

UNITED STATES FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 20429

FORM 10 - Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

OR

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

Commission File Number: FDIC Certificate No. 90211-0

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

Massachusetts
(State of incorporation)

04-1442480
(I.R.S. Employer Identification Number)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No [Not Applicable]

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

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

At May 2, 2016, there were 2,130,750 shares of the registrant's common stock outstanding.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)	
Consolidated Balance Sheets – March 31, 2016 and December 31, 2015	3
Consolidated Statements of Net Income – Three months ended March 31, 2016 and 2015	4
Consolidated Statements of Comprehensive Income – Three months ended March 31, 2016 and 2015	5
Consolidated Statements of Changes in Stockholders' Equity – Three months ended March 31, 2016 and 2015	6
Consolidated Statements of Cash Flows – Three months ended March 31, 2016 and 2015	7
Condensed Notes to Unaudited Consolidated Financial Statements – March 31, 2016	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	32
Item 4. Controls and Procedures	32

PART II OTHER INFORMATION

Item 1. Legal Proceedings	33
Item 1A. Risk Factors	33
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3. Defaults Upon Senior Securities	33
Item 4. Mine Safety Disclosures (not applicable)	33
Item 5. Other Information	33
Item 6. Exhibits	33
Signatures	34

Exhibit No.

31.1	Certifications – Chief Executive Officer
31.2	Certifications – Chief Financial Officer
32.1	Certification Pursuant to 18 U.S.C. §1350 – Chief Executive Officer
32.2	Certification Pursuant to 18 U.S.C. §1350 – Chief Financial Officer

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)	December 31, 2015	March 31, 2016
	(In Thousands)	
ASSETS		
Cash and due from banks	\$ 6,944	\$ 7,643
Short-term investments	254,069	290,414
Cash and cash equivalents	261,013	298,057
Certificates of deposit	6,206	4,469
Securities available for sale, at fair value	40,603	37,400
Federal Home Loan Bank stock, at cost	19,796	20,679
Loans, net of allowance for loan losses of \$9,905,000 at December 31, 2015 and \$10,158,000 at March 31, 2016	1,405,533	1,453,722
Foreclosed assets	—	168
Bank-owned life insurance	11,697	11,764
Premises and equipment, net	15,094	14,921
Accrued interest receivable	3,270	3,435
Deferred income tax asset, net	3,281	3,127
Other assets	2,035	2,188
Total assets	\$ 1,768,528	\$ 1,849,930
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing	\$ 1,088,742	\$ 1,135,004
Non-interest bearing	128,285	133,297
	1,217,027	1,268,301
Federal Home Loan Bank advances	402,464	425,429
Mortgagors' escrow accounts	4,850	4,995
Mortgage payable	922	909
Accrued interest payable	303	324
Other liabilities	4,947	6,770
Total liabilities	1,630,513	1,706,728
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, 2015 and 2,130,750 shares issued and outstanding at March 31, 2016	2,129	2,131
Additional paid-in capital	11,052	11,260
Undivided profits	124,481	129,166
Accumulated other comprehensive income	353	645
Total stockholders' equity	138,015	143,202
Total liabilities and stockholders' equity	\$ 1,768,528	\$ 1,849,930

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statements of Net Income

	Three Months Ended	
	March 31,	
	2015	2016
(Unaudited)	(In Thousands, except per share amounts)	
Interest and dividend income:		
Loans	\$ 14,538	\$ 16,430
Debt securities	62	28
Equity securities	155	244
Short-term investments and certificates of deposit	136	326
Total interest and dividend income	<u>14,891</u>	<u>17,028</u>
Interest expense:		
Deposits	1,827	2,290
Federal Home Loan Bank advances	721	890
Mortgage payable	14	14
Total interest expense	<u>2,562</u>	<u>3,194</u>
Net interest income	12,329	13,834
Provision for loan losses	175	255
Net interest income, after provision for loan losses	<u>12,154</u>	<u>13,579</u>
Other income:		
Customer service fees on deposits	228	216
Increase in cash surrender value of life insurance	70	67
Miscellaneous	48	49
Total other income	<u>346</u>	<u>332</u>
Operating expenses:		
Salaries and employee benefits	2,904	3,070
Data processing	296	305
Occupancy and equipment	554	471
Deposit insurance	217	242
Foreclosure	77	56
Marketing	121	116
Other general and administrative	680	610
Total operating expenses	<u>4,849</u>	<u>4,870</u>
Income before income taxes	7,651	9,041
Income tax provision	3,136	3,717
Net income	<u>\$ 4,515</u>	<u>\$ 5,324</u>
Weighted average common shares outstanding:		
Basic	2,129	2,130
Diluted	<u>2,140</u>	<u>2,149</u>
Earnings per common share:		
Basic	\$ 2.12	\$ 2.50
Diluted	<u>\$ 2.11</u>	<u>\$ 2.48</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Unaudited)	<u>Three Months Ended March 31,</u>	
	<u>2015</u>	<u>2016</u>
	(In Thousands)	
Net income	\$ 4,515	\$ 5,324
Other comprehensive income:		
Net unrealized gain on securities available for sale	57	455
Tax effect	<u>(21)</u>	<u>(163)</u>
	<u>36</u>	<u>292</u>
Comprehensive income	<u>\$ 4,551</u>	<u>\$ 5,616</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the Three Months Ended

March 31, 2015 and 2016

	Common Stock	Additional Paid-In Capital	Undivided Profits	Accumulated Other Comprehensive Income	Total Stockholders' Equity
(Unaudited)			(In Thousands)		
Balance at December 31, 2014	\$ 2,129	\$ 10,942	\$ 108,243	\$ 201	\$ 121,515 7272,73629
Comprehensive income	—	—	4,515	36	4,551
Share-based compensation	—	23	—	—	23
Cash dividends declared – common (\$0.28 per share)	—	—	(596)	—	(596)
Balance at March 31, 2015	<u>\$ 2,129</u>	<u>\$ 10,965</u>	<u>\$ 112,162</u>	<u>\$ 237</u>	<u>\$ 125,493</u>
Balance at December 31, 2015	\$ 2,129	\$ 11,052	\$ 124,481	\$ 353	\$ 138,015
Comprehensive income	—	—	5,324	292	5,616
Share-based compensation	—	23	—	—	23
Stock options exercised, including tax benefit of \$45,000	2	185	—	—	187
Cash dividends declared – common (\$0.30 per share)	—	—	(639)	—	(639)
Balance at March 31, 2016	<u>\$ 2,131</u>	<u>\$ 11,260</u>	<u>\$ 129,166</u>	<u>\$ 645</u>	<u>\$ 143,202</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	<u>2015</u>	<u>2016</u>
(Unaudited)	(In Thousands)	
Cash flows from operating activities:		
Net income	\$ 4,515	\$ 5,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	175	255
Amortization of securities, net	53	15
Amortization of deferred loan origination costs, net	109	136
Share-based compensation expense	23	23
Excess tax benefit from share-based compensation arrangements	—	(45)
Deferred income tax benefit	(10)	(9)
Depreciation and amortization of premises and equipment	193	187
Increase in cash surrender value of life insurance	(70)	(67)
Write-down of foreclosed assets	8	2
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(571)	(308)
Accrued interest payable and other liabilities	<u>2,355</u>	<u>2,517</u>
Net cash provided by operating activities	<u>6,780</u>	<u>8,030</u>
Cash flows from investing activities:		
Activity in certificates of deposit:		
Maturities	2,204	1,737
Activity in available-for-sale securities:		
Maturities, prepayments and calls	5,260	6,006
Purchases	(1,540)	(2,363)
Proceeds from sale of foreclosed assets	307	—
Purchase of Federal Home Loan Bank stock	—	(883)
Loans originated, net of payments received	(16,656)	(48,750)
Additions to premises and equipment	<u>(73)</u>	<u>(14)</u>
Net cash used in investing activities	<u>(10,498)</u>	<u>(44,267)</u>

(continued)

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 – FINANCIAL STATEMENTS (continued)

Consolidated Statements of Cash Flows (concluded)

(Unaudited)	Three Months Ended	
	March 31,	
	<u>2015</u>	<u>2015</u>
	(In Thousands)	
Cash flows from financing activities:		
Increase in deposits	46,633	51,274
Increase (decrease) in mortgagors' escrow accounts	(65)	145
Cash dividends paid on common stock	(2,725)	(1,277)
Proceeds from stock options exercised	—	142
Excess tax benefit from share-based compensation arrangements	—	45
Net increase in borrowings with maturities of less than three months	62,000	30,000
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	15,000	—
Repayment of Federal Home Loan Bank advances with maturities (of three months or more	(106,034)	(7,035)
Repayment of mortgage payable	<u>(13)</u>	<u>(13)</u>
Net cash provided by financing activities	<u>14,796</u>	<u>73,281</u>
Net change in cash and cash equivalents	11,078	37,044
Cash and cash equivalents at beginning of period	<u>177,222</u>	<u>261,013</u>
Cash and cash equivalents at end of period	<u>\$ 188,300</u>	<u>\$ 298,057</u>
Supplementary information:		
Interest paid on deposit accounts	\$ 1,820	\$ 2,288
Interest paid on Federal Home Loan Bank advances and mortgage payable	751	885
Income taxes paid	1,310	1,400
Non-cash investing and financing activities:		
Transfer from loans to foreclosed assets	\$ 115	\$ 170

See accompanying Notes to Unaudited Consolidated Financial Statements.

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

March 31, 2015 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial information as of March 31, 2016 and for the three months ended March 31, 2016 is unaudited, and, in the opinion of management, reflects all adjustments necessary for a fair presentation of such information. Such adjustments were of a normal recurring nature. Interim results are not necessarily indicative of results to be expected for the entire year. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Bank for the year ended December 31, 2015 filed on Form 10-K.

Earnings per common share

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

Earnings per common share have been computed based on the following:

	Three Months Ended March 31,	
	2015	2016
	(In Thousands)	
Average number of common shares outstanding used to calculate basic earnings per share	2,129	2,130
Effect of dilutive options	11	19
Average number of common shares outstanding used to calculate diluted earnings per common share	<u>2,140</u>	<u>2,149</u>

There were no antidilutive options for the quarters ended March 31, 2016 or March 31, 2015.

Loans

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

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-offs 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.

Notes to Unaudited Consolidated Financial Statements (continued)

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 previously accrued but not collected for loans that are placed on non-accrual or charged off are 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.

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 the three months ended March 31, 2016.

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

Residential real estate – The Bank generally does not originate loans with a loan-to-value ratio greater than 80% (without private mortgage insurance). All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate – Loans in this segment are primarily secured by income-producing properties throughout Massachusetts. Generally, loan amounts do not exceed 75% of the appraised value of the collateral. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates which, in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and regularly monitors the cash flows of these loans.

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

Notes to Unaudited Consolidated Financial Statements (continued)

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

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

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

Allocated component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis for residential real estate, commercial real estate, construction, home equity and commercial loans. A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are generally maintained on a non-accrual basis. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying amount of that loan. Large groups of smaller balance homogeneous loans, such as consumer loans, are collectively evaluated for impairment.

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

NOTE 2: COMMITMENTS

At December 31, 2015 and March 31, 2016, outstanding loan commitments were as follows:

	December 31, 2015	March 31, 2016
	(In Thousands)	
Commitments to originate loans	\$ 118,922	\$ 86,340
Unused lines of credit	79,902	88,129
Unadvanced construction funds	48,421	59,879
Standby letters of credit	191	57
Total	\$ 247,436	\$ 234,405

Notes to Unaudited Consolidated Financial Statements (continued)

At March 31, 2016, the Bank had the following contractual obligations outstanding:

	Payments Due by Year				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More than Five Years
Contractual Obligations:			(In Thousands)		
Certificates of deposit	\$ 546,747	\$ 349,691	\$ 147,187	\$ 49,869	\$ —
Federal Home Loan Bank advances	425,429	380,000	45,429	—	—
Data processing agreements*	6,213	900	1,800	1,665	1,848
Lease agreements**	1,986	303	628	649	406
Mortgage payable	909	54	119	736	—

* Estimated payments subject to change based on transaction volume.

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

NOTE 3: DIVIDEND DECLARATION

On March 30, 2016, the Board of Directors declared a cash dividend of \$0.30 per share to all stockholders of record as of April 11, 2016, payable April 20, 2016.

NOTE 4: FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

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

The Bank groups its assets and liabilities measured or disclosed at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value, as follows:

Level 1 – Valuation is based on quoted prices in active exchange markets for identical assets or liabilities. 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 or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

Notes to Unaudited Consolidated Financial Statements (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 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 traded in an active market. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. These securities include government-sponsored enterprise obligations and residential mortgage-backed securities. Level 2 also includes certain marketable equity securities where the Bank has determined that exchange activity does not meet the “active” threshold. 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, 2015 and March 31, 2016, the fair value of commitments outstanding is not significant since fees charged are not material.

Notes to Unaudited Consolidated Financial Statements (continued)

Assets Measured at Fair Value on a Recurring Basis

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

	Level 1	Level 2	Level 3	Total Fair Value
	(In Thousands)			
<u>December 31, 2015</u>				
Securities available for sale:				
Debt securities	\$ —	\$ 25,057	\$ —	\$ 25,057
Equity securities	13,188	2,358	—	15,546
Total securities available for sale	<u>\$ 13,188</u>	<u>\$ 27,415</u>	<u>\$ —</u>	<u>\$ 40,603</u>

March 31, 2016

Securities available for sale:

Debt securities	\$ —	\$ 19,052	\$ —	\$ 19,052
Equity securities	15,953	2,395	—	18,348
Total securities available for sale	<u>\$ 15,953</u>	<u>\$ 21,447</u>	<u>\$ —</u>	<u>\$ 37,400</u>

Assets Measured at Fair Value on a Non-recurring Basis

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

The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of March 31, 2015, December 31, 2015 and March 31, 2016. Total losses represent the losses recorded during the periods noted on assets held at the end of the period. There are no liabilities measured at fair value on a non-recurring basis at March 31, 2015, December 31, 2015 and March 31, 2016.

	March 31, 2015			Three Months Ended March 31, 2015
	Level 1	Level 2	Level 3	Total Losses
	(In Thousands)			
Impaired loans	\$ —	\$ —	\$ 239	\$ —
Foreclosed assets	—	—	586	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 825</u>	<u>\$ —</u>

	December 31, 2015		
	Level 1	Level 2	Level 3
	(In Thousands)		
Impaired loans	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 179</u>

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

Notes to Unaudited Consolidated Financial Statements (continued)

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.

Summary of Fair Values of Financial Instruments

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

	Carrying Amount	Level 1	Level 2	Level 3
		(In Thousands)		
December 31, 2015				
Financial assets:				
Cash and cash equivalents	\$ 261,013	\$ 261,103	\$ —	\$ —
Certificates of deposit	6,206	6,107	—	—
Securities available for sale	40,603	13,188	27,415	—
Federal Home Loan Bank stock	19,796	—	—	19,796
Loans, net	1,405,533	—	—	1,403,071
Accrued interest receivable	3,270	—	—	3,270
Financial liabilities:				
Deposits	\$ 1,217,027	\$ —	\$ —	\$ 1,221,598
Federal Home Loan Bank advances	402,464	—	404,273	—
Mortgagors' escrow accounts	4,850	—	—	4,850
Mortgage payable	922	—	—	1,050
Accrued interest payable	303	—	—	303
March 31, 2016				
Financial assets:				
Cash and cash equivalents	\$ 298,057	\$ 298,057	\$ —	\$ —
Certificates of deposit	4,469	4,472	—	—
Securities available for sale	37,400	15,953	21,447	—
Federal Home Loan Bank stock	20,679	—	—	20,679
Loans, net	1,453,722	—	—	1,451,447
Accrued interest receivable	3,435	—	—	3,435
Financial liabilities:				
Deposits	\$ 1,268,301	\$ —	\$ —	\$ 1,273,698
Federal Home Loan Bank advances	425,429	—	427,292	—
Mortgagors' escrow accounts	4,995	—	—	4,995
Mortgage payable	909	—	—	1,040
Accrued interest payable	324	—	—	324

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE 5: SECURITIES AVAILABLE FOR SALE

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
<u>December 31, 2015</u>				
Debt securities:				
Government-sponsored enterprises	\$ 25,020	\$ —	\$ (12)	\$ 25,008
Residential mortgage-backed	48	1	—	49
Total debt securities	<u>25,068</u>	<u>1</u>	<u>(12)</u>	<u>25,057</u>
Equity securities	14,986	781	(221)	15,546
Total securities available for sale	<u>\$ 40,054</u>	<u>\$ 782</u>	<u>\$ (233)</u>	<u>\$ 40,603</u>

March 31, 2016

Debt securities:				
Government-sponsored enterprises	\$ 19,005	\$ 4	\$ (1)	\$ 19,008
Residential mortgage-backed	43	1	—	44
Total debt securities	<u>19,048</u>	<u>5</u>	<u>(1)</u>	<u>19,052</u>
Equity securities	17,348	1,087	(87)	18,348
Total securities available for sale	<u>\$ 36,396</u>	<u>\$ 1,092</u>	<u>\$ (88)</u>	<u>\$ 37,400</u>

At December 31, 2015 and March 31, 2016, all debt securities were pledged to secure Federal Home Loan Bank advances.

The amortized cost and estimated fair value of debt securities by contractual maturity at March 31, 2016 are shown below.

	Amortized Cost	Fair Value
	(In Thousands)	
Within 1 year	\$ 19,005	\$ 19,008
Over 1 year to 5 years	18	18
Over 5 years	25	26
Total debt securities	<u>\$ 19,048</u>	<u>\$ 19,052</u>

Notes to Unaudited Consolidated Financial Statements (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2015 and March 31, 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)			
December 31, 2015				
Debt securities:				
Government-sponsored enterprises	\$ 1	\$ 6,000	\$ 11	\$ 19,007
Equity securities	134	2,440	87	5,204
Total temporarily impaired	<u>\$ 135</u>	<u>\$ 8,440</u>	<u>\$ 98</u>	<u>\$ 24,211</u>
March 31, 2016				
Debt securities:				
Government-sponsored enterprises	\$ —	\$ —	\$ 1	\$ 4,015
Equity securities	42	548	45	199
Total temporarily impaired	<u>\$ 42</u>	<u>\$ 548</u>	<u>\$ 46</u>	<u>\$ 4,214</u>

At March 31, 2016, 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 fair 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 March 31, 2016.

At March 31, 2016, \$747,000 in equity securities had unrealized losses with aggregate depreciation of 10% from the Bank's cost basis. No credit issues have been identified that cause management to believe the decline in fair value is other than temporary, and the Bank has the ability and intent to hold these investments until a recovery of fair value.

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE 6: LOANS

A summary of the balances of loans are as follows:

	December 31, 2015	March 31, 2016
	(In Thousands)	
Mortgage loans:		
Residential	\$ 602,290	\$ 608,559
Commercial	681,601	721,286
Construction	95,433	96,582
Home equity	33,232	34,471
Total mortgage loans	<u>1,412,556</u>	<u>1,460,898</u>
Other loans:		
Commercial	76	126
Consumer	568	525
Total other loans	<u>644</u>	<u>651</u>
Total loans	1,413,200	1,461,549
Allowance for loan losses	(9,905)	(10,158)
Net deferred loan origination costs	2,238	2,331
Loans, net	<u>\$ 1,405,533</u>	<u>\$ 1,453,722</u>

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

The following is a summary of past due and non-accrual loans at December 31, 2015 and March 31, 2016:

	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)				
December 31, 2015					
Residential real estate	\$ 7,527	\$ —	\$ 484	\$ 8,011	\$ 1,212
Commercial real estate	656	—	—	656	159
Construction	—	—	462	462	462
Home equity	431	—	—	431	—
Total loans	<u>\$ 8,614</u>	<u>\$ —</u>	<u>\$ 946</u>	<u>\$ 9,560</u>	<u>\$ 1,833</u>
March 31, 2016					
Residential real estate	\$ 11,435	\$ —	\$ 749	\$ 12,184	\$ 1,229
Commercial real estate	934	338	522	1,794	680
Construction	—	—	1,349	1,349	1,349
Home equity	458	—	—	458	—
Total loans	<u>\$ 12,827</u>	<u>\$ 338</u>	<u>\$ 2,620</u>	<u>\$ 15,785</u>	<u>\$ 3,258</u>

At December 31, 2015 and March 31, 2016, there were no loans past due 90 days or more and still accruing interest.

Notes to Unaudited Consolidated Financial Statements (continued)

An analysis of the activity in the allowance for loan losses, by segment, for the periods ended March 31, 2015 and 2016 follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
	(In Thousands)						
Balance December 31, 2014	\$ 2,895	\$ 5,684	\$ 456	\$ 69	\$ 1	\$ 3	\$ 9,108
Provision (credit) for loan losses	100	132	(69)	13	—	(1)	175
Recoveries of loans previously charged off	—	1	—	—	—	—	1
Balance March 31, 2015	<u>\$ 2,995</u>	<u>\$ 5,817</u>	<u>\$ 387</u>	<u>\$ 82</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 9,284</u>
Balance December 31, 2015	\$ 3,102	\$ 5,457	\$ 1,142	\$ 196	\$ 1	\$ 7	\$ 9,905
Provision (credit) for loan losses	(231)	475	(4)	13	—	2	255
Loans charged-off	—	—	—	—	—	(2)	(2)
Recoveries of loans previously charged off	—	—	—	—	—	—	—
Balance March 31, 2016	<u>\$ 2,871</u>	<u>\$ 5,932</u>	<u>\$ 1,138</u>	<u>\$ 209</u>	<u>\$ 1</u>	<u>\$ 7</u>	<u>\$ 10,158</u>

An analysis of the allowance for loan losses, by segment, as of December 31, 2015 and March 31, 2016 follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
	(In Thousands)						
December 31, 2015							
Allowance for impaired loans	\$ 258	\$ 25	\$ —	\$ 2	\$ —	\$ —	\$ 285
Allowance for non-impaired loans	2,844	5,432	1,142	194	1	7	9,620
	<u>\$ 3,102</u>	<u>\$ 5,457</u>	<u>\$ 1,142</u>	<u>\$ 196</u>	<u>\$ 1</u>	<u>\$ 7</u>	<u>\$ 9,905</u>
Impaired	\$ 3,180	\$ 832	\$ 462	\$ 26	\$ —	\$ —	\$ 4,500
Non-impaired loans	599,110	680,769	94,971	33,206	76	568	1,408,700
	<u>\$ 602,290</u>	<u>\$ 681,601</u>	<u>\$ 95,433</u>	<u>\$ 33,232</u>	<u>\$ 76</u>	<u>\$ 568</u>	<u>\$ 1,413,200</u>
March 31, 2016							
Allowance for impaired loans	\$ 224	\$ 22	\$ —	\$ 2	\$ —	\$ —	\$ 248
Allowance for non-impaired loans	2,647	5,910	1,138	207	1	7	9,910
	<u>\$ 2,871</u>	<u>\$ 5,932</u>	<u>\$ 1,138</u>	<u>\$ 209</u>	<u>\$ 1</u>	<u>\$ 7</u>	<u>\$ 10,158</u>
Impaired	\$ 3,188	\$ 1,348	\$ 1,349	\$ 25	\$ —	\$ —	\$ 5,910
Non-impaired loans	605,371	719,938	95,233	34,446	126	525	1,455,639
	<u>\$ 608,559</u>	<u>\$ 721,286</u>	<u>\$ 96,582</u>	<u>\$ 34,471</u>	<u>\$ 126</u>	<u>\$ 525</u>	<u>\$ 1,461,549</u>

Notes to Unaudited Consolidated Financial Statements (continued)

The following is a summary of impaired loans at December 31, 2015 and March 31, 2016:

	December 31, 2015			March 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In Thousands)					
Impaired loans without a valuation allowance:						
Residential real estate	\$ 1,409	\$ 1,461		\$ 1,603	\$ 1,656	
Commercial real estate	159	159		681	681	
Construction	462	462		1,349	1,349	
Total	<u>2,030</u>	<u>2,082</u>		<u>3,633</u>	<u>3,686</u>	
Impaired loans with a valuation allowance:						
Residential real estate	1,771	1,771	\$ 258	1,585	1,585	\$ 224
Commercial real estate	673	673	25	667	667	22
Home equity	26	26	2	25	25	2
Total	<u>2,470</u>	<u>2,470</u>	<u>285</u>	<u>2,277</u>	<u>2,277</u>	<u>248</u>
Total impaired loans	<u>\$ 4,500</u>	<u>\$ 4,552</u>	<u>\$ 285</u>	<u>\$ 5,910</u>	<u>\$ 5,963</u>	<u>\$ 248</u>

The following is information pertaining to impaired loans for periods ended March 31, 2015 and 2016:

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2016		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In Thousands)					
Residential real estate	\$ 2,620	\$ 24	\$ 24	\$ 3,165	\$ 30	\$ 30
Commercial real estate	2,182	43	35	1,176	14	14
Construction	521	19	19	1,053	—	—
Home equity	277	3	3	26	—	—
Total	<u>\$ 5,600</u>	<u>\$ 89</u>	<u>\$ 81</u>	<u>\$ 5,420</u>	<u>\$ 44</u>	<u>\$ 44</u>

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

In the course of resolving non-performing loans, the Bank may choose to restructure the contractual terms of certain loans, with terms modified to fit the ability of the borrower to repay in line with its current financial status. A loan is considered a troubled debt restructure if, for reasons related to the debtor's financial difficulties, a concession is granted to the debtor that would not otherwise be considered. For the quarters ended March 31, 2015 and 2016, troubled debt restructurings were not considered material.

Credit Quality Information

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

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

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

Notes to Unaudited Consolidated Financial Statements (continued)

Loans rated 5: Loans in this category are considered “substandard.” Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Bank will sustain some loss if the weakness is not corrected.

Loans rated 6: Loans in this category are considered “doubtful.” Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 7: Loans in this category are considered uncollectible (“loss”) and of such little value that their continuance as loans is not warranted.

Commercial loans are assigned an initial grade at the origination of the loan. After origination, the Bank has a quality control program performed by an independent third party. On a quarterly basis, all commercial, construction and residential real estate loan relationships with individual loans \$500,000 or more are assigned a risk rating. An in-depth review is performed on all relationships totaling \$850,000 or greater along with loans on the Bank’s Watchlist. Watchlist loans are those loans that are more than two payments past due at the end of the quarter, loans rated four or higher in a previous review, loans that are determined to be troubled debt restructures 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 rating as of December 31, 2015 and March 31, 2016:

Rating	Residential Real Estate	Commercial Real Estate	Construction	Commercial
	(In Thousands)			
<u>December 31, 2015</u>				
1- 3B	\$ 597,756	\$ 680,768	\$ 94,886	\$ 76
4	2,996	474	547	—
5	1,538	359	—	—
	\$ 602,290	\$ 681,601	\$ 95,433	\$ 76
<u>March 31, 2016</u>				
1- 3B	\$ 604,387	\$ 719,581	\$ 95,148	\$ 126
4	3,227	995	1,434	—
5	945	710	—	—
	\$ 608,559	\$ 721,286	\$ 96,582	\$ 126

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

NOTE 7: RECENT ACCOUNTING PRONOUNCEMENTS

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

Notes to Unaudited Consolidated Financial Statements (continued)

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

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

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718)*. This Update is intended to simplify several aspects of the accounting for share-based payment transaction, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Update will be effective for fiscal years beginning after December 15, 2016, including interim periods. Management is currently evaluating the impact to the consolidated financial statements of adopting this Update.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS

The following discussion of the financial condition and results of operations of the Bank should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2015. Matters discussed in this Quarterly Report on Form 10-Q and in our public disclosures, whether written or oral, relating to future events or our future performance, including any discussion, express or implied, of our anticipated growth, operating results, future earnings per share, plans and objectives, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are often identified by the words “believe,” “plan,” “estimate,” “project,” “target,” “continue,” “intend,” “expect,” “future,” “anticipate,” and similar expressions that are not statements of historical fact. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict, including changes in political and economic climate, interest rate fluctuations and competitive product and pricing pressures within the Bank’s market, bond market fluctuations, personal and corporate customers’ bankruptcies and inflation. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings with the FDIC. It is routine for internal projections and expectations to change as the year or each quarter in the year progresses, and therefore, it should be clearly understood that all forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report on Form 10-Q and may change. While we may elect to update forward-looking statements at some point in the future, we do not undertake any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

INTRODUCTION

Net income for the quarter ended March 31, 2016 was \$5,324,000 or \$2.50 per share basic and \$2.48 per share diluted as compared to \$4,515,000 or \$2.12 per share basic and \$2.11 per share diluted in earnings for the first quarter of 2015. The Bank’s annualized return on average equity for the first quarter of 2016 was 15.03%, and the annualized return on average assets was 1.19% as compared to 14.52% and 1.15% for the same period in 2015.

Strong growth trends of recent years continued, as deposits increased by \$51.3 million from December 31, 2015, representing 17% annualized growth year-to-date and 12% from March 31, 2015. Net loans increased by \$48.2 million from December 31, 2015 and \$198.8 million from March 31, 2015, representing 14% annualized growth year-to-date and 16% growth from March 31, 2015. Total assets increased by \$81.4 million from December 31, 2015 and \$276.0 million from March 31, 2015, representing 18% annualized growth year-to-date and 18% from March 31, 2015. Stockholders’ equity increased to \$143.2 million as of March 31, 2016, representing 15% annualized growth year-to-date and a 14% increase from March 31, 2015. Book value per share increased to \$67.21 per share at March 31, 2016 from \$64.83 per share at December 31, 2015 and \$58.95 per share at March 31, 2015.

Key credit and operational metrics remained steady in the first quarter of 2016. At March 31, 2016, non-performing assets totaled 0.19% of total assets, compared with 0.10% at December 31, 2015 and 0.17% at March 31, 2015. Non-performing loans as a percentage of the total loan portfolio totaled 0.22% at March 31, 2016, as compared to 0.13% at December 31, 2015 and 0.16% at March 31, 2015. The efficiency ratio improved to 34.38% for the first quarter of 2016, as compared to 38.26% in the same period last year. Non-interest expense (annualized) as a percentage of average assets fell to 1.09% for the first quarter of 2016, as compared to 1.23% for the same period last year. These reductions reflect the Bank’s continued focus on credit quality and disciplined expense controls.

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015

GENERAL

The Bank reported net income of \$5.3 million for the quarter ended March 31, 2016 as compared to \$4.5 million for the quarter ended March 31, 2015. Net income was \$2.50 per share basic and \$2.48 per share diluted for the quarter ended March 31, 2016 as compared with \$2.12 per share basic and \$2.11 per share diluted for the same period in 2015. Earnings for the quarter ended March 31, 2016 were positively impacted by an increase of \$1.5 million in net interest income. This was partially offset by an \$80,000 increase in the provision for loan losses, a \$14,000 reduction in non-interest income, a \$21,000 increase in operating expenses and an increase of \$581,000 in the income tax provision.

NET INTEREST INCOME

Net interest income was \$13.8 million for the first quarter of 2016 and \$12.3 million for the first quarter of 2015. The \$1.5 million increase was due to a 14% increase in average interest-earning assets. For the quarter ended March 31, 2016, the weighted average rate spread and net interest margin were 3.03% and 3.14%, respectively, compared to a weighted average rate spread and net interest margin of 3.09% and 3.20%, respectively, for the same period in 2015. The average interest-earning assets increased by \$219.7 million, or 14% and the yield on total earning assets increased by one basis point. Average interest-bearing liabilities increased by \$186.2 million, or 14%, but the rate paid on interest-bearing liabilities increased by seven basis points.

Interest and dividend income increased by \$2.1 million to \$17.0 million for the first quarter of 2016 as compared to \$14.9 million for the first quarter of 2015. The yield on total interest-earning assets was 3.87% for the quarter ended March 31, 2016 as compared to 3.86% for the quarter ended March 31, 2015.

Interest income on loans increased \$1.9 million when comparing the two periods, primarily resulting from a 15% increase in average loan balances, offset, in part, by a nine basis point decrease in yield. Long-term rates have remained at historic lows; however, in December 2015, the Federal Reserve increased the overnight rate by 0.25%, impacting many short-term rates.

Securities and short-term investments accounted for 18% of the total average interest-earning assets for the quarter ended March 31, 2016 and 19% for the same period in 2015. This includes the Bank's cash holdings at the Federal Reserve. Income for these categories combined increased \$245,000 when comparing the two periods primarily due to an increase of \$30.1 million in average balances combined with higher yields. During 2015 and the first quarter of 2016, the Bank made additional purchases of marketable common equity securities, some of which pay cash dividends. Additionally, the Federal Home Loan Bank has continued to pay an elevated dividend on the Bank's stock investment. At the same time, US Treasury and Agency securities were allowed to mature and the proceeds were reinvested in overnight cash balances which had a lower yield.

The average rate on interest-bearing liabilities increased to 0.84% for the first quarter of 2016 from 0.77% for the comparable quarter of 2015. Total interest expense increased by \$632,000 when comparing the quarters ended March 31, 2016 and 2015 due to increases in the average balances combined with higher interest rates on both deposits and FHLB borrowings.

Interest expense on deposits increased by \$463,000 due to an increase of \$114.8 million in average interest-bearing deposits combined with a nine basis point increase in the weighted average rate. Certificate balances increased by \$27.2 million from December 31, 2015 to March 31, 2016 and non-certificate accounts increased by \$24.0 million during the same period. Non-certificate accounts represent 56.9% of total deposits at March 31, 2016 compared to 57.3% at December 31, 2015. Beginning in 2015, there has been increasing market pressure to raise rates on term deposits and some core deposits, driven largely by strong loan demand in the Bank's market area. The Bank has mitigated the impact of this pressure by soliciting certificates from two Internet-based exchanges for listing certificates of deposit, as well as targeting certain core product rate increases that provided an efficient means for balanced growth. The increase in deposit balances has allowed

the Bank to fund lending activity and maintain an elevated level of liquidity.

Interest expense on borrowed funds for the first quarter of 2016 increased \$169,000 as compared to the same quarter in 2015, primarily due to a \$71.4 million increase in average outstanding balances combined with a one basis point increase in the weighted average rate. Borrowings from the FHLB are drawn to fund growth in the loan portfolio.

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

	Three Months Ended March 31,					
	2015			2016		
	AVERAGE BALANCE	INTEREST	YIELD/ RATE*	AVERAGE BALANCE	INTEREST	YIELD/ RATE*
	(Dollars in Thousands)					
Loans (1) (2)	\$ 1,250,321	\$ 14,538	4.65%	\$ 1,439,994	\$ 16,430	4.56%
Securities (3) (4)	87,063	217	1.00	61,042	272	1.78
Short-term investments and certificates of deposit	204,586	136	0.27	260,669	326	0.50
Total interest-earning assets	1,541,970	14,891	3.86	1,761,705	17,028	3.87
Other assets	32,692			33,156		
Total assets	<u>\$ 1,574,662</u>			<u>\$ 1,794,861</u>		
Interest-bearing deposits (5)	\$ 1,005,824	1,827	0.73	\$ 1,120,656	2,290	0.82
Borrowed funds	324,979	735	0.90	396,378	904	0.91
Total interest-bearing liabilities	1,330,803	2,562	0.77	1,517,034	3,194	0.84
Demand deposits	114,755			131,212		
Other liabilities	4,750			4,947		
Total liabilities	1,450,308			1,653,193		
Stockholders' equity	124,354			141,668		
Total liabilities and stockholders' equity	<u>\$ 1,574,662</u>			<u>\$ 1,794,861</u>		
Net interest income		<u>\$ 12,329</u>			<u>\$ 13,834</u>	
Weighted average rate spread			<u>3.09%</u>			<u>3.03%</u>
Net interest margin (6)			<u>3.20%</u>			<u>3.14%</u>
Average interest-earning assets to average interest-bearing liabilities (7)			<u>115.87%</u>			<u>116.13%</u>

* Annualized

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

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

	Three Months Ended March 31, 2016 Compared to the Three Months Ended March 31, 2015		
	Increase (Decrease)		
	Due to		Total
	Volume	Rate	
		(In Thousands)	
Interest and dividend income:			
Loans	\$ 2,169	\$ (277)	\$ 1,892
Securities and FHLB stock	(79)	134	55
Short-term investments and certificates of deposit	45	145	190
Total interest and dividend income	2,135	2	2,137
Interest expense:			
Deposits	221	242	463
Borrowed funds	163	6	169
Total interest expense	384	248	632
Net interest income	\$ 1,751	\$ (246)	\$ 1,505

PROVISION FOR LOAN LOSSES

At March 31, 2016, management's review of the allowance for loan losses concluded that a balance of \$10.2 million was adequate to provide for losses based upon evaluation of risk in the loan portfolio. During the first quarter of 2016, management provided \$255,000 to achieve such a loan loss allowance balance at March 31, 2016. The Bank recorded one consumer line of credit charge-off of \$2,000 and recorded no charge-offs for the first quarter of 2015. Due to the growth in the loan portfolio the Bank increased the provision for loan losses for the three months ended March 31, 2016 compared to the same period in 2015. Comparably, at March 31, 2015, management's evaluation of the balance of the allowance for loan losses indicated the need for a quarterly provision of \$175,000.

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

OTHER INCOME

Other income is comprised of customer service fees, increases in the cash surrender value of life insurance policies and miscellaneous income. Total other income was \$332,000 for the quarter ended March 31, 2016 compared to \$346,000 for the same period in 2015. Customer service fees decreased by \$12,000 compared to the same period in 2015. Over the last few years, there has been a slight decline in deposit account transaction fees as the Bank has eliminated many fees on deposit products to simplify offerings and enhance the value proposition of our checking accounts to customers. There has been an offsetting trend in debit card interchange fees, as the size of the Bank's checking account base has increased and the Bank has benefited from a secular trend towards increasing use of debit cards in payments. The Bank's strategy does not rely on generating substantial noninterest fee-based revenue from our deposit accounts.

An increase in the cash surrender value of life insurance also contributed to other income during the first quarter of 2016 and 2015. The policies accrete at a variable rate of interest with minimum stated guaranteed rates and the reduction in income when comparing the two periods is a factor of market rates.

OPERATING EXPENSES

Total operating expenses were \$4.9 million, or an annualized 1.09% of average total assets, for the quarter ended March 31, 2016 as compared to \$4.9 million, or 1.23% of average total assets, for the same quarter of 2015. Operating expenses include salaries and employee benefits, data processing, occupancy and equipment, deposit insurance, foreclosure, marketing and other general and administrative expenses.

Salaries and employee benefits expenses increased \$166,000, or 6%, primarily due to annual merit-based salary increases, higher payroll taxes and rising medical insurance costs.

Data processing expenses increased by \$9,000, or 3%, primarily due to increased data processing charges associated with improvements made to Bank systems along with growth in the number of customer accounts.

Occupancy and equipment expenditures decreased by \$83,000, or 15%, due to lower snow removal costs from the record winter in 2015 along with savings in utility costs from lower fuel rates.

Deposit insurance expense increased \$25,000, or 12%. The increase in premiums was due to an increase in assets.

Foreclosure related expenses decreased by \$21,000 to \$56,000 when comparing the first quarter of 2016 to the first quarter of 2015. The decrease is primarily due to a reduction in costs associate with a lower level of other real estate owned and foreclosure activity. At March 31, 2016, the Bank held one property with carrying values totaling \$168,000. This compares to no properties at December 31, 2015 and three properties totaling \$586,000 at March 31, 2015. During the three months ended March 31, 2016, the Bank took one property through a deed-in-lieu of foreclosure. Also included in this category are expenses associated with the foreclosure processes which include legal expenses, appraisal expenses, insurance expenses and other related foreclosure expenses.

Marketing expenses decreased by \$5,000 to \$116,000 for the first quarter 2016. The Bank continued to optimize advertising spending in the first quarter 2016 and focused expenditures on marketing with demonstrable returns on investment.

Other general and administrative expenses include director fees, supplies, training, deposit-related losses, audit-related expenses and other items. Expenses for the first quarter 2016 decreased \$70,000, or 10%, when comparing the two periods as the Bank continues to review operating processes and reduce associated expenses.

INCOME TAXES

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

During the first quarter of 2016, the Bank recorded \$3.7 million, or 40.1% of pre-tax income, in tax expense as compared to \$3.1 million, or 40.1%, for the same quarter in 2015.

BALANCE SHEET ANALYSIS - COMPARISON AT MARCH 31, 2016 TO DECEMBER 31, 2015

Assets totaled \$1.850 billion at March 31, 2016, as compared to \$1.769 billion at December 31, 2015, an increase of \$81.4 million.

SECURITIES, SHORT-TERM INVESTMENTS, CERTIFICATES OF DEPOSITS AND FHLB STOCK

Securities were \$37.4 million at March 31, 2016, a decrease of \$3.2 million when compared to the \$40.6 million at December 31, 2015. During the first three months of 2016, there were \$6.0 million in maturities, calls and principal paydowns, partially offset by \$2.4 million in equity security purchases. The Bank continues to allow the bond portfolio to runoff as the proceeds from maturities were moved to overnight cash accounts.

At March 31, 2016 and December 31, 2015, the Bank's entire securities portfolio was classified as available for sale and reflected on the balance sheet at fair value with unrealized gains and losses, net of tax effect, excluded from earnings and reported in accumulated other comprehensive income. The net unrealized gain on securities available for sale, net of tax, was \$645,000 at March 31, 2016 compared to \$353,000 at December 31, 2015. The primary driver in net unrealized gain (loss) on the securities portfolio is the fair value of the Bank's equity holdings. The short duration of the bond portfolio means that even significant shifts in interest rates have relatively little impact on the fair value of the Bank's holdings.

The securities portfolio is comprised primarily of bonds issued by the U.S. government-sponsored enterprises and marketable equity securities. At March 31, 2016, approximately 51% of the portfolio consisted of fixed-rate agency bond issues. Residential mortgage-backed issues, which are guaranteed by FNMA and FHLMC, comprised less than 1% of the portfolio. Repayment of these issues is anticipated from payments made on the underlying mortgages. The majority of the bond and mortgage-backed holdings are short-term in nature with nearly the entire portfolio maturing in two years or less.

At March 31, 2016, the Bank held a \$5.0 million investment in the CRA Fund, a mutual fund which invests in securities which qualify for CRA securities test. Additionally, the portfolio includes \$13.3 million in other marketable equity securities. Total marketable equity securities accounted for 49% of the investment portfolio at March 31, 2016. Equity investments remained concentrated in three banks, two diversified insurance companies and two payment networks.

The Bank held an investment of \$4.5 million in FDIC-insured certificates of deposit issued by other financial institutions at March 31, 2016. 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. Generally, the Bank invests in such certificates due to the increase in yield over comparably-termed bonds issued by government-sponsored enterprises at time of purchase. Recently, the Bank has allowed the certificate of deposit portfolio to decline as the proceeds from maturities were used to purchase equity investments.

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Bank is required to hold a Membership Stock Investment plus an Activity-based Stock Investment in the FHLB, which is based primarily on the amount of FHLB borrowings. The Bank received dividends totaling \$161,000 for the quarter ended March 31, 2016 compared to \$78,000 for the same period in 2015. At March 31, 2016, the Bank held \$20.7 million in FHLB stock compared to \$19.8 million at December 31, 2015.

LOANS AND FORECLOSED REAL ESTATE

During the first three months of 2016, total loans outstanding increased by \$48.2 million to \$1.454 billion, from \$1.406 billion at December 31, 2015, attributable primarily to originated loans of \$137.7 million, offset by payoffs and amortization. Comparably, loan originations for the same period in 2015 were \$93.6 million. On March 31, 2016 and December 31, 2015, net loans outstanding represented 78.6% and 79.5% of assets, respectively. Mortgage loans continue to account for more than 99% of the loan portfolio.

Loans are carried net of the allowance for loan losses. The allowance is maintained at a level to absorb losses within the loan portfolio. At March 31, 2016, the allowance had a balance of \$10.2 million as compared to \$9.9 million at December 31, 2015. At March 31, 2016, the Bank allocated \$248,000 to loans classified as impaired. At December 31, 2015, \$285,000 was allocated to impaired loans.

The Bank works closely with delinquent mortgagors to bring their loans current and commences foreclosure proceedings if the mortgagor is unable to satisfy their outstanding obligation. Although regulatory changes have slowed the foreclosure process in recent years, the Bank continues to pursue delinquencies vigorously.

At March 31, 2016, there were eight loans classified as non-accrual totaling \$3.3 million as compared to six non-accrual loans totaling \$1.8 million at December 31, 2015. At March 31, 2016, the Bank held one foreclosed property for \$168,000. There were no foreclosed properties at December 31, 2015. At March 31, 2016, non-performing assets were 0.19% of total assets as compared to 0.10% at December 31, 2015. Management believes that its loans classified as non-accrual are significantly collateralized, pose minimal risk of loss to the Bank, and the reserves included in the allowance for loan losses are sufficient to absorb such losses, if any. However, management continues to monitor the loan portfolio and additional reserves will be taken if necessary. Below is a summary of non-accrual loans and foreclosed real estate:

	December 31, 2015	March 31, 2015
	(Dollars in Thousands)	
Non-accrual loans:		
Residential mortgages	\$ 1,212	\$ 1,228
Commercial mortgages	159	1,568
Construction	462	462
Home equity	—	—
Total non-accrual loans	<u>1,833</u>	<u>3,258</u>
Foreclosed real estate	<u>—</u>	<u>168</u>
Total non-performing assets	<u>\$ 1,833</u>	<u>\$ 3,426</u>
Percent of non-accrual loans to:		
Total loans	0.13 %	0.22 %
Total assets	0.10 %	0.18 %
Percent of non-performing assets to:		
Total loans and foreclosed real estate	0.14 %	0.24 %
Total assets	0.10 %	0.19 %
Allowance for loan losses to total loans	0.70 %	0.70 %

OTHER ASSETS

The Bank held \$11.8 million in Bank-owned life insurance at March 31, 2016 as compared to \$11.7 million at December 31, 2015. The policies, which insure the life of a current Bank executive, accrete at a variable rate of interest with minimum stated guaranteed rates. The Bank monitors the financial strength and counterparty credit ratings of the policy issuers and has determined that, at March 31, 2016, two of three issuers were rated at or above Bank guidelines. The third issuer retained a rating from A.M. Best at or above Bank guidelines, while the issuer's Standard and Poor ("S&P") rating was below Bank guidelines at BBB+ (Good) with a stable outlook.

DEPOSITS

Deposits increased by \$51.3 million to \$1.268 billion at March 31, 2016 from \$1.217 billion at December 31, 2015. Core deposits, which include regular, money market, NOW and demand deposits, increased \$24.0 million over the December 31, 2015 balance. Certificate accounts were \$546.7 million, or 43.1% of total deposits, at March 31, 2016, as compared to \$519.5 million, or 42.7% of total deposits, at December 31, 2015.

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 offers limited certificate of deposit products using national Internet-based posting services. These services provide the Bank with a source

of long-term funding at lower cost than is generally available via retail channels.

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

Deposit growth over the first three months of 2016 was used to fund growth in the loan portfolio.

	Deposit Balances by Type			
	December 31, 2015	% of Total	March 31, 2016	% of Total
	(Dollars in Thousands)			
Non-certificate accounts				
Regular	\$ 90,004	7.4 %	\$ 89,444	7.1 %
Money market deposits	447,667	36.8	468,586	36.9
NOW	31,560	2.6	30,227	2.4
Demand	128,285	10.5	133,297	10.5
Total non-certificate accounts	697,516	57.3	721,554	56.9
Term certificates less than \$250,000	415,311	34.1	422,930	33.3
Term certificates \$250,000 or more	104,200	8.6	123,817	9.8
Total certificate accounts	519,511	42.7	546,747	43.1
Total deposits	\$ 1,217,027	100.0 %	\$ 1,268,301	100.0 %

BORROWINGS

FHLB advances were \$425.4 million, or 23.0% of total assets, at March 31, 2016 as compared to \$402.5 million, or 22.8% of total assets, at December 31, 2015. These advances are predominately fixed rate in nature with 89% scheduled to mature in the next twelve months. During the first three months of 2016, total borrowings increased by \$23.0 million.

LIQUIDITY AND CAPITAL RESOURCES

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

At March 31, 2016, the Bank had \$298.1 million, or 16% of total assets, in cash and cash equivalents. Most of this total is held at the Federal Reserve Bank in overnight cash balances and these funds are readily accessible for liquidity.

The majority of the Bank’s investment portfolio was fixed with respect to rate and maturity date. The remaining securities can be called at the discretion of the issuer. Mortgage-backed securities, which comprise less than 1% of the portfolio, are subject to repayment at the discretion of the underlying borrower.

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.

Core 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.

Approximately 94% of the Bank’s borrowings were fixed in term of rate and maturity. Approximately 10% or \$25.0 million can be called for earlier repayment at the discretion of the issuer. It is considered unlikely that these borrowings will be called by the issuer in the near term.

The Bank also monitors its off-balance sheet items. See “Commitments” appearing in Note 2 within the “Notes to Unaudited Consolidated Financial Statements” section of this document. At March 31, 2016, the Bank had \$234.4 million in commitments to extend credit as compared to \$247.4 million at December 31, 2015.

The Bank considers the above information when measuring its liquidity position. Specific measurements include the Bank’s cash flow position at the 30 day, 60 day and 90 day horizon, the level of volatile liabilities on earning assets and loan to deposit ratios. These estimates anticipate the possibility of deposit outflows. At March 31, 2016, each measurement was within pre-defined Bank guidelines.

To supplement its liquidity position, should the need arise, the Bank maintains its membership in the Federal Home Loan Bank of Boston (“FHLB”) where it is eligible to obtain both short and long-term credit advances. Through the FHLB, the Bank can borrow up to \$744.5 million to meet its borrowing needs, based on the Bank’s available qualified collateral which consists primarily of 1-4 family residential mortgages, five or more family residential mortgages, the majority of the Bank’s investment in securities issued by government-sponsored enterprises and certain commercial mortgages. Additionally, through the Federal Reserve Bank of Boston (“FRB”), the Bank can borrow up to \$16.1 million through the discount window based on the Bank pledging its home equity loan portfolio. The Bank can pledge other mortgages and assets as collateral to secure additional borrowings. At March 31, 2016, the Bank had \$425.4 million in advances outstanding from the FHLB and consequently had approximately \$319.1 million in available unused capacity. At March 31, 2016, the Bank did not have any advances outstanding at the FRB.

At March 31, 2016, the Bank had capital of \$143.2 million, or 7.74% of total assets, as compared to \$138.0 million, or 7.80%, at December 31, 2015. During the three months ended March 31, 2016, stockholders' equity increased by \$5.2 million due primarily to net income for the period of \$5.3 million, partially offset by the declaration of dividends of \$0.30 per share, which reduced capital by \$639,000.

Total capital is adjusted by the unrealized gains or losses in the Bank's available for sale securities portfolio and, as such, it is subject to fluctuations resulting from changes in the market values of its securities. At March 31, 2016, the Bank's entire securities portfolio was classified as available for sale which had the effect of increasing capital by \$645,000, an increase of \$292,000 since December 31, 2015.

Massachusetts-chartered savings banks that are insured by the FDIC are subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets and average total assets. The Bank's ratios exceeded these regulatory capital requirements at December 31, 2015 and March 31, 2016.

The following table details the Bank’s actual capital ratios and minimum regulatory ratios as of December 31, 2015 and March 31, 2016.

	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, 2015						
Total Capital to Risk -Weighted Assets	\$ 147,819	13.79 %	\$ 85,724	8.0 %	\$ 107,155	10.0 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	137,662	12.85	48,220	4.5	69,651	6.5
Tier 1 Capital to Risk-Weighted Assets	137,662	12.85	64,293	6.0	85,724	8.0
Tier 1 Capital to Average Assets	137,662	7.95	69,278	4.0	86,597	5.0
March 31, 2016						
Total Capital to Risk -Weighted Assets	\$ 153,165	13.75 %	\$ 89,117	8.0 %	\$ 111,397	10.0 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	142,557	12.80	50,129	4.5	72,408	6.5
Tier 1 Capital to Risk-Weighted Assets	142,557	12.80	66,838	6.0	89,117	8.0
Tier 1 Capital to Average Assets	142,557	7.94	71,773	4.0	89,717	5.0

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 of the Bank. The primary tool used by the Bank in managing interest rate risk is income simulation modeling. Income simulation modeling measures changes in net interest income by projecting the future composition of the Bank's balance sheet and applying different interest rate scenarios. Management incorporates numerous assumptions into the simulation model, such as prepayment speeds, interest rate environments, balance sheet growth and deposit elasticity. 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. Management believes that there has been no material changes in the interest rate risk reported in the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the Federal Deposit Insurance Corporation. The information is contained in the Form 10-K within the Market Risk and Asset Liability Management section of Management's Discussion and Analysis of Results of Operations and Financial Condition.

ITEM 4 – CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Bank's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness, as of March 31, 2016, of the Bank's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Bank's disclosure controls and procedures as of March 31, 2016, the CEO and CFO concluded that, as of such date, the Bank's disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in Internal Control

There were no significant changes in the Bank's internal control over financial reporting, as defined in Rules 13a-15(e) and 15d-15(e), during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None.

ITEM 1A – RISK FACTORS

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

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 – EXHIBITS

Exhibit No.

31.1	Certifications – Chief Executive Officer
31.2	Certifications – Chief Financial Officer
32.1	Certification Pursuant to 18 U.S.C. §1350 – Chief Executive Officer
32.2	Certification Pursuant to 18 U.S.C. §1350 – Chief Financial Officer

SIGNATURES

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

HINGHAM INSTITUTION FOR SAVINGS

Date: May 4, 2016

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

Date: May 4, 2016

/s/
Robert A. Bogart
Vice President & Treasurer

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

1. I have reviewed this quarterly report on Form 10-Q of the Hingham Institution for Savings;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2016

/s/
Robert H. Gaughen, Jr.
Chief Executive Officer

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

In connection with the Quarterly Report on Form 10-Q of Hingham Institution for Savings (the “Bank”) for the fiscal quarter ended March 31, 2016, 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 represents, in all material respects, the financial condition and results of operations of the Bank.

_____/s/_____
Robert A. Bogart
Vice President and Treasurer
Chief Financial Officer

Date: May 4, 2016