bank s capital and liquidity requirements, business strategy and performance objectives. Through such management, Belmont Savings Bank seeks to manage the vulnerability of its net interest income to changes in interest rates.

Strategies used by Belmont Savings Bank to manage the potential volatility of its earnings may include:

The origination and retention of adjustable rate residential one-to-four family loans, adjustable rate home equity lines of credit, adjustable rate commercial loans, commercial real estate loans and indirect automobile loans;

The sale of fixed rate loans;

Investing in securities with relatively short maturities and/or expected average lives;

Emphasizing growth in low-cost core deposits; and

Lengthening liabilities such as term certificates of deposit and Federal Home Loan Bank of Boston borrowings as appropriate.

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Net Interest Income Analysis. We analyze our sensitivity to changes in interest rates through our net interest income model. 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 five year time horizon. The following table shows the estimated impact on net interest income (NII) for the one-year period beginning March 31, 2012 resulting from potential changes in interest rates. These estimates require us to make certain assumptions including loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain and, as a result, we cannot 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.

Change in Interest Rates (basis points) (1)	NII Change Year One (% Change From Year One Base)
Shock +300	0.2%
+200	-1.2%
- 100	0.3%

(1) The calculated change for -100 bp and +200 bp, assume a gradual parallel shift across the yield curve over a one-year period. The calculated change for Shock +300 assumes that market rates experience an instantaneous and sustained increase of 300 bp.

The table above indicates that at March 31, 2012, in the event of a 200 basis point increase in interest rates over a one year period, assuming a gradual parallel shift across the yield curve over such period, we would experience a 1.2% decrease in net interest income. At the same date, in the event of a 100 basis point decrease in interest rates over a one year period, assuming a gradual parallel shift across the yield curve over such period, we would experience a 0.3% increase in net interest income.

Economic Value of Equity Analysis. We also analyze the sensitivity of our financial condition to changes in interest rates through our economic value of equity model. This analysis measures the difference between predicted changes in the present value of our assets and predicted changes in the present value of our liabilities assuming various changes in current interest rates. Our economic value of equity analysis as of March 31, 2012 estimated that, in the event of an instantaneous 200 basis point increase in interest rates, we would experience a 8.7% decrease in the economic value of our equity. At the same date, our analysis estimated that, in the event of an instantaneous 100 basis point decrease in interest rates, we would experience a 6.8% decrease in the economic value of our equity. The estimates of changes in the economic value of our equity require us to make certain assumptions including loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain and, as a result, we cannot precisely predict the impact of changes in interest rates on the economic value of our equity. Although our economic value of equity analysis 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 the economic value of our equity and will differ from actual results.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the Federal Home Loan Bank of Boston, security repayments and loan sales. 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 Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we had enough sources of liquidity at March 31, 2012 to satisfy our short- and long-term liquidity needs as of that date.

We regularly monitor and adjust our investments in liquid assets based on our assessment of:

expected loan demand;

expected deposit flows and borrowing maturities;

yields available on interest-earning deposits and securities; and

the objectives of our asset/liability management program.

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Excess liquid assets are invested generally in interest-earning deposits and short-term securities and may also be used to pay off short-term borrowings.

Our most liquid assets are cash and cash equivalents. The level of these assets is dependent on our operating, financing, lending and investing activities during any given period. At March 31, 2012, cash and cash equivalents totaled $60.1 million.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At March 31, 2012, we had $36.9 million in loan commitments outstanding. In addition to commitments to originate loans, we had $79.4 million in unused lines of credit to borrowers and $24.4 million in unadvanced funds on construction loans. Certificates of deposit due within one year of March 31, 2012 totaled $66.0 million, or 13.4%, of total deposits. If these deposits do not remain with us, we may be required to seek other sources of funds, including loan sales, brokered deposits, repurchase agreements and Federal Home Loan Bank advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before March 31, 2013, or on our money market accounts. We believe, however, based on historical experience and current market interest rates that we will retain upon maturity a large portion of our certificates of deposit with maturities of one year or less as of March 31, 2012.

Our primary investing activity is originating loans. During the three months ended March 31, 2012 and the year ended December 31, 2011, we originated $158.6 million and $337.4 million of loans, respectively.

Financing activities consist primarily of activity in deposit accounts, Federal Home Loan Bank advances and, to a lesser extent, brokered deposits. We experienced net increases in deposits of $62.9 million and $83.8 million for the three months ended March 31, 2012 and for the year ended December 31, 2011, respectively. At March 31, 2012 and December 31, 2011, the levels of brokered deposits were $23.3 million and $13.3 million, respectively. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Boston, which provide an additional source of funds. At March 31, 2012, we had $81.6 million of Federal Home Loan Bank advances. Based on available collateral at that date, we had the ability to borrow up to an additional $54.3 million from the Federal Home Loan Bank of Boston.

Belmont Savings Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2012, Belmont Savings Bank exceeded all regulatory capital requirements. Belmont Savings Bank is considered well capitalized under regulatory guidelines.

The net proceeds from our stock offering completed in October 2011 have significantly increased our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of loans. Our financial condition and results of operations will be enhanced by the net proceeds from the stock offering, resulting in increased net interest-earning assets and net interest and dividend income. However, due to the increase in equity resulting from the net proceeds raised in the stock offering, our return on equity will be adversely affected following the stock offering.

Contractual Obligations. We are obligated to make future payments according to various contracts. As of March 31, 2012, our contractual obligations have not changed materially from those disclosed in our 2011 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 27, 2012.

Off-Balance Sheet Arrangements

Loan Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our potential future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. In addition, from time to time we enter into commitments to sell mortgage loans that we originate. For the three months ended March 31, 2012, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is included in Item 2 of this report under Management of Market Risk.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, (1) is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms and (2) is accumulated and communicated to our management, including our principal executive and principal financial officers as appropriate to allow timely discussions regarding required disclosures.

The effectiveness of a system of disclosure controls and procedures is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in condition and the risk that the degree of compliance with policies or procedures may deteriorate over time. Due to such inherent limitations, there can be no assurance that any system of disclosure controls and procedures will be successful in preventing all errors or fraud, or in making all material information known in a timely manner to the appropriate levels of management.

There were no changes in the Company s internal control over financial reporting during the three months ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors.

For information regarding the Company s risk factors, see Risk Factors in the Company s 2011 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 27, 2012. As of March 31, 2012, the risk factors of the Company have not changed materially from those disclosed in the 2011 Annual Report on Form 10-K.

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

(a) Unregistered Sales of Equity Securities. None

(b) Use of Proceeds. None

(c) ***Repurchase of Equity Securities.*** None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosure

Not applicable.

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Item 5. Other Information

None

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.*
32.0	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.*
101.0	The following data from the BSB Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Cash Flows, and (v) the related notes.*

* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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Signatures

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

	BSB BANCORP, INC.
Date: May 14, 2012	By: /s/ Robert M. Mahoney Robert M. Mahoney President, Chief Executive Officer and Director (Principal Executive Officer)
Date: May 14, 2012	By: /s/ John A. Citrano John A. Citrano Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)