FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C., 20429

FORM 10-K

(Mark one)
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ____________

Commission File Number: **FDIC Certificate No. 90211-0**

HINGHAM INSTITUTION FOR SAVINGS

(Exact name of registrant as specified in its charter)

Massachusetts **(State or other jurisdiction of incorporation or organization)**	**04-1442480** **(I.R.S. Employer Identification No.)**
55 Main Street, Hingham, Massachusetts **(Address of principal offices)**	**02043** **(Zip Code)**

(781) 749-2200
(Registrant's telephone number, including area code)

Securities Registered pursuant to Section 12(b) of the Act:

Common Stock, $1.00 par value per share **(Title of Class)**	**NASDAQ Stock Market, LLC** **(Name of exchange on which registered)**

Securities registered under Section 12(g) of the Act:
None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 ☐

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2014, the last business day of the registrant’s most recently completed second fiscal quarter, was $108,100,003 (computed using affiliate data as of February 1, 2014, an assumption which provides a reasonable basis for computation).

The number of shares outstanding of each of the Bank's classes of Common Stock, as of the latest practicable date is:
Class: Common Stock $1.00 par value per share
Outstanding as of March 5, 2015: 2,128,750 shares

Documents Incorporated by Reference
Portions of the Hingham Institution for Savings Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 2015 are incorporated by reference into Part III of this Form 10-K.

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, which are subject to a number of risks and uncertainties. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial condition, business strategy, plans and objectives of management for future operations and capital requirements are forward-looking statements. Without limiting the foregoing, the words “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “seeks” and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors. The Bank therefore cautions you against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in these forward-looking statements are discussed in Item 1A., “Risk Factors” of Part I and Items 7 and 7A., “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk,” respectively, of Part II of this Annual Report on Form 10-K. Any forward-looking statement made in this Annual Report on Form 10-K speaks only as of the date on which this Form 10-K was first filed. The Bank undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

PART I

Item 1. Business.

General

Hingham Institution for Savings (the “Bank”) is a Massachusetts-chartered savings bank headquartered in Hingham, Massachusetts. The Bank was originally chartered in 1834, which makes it the oldest financial institution headquartered in Hingham. In addition to its main office, loan office and drive-up facility in Hingham, banking offices are located in South Hingham, Hull, Scituate, Cohasset, South Weymouth, Norwell, Boston and Nantucket Massachusetts. At December 31, 2014, the Bank had total assets of $1.552 billion, total deposits of $1.089 billion and total stockholders' equity of $121.5 million.

The Bank is engaged principally in the business of attracting deposits from the general public through its banking offices and investing those deposits in residential and commercial mortgage loans and also in construction, consumer and commercial loans. At December 31, 2014, the loan portfolio was $1.239 billion or 80% of total assets.

At December 31, 2014, 46% of the Bank’s total loan portfolio was invested in residential mortgages (including home equity), 49% in commercial real estate (including multi-family housing), 5% in residential and commercial construction loans, and less than 1% in commercial business loans and consumer loans. The Bank focuses on the origination of residential real estate loans and commercial real estate loans in its primary market area. The Bank originates both Qualified Mortgages and Non-Qualified Mortgages in its residential lending business.

The Bank's primary market area consists of Hingham and its surrounding communities, which include the towns of Cohasset, Hanover, Hull, Norwell, Scituate, Marshfield and Weymouth, Massachusetts. In 2006, the Bank opened a branch in the South End section of Boston. In 2011, the Bank opened its second Boston branch in the Beacon Hill section of the city. In August 2013, the Bank opened a branch on Nantucket Island. Hingham, with approximately 22,000 residents, is located approximately 16 miles south of Boston in an area commonly known as the “South Shore.”

The Bank invests in securities issued by the United States Treasury, United States Government-sponsored enterprises and agencies thereof, including mortgage-backed securities and, to a lesser extent, equity securities.

The Bank offers a variety of deposit accounts to individuals and commercial customers. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”), generally up to $250,000 per separately insured depositor and up to $250,000 for retirement accounts. The Depositors Insurance Fund of Massachusetts (“DIF”) insures the portion of deposits in excess of these amounts.

Supervision and Regulation. As a savings bank organized under Chapter 168 and operating under Chapters 168 and 172 of the Massachusetts General Laws, the deposits of which are insured by the FDIC, the Bank is subject to regulation, supervision and examination by the Massachusetts Commissioner of Banks (“Commissioner of Banks”) and the FDIC. The prior approval of the FDIC and the Commissioner of Banks is required for the Bank to establish or relocate an additional branch office, assume deposits, or engage in a merger, consolidation or purchase or sale of all or substantially all of the assets of any bank or savings association. While the Bank is not a member of the Federal Reserve System, it is nonetheless subject to certain provisions of the Federal Reserve Act and regulations issued thereunder.

The description of certain laws and regulations below and elsewhere in this report does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Examinations and Supervision. The FDIC and the Commissioner of Banks regularly examine the Bank's condition and operations, including, among other things, its capital adequacy, reserves, loans, investments, earnings, liquidity, compliance with laws and regulations, record of performance under the Community Reinvestment Act ("CRA") and management practices. In addition, the Bank is required to furnish quarterly and annual reports of income and condition to the FDIC and periodic reports to the Commissioner of Banks. The enforcement authority of the FDIC includes the power to: impose civil money penalties; terminate insurance coverage; remove officers and directors; issue cease-and-desist orders to prevent unsafe or unsound practices or violations of laws or regulations; and impose additional restrictions and requirements with respect to banks that do not satisfy applicable regulatory capital requirements.

Community Reinvestment Act Regulations. The CRA requires lenders to identify the communities served by a bank's deposit-taking facilities and to identify the types of credit the bank is prepared to extend within these communities. Failure of a bank to receive at least a "satisfactory" rating could inhibit a bank from undertaking certain activities, including acquisitions of other financial institutions, which require regulatory approval based, in part, on CRA compliance considerations. The FDIC must take into account the record of performance of banks in meeting the credit needs of the entire community served, including low and moderate-income neighborhoods, in terms of (1) making loans in its service areas, (2) investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses and (3) delivering services through its branches, ATMs and other offices. Massachusetts has enacted a CRA with similar requirements applicable to banking institutions chartered by that state.

Dividends. Payments of dividends by the Bank are subject to banking law restrictions such as:

- The FDIC's authority to prevent a bank from paying dividends if such payment would constitute an unsafe or unsound banking practice or reduce the bank's capital below safe and sound levels;
- Federal legislation which prohibits FDIC-insured depository institutions from paying dividends or making capital distributions that would cause the institution to fail to meet minimum capital requirements or if it is already undercapitalized; and
- Massachusetts banking law restrictions which require dividends to be paid from net profits, for the current and two previous years, and which preclude a Massachusetts bank from paying dividends if its capital is, or would become, impaired.

Affiliate Transactions. Banks are subject to restrictions imposed by federal law on extensions of credit to, purchases of assets from, and certain other transactions with affiliates and on investments in stock or other securities issued by affiliates. These restrictions prevent banks from making loans to affiliates unless the loans are secured by collateral in specified amounts and have terms at least as favorable to the bank as the terms of comparable transactions between the bank and non-affiliates. Furthermore, federal and Massachusetts laws significantly restrict extensions of credit by banks to directors, executive officers and principal stockholders and other related parties.

Deposit Insurance. At December 31, 2014, deposits made in the Bank are insured by the FDIC to the legal maximum of $250,000 for each insured depositor and $250,000 for retirement accounts. The Federal Deposit Insurance Reform Act of 2005, as amended in 2006, requires that the FDIC determine deposit insurance premiums using a risk-based assessment. Deposit balances in excess of those insured by the FDIC are insured in full by the DIF.

Federal Reserve Board Policies. The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of banks in the past and are expected to continue to do so in the future. Federal Reserve Board policies affect the levels of interest paid on bank deposits through the Federal Reserve System's open-market operations in United States government securities, regulation of the discount rate on bank borrowings from Federal Reserve Banks and regulation of non-earning reserve requirements applicable to bank deposit account balances.

Riegle-Neal Interstate Banking and Branching Efficiency Act. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, ("Interstate Act"), authorizes the interstate merger of banks. In addition, among other things, the Interstate Act permits banks to establish new branches on an interstate basis provided that such action is specifically authorized by the law of the host state.

Consumer Protection Regulation; Bank Secrecy Act; USA PATRIOT Act. Other aspects of the lending and deposit businesses of the Bank that are subject to regulation by the FDIC and Massachusetts banking authorities, as applicable, include disclosure requirements with respect to the payment of interest, payment and other terms of consumer and residential mortgage loans and disclosure of interest and fees and other terms of, and the availability of, funds for withdrawal from consumer deposit accounts. In addition, the Bank is subject to federal and state laws prohibiting certain forms of discrimination in credit transactions, and imposing certain record keeping, reporting and disclosure requirements with respect to residential mortgage loan applications. The Bank is also subject to federal laws establishing certain record keeping, customer identification and reporting requirements with respect to certain large cash transactions, sales of traveler's checks or other monetary instruments, and international transportation of cash or monetary instruments. In addition, under the USA PATRIOT Act of 2001, the Bank is required to implement additional policies and procedures with respect to, or additional measures designed to address, any or all of the following matters, among others: money laundering;

suspicious activities and currency transaction reporting; and currency crimes. See also consumer protection provisions set forth below under the heading "Dodd-Frank Wall Street Reform and Consumer Protection Act."

Capital Requirements. The FDIC has established guidelines with respect to the maintenance of appropriate levels of capital by state chartered FDIC-insured banks that are not members of the Federal Reserve System. If a bank's capital levels fall below the minimum requirements established by these guidelines, the bank will be expected to develop and implement a plan, acceptable to the FDIC, to achieve adequate levels of capital within a reasonable period, and may be denied approval to acquire or establish additional bank or non-bank businesses, merge with other institutions or open branch facilities until those capital levels are achieved. Federal legislation requires federal bank regulators to take "prompt corrective action" with respect to banks or bank holding companies that fail to satisfy minimum capital requirements and imposes significant restrictions on those institutions.

In particular, FDIC guidelines and regulations and the Federal Deposit Insurance Corporation Improvement Act of 1991 include, among other things:

- minimum leverage capital ratios or Tier 1 capital to total assets ratios;
- minimum capital levels measured as a percentage of a bank's risk-adjusted assets;
- as noted above, requirements that federal banking regulators take "prompt corrective action" with respect to, and impose significant restrictions on, any bank that fails to satisfy its applicable minimum capital requirements;
- assignment of a bank by the FDIC to one of three capital categories consisting of (1) well capitalized, (2) adequately capitalized and (3) undercapitalized, and one of three supervisory categories, which category assignments determine the bank's deposit insurance premium assessment rate;
- restrictions on the ability of a bank to accept brokered deposits;
- authorization of the FDIC to appoint itself as conservator or receiver for a state chartered bank under certain circumstances and expansion of the grounds for its appointment as conservator or receiver;
- adoption of uniform real estate lending standards;
- standards for safety and soundness related to, among other things, internal controls and audit systems, loan documentation, credit underwritings and interest rate risk exposure;
- restrictions on the activities and investments of state-chartered banks; and
- consumer protection provisions.

In July 2013, federal banking regulators approved final rules that implement changes to the regulatory capital framework for U.S. banks. The rules set minimum requirements for both the quantity and quality of capital held by community banking institutions. The final rule includes a new minimum ratio of common equity Tier 1 capital to risk weighted assets of 4.5%, raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking organizations. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers. The phase-in period for the rules will begin for the Bank on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. Management believes that the Bank's capital levels will be characterized as "well-capitalized" upon implementation of the new rules.

Dodd-Frank Wall Street Reform and Consumer Protection Act. In July 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act significantly changed the bank regulatory structure and affects the lending, deposit, investment, securitization, governance, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act required various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. Federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the possible implications of the Dodd-Frank Act may not be known for many years. Certain provisions of the Dodd-Frank Act will have an impact on the Bank. For example:

- The Dodd-Frank Act created a new Consumer Financial Protection Bureau (the "Bureau") with broad powers to supervise and enforce consumer protection laws. The Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. Although the Bank is currently not under the direct examination and enforcement authority of the Bureau, the Bank will continue to be examined for compliance with the consumer protection laws by the FDIC and Commissioner of Banks.
- The Dodd-Frank Act eliminated federal prohibitions on paying interest on demand deposits, allowing businesses to have interest-bearing checking accounts.

- Beginning in April 2011, the FDIC deposit insurance assessments are based on the average consolidated total assets less tangible equity capital of a financial institution.
- A number of new regulatory requirements applying to debit cards, including certain limitations on interchange fees, were enacted.
- The Dodd-Frank Act increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009.
- Publicly traded companies are required to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments. The Federal Reserve Board enacted rules prohibiting excessive compensation paid to bank executives, regardless of whether the company is publicly traded or not.
- In December 2013, the Volcker Rule (the "Rule") was enacted which prohibits banks from proprietary trading of securities, derivatives, commodity futures and options on these instruments for their own account. Furthermore, it prohibited banks from owning, sponsoring or having certain relationships with hedge funds or private equity funds. The rule was effective on April 1, 2014 and it did not affect the Bank as they have not entered into the affected transactions or relationships.

Lending Activities

General. At December 31, 2014, the Bank's net loan portfolio totaled $1.239 billion, representing 80% of its total assets. The principal categories of loans in the Bank's portfolio are residential real estate loans secured primarily by single-family, owner-occupied residences and commercial real estate loans secured by multifamily or commercial property. At December 31, 2014, the Bank's portfolio consisted of residential and commercial construction loans, commercial business loans and consumer loans. More than 99% of the Bank's loans are secured by mortgages. The Bank's lending activities are generally conducted in its primary market area.

Residential Real Estate Loans. The Bank originates both fixed and adjustable-rate loans on one-to-four family residential properties with loan-to-value ratios of up to 95% of the properties' appraised values, with mortgage insurance required for those loans exceeding 80%. As of December 31, 2014, residential mortgages, including home equity lines of credit and second mortgages, were $576.7 million and represented 46% of the Bank's total loan portfolio. The Bank originates both Qualified Mortgages and Non-Qualified Mortgages as defined by the Consumer Financial Protection Bureau's Qualified Mortgage Rule.

The Bank offers fixed-rate mortgages with terms of seven through 30 years. The Bank also offers a 20/20 mortgage which has a final maturity of 40 years, subject to a one-time rate adjustment at the end of the first 20-year period with a 5% cap. Additionally, our 5/5 ARM is offered with a final maturity of 40 years with rate adjustments every five years. It has a 2.5% interval cap and a 5% lifetime cap. Other variable-rate loans currently originated by the Bank have up to 30-year terms and an interest rate which initially adjusts from one to seven years in accordance with an index based on securities issued by the United States Government. There is a 2% cap on any increase or decrease in the interest rate per year and there is a 6% lifetime interest rate cap for one-year indexed variable-rate loans. The three-year indexed variable-rate loan has a 2% cap on any increase or decrease in the interest rate and a 6% lifetime cap. The Bank offers a seven/three-year indexed variable-rate loan with a 3% cap on any increase or decrease in the interest rate and a 6% lifetime cap, following an initial fixed period of seven years. The Bank offers an initial discount on the interest rate of its adjustable-rate mortgage loan products which generally remain in effect until the first adjustment date.

Home equity lines of credit are written at a variable rate, generally at the *Wall Street Journal* Prime Rate with a rate floor of 3.5%. Generally, the maximum loan amount is $250,000 subject to 60% of the appraised value of the collateral, less the first mortgage loan or a maximum loan amount of $150,000 subject to a 70% of the appraised value of the collateral, less the first mortgage loan. The term of the loan will consist of a ten-year draw period followed by a five-year repayment period. During the draw period the borrower has the ability to borrow against the line at any time and is required to make monthly minimum payments consisting of the accrued interest. On the tenth anniversary of the line, the customer's draw privileges will terminate, and any existing balance, plus accrued interest, will be repaid over the next five years.

Commercial Real Estate Loans. The Bank originates mortgage loans for the refinancing, acquisition, or renovation of existing commercial real estate properties such as apartments, offices, manufacturing and industrial complexes, small retail shopping centers and various special purpose properties. Although terms vary, commercial real estate loans generally have maturities of 15 years or less at floating interest rates which adjust in accordance with a designated index, with no limit to the increase in the annual interest rate adjustment. These loans are generally underwritten with floors near the initial rate at time of underwriting. The Bank generally amortizes commercial real estate mortgages over a 35-year period, with a balloon payment at 10 or 15 years. Generally, loan amounts do not exceed 75% of the lesser of the Bank estimate of value or independent appraised value of the collateral nor are the loan amounts in excess of $6 million to any one borrower. At December 31, 2014, commercial mortgages totaled $607.9 million and represented 49% of the Bank's total loan portfolio.

Construction Loans. As of December 31, 2014, there were $60.4 million in construction loans, net of unadvanced amounts, which represented 5% of the Bank's total loan portfolio and consisted of both single-family homes at various stages of completion and commercial construction projects. The Bank offers both fixed-rate loans and adjustable-rate construction loans. Loans are underwritten to the residential and commercial loan standards. The term on residential construction loans includes a six to twelve month interest only period (draw period) that converts to an amortizing loan at the end of the draw period. Commercial construction projects generally have up to a two-year draw period with interest only payments and either a balloon payment at the end of the draw period or conversion to permanent financing with an amortization schedule.

Consumer/Commercial Lending. The Bank offers personal installment (secured and unsecured) loans, revolving credit loans and passbook loans. Unsecured loans generally do not exceed $30,000 and have a maximum term of three years. The Bank originates loans to local businesses in its market area generally on a secured basis with personal guarantees from the principals of any borrowing entity. Generally, commercial loans have maturities of five years or less at floating interest rates. At December 31, 2014, consumer and commercial loans totaled $996,000 and represented less than 1% of the Bank's total loan portfolio.

Origination of Loans. Applications for residential real estate and consumer loans are taken at all of the Bank's offices. Applications for commercial real estate loans are taken at the Bank's Main Office. The processing of all loan applications is centralized at the Bank's loan office in Hingham. Loan applications come from a number of sources, including depositors, existing borrowers, walk-in customers, the Internet and others responding to the Bank's advertising program.

Loan Rates and Fees. Interest rates and fees charged by the Bank on its loan products are based upon the type of loan, the degree of risk, competitive market rates, and the underlying collateral. Fees are subject to the limitations imposed by the regulations of the Commissioner of Banks. Loan origination and commitment fees, net of direct loan origination costs, are deferred and are recognized as adjustments to loan interest income. The Bank amortizes these amounts over the contractual life of the related loans using the level-yield method.

Asset Quality. It is the Bank's policy to evaluate its loan portfolio so as to recognize problem loans at an early stage and thereby seek to minimize losses. As a matter of policy, the Bank commences collection procedures on residential real estate loans once a loan payment is 15 days past due and on commercial real estate loans once a loan payment is more than 10 days past due. A detailed list of all loans two payments or more contractually past due is reported to the Board of Directors at their monthly meeting.

The accrual of interest on mortgage and commercial loans is discontinued at the time a loan is 90 days past due 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.

The Bank maintains a formal loan review and credit risk rating program. 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 and residential loan relationships with individual loans of $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 using our internal rating system in a previous review, loans past contractual maturity or loans identified as troubled debt restructures. Results of the review are reported to the Bank's Audit Committee and the full Board of Directors on a quarterly basis and serve as a mechanism for monitoring the overall credit quality of the portfolio.

Investment Activities

The Bank invests in debt securities issued by the United States Treasury, United States Government-sponsored enterprises, mortgage-backed securities, money market instruments, common equity securities, and other authorized investments. The Bank's securities portfolio is managed by the Bank's senior officers in accordance with the investment policy approved by the Board of Directors. During 2014, the Bank slowed investment in fixed income securities and began holding additional cash at the Federal Reserve. Investment strategies are reviewed by the Board periodically. At December 31, 2014, the Bank's securities portfolio totaled $70.6 million which represented 5% of the Bank's total assets.

At December 31, 2014, the Bank's equity securities included a $5.0 million investment in the CRA Fund, a mutual fund which invests in securities which qualify under the CRA securities test and $5.1 million in common equity securities in a limited number of banks and diversified insurance companies.

All securities are classified as available for sale and are reflected on the balance sheet at fair value, with unrealized gains and losses, after tax effect, excluded from earnings and reported in accumulated other comprehensive income/loss. At December 31, 2014, net unrealized gains related to the securities portfolio, after tax effect, were $201,000.

The Bank purchases certificates of deposit issued by FDIC insured banks. Each certificate is purchased in an amount not to exceed $250,000 per issuing bank. At December 31, 2014, there were $12.9 million in certificates of deposit, which are reported separately from the Bank's securities portfolio.

The Bank holds Federal Home Loan Bank of Boston ("FHLB") stock which, at December 31, 2014, amounted to $17.9 million. As a member of the FHLB, the Bank is required to maintain a Membership Stock Investment plus an Activity-based Stock Investment in an amount which approximates 5% of FHLB borrowings.

The Bank also invests in Bank-owned life insurance which insures the lives of certain current and former Bank officers. During 2014, a former Bank officer passed and the Bank, as the loss payee, received the death benefit. At December 31, 2014, the remaining policies had a cash surrender value of $11.4 million.

Sources of Funds

General. Deposit accounts of all types have historically constituted the primary source of funds for the Bank's lending and investment activities. To a lesser extent, the Bank also derives funds from borrowings from the FHLB, amortization and prepayment of loans and mortgage-backed securities, and sales of loans and securities. Additionally, the Bank has registered with the Federal Reserve Bank to access its discount window. The Bank may access this line by pledging assets as collateral. The availability of funds is influenced by prevailing interest rates, competition, and other market conditions.

Deposits. At December 31, 2014, the Bank had $1.089 billion in savings accounts, demand accounts, Negotiable Order of Withdrawal ("NOW") accounts, money market accounts and certificates of deposit. Certificates have maturities ranging in terms from ninety-one days to five years. Included among these deposit products are Individual Retirement Account certificates. The Bank also accepts deposits through its on-premise ATMs and is a member of other ATM networks, including the SUM network. In 2013, the Bank began accepting deposits through an Internet listing service. The Bank's cost of funds, and its ability to attract and maintain deposits, have been, and will continue to be, significantly affected by economic and competitive conditions.

Borrowings. At December 31, 2014, the Bank had $329.6 million in borrowings from the FHLB. The Bank can borrow up to approximately $601 million, in total, based on the Bank's qualified collateral, which includes certain residential mortgage loans, first mortgage loans on non-owner occupied residential property, first mortgage loans on multi-family residential property, certain securities and pledged commercial mortgages. Upon specific approval from the FHLB, the Bank may also pledge other mortgages and certain FHLB deposit accounts to secure additional borrowings.

Competition

Competition for deposits has traditionally come from other thrift institutions, mutual funds, credit unions and commercial banks located in the Bank's primary market area. To a lesser degree, competition has also come from Internet banking providers. The Bank retains its strong competitive position by providing a full range of deposit products, offering competitive rates, and by supporting a network of conveniently located branches with extended banking hours. The Bank also offers 24-hour telephone banking, Internet banking and mobile banking. The Bank has a competitive advantage over commercial banks and various other financial institutions, such as mutual fund companies, because its depositors' funds are fully insured by the FDIC and the DIF.

Competition for real estate loans is based primarily on interest rates, fees, and the quality of service provided to borrowers and real estate brokers. Principal competitors for loan originations are local savings banks, mortgage banking companies, and commercial banks as well as national lenders who conduct business on the Internet. The Bank is recognized in the towns in which it maintains offices as a major provider of mortgage funds.

Personnel

At December 31, 2014, the Bank had 104 full-time employees and 17 part-time employees. The Bank provides its full-time employees with a comprehensive range of employee benefit programs, including a 401(k) plan, life, health, travel accident and long-term disability insurance and a stock option plan for officers, other employees and certain directors as the Stock Option Committee of the Board of Directors may determine. None of the employees of the Bank are represented by a labor union or other collective bargaining group and management believes that its employee relationships are excellent.

Available Information

The Annual Report on Form 10-K is available to the public at the main office and each branch office of the Bank. The Annual Report on Form 10-K and all quarterly reports on Form 10-Q are also available free of charge through the Internet site www.hinghamsavings.com once such material is filed with, or furnished to, the FDIC. Information found on this website is not part of this report or any other report the Bank files with or furnishes to the FDIC. A copy of the Bank's Annual Report on Form 10-K, as well as the Bank's Summary Annual Report and all quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to such reports, may be obtained without charge, by any stockholder of the Bank upon written request addressed to Robert H. Gaughen, Jr., President, Hingham Institution for Savings, 55 Main Street, Hingham, MA 02043, telephone (781) 749-2200 or (800) 286-2800. Information is also available for inspection at the FDIC, Accounting and Securities Disclosure Section, Division of Supervision and Consumer Protection at 550 17th Street, NW. Washington, DC 20429.

Executive Officers of the Registrant

Name and Age	Positions with the Bank and Principal Occupation	Term of Office
Robert H. Gaughen, Jr. [1] Age – 66	President and Chief Executive Officer Chairman of the Board	1993 to Present
Patrick R. Gaughen[2] Age – 34	Executive Vice President	2012 to Present
Robert A. Bogart [3] Age – 49	Vice President and Treasurer Chief Financial Officer	2009 to Present
John M. Parillo [4] Age - 32	Vice President – Retail Banking	2014 to Present
Michael J. Sinclair [5] Age – 52	Vice President – Retail Lending Officer	1995 to Present
Shawn T. Sullivan [6] Age - 53	Vice President – Commercial Lending Officer	1996 to Present

1 Mr. Robert Gaughen, Jr. has served as a member of the Bank's Board of Directors since May 1991 and became President and Chief Executive Officer on April 29, 1993. Previously Mr. Gaughen was President and Chief Executive Officer of East Weymouth Savings Bank. Mr. Gaughen is the father of Patrick Gaughen, Executive Vice President.

2 Mr. Patrick Gaughen joined the Bank in July 2012 as Vice President Chief Strategy/Corporate Development Officer. In 2013, he was promoted to Senior Vice President - Chief Strategy/Corporate Development Officer and in 2014 was promoted to Executive Vice President. Before joining the Bank, Mr. Gaughen was a Foreign Service Officer with the U.S. Department of State providing analytical and decision-support for senior U.S. policy regarding U.S. foreign policy in the Near East. Mr. Gaughen is a graduate of Yale University, Georgetown University Walsh School of Foreign Service and Duke University. Mr. Gaughen is the son of Robert Gaughen, President and Chief Executive Officer.

3 Mr. Bogart, the Bank's Chief Financial Officer, joined the Bank in 2009 as Vice President and Treasurer, having been Senior Vice President and Chief Financial Officer of First Citizens Federal Credit Union, Director of External Reporting and Financial Compliance at CVS Pharmacy, Director of External Reporting and Financial Control at Talbot's Incorporated and as a manager/senior accountant at KPMG LLP. Mr. Bogart is a Certified Public Accountant (CPA).

4 Mr. Parillo joined the Bank in March 2014 as Vice President – Retail Banking. Prior to joining the Bank, he served as Vice President and Regional Manager for East Boston Savings Bank.

5 Mr. Sinclair joined the Bank in 1995 as Vice President Retail Lending Officer. Previously, he served as Vice President at Abington Savings Bank and Assistant Vice President at Quincy Savings Bank.

6 Mr. Sullivan joined the Bank in 1996 as Vice President - Commercial Lending. Prior to joining the Bank, he acted as Vice President - Commercial Loan Officer at Fleet Bank and as Loan Officer at U. S. Trust Company.

Item 1A. Risk Factors.

A downturn in local economic conditions could negatively impact the Bank's business. The Bank serves primarily individuals and smaller businesses located in eastern Massachusetts and adjoining areas. At December 31, 2014, substantially all of the Bank's loans and majority of deposits came from the eastern Massachusetts area. Local events and the economic conditions in the area could have a material adverse impact on the ability of the Bank to attract deposits, the ability of the Bank's borrowers to repay their loans and on the value of the collateral securing these loans.

A downturn in local real estate values could hurt our profits. Because of the concentration of the Bank's loans in eastern Massachusetts real estate, the Bank stands to be more severely impacted by adverse trends affecting real estate than if its loan portfolio had a larger component of non-real estate related commercial loans. At December 31, 2014, approximately 99.9% of the Bank's loan portfolio consisted of real estate related loans, including residential mortgages (46%), mortgages on developed commercial properties (49%), and construction loans (5%).

The Bank's commercial loans, with limited exceptions, are secured primarily by real estate (usually income producing residential and commercial properties). All of the Bank's residential mortgage and home equity loans are secured by residential property in eastern Massachusetts. Consequently, the Bank's ability to continue to originate real estate loans may be impaired by adverse changes in local and regional real estate markets, or by acts of nature, including hurricanes. Further, the value realized on the sales of foreclosed assets may be diminished by the volume of foreclosed assets being liquidated by other financial institutions.

Reliance on the Federal Home Loan Bank system may adversely affect our liquidity. The Bank is a member of the FHLB and the amount of its equity investment in this organization is based upon the amount of borrowed funds. FHLB decisions therefore directly impact the Bank's liquidity. Dividends on this investment are declared at the discretion of the FHLB board. In 2009, for example, the FHLB board suspended its dividend and implemented a capital retention plan that restricts financial institutions from redeeming excess FHLB stock. In 2011, the FHLB announced the reinstatement of a dividend and in 2012 the FHLB reestablished the redemption of excess FHLB stock. At December 31, 2014, the Bank held $17.9 million in FHLB stock and borrowed funds were $329.6 million.

Fluctuations in interest rates may negatively impact the Bank's business. The Bank's main source of income from operations is net interest income, which is equal to the difference between the interest income received on interest-earning assets (usually loans and securities) and the interest expense incurred in connection with interest-earning liabilities (usually deposits and borrowings). Residential mortgage borrowers can pre-pay their mortgage loans earlier than the stated maturity date, without penalty, in order to refinance at lower market rates. This could negatively impact the Bank's net interest income. Changes in relative interest rates may reduce the Bank's net interest income as the difference between interest income and interest expense decreases. The Bank has adopted asset and liability management policies that are intended to minimize the potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments and funding sources. Nonetheless, the Bank cannot assure that an increase or a decrease in interest rates, especially a rapid change, will not negatively impact the Bank's results from operations or financial position.

An increase in interest rates could also have a negative impact on the Bank's results from operations by reducing the ability of borrowers to repay their current loan obligations, which could not only result in increased loan defaults, foreclosures and write-offs, but also necessitate further increases to the Bank's allowance for loan losses.

The Bank's loan loss reserves may prove to be insufficient if future economic conditions deteriorate. The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. Management maintains an allowance for loan losses based upon, among other things, historical losses, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types, as well as other factors such as local economic trends, real estate market conditions and credit concentrations. Based upon such factors, management makes various assumptions and judgments about the ultimate collectability of the loan portfolio and provides an allowance for loan losses based upon a percentage of the outstanding balances and for specific loans when their ultimate collectability is considered questionable. If management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb inherent losses, the Bank's earnings and capital could be significantly and adversely affected.

As of December 31, 2014, the allowance for loan losses was $9.1 million, which represented 0.73% of total outstanding loans. At such date, the Bank had $2.3 million in non-accrual loans. Although management believes that its allowance for loan losses is adequate, there can be no assurance that the allowance will prove sufficient to cover loan losses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Provision for Loan Losses."

Competition from financial institutions and other financial service providers may adversely affect our growth and profitability. Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions and finance companies operating locally and elsewhere. Larger banking institutions have substantially greater resources and lending limits and may offer certain services that we do not. Local competitors with excess capital may accept lower returns on new business. There is increased competition by out-of-market competitors through the Internet. Federal regulations and financial support programs may in some cases favor competitors or place us at an economic disadvantage. Our profitability depends on our continued ability to successfully compete and grow profitably in our market areas.

We may not be able to attract and retain skilled people. Our success depends, in large part, on our ability to attract new employees, retain and motivate our existing employees, and continue to compensate employees competitively amid intense public and regulatory scrutiny on the compensation practices of financial institutions. Competition for the best people in most activities engaged in by us can be intense and we may not be able to hire these people or to retain them.

Additional federal or state laws and regulations regarding lending, investment, funding practices, capital, and liquidity standards may adversely impact our growth and profitability. Bank regulatory agencies are expected to be more active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. In addition, new laws, regulations, and other regulatory changes may also increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. The FDIC sets the cost of our FDIC insurance premiums, which can affect our profitability.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Regulatory capital requirements and their impact on the Bank may change. We may need to raise additional capital in the future to support our operations and continued growth. Our ability to raise capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. If we cannot raise additional capital when needed, it could affect our operations and our ability to execute our strategic plan, which includes further expanding our operations through internal growth.

The Dodd-Frank Act made extensive changes in the regulation of insured depository institutions. In addition to eliminating the Office of Thrift Supervision ("OTS") and creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, directs changes in the way that institutions are assessed for deposit insurance, mandates the imposition of capital requirements, requires originators of certain securitized loans to retain a percentage of the risk for the transferred loans, stipulates regulatory rate-setting for certain debit card interchange fees, repeals restrictions on the payment of interest on commercial demand deposits and contains a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. Their impact on operations cannot yet be fully assessed. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense for the Bank.

New laws, regulations, and other regulatory changes may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability. For more information, see "Supervision and Regulation" in Item 1 of this report.

System failure or breaches of our network security could subject us to increase operating costs as well as possible liability and damage our reputation. The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, our security measures may not be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

It is possible that significant amount of time and money may be spent to rectify the harm caused by a breach or hack. While we have general liability insurance and cyber liability insurance, there are limitations on coverage as well as dollar amount. Furthermore, cyber incidents carry a greater risk of injury to our reputation. Finally, depending on the type of incident, banking regulators can impose restrictions on our business and consumer laws may require reimbursement of customer loss.

Item 1 B. Unresolved Staff Comments.

None

Item 2. Properties.

The following table sets forth certain information relating to the Bank's premises at December 31, 2014.

	Location	Year Acquired/Leased	Ownership
Main Office & Corporate Offices:			
55 Main Street Hingham, MA 02043	Hingham	1950	Owned
Branch Offices:			
37 Whiting Street Hingham, MA 02043	South Hingham	1979	Owned
401 Nantasket Avenue Hull, MA 02045	Hull	1976	Owned
400 Gannett Road Scituate, MA 02066	Scituate	1995	Owned
13 Elm Street Cohasset, MA 02025	Cohasset	1995	Owned
32 Pleasant Street South Weymouth, MA 02190	South Weymouth	1998	Owned
300 Linden Ponds Way Hingham, MA 02043	South Hingham	2004	Leased
540 Tremont Street Boston, MA 02116	Boston	2006	Leased
5 Assinippi Avenue Hanover, MA 02339	Norwell/Hanover	2008	Owned
80 Charles Street Boston, MA 02114	Boston	2011	Leased
35 Main Street Nantucket, MA	Nantucket	2012	Owned
Drive-up:			
71 Main Street Hingham, MA 02043	Hingham	2001	Owned

Item 3. 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 4. Mine Safety Disclosures.

Not applicable

PART II

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

The Board of Directors declared cash dividends totaling $2.10 per share during 2014, which included a special dividend of $1.00 per share declared in the fourth quarter of 2014. In 2013, the Board of Directors declared cash dividends totaling $1.34 per share, which included a special dividend of $0.28 per share declared in the fourth quarter.

Massachusetts law imposes restrictions on the payment of dividends, including the following: (1) dividends may be paid only out of net profits, as defined, for the current year plus retained net profits from the two previous years; and (2) on the day a dividend is declared, the capital stock of the Bank must be unimpaired. Net profits are defined by statute to mean "all earnings from current operations plus actual recoveries on loans and investments and other assets after deducting from the total thereof all current operating expenses, actual losses, accrued dividends on preferred stock, if any, and all federal and state taxes." As an FDIC-insured institution, the Bank is prohibited from paying dividends if it is undercapitalized, or if paying the dividend would cause it to become undercapitalized. Federal bank regulators have also issued policy statements indicating that FDIC-insured banks should generally pay dividends only out of current operating earnings.

The declaration and amount of future dividends are subject to the discretion of the Bank's Board of Directors and will depend on various factors, including the Bank's net earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by the Bank's Board of Directors.

Hingham Institution for Savings' common shares are listed and traded on The NASDAQ Stock Market ("NASDAQ") under the symbol "HIFS."

As of December 31, 2014, there were approximately 303 stockholders of record.

The following table presents the quarterly high and low sales prices for the Bank's common stock reported by NASDAQ and the dividend declared by quarter.

	High	Low	Dividend
2014			
First Quarter	$81.00	$74.76	$0.27
Second Quarter	80.00	66.12	0.27
Third Quarter	88.89	78.53	0.28
Fourth Quarter	90.77	80.26	1.28
2013			
First Quarter	$72.94	$62.63	$0.26
Second Quarter	70.46	57.69	0.26
Third Quarter	77.00	66.01	0.27
Fourth Quarter	79.56	66.01	0.55

The closing sale price of the Bank's common stock at December 31, 2014 was $87.01 per share.

Comparative Stock Performance Graph

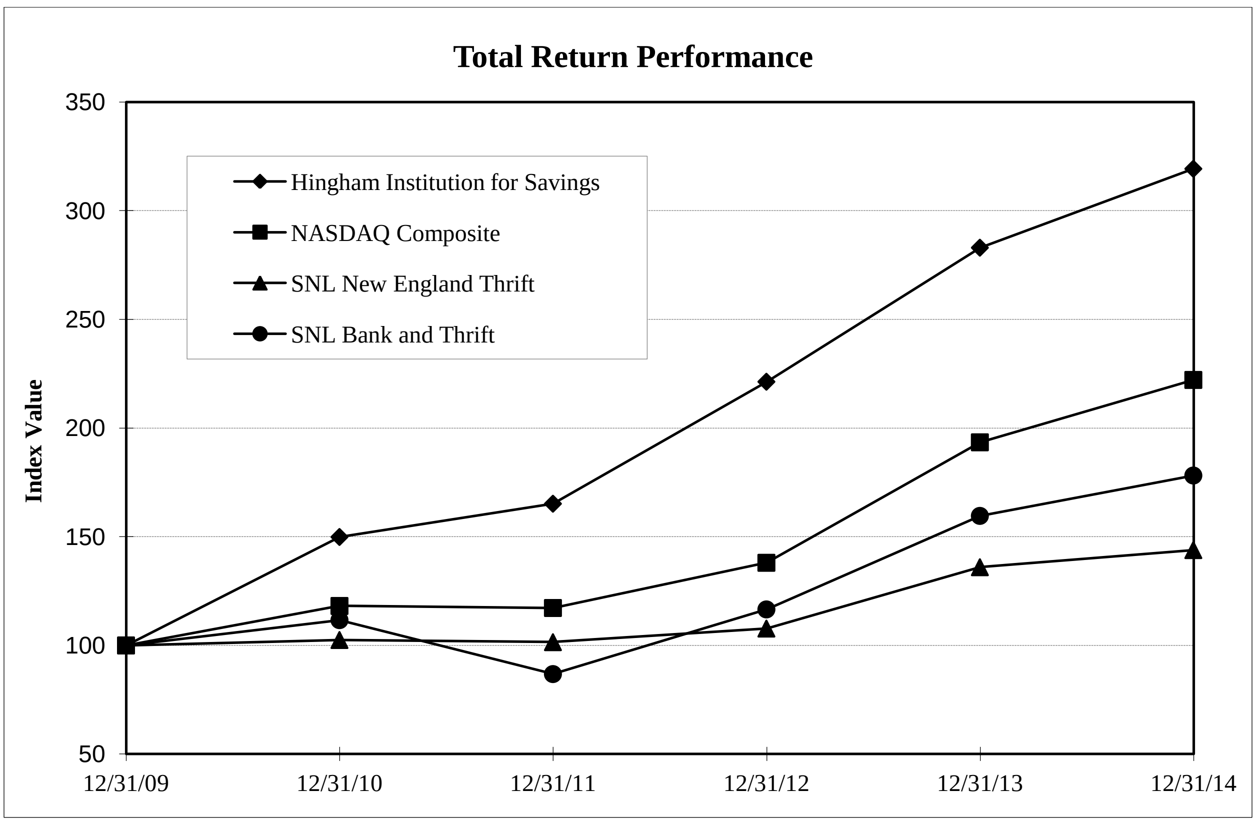
The chart which appears below sets forth the percentage change, on an annual basis, in the cumulative total return on the Bank's Common Stock since December 31, 2009 through December 31, 2014. For comparative purposes, changes in the cumulative total return on the three indices of publicly traded stocks (the "Indices") are also set forth on the chart.

The NASDAQ Composite Index reflects the total return of a group of stocks in a cross section of industries. Many of these stocks have substantially larger market capitalizations than the Bank. The SNL New England Thrift Index, tracks a peer group of all publicly traded thrift institutions located in New England.

The final Index, the SNL Bank and Thrift Index tracks a national group of publicly traded bank and thrift institutions. SNL Securities is a research and publishing firm specializing in the collection and dissemination of data on the banking, thrift, and financial services industries.

The chart begins with an equal base value of $100 for the Bank's stock and for each of the Indices on December 31, 2008 and reflects year-end closing prices and dividends paid thereafter by the Bank and by the companies which comprise the Indices. The chart assumes full reinvestment of such dividends.

Information about the Indices has been obtained from sources believed to be reliable, but neither the accuracy nor the completeness of such information is guaranteed by the Bank.



	Year Ending					
Index	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**
Hingham Institution for Savings	100.00	149.90	165.19	221.34	283.01	319.33
NASDAQ Composite	100.00	118.15	117.22	138.02	193.47	222.16
SNL New England Thrift	100.00	102.50	101.49	107.76	135.98	143.86
SNL Bank and Thrift	100.00	111.64	86.81	116.57	159.61	178.18

Item 6. Selected Financial Data.

The following information does not purport to be complete and is qualified in its entirety by the more detailed information contained elsewhere herein.

	At December 31,				
	2014	2013	2012	2011	2010
	(In Thousands)				
Balance Sheet Data:					
Total assets	$ 1,552,205	$ 1,356,441	$ 1,205,884	$ 1,127,276	$ 1,017,845
Short-term investments	170,305	90,925	79,373	107,422	61,566
Securities available for sale	70,570	106,369	102,866	96,689	95,071
Loans:					
Residential loans	576,665	532,845	457,217	408,607	385,525
Commercial mortgage	607,851	498,592	438,037	404,343	383,361
Construction	60,371	53,520	60,390	42,269	29,065
Other	996	913	869	1,090	958
Allowance for loan losses	9,108	8,509	7,999	7,516	6,905
Deposits	1,089,217	940,906	869,886	787,573	729,960
Federal Home Loan Bank advances	329,602	302,732	234,355	247,471	207,580
Stockholders' equity	121,515	103,217	92,799	82,265	72,736

	At or For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in Thousands, Except Per Share Amounts)				
Income Statement Data:					
Total interest and dividend income	$ 56,193	$ 49,342	$ 48,831	$ 48,444	$ 46,825
Total interest expense	9,936	10,502	10,937	12,618	15,098
Net interest income	46,257	38,840	37,894	35,826	31,727
Provision for loan losses	625	380	725	1,100	1,300
Other income	7,920	1,663	1,638	1,670	1,598
Operating expenses	20,146	17,512	16,406	16,061	14,949
Income before income taxes	33,406	22,611	22,401	20,335	17,076
Income tax provision	11,142	9,240	9,111	8,273	6,848
Net Income	$ 22,264	$ 13,371	$ 13,290	$ 12,062	$ 10,228
Earnings per common share:					
Basic	$ 10.46	$ 6.28	$ 6.25	$ 5.68	$ 4.81
Diluted	$ 10.44	$ 6.28	$ 6.25	$ 5.67	$ 4.81

	2014	2013	2012	2011	2010
Financial Ratios:					
Return on average assets	1.52 %	1.07 %	1.15 %	1.14 %	1.05 %
Return on average equity	19.30	13.52	15.05	15.34	14.67
Average equity to average assets	7.86	7.89	7.62	7.44	7.14
Total capital to risk-weighted assets	13.80	13.83	13.79	13.55	12.72
Tier 1 capital to risk-weighted assets	12.83	12.78	12.68	12.40	11.61
Tier 1 capital to average assets	7.86	7.80	7.65	7.47	7.18
Interest rate spread	3.13	3.07	3.25	3.36	3.20
Net interest margin	3.23	3.19	3.38	3.50	3.37
Dividend payout ratio (basic)	20.08	21.34	20.80	22.01	24.74
Efficiency ratio	37.19	43.26	41.54	42.88	44.91
Allowance for loan losses/total loans	0.73	0.78	0.84	0.88	0.86
Allowance for loan losses/non-performing loans	397.04	143.37	273.66	111.30	120.25
Net charge-offs (recoveries)/average loans outstanding	—	(0.01)	0.03	0.06	0.02
Non-performing loans/total loans	0.18	0.55	0.31	0.79	0.72
Non-performing assets/total assets	0.20	0.46	0.28	0.92	0.91
Cash dividends declared per common share	$ 2.10	$ 1.34	$ 1.30	$ 1.25	$ 1.19
Book value per common share	$ 57.08	$ 48.49	$ 43.65	$ 38.70	$ 34.24
Market value per common share	$ 87.01	$ 78.49	$ 62.60	$ 47.80	$ 44.50

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following information should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements contained in this report.

SIGNIFICANT ACCOUNTING POLICIES; CRITICAL EARNINGS ESTIMATES

The Bank's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, ("U.S. GAAP"). The preparation of consolidated financial statements requires management to make judgments involving significant estimates and assumptions in the application of certain of its accounting policies about the effects of matters that are inherently uncertain. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available as of the date of the consolidated financial statements, and changes in this information over time could materially impact amounts reported in the consolidated financial statements as a result of the use of different estimates and assumptions. Certain accounting policies, by their nature, have a greater reliance on the use of estimates and assumptions and could produce results materially different from those originally reported.

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, the most significant accounting policy followed by the Bank has been identified by management as the determination of the allowance for loan losses. This policy requires the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available. An understanding of the judgments, estimates and assumptions underlying this accounting policy is essential in order to understand the Bank's reported financial condition and results of operations. This accounting policy and its application in recent periods is described in more detail in the "Provision for Loan Losses" section of this discussion and analysis and in Notes 1 and 4 to the Consolidated Financial Statements contained in this annual report. If management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb inherent losses, or if bank regulatory authorities require the Bank to increase the allowance for loan losses as a part of their examination process, the Bank's earnings and capital could be significantly and adversely affected.

RESULTS OF OPERATIONS

COMPARISON OF THE YEARS 2014, 2013 and 2012

For the year ended December 31, 2014, the Bank earned $22.3 million as compared to $13.4 million in 2013 and $13.3 million in 2012. On a per-share basis, the Bank earned $10.46 per share basic and $10.44 per share diluted compared to $6.28 per share (basic and diluted) in 2013 and $6.25 per share (basic and diluted) in 2012. Earnings for 2014 included a one-time net gain of approximately $5.7 million related to non-taxable life insurance death benefit income of $6,302,000 less an accrual of $949,000 for a contractual death benefit liability, and $388,000 in related income tax benefits. Below is a summary of the transaction recorded during the first quarter of 2014:

Death benefit receivable from life insurance policies	$	10,570
Less cash surrender value of the policies		4,268
Net non-taxable income from death benefit recorded in other income		6,302
Contractual death benefit obligation		(1,200)
Accrued liability at time of death event		251
Accrual adjustment for contractual death benefit obligation recorded in salaries and benefits expense		(949)
Less related tax benefit		388
Net expense related to contractual death benefit obligation		(561)
Net gain from life insurance/death benefit transaction	$	5,741

Excluding this event, net income for 2014 was $16.5 million, an increase of 24% as compared to 2013, due principally to a $7.4 million increase in net interest income partially offset by an increase of $1.7 million in operating expenses, an increase of $245,000 in the provision for loan losses, a decrease of $45,000 in other income and a $2.3 million increase in the income tax provision.

Total interest and dividend income increased by $6.9 million in 2014 compared to 2013 due to a $213.9 million increase in average interest earning assets, offset by a 13 basis point decrease in the average yield on earning assets, reflecting market conditions.

Interest expense decreased by $566,000 due to a 19 basis point decline in the average rate paid reflecting a combination of market conditions and a shift from higher rate certificates of deposit to lower cost deposit products. This was partially offset by a 17% increase in average interest bearing liabilities. Total interest and dividend income increased by $511,000 in 2013 compared to 2012 due to a $93.8 million increase in average interest earning assets, offset by a 29 basis point decrease in the average yield on earning assets, reflecting market conditions. Interest expense decreased by $435,000 due to an 11 basis point decrease in the average rate paid, reflecting a combination of market conditions and a shift from higher rate certificates of deposit to lower cost deposit products.

Other income increased in 2014 by $6.3 million from 2013 and includes a non-taxable life insurance death benefit of $6.3 million representing the difference between the death benefit payment of $10.6 million and the cash surrender value of the related policies totaling $4.3 million. Adjusting for this transaction, other income decreased by $45,000 in 2014 compared to 2013 due to a decline in life insurance income from the reduced balance of insurance policies along with a decrease in customer service fees as the Bank eliminated several customer account fees as part of restructuring its transaction account products. This was partially offset by increases in miscellaneous income from a CRA investment made in mid-2013. Other income increased in 2013 by $25,000 from 2012 due to an increase of $11,000 in customer service fees on deposit combined with an increase in the cash surrender value of bank-owned life insurance.

Increased operating expenses were reported for each of the past three years primarily in the categories of salaries and employee benefits, data processing, occupancy and equipment, deposit insurance expense and other general and administrative expenses. In 2014, salaries and employee benefits increased by $1,822,000, or 17%, due to annual salary increases, employee medical expense increases, salaries associated with the new branch on Nantucket Island that opened in August 2013 and the issuance of stock options to certain executive officers. Data processing expenses increased by 18% from 2013 to 2014 primarily due to increased charges associated with the implementation of several new deposit products along with growth in the number of loan and deposit accounts and the related transaction volume. Occupancy and equipment expenditures increased by $115,000, or 6%, from 2013 to 2014 due to increases in real estate taxes, increased equipment and building maintenance costs and increased utility costs. Additionally, the Nantucket Branch which opened in August 2013 was in full operation for 2014 compared to a partial year in 2013. Deposit insurance expense increased 17% in 2014 due to the increase in total assets from which the assessment is calculated. Foreclosure expenses increased $77,000 in 2014 compared to 2013 due to lower gains on properties sold. Marketing expense was relatively flat when comparing 2013 to 2014.

In 2013, salaries and employee benefits increased by $959,000, or 10%, due to annual salary increases, staff additions at the administration center, increased employee medical expense and salaries associated with a new branch on Nantucket that opened in August 2013. Data processing expenses increased by 15% from 2012 to 2013 primarily due to increased charges associated with the implementation of several new deposit products along with growth in the number of loan and deposit accounts and the related transaction volume. Occupancy and equipment expense increased $172,000, or 10% from 2012 to 2013 primarily due to increases in real estate taxes, increased equipment and building maintenance costs and increased utility costs. During 2013, the Bank was fully assessed for real estate taxes on the addition and renovations to the Bank's administration building which were completed in 2012. Additionally, the Bank paid real estate taxes on the property on Nantucket. Deposit insurance expense increased 12% in 2013 due to the increase in total assets from which the assessment is calculated. These increases were offset by reductions in foreclosure expense due to the lower level of foreclosed properties along with a lower level of foreclosure and bankruptcy activity. Marketing expense also declined from 2012 to 2013 as the Bank adjusted its mix of advertising to maximize returns.

Net Interest Income

The Bank reported $46.3 million in net interest income in 2014 compared to $38.8 million in 2013 and $37.9 million in 2012. Beginning in late 2007, interest rates dropped dramatically and continued to decline through early 2012. The cost of deposits and borrowings, which are more susceptible to rate changes, had dropped dramatically, allowing a large portion of deposit and borrowing balances to reprice to lower rates. For a period, asset yields declined at a greater rate than the cost of funds as the Bank saw the impact of an extended period of lower long-term rates. In 2013, the Bank saw this trend begin to level out and beginning in 2014, the trend started to reverse. Some of the reversal was due to market conditions as the cost of funds begins to increase; however, the Bank has refocused its lending strategy by focusing more on commercial mortgages and certain residential mortgage products which have slowed the decline in loan yields. This, combined with changes to our investment portfolio structure has allowed the Bank to maintain yields while positioning the portfolios for anticipated rising rates. The net interest margin decreased from 3.38% in 2012 to 3.19% in 2013 but increased to 3.23% in 2014. During the same period the Bank recognized significant increases in loan and deposit balances contributing to an increase in net interest income.

Average total earning assets increased 18% in 2014 over 2013 and 8% in 2013 as compared to 2012. The Bank earned an average yield of 3.93% on its assets in 2014 compared to 4.06% in 2013 and 4.35% in 2012. Interest income is derived from commercial and residential mortgages, home equity, consumer and commercial loans, the securities portfolio and short-term investments. Interest income increased 13% in 2014 over 2013, and 1% in 2013 over 2012, resulting from continued growth in loans which accounted for approximately 80% of average total assets both in 2014 and 2013 and 77% of average assets in 2012. Mortgage loans accounted for more than 99% of average outstanding loans in each of the past three years. Interest income derived from securities and short-term investments increased in 2014 compared to 2013 due to the higher dividend income on equity investments but decreased in 2013 as compared with 2012, due to lower market rates. This category also includes dividends paid on Federal Home Loan Bank ("FHLB") stock. The Bank maintains $17.9 million in FHLB stock at December 31, 2014 compared to $16.0 million at December 31, 2013. In 2014, the Bank received dividends totaling $241,000 compared to $54,000 in 2013 and $67,000 in 2012. Additionally, beginning in the fourth quarter of 2013, the Bank began investing in common equity securities in a limited number of banks and diversified insurance companies and at December 31, 2014 had investments in these entities totaling $5.1 million compared to $2.2 million at December 31, 2013. These investments produced dividend income of $142,000 in 2014 compared to $15,000 in 2013.

Non-accrual loans totaled $2.3 million at December 31, 2014 as compared to $5.9 million at December 31, 2013 and $2.9 million at December 31, 2012. Interest income includes actual payments received on loans classified as non-accrual. Excluded from interest income is interest not paid on such loans, which totaled $110,000 for 2014 as compared to $218,000 for 2013 and $95,000 for 2012. During 2014, the balance of non-accrual loans decreased as several loans that were non-performing were resolved due to payoff, foreclosure or by returning to performance. The bankruptcy and foreclosure processes continue to be slow; however, the Bank continues to resolve the non-performance and anticipates many of these loans will be resolved in 2015. Management believes that its loans classified as non-accrual are significantly collateralized, that these loans pose minimal risk of loss to the Bank, and that the allowance for loan losses is sufficient to absorb such losses. However, management continues to monitor the loan portfolio and additional reserves will be recorded if necessary.

In response to market conditions, the Bank decreased the rates paid on certificate accounts in 2014, 2013 and 2012, and on many core deposit rates. However, in 2014 the Bank began to see market pressure to raise rates on retail certificate accounts along with some core accounts. The Bank has softened the impact of this pressure by soliciting certificates from an Internet posting service along with targeting certain core product rate increases that provided an efficient means for balanced growth. As a result, the average rate paid on deposits decreased by 2 basis points in 2014 from 2013 and decreased by 8 basis points in 2013 from 2012. Interest expense on certificates of deposit decreased in 2014 from 2013 due to a decline in the average rate paid and was partially offset by the growth in balances. The average rate paid on certificates of deposit declined by 7 basis points in 2014 from 2013 and decreased by 8 basis points in 2013 from 2012. The average rate paid for money market accounts increased in 2014 from 2013 by 5 basis points as the Bank offered special rates on certain money market products. The average rate paid for money market accounts was relatively flat in 2013 from 2012. The average rate paid on regular savings accounts remained flat when comparing 2014 and 2013 but declined 8 basis points in 2013 from 2012. The average rate paid on NOW accounts was relatively flat between 2014 and 2013 but declined 3 basis points in 2013 from 2012. Certificates of deposit were 39% of total deposits at year-end 2014 compared to 36% at year-end 2013 and 43% at year-end 2012. Given the current economic environment, management believes it is unlikely that deposit market rates will decline in 2015 but we may see the cost of these liabilities rise in the next fiscal year.

Interest expense on borrowed funds decreased in 2014 as compared to 2013 due to a 73 basis point decline in the average rate paid, offset, in part by a 23% increase in the average balance. Borrowings from the FHLB are drawn to fund growth in the loan portfolio. At December 31, 2014, the weighted average rate on FHLB borrowings was 0.90% compared to 1.52% at December 31, 2013. The average cost of all borrowings was 1.13% for 2014 as compared to 1.86% for 2013 and 2.09% for 2012. The Bank continues to see the benefit from low interest rates as new borrowings are at lower rates than the rates on maturing advances.

The following table details changes in net interest income and the net yield on average earning assets.

	Years Ended December 31,								
	2014			2013			2012		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
				(Dollars in Thousands)					
Assets:									
Loans:									
Real estate loans	$ 1,178,916	$ 54,922	4.66 %	$ 999,623	$ 48,395	4.84 %	$ 895,439	$ 47,692	5.33 %
Commercial loans	254	20	7.87	246	22	8.94	399	23	5.76
Other loans	695	48	6.91	543	38	7.00	534	38	7.12
Total loans (1) (2)	1,179,865	54,990	4.66	1,000,412	48,455	4.84	896,372	47,753	5.33
Securities (3)(4)	110,021	827	0.75	115,476	588	0.51	111,430	724	0.65
Short-term investments and certificates of deposit	140,393	376	0.27	100,527	299	0.30	114,845	354	0.31
Total interest-earning assets	1,430,279	56,193	3.93	1,216,415	49,342	4.06	1,122,647	48,831	4.35
Other assets	35,824			36,866			36,623		
Total asset	$ 1,466,103			$ 1,253,281			$ 1,159,270		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
Regular	$ 80,239	16	0.02 %	$ 75,133	17	0.02 %	$ 68,397	67	0.10 %
Money market	428,803	2,483	0.58	338,530	1,795	0.53	278,048	1,463	0.53
NOW (5)	33,587	3	0.01	32,195	3	0.01	31,238	14	0.04
Term certificates	380,921	3,812	1.00	360,870	3,845	1.07	374,833	4,314	1.15
Total interest-bearing deposits	923,550	6,314	0.68	806,728	5,660	0.70	752,516	5,858	0.78
Borrowed funds	321,068	3,622	1.13	260,817	4,842	1.86	243,162	5,079	2.09
Total interest-bearing Liabilities	1,244,618	9,936	0.80	1,067,545	10,502	0.99	995,678	10,937	1.10
Demand deposits	101,974			83,222			70,946		
Other liabilities	4,130			3,626			4,357		
Stockholders' equity	115,381			98,888			88,289		
Total liabilities and stockholders'equity	$ 1,466,103			$ 1,253,281			$ 1,159,270		
Net interest income		$ 46,257			$ 38,840			$ 37,894	
Weighted average interest rate spread			3.13 %			3.07 %			3.25 %
Net yield on average earning assets (6)			3.23 %			3.19 %			3.38 %

(1) *Before allowance for loan losses*
(2) *Includes average non-accrual loans*
(3) *Excludes the impact of the average unrealized gain (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 earning assets*

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

	Years Ended December 31,					
	2014 Compared to 2013 Increase (Decrease)			2013 Compared to 2012 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 8,421	$ (1,886)	$ 6,535	$ 5,255	$ (4,553)	$ 702
Securities	(29)	268	239	24	(160)	(136)
Short-term investments and certificates of deposit	109	(32)	77	(43)	(12)	(55)
Total interest and dividend income	8,501	(1,650)	6,851	5,236	(4,725)	511
Interest expense:						
Interest-bearing deposits:						
Regular	1	(2)	(1)	7	(58)	(51)
Money market	511	177	688	321	12	333
NOW	—	—	—	—	(11)	(11)
Term certificates	129	(162)	(33)	143	(612)	(469)
Total interest-bearing deposits	641	13	654	471	(669)	(198)
Borrowed funds	956	(2,176)	(1,220)	353	(590)	(237)
Total interest expense	1,597	(2,163)	(566)	824	(1,259)	(435)
Net interest income	$ 6,904	$ 513	$ 7,417	$ 4,412	$ (3,466)	$ 946

Provision for Loan Losses

The provision for loan losses is based on management's assessment of the adequacy of the allowance for loan losses. Management considers historical charge-offs, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types as well as other factors such as local economic trends, market conditions and credit concentrations. (Refer to Notes 1 and 4 to the Consolidated Financial Statements for more details.)

In 2014, the Bank had net charge-offs of $26,000 compared to net loan recoveries of $130,000 in 2013 and net loan charge-offs of $242,000 in 2012. The Bank continues to closely monitor its non-accrual loans, which were 0.18% of total loans at December 31, 2014 as compared to 0.55% at December 31, 2013 and 0.31% at December 31, 2012, and its loans past due greater than 30 days, which have decreased $10.4 million to 0.55% of total loans at December 31, 2014 as compared to 1.59% at December 31, 2013 and 1.02% at December 31, 2012. The provision for loan losses for 2014 was $625,000 as compared to $380,000 in 2013 and $725,000 in 2012. In 2014, the increase was due to the level of growth in the loan portfolio. In 2013, the provision was reduced due to minimal losses in the portfolio, combined with favorable economic and market conditions. Although most economic and market indicators have shown stability in our market area, the Bank continues to be cautious as the financial recovery continues to be slow. As a percentage of the gross loan portfolio, the allowance for loan losses was 0.73%, 0.78% and 0.84% at December 31, 2014, 2013 and 2012, respectively.

Other Income

Other income was $7.9 million in 2014 compared to $1.7 million in 2013 and $1.6 million in 2012. In 2014, other income included a non-taxable life insurance death benefit of $6.3 million representing the difference between the death benefit payment of $10.6 million and the cash surrender value of the related policies totaling $4.3 million. Adjusting for this event, other income for 2014 was $1.6 million, a decrease of $45,000 from 2013. Other income is comprised of customer service fees, increases in the cash surrender value of life insurance policies and miscellaneous income. Fees earned on customer accounts were $1.0 million in 2014, 2013 and 2012. Customer service fees are derived primarily from deposit account transaction fees and ATM/debit card usage fees. Over the last two years, the Bank has eliminated many fees on deposit products in an effort to simplify our product offerings. The fees reflect a stable volume on fee-based transactions.

Also contributing to other income in each of the three years was the increase in the cash surrender value of life insurance policies. The Bank held $11.4 million in life insurance policies at year-end 2014 as compared to $15.4 million at year-end 2013. Income from these assets is fully excludable from federal income taxes and contributed $308,000 to other income in 2014, $430,000 in 2013 and $421,000 in 2012. The reduction in income in 2014 was due to the death benefit payment reducing the number of remaining policies. The policies accrete at a variable rate of interest with minimum stated guaranteed rates.

Operating Expenses

Total operating expenses as a percentage of average total assets were 1.37% in 2014, 1.40% in 2013 and 1.42% in 2012. Total operating expenses in 2014 increased by $2.6 million, or 15% over 2013. Also included in 2014 was the expense related to a death benefit payment to a former executive officer totaling $949,000. Adjusting for this one-time event, operating expenses totaled 1.31% of average total assets. In 2013, operating expenses increased by $1.1 million, or 7% over 2012.

Salaries and employee benefits continue to be the largest component of operating expenses at $12.4 million for 2014, $10.6 million for 2013 and $9.6 million for 2012. Included in 2014 was an accrual for $949,000 to adjust a death benefit liability related to a former executive officer. Annual merit-based salary increases, which averaged approximately 7.1% for 2014 compared to 9.7% for 2013 and 7.5% for 2012, accounted for the majority of the increase in each year. The increase in salaries in 2014 and 2013 also include the impact of the new branch located on Nantucket Island. 2013 saw similar staff additions at the administrative offices along with staffing increases associated with the Beacon Hill branch that was opened in mid-2012. For each year reported, medical insurance expenses increased due to greater participation in the plans and an increase in premiums. Health care benefits, including medical and dental, rose approximately 4% in 2014 over 2013, and 21% in 2013 over 2012. Additionally, in 2014, Stockholders approved a stock option plan that included the issuance of stock options to certain executive officers and the expense related to this issuance totaled $61,000 for 2014.

Data processing expenses increased $182,000, or 18%, in 2014 from 2013 and $131,000, or 15%, in 2013 from 2012 due to the rollout of several new customer products, as well as upgrades to internal systems. The Bank continually performs upgrades to its information technology infrastructure; however, in early 2012 the Bank renewed its contract with its core processing vendors and recognized reductions in many charges as part of the contract renegotiation. These savings were more than offset by increases due to transaction volume and the cost of new products and systems.

Occupancy and equipment expenses increased by 6% in 2014 compared to 2013 and 10% in 2013 compared to 2012 due to the cost associated with the Bank's newest branch on Nantucket Island along with increased equipment and building maintenance costs. These were partially offset by increased rental income associated with rental units in our Nantucket and Norwell properties. In 2013, real estate taxes increased over 2012 as the Bank was fully assessed for the renovations to the administration facilities along with the purchase of the property located on Nantucket Island. This category also includes $299,000, $289,000 and $285,000 in rent expenses for 2014, 2013 and 2012, respectively.

Deposit insurance expenses were $803,000 in 2014 compared to $684,000 in 2013 and $611,000 in 2012. Deposit insurance expense consists of premiums paid to the FDIC and the Massachusetts Deposit Insurance Fund. The increases were consistent with the Bank's change in assets which is the basis for the assessment calculation.

Foreclosure expenses include expenses related to foreclosing on collateral, maintaining properties, subsequent write-downs in the value of collateral and any net losses or gains associated with their disposition. During 2014, total foreclosure expense was $263,000 compared to $186,000 in 2013 and $336,000 in 2012. Expenses in 2014 included $276,000 in legal, real estate taxes, utilities and other expenses related to the foreclosure process and maintaining properties. This was partially offset by $13,000 in net gains on the disposal of properties. Expenses in 2013 included $270,000 in legal, real estate taxes, utilities, insurance and other expenses related to the foreclosure process and maintaining properties. This was partially offset by a gain of $84,000 on the sale of one property. Expenses in 2012 included $447,000 in legal, real estate taxes, utilities, insurance and other expenses related to the foreclosure process and maintaining the properties. In 2012, the Bank collected rent on certain properties which reduced expenses. Additionally, the Bank recorded net gains on the sale of several properties totaling $111,000.

Marketing expenses were $557,000 in both 2014 and 2013 and $654,000 in 2012. The decrease in 2013 from 2012 was due to a shift in marketing strategy as the Bank sought to adjust the mix of advertising in order to maximize returns. The Bank continued to optimize advertising spending in 2014, maintaining a consistent level of spending.

All other operating expenses were $2.9 million in 2014, $2.6 million in 2013 and $2.6 million for 2012. Operating expenses include audit fees, directors' fees, supplies, postage, legal fees, bank fees, reporting costs and other items. The increase in 2014 was primarily due to the expense associated with the issuance of stock options to members of the Board of Directors. Otherwise, the increases year over year were due to normal increases in the general cost of business.

Income Taxes

The Bank's effective tax rate for 2014 was 33.4% in 2014 compared to 40.9% in 2013 and 40.7% in 2012. The effective tax rate for 2014 was reduced by the non-taxable death benefit proceeds previously discussed. Adjusting for this one-time transaction, the Bank's effective tax rate would have been 41.1%

BALANCE SHEET ANALYSIS
COMPARISON OF THE YEARS 2014 AND 2013

The Bank had total assets of $1.552 billion at December 31, 2014, an increase of $195.8 million, or 14%, from the $1.356 billion at year-end 2013.

Loans

At December 31, 2014 and 2013, the Bank reported net loans of $1.239 billion, or 80% of total assets, and $1.079 billion, or 80% of total assets, respectively. In 2014, the Bank originated $364.9 million in mortgage and other loans which resulted in net growth of $159.8 million. This compares to 2013, when the Bank originated $388.5 million in mortgage and other loans which resulted in net growth of $129.2 million.

A summary of the balances of loans is as follows:

	As of December 31,									
	2014		2013		2012		2011		2010	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)									
Mortgage loans:										
Residential	$ 548,004	44.0 %	$ 507,841	46.8 %	$ 432,162	45.2 %	$ 381,272	44.5 %	$ 356,176	44.6 %
Commercial	607,851	48.8	498,592	45.9	438,037	45.8	404,343	47.2	383,361	48.0
Construction	60,371	4.8	53,520	4.9	60,390	6.3	42,269	5.0	29,065	3.6
Equity lines of credit	26,560	2.1	22,229	2.0	21,499	2.2	22,867	2.7	23,688	3.0
Second mortgages	2,101	0.2	2,775	0.3	3,556	0.4	4,468	0.5	5,660	0.7
Total mortgage loans	1,244,887	99.9	1,084,957	99.9	955,644	99.9	855,219	99.9	797,950	99.9
Other loans:										
Consumer	693	0.1	749	0.1	498	0.1	631	0.1	660	0.1
Commercial	303	—	164	—	371	—	459	—	298	—
Total other loans	996	0.1	913	0.1	869	0.1	1,090	0.1	958	0.1
Total loans	1,245,883	100.0 %	1,085,870	100.0 %	956,513	100.0 %	856,309	100.0 %	798,908	100.0 %
Allowance for loan losses	(9,108)		(8,509)		(7,999)		(7,516)		(6,905)	
Net deferred loan origination costs	1,881		1,518		1,148		983		907	
Loans, net	$ 1,238,656		$ 1,078,879		$ 949,662		$ 849,776		$ 792,910	

The Bank's lending strategy has continued to focus on the origination of commercial, multi-family and single-family mortgage loans. Mortgage loans increased by 15% in 2014. The Bank offers both Qualified Mortgages and Non-Qualified Mortgages, as defined by the Consumer Financial Protection Bureau's Qualified Mortgage Rule. The Bank also offers home equity loans indexed to the prime lending rate and construction loans.

Maturities and sensitivities of construction and commercial loans, at December 31, 2014, are as follows:

	1 Year or Less	Over 1 Year through 5 Years	Over 5 Years	Total
	(In Thousands)			
Construction, net				
Fixed rate	$ 10,773	$ 28,702	$ 5,115	$ 44,590
Adjustable rate	151	14,662	968	15,781
Total	$ 10,924	$ 43,364	$ 6,083	$ 60,371
Commercial				
Fixed rate	$ —	$ —	$ —	$ —
Adjustable rate	303	—	—	303
Total	$ 303	$ —	$ —	$ 303

The Bank's loan portfolio is reported net of the allowance for loan losses. At December 31, 2014 and 2013, the allowance was $9.1 million and $8.5 million, respectively. The allowance is maintained at a level which the Bank believes is adequate to absorb inherent losses in the portfolio. The allowance is reviewed by senior management on at least a quarterly basis to determine its adequacy. Factors considered include historic losses, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types as well as other factors such as local economic trends, real estate market conditions and credit concentrations. Recent trends in the portfolio including charge-offs, delinquency levels and stabilization in the local markets has allowed the Bank to reduce its allowance for loan losses coverage ratio in comparison to total loans. (Refer to

Notes 1 and 4 to the Consolidated Financial Statements for more details.) Loan losses are charged against the allowance when the uncollectibility of loan principal is confirmed. In 2014, the Bank had net charge-offs of $26,000 compared to net recoveries of $130,000 in 2013 and net charge-offs of $242,000 in 2012.

The analysis of the allowance for loan losses is as follows:

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In Thousands)				
Balance at beginning of year	$ 8,509	$ 7,999	$ 7,516	$ 6,905	$ 5,737
Charge-offs:					
Domestic:					
Residential real estate	11	3	153	144	—
Commercial real estate	—	—	90	380	81
Construction	—	—	—	—	40
Home equity	31	—	—	77	—
Other loans	2	3	—	1	12
Total	44	6	243	602	133
Recoveries:					
Domestic:					
Residential real estate	1	15	—	58	—
Commercial real estate	1	121	—	55	1
Construction	—	—	1	—	—
Home equity	15	—	—	—	—
Other loans	1	—	—	—	—
Total	18	136	1	113	1
Net charge-offs (recoveries)	26	(130)	242	489	132
Additions charged to operations	625	380	725	1,100	1,300
Balance at end of year	$ 9,108	$ 8,509	$ 7,999	$ 7,516	$ 6,905
Ratio of net charge-offs (recoveries) during the year to average loans outstanding during the year	— %	(0.01) %	0.03 %	0.06 %	0.02 %

As a percentage of the gross loan portfolio, the allowance for loan losses was 0.73% at December 31, 2014, as compared to 0.78%, 0.84%, 0.88% and 0.86%, respectively, for each of the previous four years. The decrease in the percentage in 2014 reflects the improvement in net charge-off trends and delinquencies combined with continued stabilization in the housing market and general economic indicators.

The allocation of the allowance for loan losses at December 31, is as follows:

	2014		2013		2012		2011		2010	
	Amount	Percent *	Amount	Percent *	Amount	Percent *	Amount	Percent *	Amount	Percent *
	(Dollars in Thousands)									
Residential real estate	$ 2,895	44 %	$ 3,327	47 %	$ 2,975	45 %	$ 2,569	45 %	$ 2,041	44 %
Commercial real estate	5,684	49	4,758	46	4,352	46	4,337	47	4,157	48
Construction	456	5	364	5	568	6	475	5	581	4
Home equity	69	2	56	2	102	3	127	3	114	4
Other loans	4	—	4	—	2	—	8	—	12	—
Total	$ 9,108	100 %	$ 8,509	100 %	$ 7,999	100 %	$ 7,516	100 %	$ 6,905	100 %

* Percent of loans in each category to total loans

The Bank works closely with delinquent mortgagors to bring their loans current and foreclosure proceedings commence if the mortgagor is unable to satisfy their outstanding obligation. In 2010, the Commonwealth of Massachusetts enacted a law which grants a mortgagor a 150-day right to cure a default on residential real property mortgages. Land court filings, which are part of the foreclosure process in Massachusetts, are experiencing backlogs due to the volume of foreclosure filings, delaying the Bank's collection process.

The Bank had non-accrual loans at December 31, 2014 with a combined outstanding balance of $2.3 million as compared to $5.9 million at December 31, 2013. As a percentage of total loans, these non-accrual loans were 0.18% at December 31, 2014 and 0.55% at

December 31, 2013. Additionally, at December 31, 2014 and 2013, total impaired loans were $5.7 million and $9.0 million, respectively. All loans on non-accrual and troubled debt restructurings are considered impaired and, as such, are reviewed for specific reserve allocation. Management determines the amount of reserves on a case-by-case basis using either the present value of expected cash flows, or the fair value of the underlying collateral when the loan is collateral dependent. Updated appraisals on collateral are obtained when management believes that the value of the property has deteriorated. At December 31, 2014 and 2013, $309,000 and $354,000, respectively, was allocated to impaired loans.

Non-accrual, past-due and restructured loans are as follows:

	Non-accrual	Past-due 90 or More Days and Still Accruing	Troubled Debt Restructures [(1)]
		(In Thousands)	
December 31, 2014	$ 2,294	$ —	$ 3,401
December 31, 2013	5,935	—	3,040
December 31, 2012	2,923	—	3,081
December 31, 2011	6,753	—	231
December 31, 2010	5,742	—	—

(1) Not included in past-due or non-accrual loans

Securities

The purpose of the Bank's securities portfolio is to provide liquidity and to serve as collateral to obtain borrowed funds. At December 31, 2014, the portfolio of $70.6 million represented 5% of total assets, as compared to $106.4 million, or 8% of total assets, at year-end 2013. At December 31, 2014, 86% of the securities were 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. Approximately 3% of the bond issues are subject to redemption at dates earlier than the stated maturity at the discretion of the issuer. During 2014, the Bank began to allow the bond portfolio to decline as the proceeds on maturities were moved to overnight cash accounts.

At December 31, 2014, equity securities included a $5.0 million investment in the CRA Fund, a mutual fund which invests in securities which qualify under the CRA securities test and $5.1 million in common equity securities. These equity investments accounted for 14% of the investment portfolio at December 31, 2014.

The carrying value of the investment portfolio by type is as follows:

	December 31,		
	2014	2013	2012
		(In Thousands)	
Debt securities:			
U.S. Government	$ —	$ 10,024	$ 10,059
Government-sponsored enterprises	60,432	89,147	87,985
Residential mortgage-backed securities	87	119	161
Equity securities	10,051	7,079	4,661
Total	$ 70,570	$ 106,369	$ 102,866

The fair value of the Bank's debt securities at December 31, 2014, by maturity and with weighted average yields is as follows:

(Dollars in thousands)	1 Year or Less		Over 1 Year through 5 Years		Over 5 Years through 10 Years		Over 10 Years		Total	
					(Dollars in Thousands)					
Debt securities:										
Government-sponsored enterprises ……	$ 33,358		$ 27,074		$ —		$ —		$ 60,432	
Weighted average yield ………………	0.40	%	0.46	%	—	%	—	%	0.43	%
Residential mortgage-backed securities …	$ —		$ 43		$ 23		$ 21		$ 87	
Weighted average yield ………………	—	%	1.83	%	2.16	%	3.24	%	2.25	%

At year-end 2014 and 2013, the entire securities portfolio was classified as available for sale and was carried at fair value with unrealized gains or losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity. The net unrealized gain on the portfolio amounted to $201,000, net of tax effects, at December 31, 2014 as compared to a net unrealized loss on the portfolio of $20,000 at year-end 2013. At December 31, 2014, unrealized losses on debt securities issued by government-sponsored enterprises resulted from changes in interest rates. Because the declines in market value are attributable to changes in interest rates and not to credit quality, and because the Bank does not intend to sell the securities and it is not "more likely than not" that the Bank will be required to sell the securities before recovery of their amortized cost basis, which may be maturity, no declines are deemed to be other than temporary.

At December 31, 2014, $5.8 million in equity securities had unrealized losses with aggregate depreciation of 1% from the Bank's cost basis. No issues have been identified that cause management to believe the decline in market value is other than temporary, and the Bank has the ability and intent to hold these investments until a recovery of fair value.

As a member of the FHLB, the Bank is required to hold a Membership Stock Investment plus an Activity-based Stock Investment which generally approximates 5% of the Bank's borrowings balance. At December 31, 2014 and 2013, this investment accounted for 1% of total Bank assets. At December 31, 2014 and 2013, the Bank held $17.9 million and $16.0 million, respectively, in FHLB stock. In 2014 and 2013, the Bank received $241,000 and $54,000, respectively, in dividends.

The Bank also holds certificates of deposit issued by other banks. At December 31, 2014, these investments amounted to $12.9 million, or 1% of total assets, as compared to $13.0 million, or 1% of total assets, at December 31, 2013. No single certificate held by the Bank exceeds the FDIC maximum insurance coverage of $250,000 and, therefore, all are insured in full by the FDIC.

Foreclosed Assets

At December 31, 2014, the Bank held 3 properties totaling $786,000 compared to one property totaling $271,000 at December 31, 2013. The Bank is carrying the property as held for sale and as such has marked the properties to the lower of carrying amount or fair value less cost to sell. During 2014, the Bank took in five new properties and was able to effectively market and sell 3 properties for a net gain of $13,000.

Other Assets

The Bank held $11.4 million in Bank-owned life insurance at December 31, 2014 as compared to $15.4 million at December 31, 2013. The decline in 2014 was due to the death of a former executive. The remaining 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 credit ratings of the policy issuers and has determined that, at December 31, 2014, all issuers were rated at or above Bank guidelines.

Deposits

At December 31, 2014, the Bank held a total of $1.089 billion in deposits, an increase of $148.3 million, or 16%, from the $940.9 million in deposits at year-end 2013. The growth experienced in 2014 is primarily associated with the opening of the Bank's newest branch on Nantucket Island in August of 2013 along with the Bank soliciting deposits using an Internet posting service. Non-certificate deposits, comprised of savings, NOW, money market, and demand deposit accounts, were $666.5 million at December 31, 2014 as compared to $597.6 million at year-end 2013, an increase of $69.0 million, or 12%, which was attributable to growth in money market accounts of $39.5 million, or 10%, in transaction accounts of $23.5 million, or 19% and $6.0 million, or 8% in regular savings accounts. Non-certificate deposits comprised 61% of total deposits at December 31, 2014 as compared to 64% at year-end 2013. Certificates of deposit were $422.7 million at December 31, 2014 as compared to $343.3 million at year-end 2013.

A summary of deposits, by type, is as follows:

	December 31,		
	2014	2013	2012
	(In Thousands)		
Regular	$ 82,382	$ 76,349	$ 71,316
Money market	436,299	396,815	310,715
NOW	30,623	31,645	30,905
Demand	117,243	92,763	79,005
Total non-certificate accounts	666,547	597,572	491,941
Term certificates less than $100,000	131,292	142,101	168,287
Term certificates $100,000 or more	291,378	201,233	209,658
Total certificate accounts	422,670	343,334	377,945
Total deposits	$ 1,089,217	$ 940,906	$ 869,886

Term certificates of $100,000 or more, at December 31, 2014, by maturity are as follows:

	Remaining Maturity
	(In Thousands)
3 months or less	$ 42,290
Over 3 through 6 months	25,450
Over 6 through 12 months	82,844
Over 12 months	140,794
	$ 291,378

Primary competition for deposits is 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 opened a new branch on Nantucket Island in August of 2013. The branch has surpassed management’s expectations with respect to deposit growth. In 2013, the Bank began offering limited certificate of deposit products using national Internet-based posting services. These services provide the Bank with a source of long-term time 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.

Borrowings

The Bank had $329.6 million, or 21% of total assets, in borrowed funds from the FHLB at December 31, 2014 as compared to $302.7 million, or 22% of total assets, at year-end 2013, representing an increase of $26.9 million. Of the total at year-end 2014, $197.0 million with a weighted average rate of 0.23% had original maturities of less than 12 months. Generally, borrowings are drawn with a fixed rate and term; however, at December 31, 2014, $25.0 million, or 8%, can be called by the issuer after an initial specified term, and an additional $602,000 is subject to principal amortization over its stated life. At December 31, 2014, 70% of all borrowings will mature within one year as compared to 64% at December 31, 2013. During 2014 and 2013, the Bank either paid off or refinanced many borrowings at shorter-terms due to the extremely low interest rate environment. The average rate paid on FHLB borrowings held at year-end 2014 was 0.90%, down from 1.52% at year-end 2013 and 2.06% at year-end 2012.

The Bank also has a loan payable by the Bank for the purchase from an unrelated party of property which was used for a branch office. The note is secured by the real estate and bears an interest rate of 6.00%. Principal and interest is payable in 240 monthly installments.

Information relating to borrowings, including the short-term portion, is detailed in the following table

	2014	2013	2012
	(Dollars in Thousands)		
Total borrowings:			
Balance outstanding at end of year	$ 330,575	$ 303,752	$ 235,420
Average amount outstanding during the year	321,068	260,817	243,162
Weighted average interest rate during the year	1.13 %	1.86 %	2.09 %
Weighted average interest rate at end of year	0.92	1.52	2.06
Borrowings with original maturities less than one year:			
Balance outstanding at end of year	$ 197,000	$ 130,000	$ 42,000
Average amount outstanding during the year	177,919	100,500	70,462
Maximum outstanding at any month end	206,000	130,000	80,000
Weighted average interest rate during the year	0.21 %	0.24 %	0.26 %
Weighted average interest rate at end of year	0.23	0.20	0.29

Liquidity, Capital Resources and Contractual Obligations

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.

The Bank's initial source of liquidity is cash and cash equivalents which comprises 11% of total assets at December 31, 2014. A significant portion of this consists of overnight cash balances at the Federal Reserve Bank of Boston. These balances are immediately accessible for liquidity.

The majority of debt securities issued by U.S. Government-sponsored enterprises, or 81% of the Bank's investment portfolio, is fixed with respect to rate and maturity date. One security, or 5% of the Bank's debt securities, is subject to redemption, at par, at the discretion of the issuer and, based on current market rates, is not expected to be redeemed upon its contractual call date. Mortgage-backed securities, which comprise less than 1% of the portfolio, are subject to repayment at the discretion of the underlying borrower. The Bank monitors the trends in prepayment speeds and seeks to anticipate how these factors will impact its liquidity targets.

Investment in FHLB stock is illiquid. Certificates of deposit held as an investment are at stated fixed rates and maturity dates.

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 experienced an overall average prepayment rate in excess of 25% on its loan portfolio in both 2013 and 2012. For 2014, prepayment rates slowed dramatically as refinancing slowed.

The Bank invests in key executive life insurance policies that are illiquid during the lives of the executives. Such policies total $11.4 million, or less than 1% of total assets, at December 31, 2014 as compared to $15.4 million, or less than 2%, at December 31, 2013.

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 92% of the Bank's borrowings are fixed in terms of maturity. Less than 1% of the borrowings amortize over their stated lives and the Bank monitors these scheduled cash outflows. Approximately 8%, or $25.0 million, can be called for earlier repayment at the discretion of the issuer. However, in the current economic environment, it is unlikely that all of these borrowings will be called in the near term.

The Bank takes each of these preceding issues into consideration when measuring its liquidity position. Specific measurements include the Bank's cash flow position from the 30-day to 90-day horizon, the level of volatile liabilities to 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 December 31, 2014 and 2013, each measurement was within predefined 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 December 31, 2014, the Bank can borrow up to approximately $601 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, assets held in one of its securities corporation subsidiaries and certain commercial mortgages. Upon specific approval from the FHLB, the Bank may also pledge other mortgages or other deposit balances as collateral to secure additional borrowings. At December 31, 2014, the Bank had $329.6 million in advances outstanding. Additionally, the Bank has registered with the Federal Reserve Bank to access its discount window. The Bank may access this line by assigning assets as collateral.

At December 31, 2014, the Bank had capital of $121.5 million, or 7.8% of total assets, as compared to $103.2 million, or 7.6%, at December 31, 2013. 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 December 31, 2014, the Bank's entire securities portfolio was classified as available for sale which had the effect of increasing capital by $201,000. In comparison, at year-end 2013, capital was decreased by $20,000.

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 in both 2014 and 2013. (Refer to Note 13 to the Consolidated Financial Statements for more details.)

During 2014, the Bank declared dividends of $2.10 per share which included a $1.00 special dividend declared in the fourth quarter. In comparison, in 2013, the Bank declared dividends of $1.34 per share that also included a $0.28 special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share by earnings per share, was 20.08% for 2014 as compared to 21.34% for 2013.

At December 31, 2014, the Bank had the following contractual obligations outstanding:

	Payments Due by Year (In Thousands)				
	Total	**Less than One Year**	**One to Three Years**	**Over Three to Five Years**	**Over Five Years**
Contractual Obligations:					
Certificates of deposit	$ 422,670	$ 233,752	$ 153,341	$ 35,577	$ —
Federal Home Loan Bank advances	329,602	232,000	93,000	4,602	—
Mortgage payable	973	50	111	125	687
Data processing agreements (1)	4,295	1,080	2,160	1,055	—
Lease agreements (2)	1,774	295	413	405	661

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

(2) 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.

Off-Balance Sheet Arrangements

The Bank also monitors its off-balance sheet items. At December 31, 2014, the Bank had approximately $161.5 million in commitments to extend credit as compared to $160.0 million at December 31, 2013. The Bank also has commitments for lease obligations and data processing agreements totaling $1.8 million and $4.3 million, respectively, at December 31, 2014.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and related consolidated financial data presented herein have been prepared in conformity with U.S. GAAP, which generally requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on operations of the Bank is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Item 7A. 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 ALCO establishes and monitors the various components of the balance sheet including volume, maturities, pricing and mix of assets along with funding sources. The goal is to balance liquidity, interest rate risk and profitability.

The primary tool used 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, balance sheet growth and deposit elasticity. Generally, rates are assumed to rise steadily over a twelve-month period, and then remain constant over the remaining period. At December 31, 2014, the model assumed a 100 and 200 basis point increase in interest rates where the magnitude of the rate change varies with the term. For example, longer-term rates are modeled to change by 60 basis points and short-term rates are modeled to change by 100 basis points. The model estimates that, over a twenty-four month period, net interest income will decrease 3% if rates rise 100 basis points and will decrease 7% if rates rise 200 basis points. The Bank's interest rate risk exposure is believed by management to be well managed and within pre-defined limits.

To a significantly lesser degree, the Bank also utilizes GAP analysis which involves comparing the difference between interest-rate sensitive assets and liabilities that mature or reprice during a given period of time. However, GAP analysis does not measure the financial impact of mismatched assets to liabilities, nor does it measure the velocity at which assets and liabilities reprice.

At December 31, 2014 and 2013, loans, as a percent of total earning assets, were 82% and 83%, respectively. The composition of the Bank's liabilities changed such that interest-bearing deposits to total interest-bearing liabilities were 75% at year-end 2014, as compared to 74% at the prior year-end.

At December 31, 2014, liabilities that reprice within one year exceeded assets repricing within the same period by $118 million compared to December 31, 2013 where liabilities that reprice within one year exceeded assets repricing with the same period by $64 million. Both calculations indicate that the Bank is susceptible to lower net interest income in the event that market rates rise in the near term. Over the last year, the Bank continued to target ongoing loan growth, which includes a mix of variable and fixed rate loans. The Bank has shortened the maturities on investment securities and continues to hold overnight cash balances. The Bank has focused on growing core deposit balances along with term deposits.

In 2013, the Federal Reserve began providing guidance suggesting short-term rates would remain low for the near term, however, they began tapering longer-term U.S. Treasury purchases and continue to issue guidance on further tapering which initially caused longer-term rates to increase. Simultaneously, world events have mitigated some of the pressure on longer-term rates. In 2014, the Federal Reserve has suggested that, with recent positive economic news, they may begin to raise rates in the near future. The Bank continues to target ongoing loan growth with a mix of variable and fixed rate loans and balances this growth with shorter-term investments and overnight cash investments. Additionally, it focuses on funding with core and term deposit deposits along with borrowing from the Federal Home Loan Bank to reduce the Bank's exposure to rising rates.

The following tables present interest-rate sensitive assets and liabilities categorized by expected maturity (or interest rate adjustment date, if earlier) and weighted average rates. Expected maturities of loans are adjusted for amortization and prepayments of principal. Prepayment speeds range from 0% to 20% depending upon the particular asset category. Generally, adjustable-rate loans are indexed to Prime and treasury rates and can reprice as much as 200 basis points per year and 600 basis points over the life of the loan. Non-certificate deposits do not have contractual maturities. The tables reflect management's current assumptions about the volatility of such deposits.

December 31, 2014 **Maturing or repricing within:**	**One Year**	**1-2 Years**	**2-3 Years**	**3-4 Years**	**4-5 Years**	**Thereafter**	**Total**
				(Dollars in Thousands)			
Interest-earning assets:							
Securities (at cost) (1), short-term investments and certificates of deposit…	$ 240,117	$ 31,226	$ —	$ —	$ —	$ —	$ 271,343
	0.49 %	0.49 %	— %	— %	— %	— %	0.49 %
Loans:							
Fixed rate ……………………………	$ 55,379	$ 52,472	$ 44,840	$ 37,375	$ 34,160	$125,899	$ 350,125
	4.83 %	4.77 %	4.73 %	4.66 %	4.65 %	4.61 %	4.69 %
Adjustable rate………………………	$ 222,612	$160,249	$ 163,546	$ 123,800	$ 106,375	$119,176	$ 895,758
	4.73 %	4.80 %	4.26 %	4.32 %	4.46 %	4.64 %	4.56 %
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts …………….	$ 170,560	$ —	$ —	$ —	$ 378,744	$ —	$ 549,304
	0.87 %	— %	— %	— %	0.33 %	— %	0.49 %
Term certificates ……………………	$ 233,752	$ 109,419	$ 43,922	$ 13,587	$ 21,990	$ —	$ 422,670
	0.71 %	1.44 %	1.36 %	1.83 %	1.98 %	— %	1.07 %
Borrowed funds…………………………	$ 232,164	$ 37,173	$ 56,184	$ 195	$ 4,859	$ —	$ 330,575
	0.37 %	1.18 %	2.71 %	5.75 %	4.35 %	— %	0.92 %

December 31, 2013 **Maturing or repricing within:**	**One Year**	**1-2 Years**	**2-3 Years**	**3-4 Years**	**4-5 Years**	**Thereafter**	**Total**
				(Dollars in Thousands)			
Interest-earning assets:							
Securities (at cost) (1), short-term investments and certificates of deposit…	$ 177,756	$ 41,062	$ 7,497	$ —	$ —	$ —	$ 226,315
	0.39 %	0.42 %	0.42 %	— %	— %	— %	0.40 %
Loans:							
Fixed rate ……………………………	$ 70,957	$ 61,397	$ 46,812	$ 39,637	$ 33,933	$ 78,167	$ 330,903
	4.78 %	4.73 %	4.67 %	4.68 %	4.70 %	4.81 %	4.74 %
Adjustable rate………………………	$212,523	$ 145,249	$117,397	$120,788	$ 80,108	$ 78,902	$ 754,967
	4.79 %	4.88 %	4.69 %	4.19 %	4.36 %	4.61 %	4.63 %
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts ……………	$133,046	$ 12,010	$ —	$ —	$ 359,753	$ —	$ 504,809
	0.84 %	0.69 %	— %	— %	0.32 %	— %	0.47 %
Term certificates ……………………	$197,465	$ 82,412	$ 44,379	$ 8,259	$ 10,819	$ —	$ 343,334
	0.65 %	0.93 %	2.24 %	1.61 %	1.91 %	— %	0.98 %
Borrowed funds…………………………	$195,158	$ 25,166	$ 37,177	$ 41,188	$ 198	$ 4,865	$ 303,752
	1.17 %	1.45 %	1.18 %	3.31 %	5.75 %	4.35 %	1.52 %

(1) Includes FHLB stock

Item 8. Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements:

Management's Annual Report on Internal Control over Financial Reporting

The management of Hingham Institution for Savings (the "Bank"), is responsible for establishing and maintaining effective internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2014, utilizing the framework established in *Internal Control-Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Bank's internal control over financial reporting as of December 31, 2014 is effective.

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

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems designed to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2014 has been audited by Wolf & Company, P.C., an independent registered public accounting firm, as stated in their report which follows. This report expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2014.

Robert H. Gaughen, Jr.
Chief Executive Officer
March 3, 2015

Robert A. Bogart
Chief Financial Officer
March 3, 2015

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Hingham Institution for Savings:

We have audited the accompanying consolidated balance sheets of Hingham Institution for Savings, (the "Bank") as of December 31, 2014 and 2013, and the related consolidated statements of net income, comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. We also have audited the Bank's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Hingham Institution for Savings' management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Bank's internal control over financial reporting based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hingham Institution for Savings and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Hingham Institution for Savings maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Wolf & Company, P.C.

Boston, Massachusetts
March 3, 2015

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2014	December 31, 2013
	(In Thousands)	
Cash and due from banks	$ 6,917	$ 11,922
Short-term investments	170,305	90,925
Cash and cash equivalents	177,222	102,847
Certificates of deposit	12,926	13,011
Securities available for sale, at fair value	70,570	106,369
Federal Home Loan Bank stock, at cost	17,855	15,978
Loans, net of allowance for loan losses of $9,108,000 in 2014 and $8,509,000 in 2013	1,238,656	1,078,879
Foreclosed assets	786	271
Bank-owned life insurance	11,416	15,375
Premises and equipment, net	15,211	15,854
Accrued interest receivable	2,959	2,792
Deferred income tax asset, net	2,642	2,934
Other assets	1,962	2,131
Total assets	$ 1,552,205	$ 1,356,441

LIABILITIES AND STOCKHOLDERS' EQUITY

	2014	2013
Deposits	$ 1,089,217	$ 940,906
Federal Home Loan Bank advances	329,602	302,732
Mortgage payable	973	1,020
Mortgagors' escrow accounts	4,476	3,709
Accrued interest payable	350	490
Other liabilities	6,072	4,367
Total liabilities	1,430,690	1,253,224
Commitments and contingencies (Note 10)		
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; 2,128,750 shares issued and outstanding at December 31, 2014 and December 31, 2013	2,129	2,129
Additional paid-in capital	10,942	10,659
Undivided profits	108,243	90,449
Accumulated other comprehensive income (loss)	201	(20)
Total stockholders' equity	121,515	103,217
Total liabilities and stockholders' equity	$ 1,552,205	$ 1,356,441

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF NET INCOME

	Years Ended December 31,		
	2014	2013	2012
	(In Thousands, Except Per Share Amounts)		
Interest and dividend income:			
Loans	$ 54,990	$ 48,455	$ 47,753
Debt securities	336	407	526
Equity securities	491	181	198
Short-term investments and certificates of deposit	376	299	354
Total interest and dividend income	56,193	49,342	48,831
Interest expense:			
Deposits	6,314	5,660	5,858
Federal Home Loan Bank advances	3,562	4,779	5,014
Mortgage payable	60	63	65
Total interest expense	9,936	10,502	10,937
Net interest income	46,257	38,840	37,894
Provision for loan losses	625	380	725
Net interest income, after provision for loan losses	45,632	38,460	37,169
Other income:			
Customer service fees on deposits	1,014	1,019	1,008
Increase in bank-owned life insurance	308	430	421
Gain on life insurance distribution	6,302	—	—
Miscellaneous	296	214	209
Total other income	7,920	1,663	1,638
Operating expenses:			
Salaries and employee benefits	12,424	10,602	9,643
Data processing	1,197	1,015	884
Occupancy and equipment	1,968	1,853	1,681
Deposit insurance	803	684	611
Foreclosure	263	186	336
Marketing	557	557	654
Other general and administrative	2,934	2,615	2,597
Total operating expenses	20,146	17,512	16,406
Income before income taxes	33,406	22,611	22,401
Income tax provision	11,142	9,240	9,111
Net income	$ 22,264	$ 13,371	$ 13,290
Earnings per share:			
Basic	$ 10.46	$ 6.28	$ 6.25
Diluted	$ 10.44	$ 6.28	$ 6.25

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2014	2013	2012
		(In Thousands)	
Net income	$ 22,264	$ 13,371	$ 13,290
Other comprehensive income (loss):			
Net unrealized gain (loss) on securities available for sale	345	(381)	(17)
Tax effect	(124)	137	6
Net-of-tax amount	221	(244)	(11)
Comprehensive income	$ 22,485	$ 13,127	$ 13,279

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31, 2014, 2013 and 2012				
	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
			(In Thousands)		
Balance at December 31, 2011	$ 2,126	$ 10,500	$ 69,404	$ 235	$ 82,265
Comprehensive income	—	—	13,290	(11)	13,279
Share-based compensation	—	19	—	—	19
Cash dividends declared-common ($1.30 per share)	—	—	(2,764)	—	(2,764)
Balance at December 31, 2012	2,126	10,519	79,930	224	92,799
Comprehensive income	—	—	13,371	(244)	13,127
Stock options exercised, including tax benefit of $44,000	3	140	—	—	143
Cash dividends declared-common ($1.34 per share)	—	—	(2,852)	—	(2,852)
Balance at December 31, 2013	2,129	10,659	90,449	(20)	103,217
Comprehensive income	—	—	22,264	221	22,485
Share-based compensation	—	283	—	—	283
Cash dividends declared-common ($2.10 per share)	—	—	(4,470)	—	(4,470)
Balance at December 31, 2014	$ 2,129	$ 10,942	$ 108,243	$ 201	$ 121,515

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2014	2013	2012
		(In Thousands)	
Cash flows from operating activities:			
Net Income	$ 22,264	$ 13,371	$ 13,290
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	625	380	725
Amortization of securities, net	490	805	830
Amortization of deferred loan origination costs, net	163	87	192
Share-based compensation expense	283	—	19
Excess tax benefits from share-based compensation arrangements	—	(44)	—
Depreciation and amortization of premises and equipment	770	664	618
Increase in cash surrender value of bank-owned life insurance	(308)	(430)	(421)
Deferred income tax provision (benefit)	168	(241)	154
Gain on life insurance distribution	(6,302)	—	—
Net gain on sales and write-downs of foreclosed assets	(13)	(84)	(111)
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	2	1,105	211
Accrued interest payable and other liabilities	10	309	(1,838)
	18,152	15,922	13,669
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Maturities, prepayments and calls	6,790	31,158	60,556
Purchases	(6,705)	(35,846)	(67,578)
Activity in certificates of deposit:			
Maturities, prepayments and calls	60,846	7,625	8,155
Purchases	(25,192)	(6,900)	(8,489)
Loans originated, net of payments received	(162,059)	(129,684)	(102,616)
Redemption of Federal Home Loan Bank stock	—	280	214
Purchase of Federal Home Loan Bank stock	(1,877)	(2,153)	(946)
Proceeds from sale of foreclosed assets	992	284	5,082
Proceeds from bank-owned life insurance death benefit	10,570	—	—
Additions to premises and equipment	(127)	(2,338)	(4,201)
Net cash used in investing activities	(116,762)	(137,574)	(109,823)

(continued)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(concluded)

	Years Ended December 31,		
	2014	2013	2012
		(In Thousands)	
Cash flows from financing activities:			
Increase in deposits	$ 148,311	$ 71,020	$ 82,313
Increase in mortgagors' escrow accounts	767	478	714
Proceeds from stock options exercised	—	99	—
Cash dividends paid on common stock	(2,916)	(2,808)	(2,721)
Excess tax benefits from share-based compensation arrangements	—	44	—
Proceeds from Federal Home Loan Bank advances with maturities of three months or less	20,000	75,000	—
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	330,000	210,000	197,000
Repayments of Federal Home Loan Bank advances with maturities of three months or more	(323,130)	(216,623)	(210,116)
Repayment of mortgage payable	(47)	(45)	(42)
Net cash provided by financing activities	172,985	137,165	67,148
Net change in cash and cash equivalents	74,375	15,513	(29,006)
Cash and cash equivalents at beginning of year	102,847	87,334	116,340
Cash and cash equivalents at end of year	$ 177,222	$ 102,847	$ 87,334
Supplementary information:			
Interest paid on deposit accounts	$ 6,310	$ 5,625	$ 5,848
Interest paid on borrowed funds	3,766	4,865	5,086
Income taxes paid	10,708	8,860	9,107
Non-cash activities:			
Real estate acquired through foreclosure	$ 1,494	$ —	$ 1,813

See accompanying notes to consolidated financial statements.

Years Ended December 31, 2014, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Hingham Institution for Savings ("Bank") and its wholly-owned subsidiaries, Hingham Securities Corporation II and Hingham Unpledged Securities Corporation, which hold title to certain securities available for sale. During 2014, the Hingham Securities Corporation II was dissolved with all assets and liabilities transferred to the Bank. All intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

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

Business and operating segments

The Bank provides a variety of financial services to individuals and small businesses through its eleven offices in Boston and southeastern Massachusetts. Its primary deposit products are savings, checking, and term certificate accounts, and its primary lending products are residential and commercial mortgage loans secured by properties in Eastern Massachusetts.

Management evaluates the Bank's performance and allocates resources based on a single segment concept. Accordingly, there are no separately identified operating segments for which discrete financial information is available. The Bank does not derive revenues from, or have assets located in foreign countries, nor does it derive revenues from any single customer that represents 10% or more of the Bank's total revenues.

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 financial instruments whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels are recognized at the end of a reporting period, if applicable.

Reclassification

Certain amounts in the 2013 and 2012 consolidated financial statements have been reclassified to conform to the 2014 presentation.

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks and short-term investments which mature within 90 days from the date of purchase and are carried at cost. At December 31, 2014, the Bank had a concentration of cash on deposit at the Federal Reserve Bank amounting to $168.5 million.

Certificates of deposit

Certificates of deposit are purchased from FDIC-insured depository institutions in amounts not to exceed $250,000 per institution, including accrued interest, and have original maturities greater than ninety days. Certificates of deposit are carried at cost and mature within two years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Securities available for sale

Securities are classified as available for sale and recorded at fair value, with unrealized gains and losses, after tax effects, excluded from earnings and reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity. The fair values are obtained from an independent pricing service.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on disposition of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Bank evaluates all securities with a decline in fair value below the amortized cost to determine whether or not the impairment is deemed to be other than temporary ("OTTI").

OTTI is required to be recognized if (1) the Bank intends to sell the security; (2) it is "more likely than not" that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. Marketable equity securities are evaluated for OTTI based on the severity and duration of the impairment and, if deemed to be other than temporary, the declines in fair value are reflected in earnings as realized losses. For impaired debt securities that the Bank intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income, net of applicable taxes.

Federal Home Loan Bank stock

The Bank, as a member of the Federal Home Loan Bank system, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Boston ("FHLB"). Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of December 31, 2014, no impairment has been recognized.

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 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General component

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; and national and local economic trends and conditions. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during 2014, 2013 or 2012.

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 percent (without private mortgage insurance) and does not grant sub-prime loans. 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 nor are the loan amounts in excess of $12.0 million to any one borrower. 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 continually 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreclosed assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations, changes in the valuation allowance and any direct write-downs are included in foreclosure expenses.

Bank-owned life insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheet at cash surrender value. Changes in cash surrender value are reflected in other income in the consolidated statement of net income and are not subject to income taxes.

Premises and equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. It is general practice to charge the cost of maintenance and repairs to earnings when incurred; major expenditures for betterments are capitalized and depreciated.

Marketing costs

Marketing costs are expensed as incurred.

Transfers of financial assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets.

During the normal course of business, the Bank may transfer a portion of a financial asset; for example, a participation loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria for a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties, and no loan holder has the right to pledge or exchange the entire loan.

Income taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized. The Bank has no uncertain tax positions at December 31, 2014. The Bank records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2014, 2013 and 2012.

Stock compensation plans

The Bank measures and recognizes compensation cost relating to share-based payment transactions based on the grant-date fair value of the equity instruments issued. Share-based compensation is recognized over the period the employee is required to provide services for the award. The Bank uses the Black-Scholes option-pricing model to determine the fair value of stock options granted.

Earnings per share

Basic earnings per share represent net income 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 net 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Earnings per share have been computed based on the following:

	Years Ended December 31,		
	2014	2013	2012
	(In Thousands)		
Average number of shares outstanding used to calculate basic earnings per share	2,129	2,128	2,126
Effect of dilutive options	4	2	1
Average number of shares outstanding used to calculate diluted earnings per common share	2,133	2,130	2,127

There were no anti-dilutive options for the years ended December 31, 2014, 2013 or 2012.

Comprehensive income (loss)

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

At December 31, 2014, accumulated other comprehensive income relates to unrealized gains on available-for-sale securities of $313,000, net of tax effects of $112,000. At December 31, 2013, accumulated other comprehensive loss relates to unrealized losses on available-for-sale securities of $32,000, net of tax effects of $12,000.

Recent accounting pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards ("ASU") Update No. 2014-04, *Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* This update is intended to reduce diversity in the application of guidance by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. Amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Adoption of this guidance is not expected to have a material impact on the Bank's consolidated financial statements.

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, 2016. Early application is not permitted. Adoption of this guidance is not expected to have a material impact on the Bank's consolidated financial statements.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2014 and 2013, cash and due from banks included $4,215,000 and $2,976,000, respectively, to satisfy such reserve requirements.

3. SECURITIES AVAILABLE FOR SALE

The amortized cost and 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, 2014				
Debt securities:				
Government-sponsored enterprises –FHLMC	$ 13,070	$ 5	$ (3)	$ 13,072
Government-sponsored enterprises – FNMA	35,045	43	(20)	35,068
Government-sponsored enterprises – Other	12,302	2	(12)	12,292
Residential mortgage-backed	85	2	—	87
Total debt securities	60,502	52	(35)	60,519
Equity securities	9,755	356	(60)	10,051
Total securities available for sale	$ 70,257	$ 408	$ (95)	$ 70,570
December 31, 2013				
Debt securities:				
U.S. Government	$ 10,011	$ 13	$ —	$ 10,024
Government-sponsored enterprises –FHLMC	36,121	27	(12)	36,136
Government-sponsored enterprises – FNMA	37,474	28	(9)	37,493
Government-sponsored enterprises – Other	15,504	18	(4)	15,518
Residential mortgage-backed	116	3	—	119
Total debt securities	99,226	89	(25)	99,290
Equity securities	7,175	26	(122)	7,079
Total securities available for sale	$ 106,401	$ 115	$ (147)	$ 106,369

At December 31, 2014 and 2013, all debt securities were pledged to secure Federal Home Loan Bank advances. See Note 8.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2014 are shown below.

	Amortized Cost	Fair Value
	(In Thousands)	
Within 1 year	$ 33,336	$ 33,358
Over 1 year to 5 years	27,124	27,117
Over 5 years	42	44
Total debt securities	$ 60,502	$ 60,519

3. SECURITIES AVAILABLE FOR SALE (concluded)

Information pertaining to securities with gross unrealized losses at December 31, 2014 and 2013, 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 Values	Gross Unrealized Losses	Fair Values
	(In Thousands)			
December 31, 2014				
Debt securities:				
Government-sponsored enterprises	$ 34	$ 18,037	$ 1	$ 5,019
Equity securities	59	762	1	4,999
Total temporarily impaired	$ 93	$ 18,799	$ 2	$ 10,018
December 31, 2013				
Debt securities:				
Government-sponsored enterprises	$ 25	$ 22,094	$ —	$ —
Equity securities	122	5,971	—	—
Total temporarily impaired	$ 147	$ 28,065	$ —	$ —

At December 31, 2014, debt securities have unrealized losses with aggregate depreciation of less than 1% from the Bank's amortized cost basis. These unrealized losses relate to debt securities secured by government-sponsored enterprises and result from changes in the bond markets since their purchase. Because the decline in market value is attributable to changes in interest rates and not the credit quality, and because the Bank does not intend to sell the securities and it is more likely than not that the Bank will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2014.

At December 31, 2014, $5.8 million in equity securities had unrealized losses with aggregate depreciation of 1% from the Bank's cost basis. No issues have been identified that cause management to believe the decline in market value is other than temporary, and the Bank has the ability and intent to hold these investments until a recovery of fair value.

4. LOANS

A summary of the balances of loans follows:

	December 31, 2014	December 31, 2013
	(In Thousands)	
Real estate loans:		
Residential	$ 548,004	$ 507,841
Commercial	607,851	498,592
Construction	60,371	53,520
Equity lines of credit	26,560	22,229
Second mortgages	2,101	2,775
Total real estate loans	1,244,887	1,084,957
Other loans:		
Commercial	303	164
Consumer	693	749
Total other loans	996	913
Total loans	1,245,883	1,085,870
Allowance for loan losses	(9,108)	(8,509)
Net deferred loan origination costs	1,881	1,518
Loans, net	$ 1,238,656	$ 1,078,879

4. LOANS (continued)

Activity in the allowance for loan losses for the years ended December 31, 2014, 2013 and 2012 and allocation of the allowance to loan segments at December 31, 2014 and 2013, follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
				(In Thousands)			
Allowance for loan losses:							
Balance December 31, 2011	$ 2,569	$ 4,337	$ 475	$ 127	$ 1	$ 7	$ 7,516
Provision (credit) for loan losses	543	121	92	(25)	—	(6)	725
Loans charged-off	(153)	(90)	—	—	—	—	(243)
Recoveries of loans previously charged off	—	—	1	—	—	—	1
Balance December 31, 2012	2,959	4,368	568	102	1	1	7,999
Provision (credit) for loan losses	356	269	(204)	(46)	—	5	380
Loans charged-off	(3)	—	—	—	—	(3)	(6)
Recoveries of loans previously charged off	15	121	—	—	—	—	136
Balance December 31, 2013	3,327	4,758	364	56	1	3	8,509
Provision (credit) for loan losses	(422)	925	92	29	—	1	625
Loans charged-off	(11)	—	—	(31)	—	(2)	(44)
Recoveries of loans previously charged off	1	1	—	15	—	1	18
Balance December 31, 2014	$ 2,895	$ 5,684	$ 456	$ 69	$ 1	$ 3	$ 9,108

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
				(In Thousands)			
December 31, 2014							
Allowance for loans individually evaluated and deemed to be impaired	$ 270	$ 38	$ —	$ 1	$ —	$ —	$ 309
Allowance for loans collectively or individually evaluated and not deemed to be impaired	2,625	5,646	456	68	1	3	8,799
	$ 2,895	$ 5,684	$ 456	$ 69	$ 1	$ 3	$ 9,108
Loans deemed to be impaired	$ 2,619	$ 2,223	$ 567	$ 286	$ —	$ —	$ 5,695
Loans not deemed to be impaired	545,385	605,628	59,804	28,375	303	693	1,240,188
	$ 548,004	$ 607,851	$ 60,371	$ 28,661	$ 303	$ 693	$ 1,245,883
December 31, 2013							
Allowance for loans individually evaluated and deemed to be impaired	$ 292	$ 62	$ —	$ —	$ —	$ —	$ 354
Allowance for loans collectively or individually evaluated and not deemed to be impaired	3,035	4,696	364	56	1	3	8,155
	$ 3,327	$ 4,758	$ 364	$ 56	$ 1	$ 3	$ 8,509
Loans deemed to be impaired	$ 3,782	$ 4,558	$ —	$ 632	$ —	$ 1	$ 8,973
Loans not deemed to be impaired	504,059	494,034	53,520	24,372	164	748	1,076,897
	$ 507,841	$ 498,592	$ 53,520	$ 25,004	$ 164	$ 749	$ 1,085,870

4. LOANS (continued)

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

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans on Non-accrual
			(In Thousands)		
Residential real estate …………	$ 4,339	$ 272	$ 357	$ 4,968	$ 1,180
Commercial real estate…………	811	—	106	917	267
Construction ……………………	—	—	567	567	567
Home equity ……………………	105	—	257	362	280
Total loans …………………	$ 5,255	$ 272	$ 1,287	$ 6,814	$ 2,294
December 31, 2013					
Residential real estate …………	$ 7,376	$ 1,569	$ 1,331	$ 10,276	$ 2,743
Commercial real estate…………	2,210	382	1,235	3,827	2,558
Construction ……………………	1,929	—	—	1,929	—
Home equity ……………………	1,076	—	127	1,203	633
Consumer ………………………	11	—	1	12	1
Total loans …………………	$ 12,602	$ 1,951	$ 2,694	$ 17,247	$ 5,935

At December 31, 2014 and 2013, there were no loans past due 90 days or more and still accruing interest.

The following is a summary of impaired loans:

	December 31, 2014			December 31, 2013		
	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 ………………………	$ 762	$ 815	$ —	$ 1,619	$ 1,619	$ —
Commercial real estate ………………………	267	267	—	2,349	2,349	—
Construction …………………………………	567	567	—	—	—	—
Home equity …………………………………	256	256	—	632	632	—
Consumer ……………………………………	—	—	—	1	1	—
Total ……………………………………	1,852	1,905	—	4,601	4,601	—
Impaired loans with a valuation allowance:						
Residential real estate ………………………	1,857	1,857	270	2,163	2,215	292
Commercial real estate ………………………	1,956	2,127	38	2,209	2,536	62
Home equity …………………………………	30	30	1	—	—	—
Total ………………………………………	3,843	4,014	309	4,372	4,751	354
Total impaired loans………………………	$ 5,695	$ 5,919	$ 309	$ 8,973	$ 9,352	$ 354

4. LOANS (continued)

The following is information pertaining to impaired loans:

	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In Thousands)	
Year Ended December 31, 2014			
Residential real estate	$ 3,833	$ 284	$ 164
Commercial real estate	3,902	313	247
Construction	415	2	—
Home equity	510	30	20
Total impaired loans	$ 8,660	$ 628	$ 431
Year Ended December 31, 2013			
Residential real estate	$ 3,203	$ 218	$ 103
Commercial real estate	3,867	271	230
Home equity	217	31	10
Total impaired loans	$ 7,287	$ 520	$ 343
Year Ended December 31, 2012			
Residential real estate	$ 3,144	$ 316	$ 133
Commercial real estate	3,363	337	125
Home equity	216	22	8
Total impaired loans	$ 6,723	$ 675	$ 266

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

The following is a summary of troubled debt restructurings for the years ended December 31, 2014, 2013 and 2012:

	Number of Contracts	Pre-Modification Unpaid Principal Balance	Post-Modification Unpaid Principal Balance
		(Dollars in Thousands)	
December 31, 2014			
Residential mortgage	1	$ 219	$ 219
Home equity	1	32	32
December 31, 2013			
Residential mortgage	3	$ 701	$ 754
December 31, 2012			
Residential mortgage	6	$ 2,144	$ 2,144
Commercial mortgage	3	564	564

During 2014 and 2013 rate reductions were granted to residential mortgage and home equity loan customers with the new rates at or above current market rates, however, the borrowers were unable to qualify for a refinance under the Bank's underwriting standards.

During 2012, rate reductions were granted on the residential loans. All new rates were at or above current market rates, however, the borrowers were unable to qualify for a refinance under the Bank's underwriting standards. The commercial loans relate to one borrower and the rates on all three loans were set at a single market rate with the maturity dates extended until 2016 with new amortization schedules.

One residential loan, which was initially given a rate concession in 2012, declared bankruptcy in 2013 and was allowed to capitalize overdue interest, late charges, real estate taxes and legal expenses into a new note with a new amortization schedule. This loan has performed as agreed under the new amortization schedule. Additionally, one loan restructured in 2012 defaulted in early 2014, but was subsequently brought current.

On all loans, management performed a discounted cash flow calculation to determine the amount of impairment reserve required on each of the troubled debt restructurings. Any reserve required is recorded through the provision for loan losses. The discounted cash flow calculation is performed each quarter and the reserves are adjusted accordingly.

4. LOANS (concluded)

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 our ability to collect on the collateral. This rating is consistent with the "Other Assets Especially Mentioned" category used by the FDIC regulatory agency.

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.

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 and residential 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, or 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 ratings as of December 31, 2014 and 2013:

Rating	Residential Real Estate	Commercial Real Estate	Construction	Commercial
		(In Thousands)		
December 31, 2014				
1- 3B	$ 542,566	$ 605,946	$ 59,804	$ 303
4	3,722	1,423	567	—
5	1,716	482	—	—
	$ 548,004	$ 607,851	$ 60,371	$ 303
December 31, 2013				
1- 3B	$ 499,656	$ 494,356	$ 53,520	$ 164
4	6,690	3,062	—	—
5	1,495	1,174	—	—
	$ 507,841	$ 498,592	$ 53,520	$ 164

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

5. FORECLOSED ASSETS

A summary of foreclosed assets is as follows:

	December 31, 2014	December 31, 2013
	(In Thousands)	
Residential	$ 200	$ 271
Commercial	584	—
Land	2	—
Total	$ 786	$ 271

Expenses applicable to foreclosed assets include the following:

	Years Ended December 31, 2014	2013	2012
		(In Thousands)	
Net gain on sales of real estate	$ (69)	$ (84)	$ (111)
Write-downs of real estate	56	—	—
Operating expenses, net of rental income	276	270	447
	$ 263	$ 186	$ 336

6. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment follows:

	December 31, 2014	December 31, 2013	Estimated Useful Life
	(In Thousands)		
Premises:			
Land	$ 4,408	$ 4,408	N/A
Buildings	13,276	13,217	3-40 years
Leasehold improvements	823	816	10 years
Equipment	4,879	4,868	3-25 years
	23,386	23,309	
Less accumulated depreciation and amortization	(8,175)	(7,455)	
	$ 15,211	$ 15,854	

Depreciation and amortization expense for the years ended December 31, 2014, 2013 and 2012 amounted to $770,000, $664,000 and $618,000, respectively.

7. DEPOSITS

A summary of deposit balances, by type, is as follows:

	December 31, 2014	December 31, 2013
	(In Thousands)	
Regular	$ 82,382	$ 76,349
Money market	436,299	396,815
NOW	30,623	31,645
Demand	117,243	92,763
Total non-certificate accounts	666,547	597,572
Term certificates less than $100,000	131,292	142,101
Term certificates of $100,000 or more	291,378	201,233
Total certificate accounts	422,670	343,334
Total deposits	$ 1,089,217	$ 940,906

The maturity distribution of term certificates is as follows:

	December 31,			
	2014		2013	
Maturing	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Within one year	$ 233,752	0.71 %	$ 197,465	0.65 %
Over 1 to 2 years	109,419	1.44	82,412	0.93
Over 2 to 3 years	43,922	1.36	44,379	2.24
Over 3 to 4 years	13,587	1.83	8,259	1.61
Over 4 to 5 years	21,990	1.98	10,819	1.91
	$ 422,670	1.07 %	$ 343,334	0.98 %

A summary of interest expense on deposits is as follows:

	Years Ended December 31,		
	2014	2013	2012
		(In Thousands)	
Regular	$ 16	$ 16	$ 67
Money market	2,483	1,796	1,463
NOW	3	3	14
Term certificates	3,812	3,845	4,314
	$ 6,314	$ 5,660	$ 5,858

8. BORROWED FUNDS

Federal Home Loan Bank Advances

A summary of advances from the FHLB follows:

	December 31,			
	2014		2013	
Maturing During the Year Ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
2014	$ —	— %	$ 195,000	1.16 %
2015	232,000	0.36	25,000	1.42
2016	37,000	1.16	37,000	1.16
2017	56,000	2.69	41,000	3.29
2018	602	5.70	732	5.70
2019	4,000	3.99	4,000	3.99
	$ 329,602	0.90 %	$ 302,732	1.52 %

Expected maturities may differ from contractual maturities because certain borrowings, aggregating $25.0 million at December 31, 2014, can be called by the FHLB after an initial specified term.

All borrowings from the FHLB are secured by a blanket lien on "qualified collateral" defined principally as 60-75% of the carrying value of first mortgage loans on certain owner-occupied residential property, 50% of the carrying value of first mortgage loans on certain non-owner-occupied residential property, 65% of the carrying value of first mortgage loans on certain multi-family residential property and 50% of the carrying value of loans on certain commercial property. In addition, qualified collateral includes 90% of the fair value of all debt securities. See Note 3.

Available Lines of Credit

The Bank has an available line of credit with the FHLB at an interest rate that adjusts daily. Borrowings under this line are limited to $4,633,000 at December 31, 2014. No amounts were drawn on the line of credit as of December 31, 2014 and 2013. Additionally, the Bank has registered with the Federal Reserve Bank to access the discount window. The Bank may access this line by assigning assets as collateral.

Mortgage Payable

The balance represents a loan payable by the Bank for the purchase from an unrelated party of property which was used for a new branch office. The note is secured by the real estate and bears interest at a fixed rate of 6.00%. Principal and interest is payable in 240 monthly installments and matures in 2028. As of December 31, 2014, future principal payments amount to $50,000, $54,000, $57,000, $61,000, $64,000, and $687,000, for the years ending December 31, 2015, 2016, 2017, 2018, 2019 and thereafter, respectively.

9. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31,		
	2014	2013	2012
		(In Thousands)	
Current tax provision:			
Federal	$ 8,624	$ 7,432	$ 7,062
State	2,350	2,049	1,895
	10,974	9,481	8,957
Deferred tax provision (benefit):			
Federal	90	(187)	87
State	78	(54)	67
	168	(241)	154
	$ 11,142	$ 9,240	$ 9,111

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

	Years Ended December 31,		
	2014	2013	2012
Statutory rate	35.0 %	35.0 %	35.0 %
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	4.7	5.7	5.7
Bank-owned life insurance	(0.3)	(0.6)	(0.7)
Gain on life insurance distribution	(6.6)	—	—
Other, net	0.6	0.8	0.7
Effective rate	33.4 %	40.9 %	40.7 %

The components of the net deferred tax asset are as follows:

	December 31,	
	2014	2013
	(In Thousands)	
Deferred tax assets:		
Federal	$ 3,570	$ 3,384
State	1,007	953
	4,577	4,337
Deferred tax liabilities:		
Federal	(1,611)	(1,217)
State	(324)	(186)
	(1,935)	(1,403)
Net deferred tax asset	$ 2,642	$ 2,934

9. INCOME TAXES (concluded)

The tax effects of each item that give rise to deferred tax assets (liabilities) are as follows:

	December 31, 2014	December 31, 2013
	(In Thousands)	
Allowance for loan losses	$ 3,721	$ 3,476
Employee benefit plans	705	649
Fixed assets	(947)	(669)
Deferred fees on loans	(858)	(711)
Net unrealized loss (gain) on securities available for sale	(112)	12
Other, net	133	177
Net deferred tax asset	$ 2,642	$ 2,934

A summary of the change in the net deferred tax asset is as follows:

	Years Ended December 31, 2014	2013	2012
		(In Thousands)	
Balance at beginning of year	$ 2,934	$ 2,556	$ 2,704
Deferred tax benefit (provision)	(168)	241	(154)
Deferred tax effects of net unrealized gain/loss on securities available for sale	(124)	137	6
Balance at end of year	$ 2,642	$ 2,934	$ 2,556

The federal income tax reserve for loan losses at the Bank's base year was $3,780,000. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used, limited to the amount of the reserve, will be subject to taxation in the year in which used. As the Bank intends to use the reserve only to absorb loan losses, a deferred tax liability of $1,545,000 has not been provided.

The Bank’s income tax returns are subject to review and examination by federal and state taxing authorities. The Bank is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2011 through 2014. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2011 are open.

10. COMMITMENTS AND CONTINGENCIES

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

Legal claims

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.

Loan commitments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include unused lines of credit, commitments to originate loans, unadvanced construction funds and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of non-performance by the other party to its financial instruments is represented by the contractual amount of these commitments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

10. COMMITMENTS AND CONTINGENCIES (concluded)

At December 31, 2014 and 2013, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31, 2014	December 31, 2013
	(In Thousands)	
Unused lines of credit	$ 72,664	$ 66,629
Commitments to originate loans:		
Commercial mortgages	44,844	48,700
Residential mortgages	10,163	17,882
Unadvanced funds on construction loans	33,760	26,771
Standby letters-of-credit	35	35

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. The commitments to originate loans, unadvanced construction funds, and the majority of unused lines of credit are secured by real estate.

Standby letters-of-credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. All letters of credit issued have expiration dates within five years. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments.

Employment agreements

The Bank has entered into employment agreements with certain senior executives. The original terms of the agreements are for two or three years and can generally be extended for one-year periods. The agreements generally provide for lump sum severance payments under certain circumstances, within a one-year period following a "change in control," as defined in the agreements.

Certain agreements provide for death benefits, which are accrued ratably over the employees' remaining service period. The Bank has purchased life insurance policies for these individuals which provide a death benefit payable to the Bank when the executive dies. The death benefits on these policies exceed the death benefit liability to the executive as of December 31, 2014. For the years ended December 31, 2014, 2013 and 2012, expenses attributable to the accrued death benefit amounted to $1,011,000, $69,000 and $77,000, respectively. The expense in 2014 included a one-time expense of $949,000 due to the death of a former executive.

Lease commitments

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2014, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

Year Ending December 31,	Amount
	(In Thousands)
2015	$ 295
2016	218
2017	195
2018	200
2019	205
Thereafter	661
Total	$ 1,774

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. Total rent expense for the years ended December 31, 2014, 2013 and 2012 amounted to $299,000, $289,000, and $285,000, respectively.

Data Processing Commitments

The Bank has entered into contracts with various data processing vendors. The contracts range in terms from 3 years to 6 years and call for monthly fixed payments along with variable charges based on activity and the number of accounts managed. At December 31, 2015, the contracts have estimated payments totaling $4.3 million over the next five years.

11. STOCK OPTION PLAN

Under the Bank's 1996 stock option plan, options may be granted to officers, other employees, and certain directors as the Stock Option Committee of the Board of Directors may determine. A total of 90,000 shares of common stock were reserved for issuance pursuant to the 1996 plan. Both "incentive options" and "non-qualified options" could be granted under the plan. All options had an exercise price per share equal to, or in excess of, the fair market value of a share of common stock at the date the option was granted, had a maximum option term of 10 years and were fully vested upon issuance. There are no remaining options available for future issuance under the plan.

In 2014, the Bank's Board of Directors adopted the 2014 Non-statutory Stock Option Plan (the "2014 Stock Option Plan"). The 2014 Stock Option Plan allows for the issuance of up to 100,000 shares of common stock (subject to adjustment in the event of stock splits, stock dividends or similar events) pursuant to non-statutory stock options. Options may not be granted at an exercise price that is less than 100% of the fair market value of the common stock on the date of grant. Under the terms of the 2014 Stock Option plan, options may not be granted for a term in excess of 10 years and may vest immediately or over a period of time. The initial grant of 24,000 options to members of the Board of Directors vested immediately, while 40,000 options granted to certain Executive Officers vest 25% on each anniversary date starting with April 24, 2015.

Stock option activity is as follows:

	2014		2013		2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year ……	9,500	$ 50.32	12,500	$ 46.16	9,500	$ 42.45
Granted ……………………………	64,000	70.93	—	—	3,000	57.92
Exercised……………………………	—	—	(3,000)	33.00	—	—
Outstanding at end of year …………	73,500	$ 68.27	9,500	$ 50.32	12,500	$ 46.16
Options exercisable at end of year ………	33,500	$ 65.09	9,500	$ 50.32	12,500	$ 46.16

As of December 31, 2014, the aggregate intrinsic value of options outstanding amounted to $1.4 million and of options exercisable amounted to $734,000.

The total intrinsic value of options exercised during the year ended December 31, 2013 was $108,000.

Options outstanding consist of the following:

	December 31,			
	2014		2013	
	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life in Years
Option price				
$35.25 ………………………………	2,000	2	2,000	3
51.95 ………………………………	4,500	6	4,500	7
57.92 ………………………………	3,000	7	3,000	8
70.93 ………………………………	64,000	9	—	—
Options outstanding ……………………	73,500	9	9,500	6
Options exercisable………………………	33,500	8	9,500	6

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions:

	2014	2013	2012
Expected dividends	1.9%	n/a	2.2%
Expected term	6 years	n/a	5 years
Expected volatility	15%	n/a	16%
Risk-free interest rate	2.02%	n/a	0.83%

11. STOCK OPTION PLAN (concluded)

The expected volatility is based on historical volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected term is based on historical exercise experience. The dividend yield assumption is based on the Bank's history and expectation of dividend payouts.

There were no options granted during the year ended December 31, 2013. The weighted-average grant-date fair value of options granted during the years ended December 31, 2014 and 2012 was $9.22, and $6.18, respectively.

For the years ended December 31, 2014 and 2012, share-based compensation expense applicable to the plan amounted to $283,000 and $19,000 and the recognized tax benefit related to this expense amounted to $117,000 and $8,000, respectively.

As of December 31, 2014, unrecognized share-based compensation expense related to nonvested options amounted to $307,000. This amount is expected to be recognized over a weighted average period of 3.3 years.

12. EMPLOYEE BENEFIT PLANS

401(k) Plan

The Bank has a 401(k) plan whereby each employee, having completed at least three months of continuous service beginning with date of employment, becomes a participant in the plan. Employees may contribute a percentage of their compensation subject to certain limits based on federal tax laws. The Bank contributes 3% of an employee's compensation, regardless of the employee's contribution, and makes a matching contribution of $0.50 for each dollar contributed by the employee up to a maximum matching contribution equal to 3% of the employee's yearly compensation. Matching contributions vest to the employee after two years, or at age 59½, if earlier. For the years ended December 31, 2014, 2013 and 2012, expense attributable to the plan amounted to $411,000, $386,000 and $338,000, respectively.

Supplemental Employee Retirement Plans

The Bank has supplemental employee retirement plans which were established in 2002 for the benefit of certain senior executives. In connection with these plans, the Bank purchased life insurance policies amounting to $10,109,000 and contributed them to a Rabbi Trust. The value of these policies is $11,416,000 and $15,375,000 at December 31, 2014 and 2013, respectively, and is reflected on the consolidated balance sheets. In 2014, due to the death of a former executive, the Bank received a death benefit. The remaining policies, which insure the life of a current Bank executive, accrete at a variable rate of interest with minimum stated guaranteed rates. In accordance with the agreements, a secular trust was established for each executive into which the Bank makes annual contributions which become the property of the executive. Expense related to these plans amounted to $604,000 in each of the years ended December 31, 2014, 2013 and 2012.

13. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2014 and 2013, that the Bank meets all capital adequacy requirements to which it is subject.

13. MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

As of December 31, 2014, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2014 and 2013 are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amounts	Ratio	Amounts	Ratio	Amounts	Ratio
			(Dollars in Thousands)			
December 31, 2014						
Total Capital to Risk-Weighted Assets	$ 130,555	13.80 %	$ 75,674	8.0 %	$ 94,592	10.0 %
Tier 1 Capital to Risk-Weighted Assets.........	121,314	12.83	37,837	4.0	56,755	6.0
Tier 1 Capital to Average Assets	121,314	7.86	61,744	4.0	77,180	5.0
December 31, 2013						
Total Capital to Risk-Weighted Assets	$ 111,650	13.83 %	$ 64,564	8.0 %	$ 80,706	10.0 %
Tier 1 Capital to Risk-Weighted Assets.........	103,141	12.78	32,282	4.0	48,423	6.0
Tier 1 Capital to Average Assets	103,141	7.80	52,874	4.0	66,093	5.0

In July 2013, federal banking regulators approved final rules that implement changes to the regulatory capital framework for U.S. banks. The rules set minimum requirements for both the quantity and quality of capital held by community banking institutions. The final rule includes a new minimum ratio of common equity Tier 1 capital to risk weighted assets of 4.5%, raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking organizations. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers. The phase-in period for the rules will begin for the Bank on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. Management believes that the Bank's capital levels will be characterized as "well-capitalized" upon the implementation of the new rules.

14. RELATED PARTY TRANSACTIONS

The Bank has a policy providing that loans (excluding passbook loans) will not be granted to directors, officers and other employees of the Bank. During the years ended December 31, 2014, 2013 and 2012, legal fees paid by the Bank to a law firm owned by certain directors of the Bank amounted to $301,000, $276,000 and $382,000, respectively. Such fees related to representation of the Bank with foreclosure and collection actions, loan closing costs borne by the Bank and certain other routine legal matters. Management believes that the foregoing sums have been reasonable in relation to the services provided to the Bank.

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

15. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

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

Cash and cash equivalents: The carrying amounts of cash, due from banks, interest-bearing deposits and short-term investments approximate fair values based on the short-term nature of the assets.

Certificates of deposit: Fair values for certificates of deposit are based upon quoted market prices.

Securities available for sale: 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. 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 include government-sponsored enterprise obligations, FHLMC and FNMA bonds, corporate bonds and other securities. All fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

Federal Home Loan Bank stock: 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.

Loans: 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.

Deposits: 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.

Federal Home Loan Bank advances: 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.

Mortgage payable: 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.

Mortgagors' escrow accounts: The carrying amounts of mortgagors' escrow accounts approximate fair value.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments: 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, 2014 and 2013, the fair value of commitments outstanding is not significant since fees charged are not material.

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, 2014				
Securities available for sale:				
Debt securities	$ —	$ 60,519	$ —	$ 60,519
Equity securities	10,051	—	—	10,051
Total securities available for sale	$ 10,051	$ 60,519	$ —	$ 70,570
December 31, 2013				
Securities available for sale:				
Debt securities	$ —	$ 99,290	$ —	$ 99,290
Equity securities	7,079	—	—	7,079
Total securities available for sale	$ 7,079	$ 99,290	$ —	$ 106,369

15. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

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 December 31, 2014 and 2013. There are no liabilities measured at fair value on a non-recurring basis at December 31, 2014 or 2013.

	December 31, 2014			Year Ended December 31, 2014
	Level 1	Level 2	Level 3	Total Losses
		(In Thousands)		(In Thousands)
Impaired loans	$ —	$ —	$ 239	$ (25)
Foreclosed assets	—	—	786	(45)
	$ —	$ —	$ 1,025	$ (70)

	December 31, 2013			Year Ended December 31, 2013
	Level 1	Level 2	Level 3	Total Losses
		(In Thousands)		(In Thousands)
Impaired loans	$ —	$ —	$ 645	$ (20)
Foreclosed assets	—	—	271	—
	$ —	$ —	$ 916	$ (20)

Losses applicable to impaired loans and foreclosed assets are estimated using the appraised value of the underlying collateral, discounting factors and other factors. The losses applicable to impaired loans are not recorded directly as an adjustment to current earnings or comprehensive income, but rather as a component in determining the overall adequacy of the allowance for loan losses. Management adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses. Management will consider the circumstances of the individual loan or 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.

15. FAIR VALUES OF ASSETS AND LIABILITIES (concluded)

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.

	December 31, 2014			
	Carrying Amount	Level 1	Level 2	Level 3
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 177,222	$ 177,222	$ —	$ —
Certificates of deposit	12,926	12,913	—	—
Securities available for sale	70,570	10,051	60,519	—
Federal Home Loan Bank stock	17,855	—	—	17,855
Loans, net	1,238,656	—	—	1,245,580
Accrued interest receivable	2,959	—	—	2,959
Financial liabilities:				
Deposits	$ 1,089,217	$ —	$ —	$ 1,093,379
Federal Home Loan Bank advances	329,602	—	332,415	—
Mortgage payable	973	—	—	1,184
Mortgagors' escrow accounts	4,476	—	—	4,476
Accrued interest payable	350	—	—	350

	December 31, 2013			
	Carrying Amount	Level 1	Level 2	Level 3
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 102,847	$ 102,847	$ —	$ —
Certificates of deposit	13,011	13,011	—	—
Securities available for sale	106,369	7,079	99,200	—
Federal Home Loan Bank stock	15,978	—	—	15,978
Loans, net	1,078,879	—	—	1,083,375
Accrued interest receivable	2,792	—	—	2,792
Financial liabilities:				
Deposits	$ 940,906	$ —	$ —	$ 944,556
Federal Home Loan Bank advances	302,732	—	307,846	—
Mortgage payable	1,020	—	—	1,231
Mortgagors' escrow accounts	3,709	—	—	3,709
Accrued interest payable	490	—	—	490

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2014 and 2013 are as follows:

	Year Ended December 31, 2014			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In Thousands, Except Per Share Data)			
Interest and dividend income	$ 14,740	$ 14,400	$ 13,833	$ 13,220
Interest expense	2,535	2,459	2,435	2,507
Net interest income	12,205	11,941	11,398	10,713
Provision for loan losses	150	150	175	150
Net interest income, after provision for loan losses	12,055	11,791	11,223	10,563
Other income	397	398	433	6,692 (4)
Operating expenses	4,783	4,570	5,072	5,721
Income before income taxes	7,669	7,619	6,584	11,534
Income tax provision	3,134	3,138	2,711	2,159
Net income	$ 4,535	$ 4,481	$ 3,873	$ 9,375
Earnings per share:				
Basic (1)	$ 2.13	$ 2.10	$ 1.82	$ 4.40
Diluted (1)	$ 2.12	$ 2.10	$ 1.82	$ 4.40
Cash dividends declared per share	$ 1.28 (2)	$ 0.28	$ 0.27	$ 0.27

	Year Ended December 31, 2013			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In Thousands, Except Per Share Data)			
Interest and dividend income	$ 12,698	$ 12,442	$ 12,199	$ 12,003
Interest expense	2,623	2,597	2,629	2,653
Net interest income	10,075	9,845	9,570	9,350
Provision for loan losses	90	90	100	100
Net interest income, after provision for loan losses	9,985	9,755	9,470	9,250
Other income	429	424	415	395
Operating expenses	4,520	4,423	4,353	4,216
Income before income taxes	5,894	5,756	5,532	5,429
Income tax provision	2,406	2,353	2,257	2,224
Net income	$ 3,488	$ 3,403	$ 3,275	$ 3,205
Earnings per share:				
Basic (1)	$ 1.64	$ 1.60	$ 1.54	$ 1.51
Diluted (1)	$ 1.64	$ 1.60	$ 1.54	$ 1.51
Cash dividends declared per share	$ 0.55 (3)	$ 0.27	$ 0.26	$ 0.26

(1) The total of the four quarters' earnings per share may not agree to the year-to-date earnings per share due to rounding.
(2) Includes a special dividend of $1.00 per common share declared on November 27, 2014 and paid on January 20, 2015.
(3) Includes a special dividend of $0.28 per common share declared on November 26, 2013 and paid on January 21, 2014.
(4) Includes a one-time net gain of $6.3 million related to non-taxable life insurance death benefit income.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

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 December 31, 2014, 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 December 31, 2014, the CEO and CFO concluded that, as of such date, the Bank's disclosure controls and procedures were effective at the reasonable assurance level.

Internal Control over Financial Reporting

Management's Annual Report on Internal Control over Financial Reporting

The Bank's management is responsible for establishing and maintaining effective internal control over financial reporting. The internal control process has been designed under the Bank management's supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2014, utilizing the framework established in *Internal Control-Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). See "Management's Annual Report on Internal Control over Financial Reporting" in this Form-10-K.

The effectiveness of our internal control over financial reporting as of December 31, 2014, has been audited by Wolf & Company, P.C., an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

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 December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

Item 9B. Other information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The response to this Item is incorporated herein by reference to the information which appears in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 2015 under the captions titled “Election of Directors” and “Directors Not Standing for Election.” Also incorporated herein by reference is the information which appears in Appendix B of the Bank’s Proxy Statement for the Annual Meeting of Stockholders held on April 29, 2004.

The Bank’s Ethics Policy will be provided, free of charge, to any person who makes such request in writing to the President of the Bank, Robert H. Gaughen, Jr., at the address which appears on the cover page of this Form 10-K. Any amendments to or waivers from this Ethics Policy will be filed with the FDIC on Form 8-K.

Item 11. Executive Compensation.

The response to this Item is incorporated herein by reference to the information which appears in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 2015 under the captions titled “Executive Compensation,” “Summary Compensation Table,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End,” “Option Exercises and Stock Vested,” and “Nonqualified Deferred Compensation.”

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

Except as provided below, the response to this Item is incorporated herein by reference to the information which appears in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 2015 under the caption titled “Principal Stockholders: Securities Ownership of Management.”

The following table provides information about the securities authorized for issuance under the Bank’s equity compensation plans as of December 31, 2014 (See Note 11 in Notes to Consolidated Financial Statements):

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders: 1996 and 2014 Stock Option Plans	73,500	$68.27	36,000
Equity compensation plans not approved by security holders:	----	----	----
Total	73,500	$68.27	36,000

Item 13. Certain Relationships, Related Transactions and Director Independence.

The response to this Item is incorporated herein by reference to the information which appears in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 2015 under the caption titled “Certain Transactions with Management and Associates.”

Item 14. Principal Accountant Fees and Services.

The response to this item is incorporated by reference to the information which appears in the Bank’s Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 2015 under the heading “Independent Registered Public Accounting Firm.”

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are incorporated by reference into Item 8 of this report on Form 10-K:

(1) Exhibits:

Exhibit 3i and 3ii. Articles of Incorporation and Bylaws

Amended and Restated Charter and Bylaws of Hingham Institution for Savings are incorporated herein by reference from Exhibits (A)(1)(a) and (A)(1)(b) to the Bank's Registration Statement on Form F-1 as filed with the FDIC on December 7, 1988, and as amended on December 29, 1988 ("Form F-1").

Exhibit 10. Material Contracts

Hingham Institution for Savings 1988 Stock Option Plan is incorporated herein by reference from Exhibit (A)(5) to the Bank's Form F-1.

Hingham Institution for Savings 1996 Stock Option Plan is incorporated by reference to the information which appeared in the Bank's Proxy Statement for the Annual Meeting of Stockholders which was held on April 25, 1996 under the captions titled "The 1996 Stock Option Plan" and "New Plan Benefits."

Hingham Institution for Savings 2014 Stock Option Plan is incorporated by reference to the information which appeared in the Bank's Proxy Statement for the Annual Meeting of Stockholders which was held on April 24, 2014 under the captions titled "The 2014 Stock Option Plan."

Employment contracts are incorporated by reference to the information which appears in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 2015 under the caption titled "Employment Agreements and Special Termination Agreements."

Executive supplemental retirement agreements are incorporated by reference to the information which appears in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 2015 under the caption titled "Nonqualified Deferred Compensation."

Exhibit 21. Subsidiaries of Hingham Institution for Savings

In August 2002, the Bank established a Massachusetts subsidiary incorporated as the Hingham Securities Corporation II. The subsidiary was wholly owned by the Bank until July 31, 2014 when the corporation was disbanded.

In July 2004, the Bank established a Massachusetts subsidiary incorporated as the Hingham Unpledged Securities Corporation. The subsidiary is wholly owned by the Bank.

Exhibit 31.1 Certifications – Chief Executive Officer

Exhibit 31.2 Certifications – Chief Financial Officer

Exhibit 32.1 Certification Pursuant to 18 U.S.C. §1350 – Chief Executive Officer

Exhibit 32.2 Certification Pursuant to 18 U.S.C. §1350 – Chief Financial Officer

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

March 3, 2015

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

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

/s/ Robert H. Gaughen, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	03/03/15 Date
/s/ Robert A. Bogart	Vice President and Treasurer, Chief Financial Officer (Principal Financial Officer)	03/03/15 Date
/s/ Patrick R. Gaughen	Executive Vice President	03/03/15 Date
/s/ Marion J. Fahey	Clerk of the Board and Director	03/03/15 Date
/s/ Howard M. Berger	Director	03/03/15 Date
/s/ Michael J. Desmond	Director	03/03/15 Date
/s/ Ronald D. Falcione	Director	03/03/15 Date
/s/ Kevin W. Gaughen	Director	03/03/15 Date

/s/ Julio R. Hernando	Director	03/03/15 Date
/s/ Brian T. Kenner	Director	03/03/15 Date
/s/ Robert A. Lane	Director	03/03/15 Date
/s/ Scott L. Moser	Director	03/03/15 Date
/s/ Stacey M. Page	Director	03/03/15 Date
/s/ Robert K. Sheridan	Director	03/03/15 Date
/s/ Edward L. Sparda	Director	03/03/15 Date
/s/ Geoffrey C. Wilkinson, Sr.	Director	03/03/15 Date
/s/ Jacqueline M. Youngworth	Director	03/03/15 Date

CERTIFICATIONS EXHIBIT 31.1

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

1. I have reviewed this annual report on Form 10-K 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 (or persons performing the equivalent functions):

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

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

Date: March 3, 2015

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

CERTIFICATIONS EXHIBIT 31.2

I, Robert A. Bogart, certify that:

1. I have reviewed this annual report on Form 10-K 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 (or persons performing the equivalent functions):

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

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

Date: March 3, 2015

/s/
Robert A. Bogart
Chief Financial Officer
(Principal Financial 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 Annual Report on Form 10-K of Hingham Institution for Savings (the “Bank”) for the year ended December 31, 2014, 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

Date: March 3, 2015

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 Annual Report on Form 10-K of Hingham Institution for Savings (the "Bank") for the year ended December 31, 2014, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), the undersigned Robert A. Bogart, 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/
Robert A. Bogart
Chief Financial Officer

Date: March 3, 2015