



2015 Annual Report

PROTECTING EVERY

ONE DOLLAR

Since 1934, **NO DEPOSITOR HAS EVER
LOST A PENNY** in a bank insured by both
the FDIC and the DIF.

DEDICATION

DEPOSITORS INSURANCE FUND ANNUAL REPORT

Year ended October 31, 2015

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ANNUAL MEETING

March 31, 2016; Sheraton Framingham Hotel,
Framingham, Massachusetts; 10:30 a.m.

BANKERS' NOTE

All historical references to industry financial data in this report reflect only current DIF member banks' data.

DEPOSITORS INSURANCE FUND

The Depositors Insurance Fund (DIF) is a private, industry-sponsored insurance company that insures all deposits in Massachusetts-chartered savings banks over the FDIC insurance limits.

DIF MEMBER BANKS

Adams Community Bank
Athol Savings Bank
Avidia Bank
Bank of Canton
BankFive
BayCoast Bank
Bay State Savings Bank
Belmont Savings Bank
Blue Hills Bank
Bridgewater Savings Bank
Bristol County Savings Bank
Brookline Bank
Cambridge Savings Bank
Cape Ann Savings Bank
Cape Cod Five Cents Savings Bank
Chicopee Savings Bank
Clinton Savings Bank
Country Bank
Dedham Institution for Savings
Eagle Bank
East Boston Savings Bank
East Cambridge Savings Bank
Easthampton Savings Bank
Florence Savings Bank
Greenfield Savings Bank
Hingham Institution for Savings
Institution for Savings
Lee Bank

The Lowell Five Cent Savings Bank
Marblehead Bank
Marlborough Savings Bank
Martha's Vineyard Savings Bank
Middlesex Savings Bank
Millbury Savings Bank
Monson Savings Bank
MountainOne Bank
Newburyport Five Cents Savings Bank
North Brookfield Savings Bank
North Easton Savings Bank
North Middlesex Savings Bank
Pentucket Bank
PeoplesBank
The Provident Bank
Randolph Savings Bank
Salem Five Bank
The Savings Bank
Seamen's Bank
South Shore Bank
Southbridge Savings Bank
SpencerBANK
UniBank
Washington Savings Bank
Watertown Savings Bank
Webster Five
Winchester Savings Bank

SERVICE

OFFICERS

John F. Heaps, Jr.
Chairman

Mark R. O'Connell
Vice Chairman

David Elliott
President and Chief Executive Officer

Mark S. Medvin
Executive Vice President, Chief Operating Officer and Treasurer

Norman S. Seppala
Executive Vice President

Edward J. Geary
Senior Vice President

John J. D'Alessandro
Senior Vice President

Kara M. McNamara
Senior Vice President

BOARD OF DIRECTORS

Maura O. Banta
*Director of Global Citizenship Initiatives in Education
IBM Corporation*

Richard K. Bennett
*President and Chief Executive Officer
Marlborough Savings Bank*

John C. Boucher
*Director
South Shore Bank*

Donna L. Boulanger
*President and Chief Executive Officer
North Brookfield Savings Bank*

John F. Heaps, Jr.
*President and Chief Executive Officer
Florence Savings Bank*

Margaret H. Kelly
*Principal
Kelly Associates*

Steven E. Lowell
*President and Chief Executive Officer
Monson Savings Bank*

William H. Mitchelson
*Chairman
Salem Five Bank*

Patrick J. Murray, Jr.
*President and Chief Executive Officer
Bristol County Savings Bank*

Mark R. O'Connell
*President and Chief Executive Officer
Avidia Bank*

Marvin Siflinger
*Chairman
Housing Partners, Inc.*

William J. Wagner
*President and Chief Executive Officer
Chicopee Savings Bank*

A professional portrait of Mark S. Medvin, a middle-aged man with short, graying hair, smiling warmly. He is wearing a dark navy blue suit jacket over a white dress shirt and a red tie with thin white diagonal stripes. His hands are clasped in front of him. The background is a soft-focus office interior with a window and some greenery.

MARK S. MEDVIN
EXECUTIVE VICE PRESIDENT,
CHIEF OPERATING OFFICER
AND TREASURER

Mark Medvin will retire from the Depositors Insurance Fund in April 2016 after 34 years in a variety of senior management roles.

For the past decade, he has led the DIF's operations as Executive Vice President, Chief Operating Officer and Treasurer.

Raised in Northern Virginia, Mark began his career in 1975 at the Board of Governors of the Federal Reserve System in Washington, D.C., after graduating from Duke University and George Washington University School of Law. He then worked on Capitol Hill for the Subcommittee on Consumer Affairs of the House Banking Committee before moving to the general counsel's office of the National Credit Union Administration. In 1982 he joined the DIF as In-House Counsel and relocated to Boston.

As Executive Vice President, Chief Operating Officer and Treasurer, Mark was responsible for all DIF financial, legal and information technology matters, as well as the organization's day-to-day operations. Referring to Mark as "the financial and legal backbone of the DIF," President David Elliott added, "I couldn't have done my job without Mark."

A portrait of Edward J. Geary, a middle-aged man with short, light-colored hair, wearing a dark suit jacket, a light blue dress shirt, and a dark bow tie with small white dots. He is standing in a room with a bookshelf and a lamp in the background. On the left side of the page, there is a large, faint, circular graphic element resembling a stylized eye or a complex geometric pattern.

EDWARD J. GEARY
SENIOR VICE PRESIDENT

Senior Vice President Ted Geary retired in December 2015 after more than a decade at the Depositors Insurance Fund.

Ted began his career in 1968 in the state Bank Commissioner's Office. A Boston College graduate, he also earned a diploma from the Graduate School of Savings Banking. Promoted in 1978 to the position of Chief Director of Thrift Examinations, he subsequently was named Senior Deputy Commissioner, Bank Supervision. In 1996 Ted was appointed First Deputy Commissioner, a position he held until 2002 when he joined the DIF.

In his second career, Ted made excellent use of his regulatory experience in his relationships with DIF member banks. Bankers learned they could count on Ted for his wise counsel on regulatory and other industry issues. At the same time, Ted maintained excellent working relations with state as well as federal bank regulators.

"The DIF and its member banks have benefited from Ted's counsel, and we will miss him greatly," said DIF President David Elliott.

PROTECTION

DEPOSITORS INSURANCE FUND HIGHLIGHTS

As of October 31, 2015

Deposit Insurance Fund

	2015	2014
Annual Assessments	\$ 2,297,183	\$ 2,046,312
Funds Available	\$ 377,527,223	\$ 376,188,651
Insured Excess Deposits	\$12,218,167,618	\$11,378,641,810
Coverage Ratio ¹	3.09%	3.31%

Liquidity Fund

	2015	2014
Fund Balance	\$ 6,362,152	\$ 6,386,255

¹ The Coverage Ratio is equal to the DIF's liquid assets available for the insurance of deposits (Funds Available) divided by its Insured Excess Deposits.

RELIABILITY

INDUSTRY HIGHLIGHTS

(In thousands, calendar year)

Balance Sheet

Assets:

Securities	\$10,405,157	\$10,784,478
Loans (net)	47,285,597	42,485,567
Other	5,151,954	4,913,524
Total Assets	<u>\$62,842,708</u>	<u>\$58,183,569</u>

Liabilities:

Deposits	\$49,710,365	\$45,630,605
Borrowed Funds	5,703,059	5,481,538
Other	687,584	631,565
Total Liabilities	<u>56,101,008</u>	<u>51,743,708</u>

Equity Capital

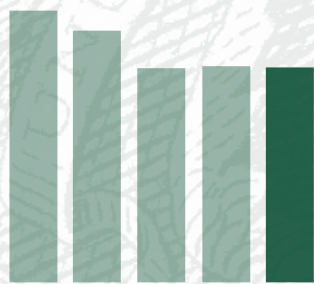
Total Liabilities and Equity Capital	<u>6,741,700</u>	<u>6,439,861</u>
	<u>\$62,842,708</u>	<u>\$58,183,569</u>

Income Statement

Total Interest Income	\$ 2,054,274	\$ 1,929,738
Total Interest Expense	<u>(319,742)</u>	<u>(310,003)</u>
Net Interest Income	1,734,532	1,619,735
Provision for Loan & Lease Losses	(44,966)	(44,442)
Gains on Sales of Loans	43,535	27,698
Gains on Sales of Securities	35,738	47,999
Other Noninterest Income	291,318	280,709
Total Noninterest Expense	<u>(1,525,864)</u>	<u>(1,440,991)</u>
Income before Taxes	534,293	490,708
Income Taxes	<u>(161,444)</u>	<u>(136,791)</u>
Net Income	<u>\$ 372,849</u>	<u>\$ 353,917</u>

Net Interest Margin

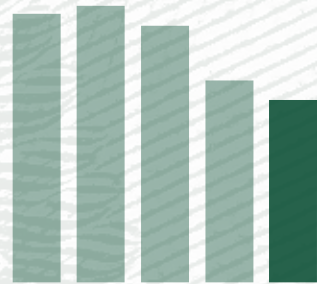
3.24 3.19 3.06 3.06 3.06



11* 12 13 14 15

Operating Expense as % of Average Total Assets

2.70 2.71 2.68 2.58 2.55



11* 12 13 14 15

Return on Average Assets

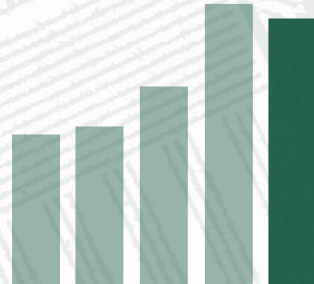
0.60 0.66 0.62 0.63 0.62



11* 12 13 14 15

Tier I Leverage Capital Ratio

10.31 10.33 10.49 10.78 10.71



11* 12 13 14 15

Nonperforming Assets as % of Equity Capital & Allowance

11.45 8.96 7.62 5.77 4.61



11* 12 13 14 15

Nonperforming Assets as % of Total Assets

1.29 1.02 0.87 0.68 0.53



11* 12 13 14 15

*EXCLUDES BROOKLINE BANK

COMMITMENT

DEPOSITORS INSURANCE FUND BOARD OF DIRECTORS

Five members of the DIF Board of Directors, with a combined 43 years of service, will be leaving the Board at the 2016 annual meeting.

MAURA O. BANTA, Director of Global Citizenship Initiatives in Education for IBM Corp., served eight years on the Board as a public director. Her assignments included the Compensation, Executive, and Long Range Planning Committees.

JOHN F. HEAPS, JR., President and CEO of Florence Savings Bank, served six years on the Board, including two years as Chairman and one year as Vice Chairman. In addition, he served on the following Committees: Audit, Compensation, Executive, Long Range Planning, Nominating, and Watch Bank.

MARK R. O'CONNELL, President and CEO of Avidia Bank, served seven years on the Board, including two years as Vice Chairman. His committee memberships included the Audit, Executive, Investment, and Long Range Planning Committees.

MARVIN SIFLINGER, Chairman of Housing Partners, Inc., served eight years on the Board as a public director. He served on the Audit, Compensation, Executive, Nominating, and Watch Bank Committees.

WILLIAM J. WAGNER, President and CEO of Chicopee Savings Bank, leaves the Board after serving a total of 14 years over three time periods. He began his current stint in 2010, after previously serving in the late 1980's and in the 2000's. His committee service included the Audit, Executive, Investment, Nominating, and Watch Bank Committees.



The DIF Board of Directors at its December 2015 meeting.

Seated, left to right: Maura O. Banta, John F. Heaps, Jr., Patrick J. Murray, Jr.
Standing, left to right: Margaret H. Kelly, Marvin Siflinger, William J. Wagner,
Mark R. O'Connell, Donna L. Boulanger, Steven E. Lowell, Richard K. Bennett,
William H. Mitchelson. Not pictured: John C. Boucher

TRUST

LETTER FROM THE PRESIDENT

The Massachusetts savings bank industry delivered solid financial results in 2015, reflecting the state's strengthening economy. Return on average assets was 62 basis points, down one basis point from 2014. The industry's net interest margin remained steady at 3.06 percent, unchanged from the previous year.

Asset quality continued to improve in 2015, as nonperforming assets as a percentage of total assets decreased to 0.53 percent from 0.68 percent a year earlier. As a percentage of equity capital and allowance, nonperforming assets declined more than 100 basis points to 4.61 percent from 5.77 percent in 2014.

The industry's Tier 1 Leverage Capital Ratio fell marginally to 10.71 percent from 10.78 percent in 2014. Operating expense as a percentage of average total assets improved slightly in 2015, to 2.55 percent from 2.58 percent a year earlier.


At October 31, 2015, the Deposit Insurance Fund held \$377.5 million in gross funds available for insurance of deposits. All investments held by the Fund were U.S. Treasury or agency obligations, or fully guaranteed as to principal and interest by the U.S. government.

At fiscal year-end, the DIF insured \$12.2 billion in excess deposits in member banks, up from \$11.4 billion a year earlier. The DIF's coverage ratio at fiscal year-end was 3.09 percent.

The DIF continues to support member banks' efforts to educate customers about the benefits of full deposit insurance. In 2015 the DIF reimbursed more than \$79,000 to 26 member banks.

From an industry perspective, bankers will mark 2015 as the year interest rates finally lifted off rock-bottom. The U.S. Federal Reserve in December ended months of speculation by raising its benchmark interest rate for the first time in nine years. The 0.25 percent increase in the federal funds rate signaled the Fed's confidence in the strengthening U.S. economy.

The Fed action came after another year of slow-but-steady economic growth. Overall, the nation's Gross Domestic Product (GDP) advanced 2.4 percent, identical to 2014. In particular, the Fed cited the sharply improved employment picture. Behind strong jobs creation, the U.S. unemployment rate fell to 5.0 percent in December from 5.6 percent a year earlier.



The Massachusetts savings bank industry delivered solid financial results in 2015, reflecting the state's strengthening economy.

Helped by sharply lower gasoline prices, auto makers sold a record 17.5 million vehicles in 2015, topping the previous mark set in 2000. In the housing market, sales of new and existing homes advanced 7.1 percent, the best performance since 2007. Housing starts climbed 10.8 percent to 1.11 million.

Not all economic news was positive, as GDP data released in early 2016 revealed a late-year economic slowdown. Retail sales also disappointed, increasing just 2.1 percent in 2015. But after stripping out the impact of falling gasoline prices, retail sales rose a more respectable 3.9 percent.

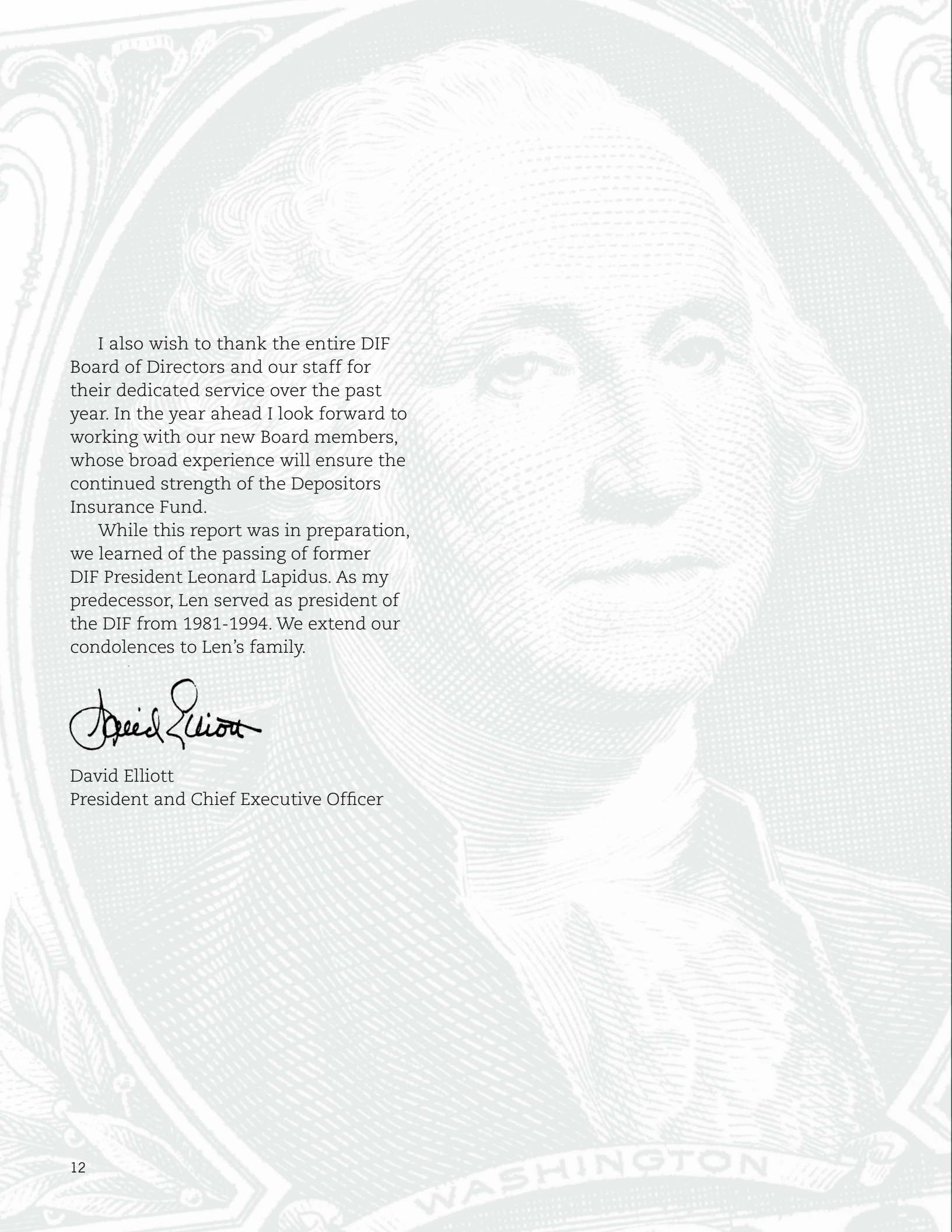
Despite mostly favorable economic news at home, many investors focused on worrying developments overseas. China's economic slowdown impacted economies worldwide, particularly emerging markets already hit by falling energy prices. Fears of a global economic slowdown sent stocks into a tailspin in August.

U.S. equity markets bounced back in the final quarter, finishing the year mixed. The broad S&P 500 Index declined fractionally, while the Dow Jones Industrial Average fell 2.2 percent for the year. The technology-laden NASDAQ Composite Index rose 5.73 percent.

The Massachusetts economy continued to outpace the national economy in 2015. The state added nearly 74,000 new jobs, the most since 2000. The Commonwealth's unemployment rate stood at 4.7 percent in December, down from 5.3 percent a year earlier.

Sales of single-family homes in Massachusetts rose 10.5 percent last year, according to the Warren Group. Sales surged in the second half of the year following a slow start amid harsh winter weather. The median sales price rose 3.0 percent to \$340,000. Condominium sales increased 7.3 percent, while the median condo price climbed 2.2 percent to \$316,810.

In conclusion, I am honored to dedicate this annual report to our two retiring DIF senior executives, Mark Medvin and Ted Geary, and five departing Board members—all profiled on accompanying pages. In their years of service, each of them represents the best of the DIF.



I also wish to thank the entire DIF Board of Directors and our staff for their dedicated service over the past year. In the year ahead I look forward to working with our new Board members, whose broad experience will ensure the continued strength of the Depositors Insurance Fund.

While this report was in preparation, we learned of the passing of former DIF President Leonard Lapidus. As my predecessor, Len served as president of the DIF from 1981-1994. We extend our condolences to Len's family.



David Elliott
President and Chief Executive Officer

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To the Board of Directors of the Depositors Insurance Fund:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Deposit Insurance Fund and subsidiary, which comprise the consolidated statements of condition as of October 31, 2015 and 2014, and the related consolidated statements of net income, comprehensive income, changes in fund balance and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Deposit Insurance Fund and subsidiary as of October 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Wolf & Company, P.C.

Boston, Massachusetts
December 22, 2015

October 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 7,356,478	\$ 5,870,982
Certificates of deposit	735,000	—
Securities available for sale, at fair value	376,478,378	369,916,733
Federal Home Loan Bank stock	1,077,400	1,077,100
Accrued interest receivable	1,510,643	1,510,092
Other assets	164,595	123,409
Total assets	<u>\$387,322,494</u>	<u>\$378,498,316</u>
Liabilities and Fund Balance		
Accrued expenses and other liabilities	\$ 2,027,659	\$ 1,109,156
Due to broker	6,525,617	—
Total liabilities	<u>8,553,276</u>	<u>1,109,156</u>
Commitments and contingencies (Note 6)		
Undistributed fund balance	379,429,158	377,388,728
Accumulated other comprehensive income (loss)	(659,940)	432
Total fund balance	<u>378,769,218</u>	<u>377,389,160</u>
Total liabilities and fund balance	<u>\$387,322,494</u>	<u>\$378,498,316</u>

See accompanying notes to consolidated financial statements.

Years Ended October 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Income:		
Interest and dividends on investments	\$3,634,614	\$3,423,663
Assessments	2,297,183	2,046,312
Net gain on sales of securities available for sale	<u>124,387</u>	<u>903,002</u>
Total income	<u>6,056,184</u>	<u>6,372,977</u>
Expenses:		
Salaries, employee benefits and related expenses	2,280,475	2,152,021
Professional and contract services	525,977	536,729
Technology	251,820	229,244
Deposit insurance materials	199,487	238,005
Meetings and travel	215,723	212,167
Employee incentive plan	180,000	192,000
Legal	84,303	114,602
Occupancy	96,365	82,763
Insurance	77,361	72,263
Other operating expenses	<u>149,071</u>	<u>129,910</u>
	4,060,582	3,959,704
Expenses allocated to Liquidity Fund	<u>(44,828)</u>	<u>(44,854)</u>
Total expenses, net	<u>4,015,754</u>	<u>3,914,850</u>
Net income	<u>\$2,040,430</u>	<u>\$2,458,127</u>

See accompanying notes to consolidated financial statements.

Years Ended October 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Net income	\$2,040,430	\$2,458,127
Other comprehensive loss:		
Securities available for sale:		
Unrealized holding gains arising during the year	376,690	345,898
Reclassification adjustment for gains realized in net income	(124,387)	(903,002)
Net unrealized gains (losses)	<u>252,303</u>	<u>(557,104)</u>
Defined benefit plan:		
Losses arising during the period	(983,006)	(386,345)
Reclassification adjustment for losses recognized in net income ¹	62,423	20,944
Reclassification adjustment for prior service cost recognized in net income ¹	7,908	—
Prior service cost arising during the period	<u>—</u>	<u>(74,180)</u>
Net unrecognized losses	<u>(912,675)</u>	<u>(439,581)</u>
Other comprehensive loss	<u>(660,372)</u>	<u>(996,685)</u>
Comprehensive income	<u>\$1,380,058</u>	<u>\$1,461,442</u>

¹Included in salaries, employee benefits and related expenses in the consolidated statements of net income.
See accompanying notes to consolidated financial statements.

Years Ended October 31, 2015 and 2014

	Undistributed Fund Balance	Accumulated Other Comprehensive Income (Loss)	Total Fund Balance
Fund balance at October 31, 2013	\$374,930,601	\$ 997,117	\$375,927,718
Comprehensive income (loss)	<u>2,458,127</u>	<u>(996,685)</u>	<u>1,461,442</u>
Fund balance at October 31, 2014	377,388,728	432	377,389,160
Comprehensive income (loss)	<u>2,040,430</u>	<u>(660,372)</u>	<u>1,380,058</u>
Fund balance at October 31, 2015	<u>\$379,429,158</u>	<u>\$ (659,940)</u>	<u>\$378,769,218</u>

See accompanying notes to consolidated financial statements.

Years Ended October 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net income	\$ 2,040,430	\$ 2,458,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on sales of securities available for sale	(124,387)	(903,002)
Net amortization of securities available for sale	3,373,035	3,933,943
Net change in:		
Accrued interest receivable	(551)	113,498
Other assets	(41,186)	(3,200)
Accrued expenses and other liabilities	5,861	(110,566)
Net cash provided by operating activities	<u>5,253,202</u>	<u>5,488,800</u>
Cash flows from investing activities:		
Purchases of certificates of deposit	(735,000)	—
Proceeds from sales of securities available for sale	24,680,883	57,611,665
Proceeds from maturities, calls and paydowns of securities available for sale	93,085,933	72,364,172
Purchases of securities available for sale	(120,799,222)	(145,238,803)
Purchase of Federal Home Loan Bank stock	(300)	(300)
Net cash used in investing activities	<u>(3,767,706)</u>	<u>(15,263,266)</u>
Net change in cash and cash equivalents	1,485,496	(9,774,466)
Cash and cash equivalents at beginning of year	<u>5,870,982</u>	<u>15,645,448</u>
Cash and cash equivalents at end of year	<u>\$ 7,356,478</u>	<u>\$ 5,870,982</u>
Non-cash activities:		
Increase in due to broker for investment purchases	\$ 6,525,617	\$ —

See accompanying notes to consolidated financial statements.

Years Ended October 31, 2015 and 2014

1. DESCRIPTION OF BUSINESS

Depositors Insurance Fund

The Depositors Insurance Fund (the "DIF"), which did business under the name Mutual Savings Central Fund, Inc. until February 1993, was established by the Massachusetts Legislature in 1932 and is now comprised of the Deposit Insurance Fund and its subsidiary and the Liquidity Fund. The two funds may not be commingled and the assets of one do not stand behind the liabilities of the other. The Deposit Insurance Fund and the Liquidity Fund share office space and personnel. Costs incurred are generally paid by the Deposit Insurance Fund and allocated to the Liquidity Fund. The DIF is an organization described under Section 501(c)(14) of the Internal Revenue Code (the "Code") and is exempt from taxes on related income under Section 501(a) of the Code.

In the event a member bank obtains a federal charter or merges into a nonmember, its membership in the DIF is terminated and the DIF retains all amounts paid into the DIF by the member bank. Banks whose membership in the DIF has been terminated as a result of obtaining a federal charter may reapply for excess deposit insurance. There are currently no federal member banks in the DIF.

Deposit Insurance Fund

The Deposit Insurance Fund (the "Fund") was established in 1934 for the insurance of all deposits in Massachusetts savings banks. All Massachusetts savings banks are now members of the Federal Deposit Insurance Corporation (the "FDIC"). Therefore, the Deposit Insurance Fund currently insures only those deposits in excess of the FDIC limit as defined by the FDIC ("excess deposits").

In consideration for the insurance provided, the Fund charges assessments at rates determined by the Board of Directors and approved by the Commissioner of Banks of the Commonwealth of Massachusetts (the "Commissioner"). The assessments are based upon the excess deposits of each bank insured by the Fund and the assessment rate may vary based on risk classifications assigned to each bank.

The Fund insures depositors for the amount of their excess deposits plus accrued interest in the event the Commissioner determines a member bank to be insolvent. In addition, the Fund is empowered to provide assistance to a member bank when the Commissioner determines it is inadvisable or inexpedient for the member bank to continue to transact business without receiving financial assistance from the Fund.

A member bank that is determined by the Board of Directors of the DIF to pose a greater than normal loss exposure risk to the Fund can, with the approval of the Commissioner, be required to take action(s) to mitigate the risk. As an alternative to taking any such action(s), the bank can withdraw from membership in the DIF. In such event (i) the DIF retains all amounts paid into the DIF by the bank, and the bank retains its rights to share in any dividends paid by the DIF and the proceeds of any liquidation of the Fund; and (ii) the Fund continues to insure the term excess deposits in the bank as of the date of withdrawal until their maturity and all other excess deposits in the bank on such date for one year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The consolidated financial statements of the Fund include the accounts of the Fund and its wholly-owned subsidiary, JAE Corporation, organized to hold and liquidate certain assets of a failed institution. All intercompany balances have been eliminated. Income and expenses of the Fund and its subsidiary are recognized on the accrual method of accounting.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the reserve for insurance losses and the determination of the defined benefit pension plan obligation. See Note 4 – Anticipated Deposit Insurance Losses and Note 5 – Employee Benefit Plans.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Fund considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Fair Value Hierarchy

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

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Level 1 assets generally include debt securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

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

Transfers between levels are recognized at the end of a reporting period, if applicable. Transfers into and out of levels are determined by a third-party pricing service based on inputs used in pricing models.

Securities

Securities classified as “available for sale” are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Premiums and discounts are recognized in income by the interest method over the terms of the securities. Gains and losses on the sales of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Fund evaluates all securities classified as available for sale with a fair value below amortized cost to determine whether or not the impairment is deemed to be other than temporary (“OTTI”). OTTI is required to be recognized if (1) the Fund intends to sell the security; (2) it is more likely than not that the Fund will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired debt securities that the Fund intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income.

The DIF has an agreement with an unrelated investment advisor whereby the advisor provides investment management services to the Fund. Investment authority has been granted to the investment advisor within prescribed limits on allowable investments. At October 31, 2015 and 2014, assets under management had a fair value of \$280,673,520 and \$272,226,137, respectively.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a restricted equity security and is carried at cost.

Dividends

The Fund may pay an annual discretionary dividend which requires approval of the DIF Board of Directors and the Commissioner. Dividends are accrued by a charge to the undistributed fund balance when all approvals are received.

Anticipated Deposit Insurance Losses on Member Banks

An accrued liability for anticipated deposit insurance losses may be recorded with respect to certain banks determined by DIF management, in consultation with regulatory authorities, to be experiencing serious financial difficulties, as well as general losses based on many factors such as historical experience and current economic conditions. Substantial weight is accorded to indications from regulatory authorities that a member bank has an extremely high or near-term possibility of failure. See Note 4 – Anticipated Deposit Insurance Losses.

Pension Plan

The compensation cost of an employee’s pension benefit is recognized on the net periodic pension cost method over the employee’s approximate service period. The aggregate cost method is utilized for funding purposes. The Fund recognizes on its statement of condition the funded status of the pension plan, measures the plan’s assets and its obligations that determine its funded status as of the end of the DIF’s fiscal year, and recognizes, through other comprehensive income, changes in the funded status of the pension plan that are not recognized as net periodic pension cost.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and unrecognized pension benefit cost elements, are reported as a separate component of the fund balance section of the statement of condition, such items, along with net income, are components of comprehensive income.

The components of accumulated other comprehensive income (loss), included in the fund balance at October 31, 2015 and 2014, are as follows:

	2015	2014
Net unrealized gain on securities available for sale	\$ 912,440	\$ 660,137
Unrecognized actuarial loss pertaining to the defined benefit pension plan	(1,506,108)	(585,525)
Unrecognized prior service cost pertaining to the defined benefit pension plan	(66,272)	(74,180)
	<u>\$ (659,940)</u>	<u>\$ 432</u>

Approximately \$163,000 and \$8,000 of the unrecognized actuarial loss and unrecognized prior service cost, respectively, included in accumulated other comprehensive loss at October 31, 2015, is expected to be recognized as a component of net periodic pension cost in fiscal 2016.

Expense Allocation

Expenses of the Fund are allocated to the Liquidity Fund based on a formula of 2% of all expenses, excluding those expenses directly related only to the Fund.

3. INVESTMENTS

Securities Available for Sale

Mortgage- and asset-backed securities are issued by government-sponsored enterprises or federal agencies, or are fully guaranteed by the U.S. government. Of the mortgage- and asset-backed securities at October 31, 2015, approximately 84% are backed by mortgages.

The amortized cost, fair value, and unrealized gains and losses on securities classified as available for sale at October 31, 2015 and 2014, by contractual maturity, are presented in the following tables:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2015				
U.S. Treasury obligations and guarantees:				
Due in one year or less	\$ 76,056,073	\$ 73,620	\$ —	\$ 76,129,693
Due after one year through five years	94,731,472	321,462	(25,425)	95,027,509
Due after five years through ten years	13,902,715	72,783	(5,936)	13,969,562
	<u>184,690,260</u>	<u>467,865</u>	<u>(31,361)</u>	<u>185,126,764</u>
U.S. government-sponsored enterprise obligations:				
Due in one year or less	52,060,660	25,019	(2,404)	52,083,275
Due after one year through five years	88,234,011	224,686	(35,487)	88,423,210
	<u>140,294,671</u>	<u>249,705</u>	<u>(37,891)</u>	<u>140,506,485</u>
Mortgage- and asset-backed securities:				
Due after one year through five years	11,049,154	26,033	(12,436)	11,062,751
Due after five years through ten years	12,585,469	100,201	(2,535)	12,683,135
Due after ten years	26,946,384	244,595	(91,736)	27,099,243
	<u>50,581,007</u>	<u>370,829</u>	<u>(106,707)</u>	<u>50,845,129</u>
Total securities available for sale	<u>\$375,565,938</u>	<u>\$1,088,399</u>	<u>\$(175,959)</u>	<u>\$376,478,378</u>
2014				
U.S. Treasury obligations and guarantees:				
Due in one year or less	\$ 43,611,649	\$ 71,881	\$ —	\$ 43,683,530
Due after one year through five years	120,528,828	349,510	(74,138)	120,804,200
Due after five years through ten years	6,084,912	20,924	—	6,105,836
	<u>170,225,389</u>	<u>442,315</u>	<u>(74,138)</u>	<u>170,593,566</u>
U.S. government-sponsored enterprise obligations:				
Due in one year or less	35,727,228	125,718	(460)	35,852,486
Due after one year through five years	106,783,716	143,470	(158,836)	106,768,350
	<u>142,510,944</u>	<u>269,188</u>	<u>(159,296)</u>	<u>142,620,836</u>
Mortgage- and asset-backed securities:				
Due after one year through five years	6,953,234	21,555	(6,377)	6,968,412
Due after five years through ten years	15,033,126	67,277	(106,706)	14,993,697
Due after ten years	34,533,903	326,638	(120,319)	34,740,222
	<u>56,520,263</u>	<u>415,470</u>	<u>(233,402)</u>	<u>56,702,331</u>
Total securities available for sale	<u>\$369,256,596</u>	<u>\$1,126,973</u>	<u>\$(466,836)</u>	<u>\$369,916,733</u>

Proceeds from sales of securities available for sale during fiscal 2015 and 2014 were \$24,680,883 and \$57,611,665, respectively, with gross gains of \$124,439 and \$907,021, respectively, being realized. Gross realized losses amounted to \$52 and \$4,019 for fiscal 2015 and 2014, respectively.

Gross unrealized losses on securities available for sale and the fair value of the related securities, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at October 31, 2015 and 2014, are as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2015						
U.S. Treasury obligations and guarantees	\$10,051,829	\$ (18,613)	\$12,386,235	\$ (12,748)	\$22,438,064	\$ (31,361)
U.S. government-sponsored enterprise obligations	16,326,493	(13,183)	14,752,342	(24,708)	31,078,835	(37,891)
Mortgage- and asset-backed securities	6,754,445	(33,960)	11,094,488	(72,747)	17,848,933	(106,707)
	<u>\$33,132,767</u>	<u>\$ (65,756)</u>	<u>\$38,233,065</u>	<u>\$(110,203)</u>	<u>\$71,365,832</u>	<u>\$(175,959)</u>
2014						
U.S. Treasury obligations and guarantees	\$ 2,469,803	\$ (5,198)	\$20,779,995	\$ (68,940)	\$23,249,798	\$ (74,138)
U.S. government-sponsored enterprise obligations	19,905,049	(30,344)	19,491,142	(128,952)	39,396,191	(159,296)
Mortgage- and asset-backed securities	9,278,312	(14,823)	18,440,396	(218,579)	27,718,708	(233,402)
	<u>\$31,653,164</u>	<u>\$ (50,365)</u>	<u>\$58,711,533</u>	<u>\$(416,471)</u>	<u>\$90,364,697</u>	<u>\$(466,836)</u>

At October 31, 2015, debt securities with unrealized losses have aggregate depreciation of less than 1% of their amortized cost, reflective of interest rate changes. The principal and accrued interest on all of the securities are guaranteed by the U.S. Government, an agency of the U.S. Government, or both. Because the Fund does not intend to sell the securities and it is unlikely that it will be required to sell the securities before recovery of their amortized cost bases (which may be at maturity), management does not consider these securities to be other-than-temporarily impaired at October 31, 2015.

Federal Home Loan Bank Stock

The DIF is a member of the Federal Home Loan Bank of Boston (“FHLBB”). As a condition of membership, the DIF is required to maintain an investment in FHLBB stock based on the DIF’s holdings of U.S. Treasury and government-sponsored enterprise obligations. Additional stock purchases are required based on growth of the DIF’s holdings of U.S. Treasury and government-sponsored enterprise obligations and/or usage of FHLBB advances and related services. The DIF reviews its investment for impairment based on the ultimate recoverability of the cost basis in the FHLBB stock. As of October 31, 2015, no impairment has been recognized.

At October 31, 2015, the DIF’s investment in FHLBB stock was \$1,099,100, of which \$1,077,400 was allocated to the Fund. At October 31, 2014, the DIF’s investment in FHLBB stock was \$1,099,100, of which \$1,077,100 was allocated to the Fund. The amount allocated to the Fund is based on the Fund’s holdings of U.S. Treasury and government-sponsored enterprise obligations and its use of FHLBB services, plus all stock held by the DIF in excess of the required holdings of the Fund and the Liquidity Fund.

The DIF also has a master agreement with the FHLBB regarding advances, which are secured by the DIF’s FHLBB stock and specifically-pledged securities. As of October 31, 2015 and 2014, the DIF had no outstanding advances from the FHLBB and, accordingly, no securities were specifically pledged. FHLBB advances would be allocated to the Fund and the Liquidity Fund based on the portion of advances applicable to each fund.

4. ANTICIPATED DEPOSIT INSURANCE LOSSES

In fulfilling its insurance responsibilities described in Note 1, the Fund may sustain losses in subsequent accounting periods as a result of honoring claims associated with excess deposits in insolvent banks. In addition, there are several types of assistance which may be given when it appears that a bank should not continue to transact business unaided or as an independent institution. It is possible that the Fund could sustain losses in subsequent accounting periods as a result of providing assistance to members. Any such losses could be material. Because many of the factors that might contribute to future losses to the Fund are beyond the DIF’s control, the amount of such losses, if any, generally cannot be determined or reasonably estimated (and, accordingly, are not reflected in the accrued liability for deposit insurance losses).

Assessing the adequacy of the accrued liability for deposit insurance losses on member banks involves substantial uncertainties and is based upon management's evaluation, after weighing various factors, of the amount required to meet estimated future losses for payment to depositors in insolvent banks having excess deposits. DIF management monitors the condition of insured member banks by reviewing their financial statements and regulatory examination reports and by meeting regularly with officials of the Commonwealth of Massachusetts Division of Banks and the FDIC to discuss industry conditions and specific problem banks. Substantial weight is accorded to indications from regulatory authorities that a member bank has an extremely high or near-term possibility of failure. Among the other factors management may consider regarding member banks are the amount of excess deposits, the amount of nonperforming assets in relation to regulatory capital and total loans and leases, the capital ratio, the recency of regulatory examinations, current economic conditions, and trends in the amount of excess deposits at banks which have failed. Ultimate losses may vary from current estimates. There was no accrued liability for deposit insurance losses for the years ended October 31, 2015 and 2014.

The DIF has no independent authority to examine member banks, nor does it have independent authority to pay depositors or provide assistance unless the Commissioner has acted to close the member bank or to approve the assistance, respectively. Examinations of DIF members are conducted by the Commonwealth of Massachusetts Division of Banks, the FDIC and the Federal Reserve Bank. Regulatory policy has generally been for an examination to be performed at least once within every 12-month period, except that banks with assets not exceeding \$1 billion that are considered to be "well-capitalized" under FDIC regulations are generally examined once within every 18-month period.

During fiscal 2015 and 2014, no member banks were closed by the Commissioner, and no deposit insurance payments were made by the DIF from the Fund.

5. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

All employees of the DIF participate in a defined benefit pension plan offered and administered by the Savings Banks Employees Retirement Association ("SBERA" or the "Association"). Employees become eligible to participate in the plan after reaching 21 years of age and completing one year of service, and become 100% vested after completing three years of service. The DIF's policy is to fund the plan within the allowable range under current law, determined on a discretionary basis. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Information pertaining to the activity in the plan for the years ended October 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$5,273,661	\$4,584,375
Service cost	135,689	81,554
Interest cost	179,978	190,420
Plan amendments	—	74,180
Actuarial loss	630,149	347,348
Benefits paid	<u>(6,937)</u>	<u>(4,216)</u>
Benefit obligation at end of year	<u>6,212,540</u>	<u>5,273,661</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	4,720,389	4,360,453
Actual return (loss) on plan assets	(57,595)	264,152
Employer contribution	100,000	100,000
Benefits paid	<u>(6,937)</u>	<u>(4,216)</u>
Fair value of plan assets at end of year	<u>4,755,857</u>	<u>4,720,389</u>
Unfunded status and accrued pension cost at end of year	<u>\$1,456,683</u>	<u>\$ 553,272</u>
Accumulated benefit obligation	<u>\$5,495,174</u>	<u>\$4,479,071</u>

The following table presents certain assumptions used in determining the benefit obligation at October 31, 2015 and 2014 and the benefit cost for the years then ended:

	<u>2015</u>	<u>2014</u>
Discount rate - funded status at year-end	4.25%	4.25%
Discount rate - benefit cost	4.25	4.75
Rate of increase in compensation levels - funded status at year-end	4.00	4.00
Rate of increase in compensation levels - benefit cost	4.00	4.00
Expected long-term rate of return	8.00	8.00

In general, the DIF's assumption with respect to the expected long-term rate of return is based on prevailing yields on high-quality, fixed-income investments increased by a premium for equity return expectations.

The components of net periodic pension cost (benefit) for the years ended October 31, 2015 and 2014 are as follows:

	2015	2014
Service cost	\$ 135,689	\$ 81,554
Interest cost	179,978	190,420
Expected return on plan assets	(295,262)	(303,149)
Amortization of prior service cost	7,908	—
Recognized net actuarial loss	62,423	20,944
	<u>\$ 90,736</u>	<u>\$ (10,231)</u>

The fair value of major categories of pension plan assets, and the measurement levels within the fair value hierarchy, are summarized below.

Asset Category	October 31, 2015			Total
	Level 1	Level 2	Level 3	
Collective funds	\$ 313,566	\$2,227,488	\$ —	\$2,541,054
Equity securities	865,566	—	—	865,566
Mutual funds	908,844	—	—	908,844
Hedge funds	—	—	422,796	422,796
Short-term investments	17,597	—	—	17,597
	<u>\$2,105,573</u>	<u>\$2,227,488</u>	<u>\$422,796</u>	<u>\$4,755,857</u>

Asset Category	October 31, 2014			Total
	Level 1	Level 2	Level 3	
Collective funds	\$ 325,506	\$2,203,678	\$ —	\$2,529,184
Equity securities	1,053,119	—	—	1,053,119
Mutual funds	683,455	68,503	—	751,958
Hedge funds	—	—	336,092	336,092
Short-term investments	50,036	—	—	50,036
	<u>\$2,112,116</u>	<u>\$2,272,181</u>	<u>\$336,092</u>	<u>\$4,720,389</u>

The plan assets measured at fair value in Level 1 are based on quoted market prices in an active exchange market. Plan assets measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. Plan assets measured at fair value in Level 3 are based on unobservable inputs to pricing models, which include SBERA's assumptions and the best information available under the circumstances.

The following is a reconciliation of hedge fund investments, which are measured in Level 3, for which significant unobservable inputs were used to determine fair value:

Balance at October 31, 2013	\$304,796
Purchases	48,693
Redemptions	<u>(17,397)</u>
Balance at October 31, 2014	336,092
Purchases	87,320
Redemptions	<u>(616)</u>
Balance at October 31, 2015	<u>\$422,796</u>

The benefits expected to be paid for each of the following five fiscal years and the aggregate for the five fiscal years thereafter are as follows:

<u>Year Ending October 31,</u>	<u>Amount</u>
2016	\$1,405,647
2017	211,619
2018	209,402
2019	206,995
2020	204,377
2021-2025	1,826,357

The DIF plans to make a contribution to the plan during the year ending October 31, 2016 in the amount of approximately \$460,000.

SBERA offers a common and collective trust as the underlying investment structure for pension plans participating in the Association. The target allocation mix for the common and collective trust portfolio calls for an equity-based investment deployment range from 40% to 64% of total portfolio assets. The remainder of the portfolio is allocated to fixed income from 15% to 25% and other investments including global asset allocation and hedge funds from 20% to 36%. The approximate investment allocation of the portfolio is shown in the table below. The Trustees of SBERA, through the Association's Investment Committee, select investment managers for the common and collective trust portfolio. A professional investment advisory firm is retained by the Investment Committee to provide allocation analysis, performance measurement and assistance with manager searches. The overall investment objective is to diversify equity investments across a spectrum of investment types (e.g., small cap, large cap, international, etc.) and styles (e.g., growth, value, etc.).

The composition of pension assets as of October 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Fixed income (including money market)	19.0%	21.0%
Equity investments	50.0	49.0
Other investments	<u>31.0</u>	<u>30.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Defined Contribution Pension Plan

All employees of the DIF participate in a defined contribution pension plan offered and administered by SBERA. Employees become eligible to participate in the plan upon employment. Participating employees make contributions to the plan based on a percentage of their income. The DIF matches a percentage of the amounts contributed by employees. Employees become 100% vested in the DIF's matching contributions immediately. For fiscal 2015 and 2014, the DIF's matching contribution expense for the defined contribution pension plan was \$55,120 and \$52,921, respectively.

6. COMMITMENTS, CONTINGENCIES, AND OTHER MATTERS

In the normal course of business, there are outstanding commitments and contingencies which are not reflected in the Fund's consolidated financial statements, as follows.

Employment Agreement

The DIF has entered into an employment agreement with its President and Chief Executive Officer that generally provides for a specified minimum annual compensation. Employment may be terminated for cause, as defined, without incurring any continuing obligations. The agreement has a continual expiration date of one year.

Severance Program

The DIF has a Severance Program that covers substantially all employees of the DIF. The program provides salary and benefits to employees in the event of "triggering events" related to a liquidation, mandated downsizing, change of control, merger, or reorganization of the DIF. Benefit amounts are dependent upon years of service and salary grade levels, with a maximum benefit of one year's salary and qualifying benefits.

Operating Lease Commitments

The DIF has a lease providing for the use of its office space. The lease is cancelable by the DIF or the lessor. Total rent expense amounted to \$72,504 for fiscal 2015 and 2014.

Legal Claims

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Fund's consolidated financial statements.

7. RELATED PARTY TRANSACTIONS

A majority of the DIF's twelve directors are associated with member banks.

8. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at October 31, 2015 and 2014 are summarized below. There were no liabilities measured at fair value on a recurring basis at October 31, 2015 or 2014.

October 31, 2015	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Securities available for sale:				
U.S. Treasury obligations and guarantees	\$149,508,785	\$ 35,617,979	\$ —	\$185,126,764
U.S. government-sponsored enterprise obligations	—	139,453,798	1,052,687	140,506,485
Mortgage- and asset-backed securities	—	50,845,129	—	50,845,129
Total	<u>\$149,508,785</u>	<u>\$225,916,906</u>	<u>\$1,052,687</u>	<u>\$376,478,378</u>

October 31, 2014

Securities available for sale:				
U.S. Treasury obligations and guarantees	\$139,282,191	\$ 31,311,375	\$ —	\$170,593,566
U.S. government-sponsored enterprise obligations	—	141,574,029	1,046,807	142,620,836
Mortgage- and asset-backed securities	—	56,702,331	—	56,702,331
Total	<u>\$139,282,191</u>	<u>\$229,587,735</u>	<u>\$1,046,807</u>	<u>\$369,916,733</u>

As of October 31, 2015 and 2014, Level 3 assets reflect one U.S. government-sponsored enterprise obligation for which the fair value is obtained from the issuer and is based on unobservable inputs.

The table below presents, for fiscal 2015 and 2014, the changes in Level 3 assets that are measured at fair value on a recurring basis.

	<u>Assets</u> <u>Securities</u> <u>Available for Sale</u>
Balance as of October 31, 2013	\$ —
Purchases	<u>1,046,807</u>
Balance as of October 31, 2014	1,046,807
Unrealized gain included in other comprehensive income	<u>5,880</u>
Balance as of October 31, 2015	<u>\$1,052,687</u>

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

There were no assets or liabilities measured at fair value on a non-recurring basis at October 31, 2015 or 2014.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 22, 2015, which is the date the financial statements were available to be issued. There were no subsequent events that required adjustment to or disclosure in the consolidated financial statements.

To the Board of Directors of the Depositors Insurance Fund:

Report on the Financial Statements

We have audited the accompanying financial statements of the Liquidity Fund, which comprise the statements of condition as of October 31, 2015 and 2014, and the related statements of comprehensive loss, changes in fund balance and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Liquidity Fund as of October 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Wolf + Company, P.C.

Boston, Massachusetts
December 22, 2015

October 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash	\$ 142,284	\$ 100,500
Securities available for sale, at fair value	6,171,075	6,241,939
Federal Home Loan Bank stock	21,700	22,000
Accrued interest receivable	27,093	21,816
Total assets	<u>\$6,362,152</u>	<u>\$6,386,255</u>
Fund Balance		
Undistributed fund balance	\$6,364,100	\$6,386,264
Accumulated other comprehensive loss	<u>(1,948)</u>	<u>(9)</u>
Total fund balance	<u>6,362,152</u>	<u>6,386,255</u>
Total liabilities and fund balance	<u>\$6,362,152</u>	<u>\$6,386,255</u>

See accompanying notes to financial statements.

Years Ended October 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Income:		
Interest and dividends on investments	\$ 22,664	\$ 16,023
Expenses:		
Expenses allocated from the Deposit Insurance Fund	<u>44,828</u>	<u>44,854</u>
Net loss	<u>(22,164)</u>	<u>(28,831)</u>
Other comprehensive loss:		
Unrealized holding losses on securities available for sale arising during the period	<u>(1,939)</u>	<u>(1,607)</u>
Comprehensive loss	<u>\$(24,103)</u>	<u>\$(30,438)</u>

See accompanying notes to financial statements.

Years Ended October 31, 2015 and 2014

	Undistributed Fund Balance	Accumulated Other Comprehensive Income (Loss)	Total Fund Balance
Fund balance at October 31, 2013	\$6,415,095	\$ 1,598	\$6,416,693
Comprehensive loss	<u>(28,831)</u>	<u>(1,607)</u>	<u>(30,438)</u>
Fund balance at October 31, 2014	6,386,264	(9)	6,386,255
Comprehensive loss	<u>(22,164)</u>	<u>(1,939)</u>	<u>(24,103)</u>
Fund balance at October 31, 2015	<u>\$6,364,100</u>	<u>\$(1,948)</u>	<u>\$6,362,152</u>

See accompanying notes to financial statements.

Years Ended October 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net loss	\$ (22,164)	\$ (28,831)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net amortization of securities	88,208	98,040
Increase in accrued interest receivable	<u>(5,277)</u>	<u>(6,974)</u>
Net cash provided by operating activities	<u>60,767</u>	<u>62,235</u>
Cash flows from investing activities:		
Maturities of securities available for sale	2,235,000	3,987,000
Purchases of securities available for sale	(2,254,283)	(4,009,267)
Redemption of Federal Home Loan Bank stock	<u>300</u>	<u>300</u>
Net cash used in investing activities	<u>(18,983)</u>	<u>(21,967)</u>
Net change in cash	41,784	40,268
Cash at beginning of year	<u>100,500</u>	<u>60,232</u>
Cash at end of year	<u>\$ 142,284</u>	<u>\$ 100,500</u>

See accompanying notes to financial statements.

Years Ended October 31, 2015 and 2014

1. DESCRIPTION OF BUSINESS

Depositors Insurance Fund

The Depositors Insurance Fund (the "DIF"), which did business under the name Mutual Savings Central Fund, Inc. until February 1993, was established by the Massachusetts Legislature in 1932 and is now comprised of the Liquidity Fund and the Deposit Insurance Fund and its subsidiary. The two funds may not be commingled and the assets of one do not stand behind the liabilities of the other. The Liquidity Fund and the Deposit Insurance Fund share office space and personnel. Costs incurred are generally paid by the Deposit Insurance Fund and allocated to the Liquidity Fund. The DIF is an organization described under Section 501(c)(14) of the Internal Revenue Code (the "Code") and is exempt from taxes on related income under Section 501(a) of the Code.

Liquidity Fund

The Liquidity Fund (the "Fund") was established in 1932 for the purpose of providing temporary liquidity to member banks by making loans to them secured by assets of the borrowing banks.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

Income and expenses of the Fund are recognized on the accrual method of accounting.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Fund considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Fair Value Hierarchy

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

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Level 1 assets generally include debt securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

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

Securities Available for Sale

All securities are classified as “available for sale” and carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Premiums and discounts are recognized in income by the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Fund evaluates all securities classified as available for sale with a fair value below amortized cost to determine whether or not the impairment is deemed to be other than temporary (“OTTI”). OTTI is required to be recognized if (1) the Fund intends to sell the security; (2) it is more likely than not that the Fund will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired debt securities that the Fund intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a restricted equity security and is carried at cost.

Dividends

The Fund may pay discretionary dividends on a quarterly or semi-annual basis which are accrued by a charge to the undistributed fund balance when approved by the DIF Board of Directors.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the fund balance section of the statement of condition, such items, along with net income, are components of comprehensive income.

Expense Allocation

The Fund shares office space and personnel with the Deposit Insurance Fund, and 2% of the Deposit Insurance Fund’s expenses, excluding those expenses directly related only to the Deposit Insurance Fund, are allocated to the Liquidity Fund.

3. INVESTMENTS**Securities Available for Sale**

The amortized cost, fair value, and unrealized gains and losses of securities classified as available for sale at October 31, 2015 and 2014, by contractual maturity, are as follows:

2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury obligations:				
Due in one year or less	\$2,981,350	\$ 491	\$ (732)	\$2,981,109
Due after one year through five years	1,032,388	—	(1,218)	1,031,170
	<u>4,013,738</u>	<u>491</u>	<u>(1,950)</u>	<u>4,012,279</u>
U.S. government-sponsored enterprise obligations:				
Due in one year or less	966,148	97	—	966,245
Due after one year through five years	1,193,137	—	(586)	1,192,551
	<u>2,159,285</u>	<u>97</u>	<u>(586)</u>	<u>2,158,796</u>
Total securities available for sale	<u>\$6,173,023</u>	<u>\$ 588</u>	<u>\$(2,536)</u>	<u>\$6,171,075</u>
2014				
U.S. Treasury obligations:				
Due in one year or less	\$1,038,455	\$ 877	\$ —	\$1,039,332
Due after one year through five years	3,012,338	823	(2,658)	3,010,503
	<u>4,050,793</u>	<u>1,700</u>	<u>(2,658)</u>	<u>4,049,835</u>
U.S. government-sponsored enterprise obligations:				
Due in one year or less	1,214,511	366	—	1,214,877
Due after one year through five years	976,644	583	—	977,227
	<u>2,191,155</u>	<u>949</u>	<u>—</u>	<u>2,192,104</u>
Total securities available for sale	<u>\$6,241,948</u>	<u>\$2,649</u>	<u>\$(2,658)</u>	<u>\$6,241,939</u>

There were no sales of securities during the years ended October 31, 2015 or 2014.

Gross unrealized losses on securities available for sale and the fair values of the related securities aggregated by category and length of time that individual securities have been in a continuous unrealized loss position at October 31, 2015 and 2014 follow:

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2015						
U.S. Treasury obligations	\$1,031,170	\$(1,218)	\$1,075,414	\$ (732)	\$2,106,584	\$(1,950)
U.S. government-sponsored enterprise obligations:	1,192,551	(586)	—	—	1,192,551	(586)
	<u>\$2,223,721</u>	<u>\$(1,804)</u>	<u>\$1,075,414</u>	<u>\$ (732)</u>	<u>\$3,299,135</u>	<u>\$(2,536)</u>
2014						
U.S. Treasury obligations	<u>\$1,080,197</u>	<u>\$(2,658)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,080,197</u>	<u>\$(2,658)</u>

At October 31, 2015, debt securities with unrealized losses have aggregate depreciation of less than 1% of their amortized cost, reflective of interest rate changes. The principal and accrued interest on all of the securities are guaranteed by the U.S. Government, an agency of the U.S. Government, or both. Because the Fund does not intend to sell the securities and it is unlikely that it will be required to sell the securities before recovery of their amortized cost bases (which may be at maturity), management does not consider these securities to be other-than-temporarily impaired at October 31, 2015.

Federal Home Loan Bank Stock

The DIF is a member of the Federal Home Loan Bank of Boston (“FHLBB”). As a condition of membership, the DIF is required to maintain an investment in FHLBB stock based on the DIF’s holdings of U.S. Treasury and government-sponsored enterprise obligations. Additional stock purchases are required based on growth of the DIF’s holdings of U.S. Treasury and government-sponsored enterprise obligations and/or usage of FHLBB advances and related services. The DIF reviews its investment for impairment based on the ultimate recoverability of the cost basis in the FHLBB stock. As of October 31, 2015, no impairment has been recognized.

At October 31, 2015, the DIF’s investment in FHLBB stock was \$1,099,100, of which \$21,700 was allocated to the Fund. The amount allocated to the Fund represents the Fund’s required FHLBB stock based on its holdings of U.S. Treasury and government-sponsored enterprise obligations and its use of FHLBB services; all FHLBB stock held in excess of required stock is allocated to the Deposit Insurance Fund.

The DIF also has a master agreement with the FHLBB regarding advances, which are secured by the DIF’s FHLBB stock and specifically-pledged securities. As of October 31, 2015 and 2014, the DIF had no outstanding advances from the FHLBB and, accordingly, no securities have been specifically pledged. FHLBB advances would be allocated to the Fund and the Deposit Insurance Fund based on the portion of advances applicable to each fund.

4. RELATED PARTY TRANSACTIONS

A majority of the DIF’s twelve directors are associated with member banks.

5. FAIR VALUE OF ASSETS AND LIABILITIES**Determination of Fair Value**

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at October 31, 2015 and 2014 are summarized below. There were no liabilities measured at fair value on a recurring basis at October 31, 2015 or 2014.

October 31, 2015	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Securities available for sale:				
U.S. Treasury obligations	\$4,012,279	\$ —	\$ —	\$4,012,279
U.S. government-sponsored enterprise obligations	<u>—</u>	<u>2,158,796</u>	<u>—</u>	<u>2,158,796</u>
	<u>\$4,012,279</u>	<u>\$2,158,796</u>	<u>\$ —</u>	<u>\$6,171,075</u>
October 31, 2014				
U.S. Treasury obligations	\$4,049,835	\$ —	\$ —	\$4,049,835
U.S. government-sponsored enterprise obligations	<u>—</u>	<u>2,192,104</u>	<u>—</u>	<u>2,192,104</u>
	<u>\$4,049,835</u>	<u>\$2,192,104</u>	<u>\$ —</u>	<u>\$6,241,939</u>

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

There were no assets or liabilities measured at fair value on a non-recurring basis at October 31, 2015 or 2014.

6. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 22, 2015, which is the date the financial statements were available to be issued. There were no subsequent events that required adjustment or disclosure in the financial statements.



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