UNITED STATES FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 20429

FORM 10-Q

(Mark one)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period ________ to ________.

Commission File Number: FDIC Certificate No. 90211-0

HINGHAM INSTITUTION FOR SAVINGS
(Exact name of registrant as specified in its charter)

Massachusetts	04-1442480
(State of incorporation)	(I.R.S. Employer Identification Number)

55 Main Street, Hingham, MA 02043
(Address of Principal Executive Offices)

(781) 749-2200
(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 ☒ 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 ☐ No ☐ [Not Applicable]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

At May 2, 2017, there were 2,132,750 shares of the registrant’s common stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1 - Financial Statements

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)	December 31, 2016	March 31, 2017
	(In Thousands)	
ASSETS		
Cash and due from banks	$ 7,816	$ **6,548**
Federal Reserve and other short-term investments	315,116	**310,130**
Cash and cash equivalents	322,932	**316,678**
Securities available for sale, at fair value	27,168	**28,710**
Federal Home Loan Bank stock, at cost	24,472	**24,920**
Loans, net of allowance for loan losses of $11,030,000 at December 31, 2016 and $11,285,000 at March 31, 2017	1,605,647	**1,634,263**
Foreclosed assets	—	**563**
Bank-owned life insurance	11,962	**12,029**
Premises and equipment, net	14,462	**14,314**
Accrued interest receivable	3,529	**3,576**
Deferred income tax asset, net	2,489	**2,226**
Other assets	1,938	**2,217**
Total assets	$ 2,014,599	$ **2,039,496**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing	$ 1,218,360	$ **1,248,381**
Demand	147,749	**154,622**
Total deposits	1,366,109	**1,403,003**
Federal Home Loan Bank advances	475,318	**455,281**
Mortgage payable	868	**855**
Mortgagors' escrow accounts	5,585	**5,787**
Accrued interest payable	400	**396**
Other liabilities	5,295	**7,207**
Total liabilities	1,853,575	**1,872,529**
Stockholders' equity:		
Preferred stock, $1.00 par value, 2,500,000 shares authorized; none issued	—	**—**
Common stock, $1.00 par value, 5,000,000 shares authorized; 2,132,750 shares issued and outstanding at December 31, 2016 and March 31, 2017	2,133	**2,133**
Additional paid-in capital	11,575	**11,619**
Undivided profits	144,580	**150,008**
Accumulated other comprehensive income	2,736	**3,207**
Total stockholders' equity	161,024	**166,967**
Total liabilities and stockholders' equity	$ 2,014,599	$ **2,039,496**

See accompanying Notes to Unaudited Consolidated Financial Statements.

Item 1 - Financial Statements (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statements of Net Income

(Unaudited)	Three Months Ended March 31, 2016	2017
	(In Thousands, except per share amounts)	
Interest and dividend income:		
Loans	$ 16,430	**$ 17,968**
Debt securities	28	**—**
Equity securities	244	**353**
Federal Reserve and other short-term investments	326	**609**
Total interest and dividend income	17,028	**18,930**
Interest expense:		
Deposits	2,290	**2,518**
Federal Home Loan Bank advances	890	**960**
Mortgage payable	14	**13**
Total interest expense	3,194	**3,491**
Net interest income	13,834	**15,439**
Provision for loan losses	255	**255**
Net interest income, after provision for loan losses	13,579	**15,184**
Other income:		
Customer service fees on deposits	216	**219**
Increase in cash surrender value of bank-owned life insurance	67	**67**
Miscellaneous	49	**45**
Total other income	332	**331**
Operating expenses:		
Salaries and employee benefits	3,070	**3,146**
Occupancy and equipment	471	**464**
Data processing	305	**297**
Deposit insurance	242	**258**
Marketing	116	**124**
Foreclosure	56	**43**
Other general and administrative	610	**786**
Total operating expenses	4,870	**5,118**
Income before income taxes	9,041	**10,397**
Income tax provision	3,717	**4,285**
Net income	$ 5,324	**$ 6,112**
Weighted average common shares outstanding:		
Basic	2,130	**2,133**
Diluted	2,149	**2,181**
Earnings per share:		
Basic	$ 2.50	**$ 2.87**
Diluted	$ 2.48	**$ 2.80**

See accompanying Notes to Unaudited Consolidated Financial Statements.

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

(Unaudited)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
	(In Thousands)	
Net income	$ 5,324	**$ 6,112**
Other comprehensive income:		
Net unrealized holding gain on securities available for sale	455	**734**
Tax effect	(163)	**(263)**
	292	**471**
Comprehensive income	$ 5,616	**$ 6,583**

See accompanying Notes to Unaudited Consolidated Financial Statements.

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Three Months Ended
March 31, 2016 and 2017

(Unaudited)	Common Stock	Additional Paid-In Capital	Undivided Profits	Accumulated Other Comprehensive Income	Total Stockholders' Equity
			(In Thousands)		
Balance at December 31, 2015	$ 2,129	$ 11,052	$ 124,481	$ 353	$ 138,015
Comprehensive income	—	—	5,324	292	5,616
Share-based compensation	—	23	—	—	23
Stock options exercised, including tax benefit of $45,000	2	185	—	—	187
Cash dividends declared – common ($0.30 per share)	—	—	(639)	—	(639)
Balance at March 31, 2016	$ 2,131	$ 11,260	$ 129,166	$ 645	$ 143,202
Balance at December 31, 2016	**$ 2,133**	**$ 11,575**	**$ 144,580**	**$ 2,736**	**$ 161,024**
Comprehensive income	**—**	**—**	**6,112**	**471**	**6,583**
Share-based compensation	**—**	**44**	**—**	**—**	**44**
Cash dividends declared – common ($0.32 per share)	**—**	**—**	**(684)**	**—**	**(684)**
Balance at March 31, 2017	**$ 2,133**	**$ 11,619**	**$ 150,008**	**$ 3,207**	**$ 166,967**

See accompanying Notes to Unaudited Consolidated Financial Statements.

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
	(In Thousands)	
Cash flows from operating activities:		
Net income	$ 5,324	**$ 6,112**
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	255	**255**
Amortization of securities premiums, net	15	**—**
Amortization of deferred loan origination costs, net	136	**132**
Share-based compensation expense	23	**44**
Excess tax benefit from share-based compensation arrangements	(45)	**—**
Deferred income tax benefit	(9)	**—**
Depreciation and amortization of premises and equipment	187	**164**
Increase in cash surrender value of bank-owned life insurance	(67)	**(67)**
Write-down of foreclosed assets	2	**—**
Changes in:		
Accrued interest receivable and other assets	(308)	**(326)**
Accrued interest payable and other liabilities	2,517	**2,588**
Net cash provided by operating activities	8,030	**8,902**
Cash flows from investing activities:		
Maturities of certificates of deposit	1,737	—
Activity in available-for-sale securities:		
Maturities, payments and calls	6,006	**4**
Purchases	(2,363)	**(812)**
Purchase of Federal Home Loan Bank stock	(883)	**(448)**
Loans originated, net of payments received	(48,750)	**(29,566)**
Additions to premises and equipment	(14)	**(16)**
Net cash used in investing activities	(44,267)	**(30,838)**

(continued)

See accompanying Notes to Unaudited Consolidated Financial Statements.

Consolidated Statements of Cash Flows (concluded)

(Unaudited)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
	(In Thousands)	
Cash flows from financing activities:		
Increase in deposits	51,274	**36,894**
Increase in mortgagors' escrow accounts	145	**202**
Cash dividends paid on common stock	(1,277)	**(1,364)**
Proceeds from stock options exercised	142	—
Excess tax benefit from share-based compensation arrangements	45	—
Net increase (decrease) in Federal Home Loan Bank advances with maturities of three months or less	30,000	**(35,000)**
Proceeds from Federal Home Loan Bank advances with maturities of more than three months	—	**30,000**
Repayments of Federal Home Loan Bank advances with maturities of more than three months	(7,035)	**(15,037)**
Repayment of mortgage payable	(13)	**(13)**
Net cash provided by financing activities	73,281	**15,682**
Net change in cash and cash equivalents	37,044	**(6,254)**
Cash and cash equivalents at beginning of period	261,013	**322,932**
Cash and cash equivalents at end of period	$ 298,057	**$ 316,678**
Supplementary information:		
Interest paid on deposit accounts	$ 2,288	**$ 2,516**
Interest paid on Federal Home Loan Bank advances and mortgage payable	885	**979**
Income taxes paid, net of refunds	1,400	**1,305**
Non-cash activities:		
Real estate acquired through foreclosure	$ 170	**$ 563**

See accompanying Notes to Unaudited Consolidated Financial Statements.

Notes to Unaudited Consolidated Financial Statements
March 31, 2016 and 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated interim financial statements of Hingham Institution for Savings (the "Bank") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements and with the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

Financial information as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 is unaudited, and, in the opinion of management, reflects all adjustments necessary for a fair presentation of such information. Such adjustments were of a normal recurring nature. Interim results are not necessarily indicative of results to be expected for the entire year. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Bank for the year ended December 31, 2016 filed on Form 10-K.

Earnings per common share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect additional shares that would have been outstanding if dilutive potential shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential shares that may be issued by the Bank relate solely to outstanding stock options and are determined using the treasury stock method.

In the first quarter of 2017, the Bank adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-09, *Compensation—Stock Compensation (Topic 718)*. Under this standard, the amount of excess tax benefit that would be credited to additional paid-in capital assuming exercise of the options is not considered in the proceeds when applying the treasury stock method. In the three months ended March 31, 2017, this change had an effect of increasing the average number of shares outstanding used to calculate diluted earnings per share, reducing diluted earnings per share by $0.03.

Earnings per share have been computed based on the following:

	Three Months Ended March 31,	
	2016	2017
	(In Thousands)	
Average number of shares outstanding used to calculate basic earnings per share	2,130	**2,133**
Effect of dilutive options	19	**48**
Average number of shares outstanding used to calculate diluted earnings per share	2,149	**2,181**

There were no antidilutive options for the quarters ended March 31, 2017 or 2016.

Fair value hierarchy

The Bank groups its assets 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, as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Level 1 assets generally include debt and equity 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 those whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as assets 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.

Loans

The Bank's loan portfolio includes residential real estate, commercial real estate, construction, home equity, commercial and consumer segments. A substantial portion of the loan portfolio is secured by real estate in the southeastern Massachusetts area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate, construction, and general economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and net 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 mortgage and commercial loans is discontinued at the time a loan is 90 days past due (the loan is in default) unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than becoming 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off 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 status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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 when collected.

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 and allocated loss components, as further discussed below.

<u>General component</u>

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by loan segment. Management uses a rolling average of historical losses based on a time frame (currently two years) 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; national and local economic trends and conditions; industry conditions and effects of changes in credit concentrations. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during the three months ended March 31, 2017.

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

Residential real estate – The Bank generally does not originate loans with a loan-to-value ratio greater than 80% (without private mortgage insurance). All loans in this segment are 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 Massachusetts. Generally, loan amounts do not exceed 75% of the appraised value of the collateral. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates which, in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and regularly monitors the cash flows of these loans.

Construction – Loans in this segment include both owner-occupied and speculative real estate development loans for which payment is derived from sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, the overall health of the economy and market conditions.

Home equity – Loans in this segment include equity lines of credit and second mortgages, and are generally collateralized by second liens on residential real estate. Repayment is dependent on the credit quality of the individual borrower. The Bank generally does not originate loans with combined loan-to-value ratios greater than 70% when taking into account both the balance of the home equity loans and the first mortgage loan. Similar to residential real estate, the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

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

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

Allocated component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis for residential real estate, commercial real estate, construction, home equity and commercial loans. A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are generally maintained on a non-accrual basis. 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. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying amount of that loan. Large groups of smaller balance homogeneous loans, such as consumer loans, are collectively evaluated for impairment.

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

NOTE 2: COMMITMENTS

At December 31, 2016 and March 31, 2017, outstanding loan commitments were as follows:

	December 31, 2016	March 31, 2017
	(In Thousands)	
Unused lines of credit	$ 92,353	**$ 92,707**
Commitments to originate loans	69,558	**75,709**
Unadvanced funds on construction loans	54,442	**67,994**
Standby letters of credit	32	**32**
Total	$ 216,385	**$ 236,442**

At March 31, 2017, the Bank had the following contractual obligations outstanding:

	Payments Due by Year				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More than Five Years
Contractual Obligations:			(In Thousands)		
Certificates of deposit	$ 576,281	$ 387,408	$ 153,781	$ 35,092	$ —
Federal Home Loan Bank advances (1)	455,281	101,000	4,281	—	350,000
Mortgage payable (2)	855	58	126	142	529
Data processing agreements (3)	5,313	900	1,773	1,584	1,056
Lease agreements (4)	1,683	310	643	433	297

(1) Certain advances can be called for earlier repayment at the discretion of the issuer.

(2) Under the mortgage agreement the balance of the note may be paid off at any date after January 2020 without penalty.

(3) Estimated payments subject to change based on transaction volume.

(4) Leases contain provisions to pay certain operating expenses, the cost of which is not included above. Lease commitments are based on the initial contract term, or longer when, in the opinion of management, it is more likely than not that the lease will be renewed.

NOTE 3: DIVIDEND DECLARATION

On March 28, 2017, the Board of Directors declared a cash dividend of $0.32 per share to all stockholders of record as of April 10, 2017, payable April 19, 2017.

NOTE 4: FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's assets and liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value of future cash flows 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.

The following methods and assumptions were used by the Bank in estimating fair value disclosures:

<u>Cash and cash equivalents:</u> The carrying amounts of cash, due from banks and short-term investments approximate fair values based on the short-term nature of the assets.

<u>Securities available for sale:</u> The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market and generally include marketable equity securities traded in an active market. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. These securities typically include government-sponsored enterprise obligations and residential mortgage-backed securities, as well as marketable equity securities that are based on quoted market prices in an inactive market. All fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

<u>Federal Home Loan Bank stock:</u> The carrying value of Federal Home Loan Bank stock is deemed to approximate fair value based on the redemption provisions of the Federal Home Loan Bank of Boston.

<u>Loans:</u> For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analysis, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

<u>Deposits:</u> The fair values of non-certificate accounts are, by definition, equal to the amount payable on demand at the reporting date which is their carrying amount. Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

<u>Federal Home Loan Bank advances:</u> The fair values of the advances are estimated using discounted cash flow analysis based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

<u>Mortgage payable:</u> The fair value of the Bank's mortgage payable is estimated using discounted cash flow analysis based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

<u>Mortgagors' escrow accounts:</u> The carrying amounts of mortgagors' escrow accounts approximate fair value.

<u>Accrued interest:</u> The carrying amounts of accrued interest approximate fair value.

<u>Off-balance-sheet instruments:</u> Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. At December 31, 2016 and March 31, 2017, the fair value of commitments outstanding is not significant since fees charged are not material.

Notes to Unaudited Consolidated Financial Statements (continued)

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below. There are no liabilities measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total Fair Value
		(In Thousands)		
December 31, 2016				
Securities available for sale:				
Debt securities	$ —	$ 30	$ —	$ 30
Equity securities	24,331	2,807	—	27,138
Total securities available for sale	$ 24,331	$ 2,837	$ —	$ 27,168
March 31, 2017				
Securities available for sale:				
Debt securities	**$ —**	**$ 26**	**$ —**	**$ 26**
Equity securities	**25,811**	**2,873**	**—**	**28,684**
Total securities available for sale	**$ 25,811**	**$ 2,899**	**$ —**	**$ 28,710**

Assets Measured at Fair Value on a Non-recurring Basis

The Bank may also be required, from time to time, to measure certain other assets on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting, or write-downs of individual assets.

The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of March 31, 2016 and March 31, 2017. There are no assets measured at fair value on a non-recurring basis at December 31, 2016. Total losses represent the losses recorded during the periods noted on assets held at the end of the period. There are no liabilities measured at fair value on a non-recurring basis at March 31, 2016, December 31, 2016 and March 31, 2017.

	March 31, 2016			Three Months Ended March 31, 2016
	Level 1	Level 2	Level 3	Total Losses
			(In Thousands)	
Foreclosed assets	$ —	$ —	$ 168	$ 2

	March 31, 2017			Three Months Ended March 31, 2017
	Level 1	Level 2	Level 3	Total Losses
			(In Thousands)	
Foreclosed assets	**$ —**	**$ —**	**$ 563**	**$ —**

Losses applicable to foreclosed assets are estimated using the appraised value of the underlying collateral, discounting factors and other factors. Management will consider the circumstances of the individual foreclosed asset when determining any estimated losses. This may include a review of an independent appraisal and, if deemed necessary, an updated appraisal will be performed.

Summary of Fair Values of Financial Instruments

The estimated fair values, and related carrying amounts, of the Bank's financial instruments are as follows. Certain financial instruments and all nonfinancial instruments are exempt from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein do not represent the underlying fair value of the Bank.

	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
		(In Thousands)		
December 31, 2016				
Financial assets:				
Cash and cash equivalents	$ 322,932	$ 322,932	$ —	$ —
Securities available for sale	27,168	24,331	2,837	—
Federal Home Loan Bank stock	24,472	—	—	24,472
Loans, net	1,605,647	—	—	1,612,355
Accrued interest receivable	3,529	—	—	3,529
Financial liabilities:				
Deposits	$ 1,366,109	$ —	$ —	$ 1,368,203
Federal Home Loan Bank advances	475,318	—	475,658	—
Mortgage payable	868	—	—	972
Mortgagors' escrow accounts	5,585	—	—	5,585
Accrued interest payable	400	—	—	400
March 31, 2017				
Financial assets:				
Cash and cash equivalents	**$ 316,678**	**$ 316,678**	**$ —**	**$ —**
Securities available for sale	**28,710**	**25,811**	**2,899**	**—**
Federal Home Loan Bank stock	**24,920**	**—**	**—**	**24,920**
Loans, net	**1,634,263**	**—**	**—**	**1,640,929**
Accrued interest receivable	**3,576**	**—**	**—**	**3,576**
Financial liabilities:				
Deposits	**$ 1,403,003**	**$ —**	**$ —**	**$ 1,405,395**
Federal Home Loan Bank advances	**455,281**	**—**	**455,527**	**—**
Mortgage payable	**855**	**—**	**—**	**950**
Mortgagors' escrow accounts	**5,787**	**—**	**—**	**5,787**
Accrued interest payable	**396**	**—**	**—**	**396**

NOTE 5: SECURITIES AVAILABLE FOR SALE

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2016				
Debt securities:				
Residential mortgage-backed	$ 29	$ 1	$ —	$ 30
Equity securities:				
Community Reinvestment Act Qualified Investment Fund	7,000	—	(161)	6,839
Other equity securities	15,874	4,455	(30)	20,299
Total equity securities	22,874	4,455	(191)	27,138
Total securities available for sale	$ 22,903	$ 4,456	$ (191)	$ 27,168
March 31, 2017				
Debt securities:				
Residential mortgage-backed	**$ 25**	**$ 1**	**$ —**	**$ 26**
Equity securities:				
Community Reinvestment Act Qualified Investment Fund	**7,500**	**—**	**(159)**	**7,341**
Other equity securities	**16,186**	**5,164**	**(7)**	**21,343**
Total equity securities	**23,686**	**5,164**	**(166)**	**28,684**
Total securities available for sale	**$ 23,711**	**$ 5,165**	**$ (166)**	**$ 28,710**

At December 31, 2016 and March 31, 2017, all other equity securities are in the financial sector. At December 31, 2016 and March 31, 2017, all debt securities were pledged to secure Federal Home Loan Bank advances.

Information pertaining to securities with gross unrealized losses at December 31, 2016 and March 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2016				
Equity securities	174	7,533	17	274
Total temporarily impaired	$ 174	$ 7,533	$ 17	$ 274
March 31, 2017				
Equity securities	**159**	**7,341**	**7**	**190**
Total temporarily impaired	**$ 159**	**$ 7,341**	**$ 7**	**$ 190**

At March 31, 2017, $7.5 million in equity securities had unrealized losses with aggregate depreciation of 2% from the Bank's cost basis. No issues have been identified that cause management to believe the decline in fair value is other than temporary, and the Bank has the ability and intent to hold these investments until a recovery of fair value.

NOTE 6: LOANS

A summary of the balances of loans are as follows:

	December 31, 2016	March 31, 2017
	(In Thousands)	
Real estate loans:		
Residential	$ 652,444	**$ 663,843**
Commercial	796,063	**825,149**
Construction	131,778	**119,175**
Home equity	33,230	**34,154**
Total real estate loans	1,613,515	**1,642,321**
Other loans:		
Commercial	153	**191**
Consumer	525	**483**
Total other loans	678	**674**
Total loans	1,614,193	**1,642,995**
Allowance for loan losses	(11,030)	**(11,285)**
Net deferred loan origination costs	2,484	**2,553**
Loans, net	$ 1,605,647	**$ 1,634,263**

A blanket lien on "qualified collateral," defined principally as 70-79% of the carrying value of first mortgage loans on certain owner-occupied residential property, 75% of the carrying value of first mortgage loans on certain non-owner-occupied residential property, 76% of the carrying value of first mortgage loans on certain multi-family residential property and 65% of the carrying value of loans on certain commercial property, is used to secure borrowings from the Federal Home Loan Bank of Boston. Additionally, a blanket lien on home equity and second mortgage loans is used to secure borrowing from the Federal Reserve Bank of Boston through its discount window.

The following is a summary of past due and non-accrual loans at December 31, 2016 and March 31, 2017:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans on Non-accrual
December 31, 2016			(In Thousands)		
Residential real estate	$ 8,064	$ —	$ —	$ 8,064	$ 668
Commercial real estate	1,472	372	522	2,366	1,052
Home equity	385	342	—	727	75
Total loans	$ 9,921	$ 714	$ 522	$ 11,157	$ 1,795
March 31, 2017					
Residential real estate	**$ 5,222**	**$ 336**	**$ —**	**$ 5,558**	**$ 484**
Commercial real estate	**3,248**	**—**	**—**	**3,248**	**525**
Home equity	**90**	**—**	**249**	**339**	**324**
Total loans	**$ 8,560**	**$ 336**	**$ 249**	**$ 9,145**	**$ 1,333**

At December 31, 2016 and March 31, 2017, there were no loans past due 90 days or more and still accruing interest.

Notes to Unaudited Consolidated Financial Statements (continued)

An analysis of the activity in the allowance for loan losses, by segment, for the periods ended March 31, 2016 and 2017 follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
			(In Thousands)				
Allowance for loan losses:							
Balance December 31, 2015	$ 3,102	$ 5,457	$ 1,142	$ 196	$ 1	$ 7	$ 9,905
Provision (credit) for loan losses	(231)	475	(4)	13	—	2	255
Loans charged-off	—	—	—	—	—	(2)	(2)
Recoveries of loans previously charged off	—	—	—	—	—	—	—
Balance March 31, 2016	$ 2,871	$ 5,932	$ 1,138	$ 209	$ 1	$ 7	$ 10,158
Balance December 31, 2016	**$ 2,634**	**$ 6,690**	**$ 1,556**	**$ 141**	**$ 2**	**$ 7**	**$ 11,030**
Provision (credit) for loan losses	**26**	**410**	**(185)**	**5**	**—**	**(1)**	**255**
Loans charged-off	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Recoveries of loans previously charged off	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Balance March 31, 2017	**$ 2,660**	**$ 7,100**	**$ 1,371**	**$ 146**	**$ 2**	**$ 6**	**$ 11,285**

An analysis of the allowance for loan losses, by segment, as of December 31, 2016 and March 31, 2017 follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
			(In Thousands)				
December 31, 2016							
Allowance for impaired loans	$ 163	$ 14	$ —	$ 1	$ —	$ —	$ 178
Allowance for non-impaired loans	2,471	6,676	1,556	140	2	7	10,852
	$ 2,634	$ 6,690	$ 1,556	$ 141	$ 2	$ 7	$ 11,030
Impaired	$ 2,324	$ 1,703	$ —	$ 98	$ —	$ —	$ 4,125
Non-impaired loans	650,120	794,360	131,778	33,132	153	525	1,610,068
	$ 652,444	$ 796,063	$ 131,778	$ 33,230	$ 153	$ 525	$ 1,614,193
March 31, 2017							
Allowance for impaired loans	**$ 144**	**$ 12**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 156**
Allowance for non-impaired loans	**2,516**	**7,088**	**1,371**	**146**	**2**	**6**	**11,129**
	$ 2,660	**$ 7,100**	**$ 1,371**	**$ 146**	**$ 2**	**$ 6**	**$ 11,285**
Impaired	**$ 1,923**	**$ 1,170**	**$ —**	**$ 324**	**$ —**	**$ —**	**$ 3,417**
Non-impaired loans	**661,920**	**823,979**	**119,175**	**33,830**	**191**	**483**	**1,639,578**
	$ 663,843	**$ 825,149**	**$ 119,175**	**$ 34,154**	**$ 191**	**$ 483**	**$ 1,642,995**

Notes to Unaudited Consolidated Financial Statements (continued)

The following is a summary of impaired loans at December 31, 2016 and March 31, 2017:

	December 31, 2016			March 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In Thousands)					
Impaired loans without a valuation allowance:						
Residential real estate	$ 1,040	$ 1,092		**$ 854**	**$ 906**	
Commercial real estate	1,052	1,052		**525**	**525**	
Home Equity	75	75		**324**	**324**	
Total	2,167	2,219		**1,703**	**1,755**	
Impaired loans with a valuation allowance:						
Residential real estate	1,284	1,284	$ 163	**1,069**	**1,069**	**$ 144**
Commercial real estate	651	651	14	**645**	**645**	**12**
Home equity	23	23	1	**—**	**—**	**—**
Total	1,958	1,958	178	**1,714**	**1,714**	**156**
Total impaired loans	$ 4,125	$ 4,177	$ 178	**$ 3,417**	**$ 3,469**	**$ 156**

The following is information pertaining to impaired loans for periods ended March 31, 2016 and 2017:

	Three Months Ended March 31, 2016			Three Months Ended March 31, 2017		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In Thousands)					
Residential real estate	$ 3,165	$ 30	$ 30	**$ 2,121**	**$ 20**	**$ 6**
Commercial real estate	1,176	14	14	**1,175**	**9**	**9**
Construction	1,053	—	—	**—**	**—**	**—**
Home equity	26	—	—	**569**	**—**	**8**
Total	$ 5,420	$ 44	$ 44	**$ 3,865**	**$ 29**	**$ 23**

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

In the course of resolving non-performing loans, the Bank may choose to restructure the contractual terms of certain loans, with terms modified to fit the ability of the borrower to repay in line with its current financial status. A loan is considered a troubled debt restructure if, for reasons related to the debtor's financial difficulties, a concession is granted to the debtor that would not otherwise be considered. For the quarters ended March 31, 2016 and 2017, troubled debt restructurings were not considered material.

Credit Quality Information

The Bank uses a seven-grade internal rating system for residential real estate, commercial real estate, construction and commercial loans as follows:

Loans rated 1-3B: Loans in this category are considered "pass" rated with low to average risk.

Loans rated 4: Loans in this category are considered "special mention." These loans are currently protected, but exhibit conditions that have the potential for weakness. The borrower may be affected by unfavorable economic, market or other external conditions that may affect their ability to repay the debt. These may also include credits where there is deterioration of the collateral or have deficiencies which may affect the Bank's ability to collect on the collateral. This rating is consistent with the "Other Assets Especially Mentioned" category used by the FDIC.

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 Bank 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.

Commercial loans are assigned an initial grade at the origination of the loan. After origination, the Bank has a quality control program performed by an independent third party. On a quarterly basis, all commercial, construction and residential real estate loan relationships with individual loans $500,000 or more are assigned a risk rating. An in-depth review is performed on all relationships totaling $850,000 or greater along with loans on the Bank's Watchlist. Watchlist loans are those loans that are more than two payments past due at the end of the quarter, loans rated four or higher in a previous review, impaired loans, troubled debt restructurings and loans past contractual maturity. Results of the review are reported to the Bank's Audit Committee on a quarterly basis and become the mechanism for monitoring the overall credit quality of the portfolio.

The following table presents the Bank's loans by risk rating as of December 31, 2016 and March 31, 2017:

Rating	Residential Real Estate	Commercial Real Estate	Construction	Commercial
	(In Thousands)			
December 31, 2016				
1- 3B	$ 649,768	$ 792,470	$ 131,778	$ 151
4	1,741	3,250	—	—
5	935	343	—	2
	$ 652,444	$ 796,063	$ 131,778	$ 153
March 31, 2017				
1- 3B	**$ 661,360**	**$ 822,463**	**$ 119,175**	**$ 190**
4	**1,552**	**2,348**	**—**	**—**
5	**931**	**338**	**—**	**1**
	$ 663,843	**$ 825,149**	**$ 119,175**	**$ 191**

For home equity and consumer loans management uses delinquency reports as the key credit quality indicator.

NOTE 7: RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* The amendments in this Update create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for annual reporting periods, including interim periods, beginning after December 15, 2017. Early application is permitted, but not before annual periods beginning after December 15, 2016. Adoption of this guidance is not expected to have a material impact on the Bank's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall, (Subtopic 825-10).* The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Targeted changes to generally accepted accounting principles include the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income and the elimination of the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. As the Bank maintains a portfolio of marketable equity investments, net unrealized gains and losses on this portfolio are currently recognized in accumulated other comprehensive income ("AOCI") and consequently result in adjustments to book value but do not affect the income statement. Following the adoption of this guidance, any such net unrealized gains and losses will be reflected in the income statement, regardless of whether such gains and losses are realized. If such guidance were effective as of January 1, 2017, approximately $471,000 net of tax would have been reclassified from AOCI into net income for the 2017 period. The impact of this guidance on future periods cannot be estimated at this time and the Bank does not intend to alter its investment practices in response to this guidance.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* This Update is intended to improve financial reporting about leasing transactions and the key provision impacting the Bank is the requirement for a lessee to record a right-to-use asset and a liability representing the obligation to make lease payments for long-term operating leases. The Update will be effective for fiscal years beginning after December 15, 2018, including interim periods. Management is currently evaluating the impact to the consolidated financial statements of adopting this Update.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326).* This Update requires entities to measure expected credit losses based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Credit losses on available-for-sale debt securities should be measured in a manner similar to current GAAP. However, the amendments in this Update require that credit losses be presented as an allowance rather than as a write down. The Update will be effective for fiscal years beginning after December 15, 2019, including interim periods. Management is currently evaluating the impact to the consolidated financial statements of adopting this Update.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230).* This new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The Update will be effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Adoption of this guidance is not expected to have an impact on the Bank's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20).* This new guidance reduces the amortization period for certain purchased callable debt securities held at a premium, shortening the amortization period for the premium to the earliest call date. The Update will be effective for fiscal years beginning after December 15, 2018, including interim periods. Currently the Bank does not hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date and, therefore, management does not expect the adoption to have a material impact on the Bank's consolidated financial statements. The impact of this guidance on future periods cannot be estimated at this time and the Bank does not intend to alter its investment practices in response to this guidance.

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

Cautionary Note Regarding Forward-Looking Statements

The following discussion of the financial condition and results of operations of the Bank should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2016. Matters discussed in this Quarterly Report on Form 10-Q and in our public disclosures, whether written or oral, relating to future events or our future performance, including any discussion, express or implied, of our anticipated growth, operating results, future earnings per share, plans and objectives, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are often identified by the words “believe,” “plan,” “estimate,” “project,” “target,” “continue,” “intend,” “expect,” “future,” “anticipate,” and similar expressions that are not statements of historical fact. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict, including changes in political and economic climate, interest rate fluctuations and competitive product and pricing pressures within the Bank’s market, bond market fluctuations, personal and corporate customers’ bankruptcies and inflation. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings with the FDIC. It is routine for internal projections and expectations to change as the year or each quarter in the year progresses, and therefore, it should be clearly understood that all forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report on Form 10-Q and may change. While we may elect to update forward-looking statements at some point in the future, we do not undertake any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

INTRODUCTION

Net income for the quarter ended March 31, 2017 was $6,112,000 or $2.87 per share basic and $2.80 per share diluted, as compared to $5,324,000 or $2.50 per share basic and $2.48 per share diluted in earnings for the first quarter of 2016. The Bank's annualized return on average equity for the first quarter of 2017 was 14.77%, and the annualized return on average assets was 1.21% as compared to 15.03% and 1.19% for the same period in 2016.

The growth trends of recent years continued, as deposits increased by $36.9 million from December 31, 2016, representing 11% annualized growth year-to-date and 11% from March 31, 2016. Net loans increased by $28.6 million from December 31, 2016 and $180.5 million from March 31, 2016, representing 7% annualized growth year-to-date and 12% growth from March 31, 2016. Total assets increased by $24.9 million from December 31, 2016 and $189.6 million from March 31, 2016, representing 5% annualized growth year-to-date and 10% from March 31, 2016. Stockholders' equity increased to $167.0 million as of March 31, 2017, representing 15% annualized growth year-to-date and a 17% increase from March 31, 2016. Book value per share increased to $78.29 per share at March 31, 2017 from $75.50 per share at December 31, 2016 and $67.21 per share at March 31, 2016.

Since March 31, 2016, the Bank declared dividends of $1.58 per share which included a $0.32 special dividend declared in the fourth quarter of 2016.

Key credit and operational metrics in the first quarter of 2017 remained steady as compared to December 31, 2016 and improved as compared to the same period last year. At March 31, 2017, non-performing assets totaled 0.09% of total assets, compared with 0.09% at December 31, 2016 and 0.19% at March 31, 2016. Non-performing loans as a percentage of the total loan portfolio totaled 0.08% at March 31, 2017, as compared to 0.11% at December 31, 2016 and 0.22% at March 31, 2016. The efficiency ratio improved to 32.45% for the first quarter of 2017, as compared to 34.38% in the same period last year. Non-interest expense (annualized) as a percentage of average assets fell to 1.02% for the first quarter of 2017, as compared to 1.09% for the same period last year. These figures reflect the Bank's continued focus on credit quality and disciplined expense control.

The Bank continues to exceed all of the minimum regulatory capital requirements.

RESULTS OF OPERATIONS
COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

General

The Bank reported net income of $6.1 million for the quarter ended March 31, 2017 as compared to $5.3 million for the quarter ended March 31, 2016. Net income was $2.87 per share basic and $2.80 per share diluted for the quarter ended March 31, 2017 as compared with $2.50 per share basic and $2.48 per share diluted for the same period in 2016. Earnings for the quarter ended March 31, 2017 were positively impacted by an increase of $1.6 million in net interest income. This was partially offset by a $248,000 increase in operating expenses and an increase of $568,000 in the income tax provision. The provision for loan losses and other income were stable when compared to the first quarter of 2016.

Net Interest Income

Net interest income was $15.4 million for the first quarter of 2017 and $13.8 million for the first quarter of 2016. The $1.6 million increase was due to a 13% increase in average interest-earning assets, partially offset by a two basis point decline in the net interest margin. For the quarter ended March 31, 2017, the weighted average rate spread and net interest margin were 3.00% and 3.12%, respectively, compared to a weighted average rate spread and net interest margin of 3.03% and 3.14%, respectively, for the same period in 2016. The average interest-earning assets increased by $220.6 million, or 13%, and the yield on total interest-earning assets decreased by five basis points. Average interest-bearing liabilities increased by $180.4 million, or 12%, while the rate paid on interest-bearing liabilities decreased by two basis points.

Interest and dividend income increased by $1.9 million to $18.9 million for the first quarter of 2017 as compared to $17.0 million for the first quarter of 2016. The yield on total interest-earning assets was 3.82% for the quarter ended March 31, 2017 as compared to 3.87% for the quarter ended March 31, 2016.

Interest income on loans increased $1.5 million when comparing the two periods, primarily resulting from a 13% increase in average loan balances, offset, in part, by a fourteen basis point decrease in yield. Long-term rates have remained at historic lows; however, in December 2016 and March 2017, the Federal Reserve increased the overnight rate by 0.25%, impacting many short-term rates.

Securities and short-term investments accounted for 18% of the total average interest-earning assets for the quarters ended March 31, 2017 and 2016. This includes the Bank's cash holdings at the Federal Reserve. Income for these categories combined increased $364,000 when comparing the two periods primarily due to an increase of $35.1 million in average balances combined with higher yields. During 2016 and the first quarter of 2017, the Bank made additional purchases of marketable common equity securities, some of which pay cash dividends. Additionally, the Federal Home Loan Bank ("FHLB") has continued to pay an elevated dividend on the Bank's stock investment. At the same time, US Treasury and Agency securities were allowed to mature and the proceeds were reinvested in overnight cash balances. The interest on excess reserves paid by the Federal Reserve has increased as a result of changes in the federal funds rate.

The average rate on interest-bearing liabilities decreased to 0.82% for the first quarter of 2017 from 0.84% for the comparable quarter of 2016. Total interest expense increased by $297,000 when comparing the quarters ended March 31, 2017 and 2016 due to increases in the average balances partially offset by lower rate on FHLB borrowings.

Interest expense on deposits increased by $228,000 due to an increase of $108.8 million in average interest-bearing deposits. The weighted average rate of interest-bearing deposits remained stable at 0.82%. Certificate balances increased by $30.5 million from December 31, 2016 to March 31, 2017 and non-certificate accounts increased by $6.4 million during the same period. Non-certificate accounts represent 58.9% of total deposits at March 31, 2017 compared to 60.1% at December 31, 2016. Beginning in 2015, there has been increasing market pressure to raise rates on term deposits and some core deposits, driven largely by strong loan demand in the Bank's market area and by the increases in the overnight rate by the Federal Reserve. The Bank has mitigated the impact of this pressure by soliciting certificates from two Internet-based exchanges for listing certificates of deposit and by issuing brokered deposits, as well as targeting certain core product rate increases that provided an efficient means for balanced growth. The increase in deposit balances has allowed the Bank to fund lending activity and maintain an elevated level of liquidity.

Interest expense on borrowed funds for the first quarter of 2017 increased $69,000 as compared to the same quarter in 2016, primarily due to a $71.6 million increase in average outstanding balances partially offset by an eight basis point decline in the weighted average rate. FHLB borrowings are drawn to fund growth in the loan portfolio.

The following table details components of net interest income and yields/rates on average earning assets/liabilities.

	Three Months Ended March 31,					
	2016			2017		
	AVERAGE BALANCE	INTEREST	YIELD/ RATE(8)	AVERAGE BALANCE	INTEREST	YIELD/ RATE(8)
	(Dollars in Thousands)					
Loans (1) (2)	$ 1,439,994	$ 16,430	4.56 %	**$ 1,625,525**	**$ 17,968**	**4.42 %**
Securities (3) (4)	61,042	272	1.78	**47,643**	**353**	**2.96**
Federal Reserve and other short-term investments	260,669	326	0.50	**309,143**	**609**	**0.79**
Total interest-earning assets	1,761,705	17,028	3.87	**1,982,311**	**18,930**	**3.82**
Other assets	33,156			**34,405**		
Total assets	$ 1,794,861			**$ 2,016,716**		
Interest-bearing deposits (5)	$ 1,120,656	2,290	0.82	**$ 1,229,476**	**2,518**	**0.82**
Borrowed funds	396,378	904	0.91	**467,988**	**973**	**0.83**
Total interest-bearing liabilities	1,517,034	3,194	0.84	**1,697,464**	**3,491**	**0.82**
Demand deposits	131,212			**148,841**		
Other liabilities	4,947			**4,849**		
Total liabilities	1,653,193			**1,851,154**		
Stockholders' equity	141,668			**165,562**		
Total liabilities and stockholders' equity	$ 1,794,861			**$ 2,016,716**		
Net interest income		$ 13,834			**$ 15,439**	
Weighted average interest rate spread			3.03 %			**3.00 %**
Net interest margin (6)			3.14 %			**3.12 %**
Average interest-earning assets to average interest-bearing liabilities (7)			116.13 %			**116.78 %**

(1) Before allowance for loan losses.
(2) Includes non-accrual loans.
(3) Excludes the impact of the average net unrealized gain or loss on securities available for sale.
(4) Includes Federal Home Loan Bank stock.
(5) Includes mortgagors' escrow accounts.
(6) Net interest income divided by average total interest-earning assets.
(7) Total interest-earning assets divided by total interest-bearing liabilities.
(8) Annualized.

The following table presents information regarding changes in interest and dividend income and interest expense of the Bank for the periods indicated. For each category, information is provided with respect to the change attributable to volume (change in volume multiplied by old rate) and the change in rate (change in rate multiplied by old volume). The change attributable to both volume and rate is allocated proportionately to the change due to volume and rate.

	Three Months Ended March 31, 2017 Compared to the Three Months Ended March 31, 2016 Increase (Decrease)		
	Due to		
	Volume	Rate	Total
	(In Thousands)		
Interest and dividend income:			
Loans	**$ 2,064**	**$ (526)**	**$ 1,538**
Securities and FHLB stock	**(70)**	**151**	**81**
Federal Reserve and other short-term investments	**69**	**214**	**283**
Total interest and dividend income	**2,063**	**(161)**	**1,902**
Interest expense:			
Deposits	**223**	**5**	**228**
Borrowed funds	**154**	**(85)**	**69**
Total interest expense	**377**	**(80)**	**297**
Net interest income	**$ 1,686**	**$ (81)**	**$ 1,605**

Provision for Loan Losses

At March 31, 2017, management's review of the allowance for loan losses concluded that a balance of $11.3 million was adequate to provide for losses based upon evaluation of risk in the loan portfolio. During the first quarter of 2017, management provided $255,000 to achieve such a loan loss allowance balance at March 31, 2017. Comparably, at March 31, 2016, management's evaluation of the balance of the allowance for loan losses indicated the need for a quarterly provision of $255,000. The Bank recorded no charge-offs during the first quarter of 2017 and recorded only one consumer line of credit charge-off of $2,000 for the first quarter of 2016.

See Notes 1 and 6 to the accompanying interim consolidated financial statements and "Loans and Foreclosed Real Estate" included in this Management's Discussion and Analysis for additional information pertaining to the allowance for loan losses.

Other Income

Other income is comprised of customer service fees on deposits, increases in the cash surrender value of bank-owned life insurance policies and miscellaneous income. Total other income was $331,000 for the quarter ended March 31, 2017 compared to $332,000 for the same period in 2016. Over the last few years, there has been a slight decline in deposit account transaction fees as the Bank has eliminated many fees on deposit products to simplify offerings and enhance the value proposition of our checking accounts to customers. There has been an offsetting trend in debit card interchange fees, as the size of the Bank's checking account base has increased and the Bank has benefited from a secular trend towards increasing use of debit cards in payments. The Bank's strategy does not rely on generating substantial noninterest fee-based revenue from our deposit accounts.

An increase in the cash surrender value of bank-owned life insurance also contributed to other income during the first quarter of 2017 and 2016. The Bank held $12.0 million in life insurance policies at March 31, 2017 as compared to $11.8 million at March 31, 2016. The policies accrete at a variable rate of interest with minimum stated guaranteed rates and income remained stable when comparing the two periods.

Operating Expenses

Total operating expenses were $5.1 million, or an annualized 1.02% of average total assets, for the quarter ended March 31, 2017 as compared to $4.9 million, or 1.09% of average total assets, for the same quarter of 2016. Operating expenses include salaries and employee benefits, data processing, occupancy and equipment, deposit insurance, foreclosure, marketing and other general and administrative expenses.

Salaries and employee benefits expenses increased $76,000, or 2%, primarily due to annual merit-based salary increases, higher payroll taxes and rising medical insurance costs, partially offset by a reduction in staffing levels.

Occupancy and equipment expenditures decreased by $7,000, or 1%, primarily due to higher rental income and declining depreciation expenses, partially offset by higher building maintenance costs. When the Bank purchased its Nantucket location, it built a residential apartment unit on the 2nd floor for rental purposes. In 2016, the Bank completed a residential apartment unit on the 3rd floor of the building. The Bank collects rental revenue from these units. The Bank continues to explore ways to optimize rental income from all of its owned real property.

Data processing expenses decreased by $8,000, or 3%, as increased data processing charges associated with improvements made to Bank systems along with growth in the number of customer accounts was offset by savings from renegotiating certain contracts, including with the Bank's core processor. In 2016, the Bank began a project to move all of the Bank's internal network and productivity solutions to the Google Cloud Platform. The Bank anticipates this project will yield meaningful improvements in security, resiliency, and cost.

Deposit insurance expense increased $16,000, or 7%. The increase in expense is due to an increase in the balance sheet as this charge is calculated based on total assets, partially offset by lower assessment rates.

Foreclosure related expenses decreased by $13,000 to $43,000 when comparing the first quarter of 2017 to the first quarter of 2016. The decrease is primarily due to a reduction in costs associated with a lower level of other real estate owned and foreclosure activity. At March 31, 2017, the Bank held one property with carrying value totaling $563,000. This compares to no properties at December 31, 2016 and one property totaling $168,000 at March 31, 2016. During the three months ended March 31, 2017, the Bank took one property through a foreclosure auction. Also included in this category are expenses associated with the foreclosure process which include legal, appraisal, insurance and other related foreclosure expenses.

Marketing expenses increased by $8,000 to $124,000 for the first quarter 2017. The Bank continued to optimize advertising spending in the first quarter 2017.

Other general and administrative expenses include director fees, supplies, training, deposit-related losses, audit-related expenses and other items. Expenses for the first quarter of 2017 increased $176,000, or 29%, when comparing the two periods, reflecting higher loan related expenses and increases in miscellaneous expenses.

Income Taxes

The Bank recognizes income taxes under the asset and liability method in which deferred tax assets and liabilities are established for the temporary difference between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. The Bank's deferred tax asset is reviewed quarterly by management as to the realizability of such asset.

During the first quarter of 2017, the Bank recorded $4.3 million, or 41.2% of pre-tax income, in tax expense as compared to $3.7 million, or 41.1%, for the same quarter in 2016.

BALANCE SHEET ANALYSIS
COMPARISON AT MARCH 31, 2017 TO DECEMBER 31, 2016

Assets totaled $2.039 billion at March 31, 2017, as compared to $2.015 billion at December 31, 2016, representing an increase of $24.9 million.

Securities, Short-term Investments and FHLB Stock

Securities were $28.7 million at March 31, 2017, an increase of $1.5 million when compared to the $27.2 million at December 31, 2016, reflecting equity security purchases completed during the first quarter of 2017. There were no sales, maturities or calls of debt securities, and principal paydowns were immaterial.

At March 31, 2017 and December 31, 2016, the Bank's entire securities portfolio was classified as available for sale and reflected on the balance sheet at fair value with unrealized gains and losses, net of tax effect, excluded from earnings and reported in accumulated other comprehensive income. The net unrealized gain on securities available for sale, net of tax, was $3.2 million at March 31, 2017 compared to $2.7 million at December 31, 2016. The primary driver in net unrealized gain on the securities portfolio is the fair value of the Bank's equity holdings.

At March 31, 2017, less than 1% of the securities were debt securities issued or guaranteed by government-sponsored enterprises. For the most part, these securities are offered at a fixed rate and term and at spreads above comparable U.S. Treasury issues.

At March 31, 2017, total marketable equity securities accounted for approximately 100% of the investment portfolio. At March 31, 2017, the Bank held a $7.3 million investment in the CRA Fund, a mutual fund which invests in securities which qualify for Community Reinvestment Act ("CRA") securities test. Additionally, the portfolio included $21.3 million in common equity securities. The Bank's common equity securities are not viewed as a source of liquidity and are managed to produce superior returns on capital over a longer time horizon. The Bank's process is focused on identifying businesses with strong returns on capital, owner-oriented management teams, good reinvestment opportunities or capital discipline, and reasonable valuations. The portfolio is concentrated in a relatively small number of investees in the financial services area, including other banks, diversified and specialized insurance companies, and payment networks. The Bank receives two sources of advantageous tax treatment through these investments. First, dividend distributions from these companies to the Bank are partially excluded from the Bank's taxable income due to the Dividends Received Deduction ("DRD"). Second, to the extent that these companies are capable of internal reinvestment at high rates of return or deploy capital via tax-advantaged repurchases, the deferred tax liability associated with any long-term unrealized gains on our investments constitutes an interest-free source of financing.

The Bank did not hold any FDIC-insured certificates of deposit issued by other financial institutions at March 31, 2017 and December 31, 2016. Occasionally, the Bank invests in such certificates due to the increase in yield over comparably-termed bonds issued by government-sponsored enterprises at time of purchase. Such investments are limited to the FDIC maximum insurance coverage of $250,000 and, therefore, all are insured in full by the FDIC.

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Bank is required to hold a Membership Stock Investment plus an Activity-based Stock Investment in the FHLB, which is based primarily on the amount of FHLB borrowings. The Bank received dividends totaling $240,000 for the quarter ended March 31, 2017 compared to $161,000 for the same period in 2016. At March 31, 2017, the Bank held $24.9 million in FHLB stock compared to $24.5 million at December 31, 2016.

Loans and Foreclosed Real Estate

During the first three months of 2017, total net loans outstanding increased by $28.6 million to $1.634 billion, from $1.606 billion at December 31, 2016, attributable primarily to originated loans of $118.1 million, offset by payoffs and amortization. Comparably, loan originations for the same period in 2016 were $137.7 million. On March 31, 2017 and December 31, 2016, net loans outstanding represented 80% of assets. Mortgage loans continue to account for more than 99% of the loan portfolio.

Loans are carried net of the allowance for loan losses. The allowance is maintained at a level to absorb losses within the loan portfolio. At March 31, 2017, the allowance for loan losses had a balance of $11.3 million as compared to $11.0 million at December 31, 2016. The allowance for loan losses represented 0.69% of gross loans as of March 31, 2017, compared to 0.68% at December 31, 2016.

At March 31, 2017, the Bank allocated $156,000 to loans classified as impaired. At December 31, 2016, $178,000 was allocated to impaired loans. The Bank works closely with delinquent mortgagors to bring their loans current and commences foreclosure proceedings if the mortgagor is unable to satisfy their outstanding obligation. Although regulatory changes have slowed the foreclosure process in recent years, the Bank continues to pursue delinquencies vigorously.

At March 31, 2017, there were six loans classified as non-accrual totaling $1.3 million as compared to seven non-accrual loans totaling $1.8 million at December 31, 2016. At March 31, 2017, the Bank held one foreclosed property for $563,000. There were no foreclosed properties at December 31, 2016. At both March 31, 2017 and December 31, 2016, non-performing assets were 0.09% of total assets. Management believes that its loans classified as non-accrual are significantly collateralized, pose minimal risk of loss to the Bank, and the reserves included in the allowance for loan losses are sufficient to absorb such losses, if any. However, management continues to monitor the loan portfolio and additional reserves will be taken if necessary. Below is a summary of non-accrual loans and foreclosed real estate:

	December 31, 2016	March 31, 2017
	(Dollars in Thousands)	
Non-accrual loans:		
Residential mortgages	$ 668	**$ 484**
Commercial mortgages	1,052	**525**
Home equity	75	**324**
Total non-accrual loans	1,795	**1,333**
Foreclosed real estate	—	**563**
Total non-performing assets	$ 1,795	**$ 1,896**
Percent of non-accrual loans to:		
Total loans	0.11 %	**0.08 %**
Total assets	0.09 %	**0.07 %**
Percent of non-performing assets to:		
Total loans and foreclosed real estate	0.11 %	**0.12 %**
Total assets	0.09 %	**0.09 %**
Allowance for loan losses to total loans	0.68 %	**0.69 %**

Other Assets

The Bank held $12.0 million in bank-owned life insurance at March 31, 2017 and December 31, 2016. The policies, which insure the life of a current Bank executive, accrete at a variable rate of interest with minimum stated guaranteed rates. The Bank monitors the financial strength and counterparty credit ratings of the policy issuers and has determined that at March 31, 2017, two of three issuers were rated at or above Bank guidelines. The third issuer retained a rating from A.M. Best at or above Bank guidelines, while the issuer's Standard and Poor ("S&P") rating was below Bank guidelines at BBB+ (Good) with a stable outlook.

Deposits

Deposits increased by $36.9 million to $1.403 billion at March 31, 2017 from $1.366 billion at December 31, 2016. Core deposits, which include regular, money market, NOW and demand deposits, increased $6.4 million over the December 31, 2016 balance. Certificate accounts were $576.3 million, or 41% of total deposits, at March 31, 2017, as compared to $545.8 million, or 40% of total deposits, at December 31, 2016.

Primary competition for deposits comes from other banks and credit unions in the Bank's market area and on the Internet, as well as mutual funds. The Bank's ability to attract and retain deposits depends upon satisfaction of depositors' requirements with respect to insurance, product, rate and service. The Bank offers traditional deposit products, competitive rates, convenient branch locations, ATMs, debit cards, telephone banking and Internet-based banking for consumers and commercial account holders. The Bank offers limited certificate of deposit products using national Internet-based posting services and brokered deposits. These alternatives provide the Bank with a source of long-term funding at lower cost than is generally available via retail channels.

Deposits are insured in full through the combination of the Federal Deposit Insurance Corporation and the Deposit Insurance Fund of Massachusetts ("DIF"). Generally, separately insured deposit accounts are insured up to $250,000 by the FDIC and deposit balances in excess of this amount are insured by the DIF. DIF insurance provides an advantage for the Bank as some competitors cannot offer this coverage.

Deposit growth over the first three months of 2017 was used to fund growth in the loan portfolio.

	Deposit Balances by Type			
	December 31, 2016	% of Total	March 31, 2017	% of Total
	(Dollars in Thousands)			
Non-certificate accounts				
Regular	$ 94,770	6.9 %	**$ 96,251**	**6.8 %**
Money market	543,367	39.9	**539,904**	**38.5**
NOW	34,467	2.5	**35,945**	**2.6**
Demand	147,749	10.8	**154,622**	**11.0**
Total non-certificate accounts	820,353	60.1	**826,722**	**58.9**
Term certificates less than $250,000	430,816	31.5	**440,527**	**31.4**
Term certificates $250,000 or more	114,940	8.4	**135,754**	**9.7**
Total certificate accounts	545,756	39.9	**576,281**	**41.1**
Total deposits	$ 1,366,109	100.0 %	**$ 1,403,003**	**100.0 %**

Borrowings

FHLB advances were $455.3 million, or 22% of total assets, at March 31, 2017 as compared to $475.3 million, or 24% of total assets, at December 31, 2016. These advances are predominately fixed rate in nature with 22% scheduled to mature in the next twelve months. During the first three months of 2017, total borrowings decreased by $20.0 million.

Liquidity and Capital Resources

The Bank continually assesses its liquidity position by forecasting incoming and outgoing cash flows. In some cases, contractual maturity dates are used to anticipate cash flows. However, when an asset or liability is subject to early repayment or redemption at the discretion of the issuer or customer, cash flows can be difficult to predict. Generally, these prepayment rights are exercised when it is most financially favorable to the issuer or customer.

At March 31, 2017, the Bank had $316.7 million, or 16% of total assets, in cash and cash equivalents. A significant portion of this consists of overnight cash balances at the Federal Reserve Bank of Boston. These balances are immediately accessible for liquidity.

Mortgage-backed securities, which comprise less than 1% of the portfolio, are subject to repayment at the discretion of the underlying borrower and are not considered material to the overall balance sheet or liquidity targets. Marketable common equity holdings, although liquid, are not viewed as a source of liquidity and are managed to produce superior returns on capital over a longer time horizon.

Investment in FHLB stock is illiquid.

Residential loans are susceptible to principal repayment at the discretion of the borrower. Commercial mortgages, while subject to significant penalties for early repayment in most cases, can also prepay at the borrower's discretion.

The Bank invests in key executive life insurance policies that are illiquid during the life of the executive. Such policies total $12.0 million, or less than 1% of total assets, at March 31, 2017.

Non-certificate deposit balances can generally be withdrawn from the Bank at any time. Certificates of deposit, with predefined maturity dates and subject to early redemption penalties, can also be withdrawn. The Bank estimates the volatility of its deposits in light of the general economic climate and recent actual experience. Over the past 10 years, deposits have exceeded withdrawals resulting in net cash inflows from depositors.

Approximately 19% of the Bank's borrowings were fixed in term of rate and maturity at March 31, 2017. Less than 1% of the borrowings amortize over their stated lives and the Bank monitors these scheduled cash outflows. Approximately 81% or $368.0 million can be called for earlier repayment at the discretion of the issuer. In the current economic environment, management anticipates that $330 million will be called during 2017.

The Bank also monitors its off-balance sheet items. See "Commitments" appearing in Note 2 within the "Notes to Unaudited Consolidated Financial Statements" section of this Form 10Q. At March 31, 2017, the Bank had $236.4 million in commitments to extend credit as compared to $216.4 million at December 31, 2016.

The Bank takes each of these preceding issues into consideration when measuring its liquidity position. Specific measurements include the Bank's cash flow position at the 30 day, 60 day and 90 day horizon, the level of volatile liabilities on earning assets and loan to deposit ratios. Additionally, the Bank "shocks" its cash flows by assuming significant cash outflows in both non-certificate and certificate deposit balances. At March 31, 2017, each measurement was within pre-defined Bank guidelines.

To supplement its liquidity position, should the need arise, the Bank maintains its membership in the FHLB where it is eligible to obtain both short and long-term credit advances. As of March 31, 2017, the Bank can borrow up to approximately $868.8 million to meet its borrowing needs based on the Bank's available qualified collateral, which consists primarily of 1-4 family residential mortgages, certain multifamily residential property and commercial mortgages. The Bank can pledge other mortgages and assets as collateral to secure additional borrowings. Additionally, through the Federal Reserve Bank of Boston ("FRBB"), the Bank can borrow up to $17.9 million through the discount window based on the Bank pledging its home equity loan portfolio. The Bank can pledge other mortgages and assets as collateral to secure additional borrowings with the FRBB. At March 31, 2017, the Bank had $455.3 million in advances outstanding from the FHLB and consequently had $413.5 million in available unused capacity. At March 31, 2017, the Bank did not have any advances outstanding at the FRBB.

At March 31, 2017, the Bank had capital of $167.0 million, or 8.2% of total assets, as compared to $161.0 million, or 8.0%, at December 31, 2016. During the three months ended March 31, 2017, stockholders' equity increased by $5.9 million due primarily to net income for the period of $6.1 million, partially offset by the declaration of dividends of $0.32 per share, which reduced capital by $684,000. Total capital is adjusted by the unrealized gains or losses in the Bank's available-for-sale securities portfolio and, as such, it is subject to fluctuations resulting from changes in the market values of its securities available for sale. At March 31, 2017, the Bank's entire securities portfolio was classified as available for sale which had the effect of increasing capital by $3.2 million. In comparison, at year-end 2016, capital was increased by $2.7 million.

Massachusetts-chartered savings banks that are insured by the FDIC are subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets and average total assets. The Bank's ratios exceeded these regulatory capital requirements at December 31, 2016 and March 31, 2017.

The following table details the Bank's actual capital ratios and minimum regulatory ratios as of December 31, 2016 and March 31, 2017.

	Actual		**Minimum Capital Requirement***		**Minimum To Be Well Capitalized Under Prompt Corrective Actions Provisions**	
	Amounts	**Ratio**	**Amounts**	**Ratio**	**Amounts**	**Ratio**
			(Dollars in Thousands)			
<u>December 31, 2016</u>						
Total Capital to Risk-Weighted Assets	$ 171,237	13.04 %	$ 113,225	8.625 %	$ 131,275	10.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	158,288	12.06	67,278	5.125	85,329	6.50
Tier 1 Capital to Risk-Weighted Assets	158,288	12.06	86,970	6.625	105,020	8.00
Tier 1 Capital to Average Assets	158,288	7.98	79,389	4.000	99,236	5.00
<u>March 31, 2017</u>						
Total Capital to Risk-Weighted Assets	**$ 177,295**	**13.26 %**	**$ 123,633**	**9.250 %**	**$ 133,657**	**10.00 %**
Common Equity Tier 1 Capital to Risk-Weighted Assets	**163,760**	**12.25**	**76,853**	**5.750**	**86,877**	**6.50**
Tier 1 Capital to Risk-Weighted Assets	**163,760**	**12.25**	**96,901**	**7.250**	**106,925**	**8.00**
Tier 1 Capital to Average Assets	**163,760**	**8.14**	**80,478**	**4.000**	**100,598**	**5.00**

* Minimum risk-based regulatory capital ratios and amounts at March 31, 2017 and December 31, 2016 include the applicable minimum risk-based capital ratios and capital conservation buffer of 1.25% and 0.625%, respectively.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

The earnings of most banking institutions are exposed to interest rate risk because their balance sheets, both assets and liabilities, are predominantly interest bearing. It is the Bank's objective to minimize, to the degree prudently possible, its exposure to interest rate risk; bearing in mind that the Bank, by its very nature, will always be in the business of taking on interest rate risk. Interest rate risk is monitored on a quarterly basis by the Asset Liability Committee (the "ALCO") and Board of Directors of the Bank. The ALCO is comprised of members of Bank Management and the Executive Committee of the Board. The primary tool used by the Bank in managing interest rate risk is income simulation modeling. Income simulation modeling measures changes in net interest income by projecting the future composition of the Bank's balance sheet and applying different interest rate scenarios. Management incorporates numerous assumptions into the simulation model, such as prepayment speeds, interest rate environments, balance sheet growth and deposit elasticity. Management believes that there has been no material changes in the interest rate risk reported in the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the Federal Deposit Insurance Corporation. The information is contained in the Form 10-K within the section "Quantitative and Qualitative Disclosures About Market Risk."

Item 4 – Controls and Procedures

(a) Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Bank's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness, as of March 31, 2017, of the Bank's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Bank's disclosure controls and procedures as of March 31, 2017, the CEO and CFO concluded that, as of such date, the Bank's disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in Internal Control

There were no significant changes in the Bank's internal control over financial reporting, as defined in Rules 13a-15(e) and 15d-15(e), during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 - Legal Proceedings

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 Bank's consolidated financial statements.

Item 1A – Risk Factors

There have been no material changes to the risk factors previously disclosed in the Bank's most recently filed Form 10-K.

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

None.

Item 3 - Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not applicable.

Item 5 - Other Information

None.

Item 6 – Exhibits

Exhibit No.	
31.1	Certifications – Chief Executive Officer
31.2	Certifications – Chief Financial Officer
32.1	Certification Pursuant to 18 U.S.C. §1350 – Chief Executive Officer
32.2	Certification Pursuant to 18 U.S.C. §1350 – Chief Financial Officer

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.

HINGHAM INSTITUTION FOR SAVINGS

Date: May 2, 2017

/s/
Robert H. Gaughen, Jr.
President & Chief Executive Officer
(Principal Executive Officer)

Date: May 2, 2017

/s/
Cristian A. Melej
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

I, Robert H. Gaughen, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Hingham Institution for Savings;

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

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

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

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

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

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

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

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

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

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

Date: May 2, 2017

/s/
Robert H. Gaughen, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

I, Cristian A. Melej, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Hingham Institution for Savings;

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

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

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

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

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

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

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

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

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

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

Date: May 2, 2017

/s/
Cristian A. Melej
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Hingham Institution for Savings (the "Bank") for the fiscal quarter ended March 31, 2017, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), the undersigned Robert H. Gaughen, Jr., Chief Executive Officer of the Bank, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

/s/

Robert H. Gaughen, Jr.
Chief Executive Officer
(Principal Executive Officer)

Date: May 2, 2017

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Hingham Institution for Savings (the "Bank") for the fiscal quarter ended March 31, 2017, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), the undersigned Cristian A. Melej, Chief Financial Officer of the Bank, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents in all material respects, the financial condition and results of operations of the Bank.

/s/
Cristian A. Melej
Chief Financial Officer
(Principal Financial Officer
and Principal Accounting Officer)

Date: May 2, 2017