FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C., 20429

FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2018

OR

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

Commission File Number: FDIC Certificate No. 90211

HINGHAM INSTITUTION FOR SAVINGS

(Exact name of registrant as specified in its charter)

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

(781) 749-2200

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was $315,678,581 (computed using affiliate data as of February 1, 2019, an assumption which provides a reasonable basis for computation).

The number of shares outstanding of each of the Bank's classes of Common Stock, as of the latest practicable date is:

Class: Common Stock $1.00 par value per share

Outstanding as of March 5, 2019: 2,132,750 shares

Documents Incorporated by Reference

Portions of the Hingham Institution for Savings Proxy Statement for the Annual Meeting of Stockholders to be held on April 25, 2019 are incorporated by reference into Part III of this Form 10-K.

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Cautionary Note Regarding Forward-Looking Statements

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

Note on Core Net Income, Core Return on Average Equity and Core Return on Average Assets

Effective January 1, 2018, the Bank adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-01, *Financial Instruments – Overall, (Subtopic 825-10)*. Consequently, beginning January 1, 2018, equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in the Consolidated Statements of Net Income, regardless of whether such gains and losses are realized, and included in the other income (loss) category. This change affects the Bank’s portfolio of marketable equity securities, which includes common equity securities and a mutual fund which invests in securities which qualify for Community Reinvestment Act securities test. This portfolio primarily includes common equity investments, which the Bank views as long-term partnership interests in operating companies. Consequently the Bank does not view the quarterly fluctuation in market value as indicative of the change in the intrinsic value of these portfolio holdings. The performance of these holdings should be evaluated on the basis of their contribution to growth in book value per share over time, not via quarterly adjustments to net income. Consistent with this view, beginning in the first quarter of 2018, “Management's Discussion and Analysis of Financial Condition and Results of Operations” incorporates core net income, core return on average equity and core return on average assets, which are non-GAAP measurements as presented in Item 6. Selected Financial Data.

PART I

Item 1. Business.

General

Hingham Institution for Savings (the “Bank”) is a Massachusetts-chartered savings bank headquartered in Hingham, Massachusetts. The Bank was originally chartered in 1834. It is the only financial institution headquartered in Hingham, and is one of the oldest banks in the United States. In addition to its main office, loan office and drive-up facility in Hingham, banking offices are located in South Hingham, Hull, Cohasset, South Weymouth, Norwell, Boston and Nantucket. At December 31, 2018, the Bank had total assets of $2.409 billion, total deposits of $1.573 billion and total stockholders' equity of $212.6 million.

The Bank is principally engaged in the business of commercial and residential real estate mortgage lending, funded by retail deposits, wholesale deposits and borrowings. At December 31, 2018, the loan portfolio was $2.009 billion, or 83% of total assets.

At December 31, 2018, 37% of the Bank’s total loan portfolio was invested in residential mortgage loans (including home equity lines of credit), 57% in commercial real estate (including multi-family housing), 6% in residential and commercial construction loans, and less than 1% in commercial business loans and consumer loans. The Bank focuses on the origination of commercial and residential real estate loans in its primary market area. In its residential lending business, the Bank originates both qualified mortgage loans and non-qualified mortgage loans, as defined in the regulations of the Consumer Financial Protection Bureau (“CFPB”).

Market Area and Competition

The Bank's primary market area is eastern Massachusetts, with the significant majority of deposit funding and mortgage lending in close proximity to its branches in Boston, the South Shore, and on the island of Nantucket. This market is attractive and the Bank faces considerable competition for loans and deposits from both traditional competitors (banks and credit unions), as well as non-traditional competitors (insurance companies, Internet-based direct banks, and out-of-market competitors).

Competition for real estate loans is based primarily on interest rate, fees, and quality of service provided to borrowers and real estate brokers. Speed of decision and execution are important competitive differentiators, particularly in competition for commercial mortgage loans.

Competition for deposits comes from other banks, credit unions, money market funds, and non-bank investment alternatives (including equity and fixed income markets). Competitive differentiators include rates of return, convenience of branch locations and hours of operation, personalized customer service, and online and mobile banking access. Customers with significant balances, including but not limited to institutions, municipalities, and fiduciaries, also consider the financial strength, stability, and reputation of the Bank in establishing and maintaining relationships. Furthermore, the Bank has a significant advantage with these customers as it offers unlimited excess deposit insurance above the Federal Deposit Insurance Corporation ("FDIC") limits through the Massachusetts Depositors Insurance Fund ("DIF"). The DIF is only available to Massachusetts savings banks and is not available to commercial banks or trust companies.

The Bank began lending to commercial real estate borrowers in the Washington, D.C. metropolitan area ("WMA") in November 2016, after two years of research and preparation. The first WMA loan closed in early January 2017. The Bank identified the WMA as an attractive opportunity for three reasons. First, the region has favorable economic characteristics that will support long-term investments in commercial real estate. It is the capital of the world's largest economy, it is an international economic gateway, it has the highest household median income of any of the nation's major metropolitan areas, and it has a relatively high concentration of young people. Second, the commercial real estate product in the market bears significant similarity to Boston, characterized by high density, urban infill development, transit-oriented multifamily, and scarcity imposed by land supply and restrictions on vertical development. Third, we believe that the banking market in Washington, D.C. has experienced a level of consolidation and disruption that has left smaller and mid-sized real estate investors underserved as compared to the Boston market. Although we are relatively new to this marketplace, we believe that our history as one of America's oldest banks and our family management team provide stability and surety of execution that is valued by our customers. We view this as an attractive opportunity for internal capital allocation and superior to geographically proximate, product-adjacent businesses like wealth management, insurance, or commercial-industrial lending in our home marketplace. The Bank is not making any residential owner-occupied or commercial construction loans in the WMA at this time. The Bank originated $60.1 million and $62.1 million in commercial real estate loans in the WMA in 2017 and 2018, respectively.

The Bank approaches prospective borrowers directly via advertising programs, and indirectly via intermediaries such as attorneys, accountants and mortgage brokers. The Bank also has existing Boston-based customers with real estate investment holdings in both the Massachusetts and WMA markets. The Bank currently utilizes existing staff in the Commercial Real Estate Group with experience in the WMA, on a fly-away basis from our Main Office.

All underwriting and approval processes are identical to those utilized in the Boston marketplace and all loans are reviewed and approved by the Bank's Executive Committee and when larger than $1.5 million, by the Bank's full Board of Directors. A member of the Executive Committee performs a site visit for every collateral property and the full Executive Committee performs collateral site visits at least twice annually. The Bank uses one Arlington, VA-based law firm to advise on all of its transactional needs, with oversight on each individual transaction by the Bank's primary real estate counsel in Boston. The Bank uses the same environmental assessment firm in Boston and Washington, D.C. to ensure quality of execution and manage risk. Once closed, these loans are subject to all of the Bank's regular quality control and portfolio management processes.

The Bank has made initial inroads into developing deposit relationships with WMA borrowers and services these customers remotely through the Bank's Specialized Deposit Group in Hingham. The Bank's Specialized Deposit Group is now servicing WMA deposit customers that do not have a lending relationship with the Bank. The Bank is actively planning for a physical presence in the WMA, likely in the District of Columbia.

Lending Activities

General. At December 31, 2018, the Bank's net loan portfolio totaled $2.009 billion, representing 83% of its total assets. The Bank's principal focus is real estate mortgage lending, with well over 99% of the loan portfolio secured by real estate mortgage loans. The portfolio is primarily composed of commercial real estate, residential owner-occupied real estate, and loans for the construction of residential real estate. The loan portfolio is the Bank's primary earning asset. Commercial and industrial ("C&I") loans and consumer loans represent less than 1% of the loan portfolio and are not a focus of the Bank's origination program. The Bank's lending activities are generally conducted in the Massachusetts market and as of December 31, 2018, over 94% of the loan portfolio was secured by properties in the Commonwealth of Massachusetts.

Commercial Real Estate Loans. The Bank originates mortgage loans for the refinancing, acquisition, or renovation of existing commercial real estate properties such as apartments, offices, manufacturing and industrial complexes, small retail properties, various special purpose properties, and land. Although terms vary, commercial real estate loans generally have maturities of 15 years or less, with an initial fixed rate period and subsequent adjustments with a margin to a designated interest rate. The initial fixed-rate period is generally five years, with a limited volume of loans with longer initial fixed rate periods. These loans are generally underwritten with floors near the initial rate at time of underwriting. The Bank generally amortizes commercial real estate mortgage loans over a 35-year period, with a balloon payment at 10 or 15 years. The Bank generally underwrites commercial real estate mortgage loans with "step-down" prepayment fees in the event the loan pays off prior to maturity; these fees are generally stated as a percentage of the face amount of the note. Generally, loan amounts do not exceed 75% of the lesser of the Bank estimate of value or independent appraised value of the collateral. At December 31, 2018, commercial mortgage loans totaled $1.151 billion and represented 57% of the Bank's total loan portfolio.

Construction Loans. As of December 31, 2018, there were $127.3 million in construction loans, net of unadvanced amounts, which represented 6% of the Bank's total loan portfolio and consisted primarily of residential real estate for owner-occupants, speculative sale, and long-term investment (the latter categories are referred to as "commercial construction loans" below). Although the Bank has financed the construction of commercial purpose properties (e.g. retail, industrial, office, or special purpose), this is not the focus of the Bank's construction loan program. Residential construction loans are offered on both a fixed rate and an adjustable rate basis, with a six to twelve month interest only period that converts to an amortizing loan. Commercial construction loans are generally underwritten as eighteen month interest only notes, with a balloon payment at maturity or conversion to permanent, amortizing financing. Commercial construction loans are generally structured with origination fees in addition to the note rate of interest. All disbursements on construction loans are paid in arrears for work completed, subject to on-site inspection by a member of the Executive Committee of the Board of Directors or the Vice President of Facilities, and approved by the Chief Executive Officer or the President and Chief Operating Officer.

Residential Real Estate Loans. The Bank originates a full range of qualified and non-qualified mortgage loans on one-to-four family residential properties. The Bank generally holds all residential real estate loans in portfolio and consequently enjoys greater latitude in structuring and executing transactions in support of its customers' needs. Loans are originated on both an adjustable rate and fixed rate basis. Qualified mortgage loans are generally originated with loan to value ratios up to 80% of a property's appraised value, with mortgage insurance required for those loans exceeding 80%. Non-qualified mortgage loans, including but not limited to super jumbo loans in excess of $1.5 million, co-operative loans, non-warrantable condominium loans, loans to foreign nationals, owner-occupant loans to irrevocable trusts and limited liability corporations, vacation and seasonal properties, and loans underwritten using alternative verification of the ability to repay, are generally originated up to 65% of the lesser of a Bank estimate of value or a third-party appraisal and they are generally underwritten with a premium to the Bank's conforming rates. The Bank also originates Home Equity Lines of Credit ("HELOCs") in both first and second lien position, generally at variable rates indexed to the Wall Street Journal Prime Rate, with floors near the origination rate. The maximum loan amount is generally $250,000, subject to 60% of the appraised value of the collateral less the first mortgage loan or $150,000, subject to 70% of the appraised value of the collateral, less the first mortgage loan. As of December 31, 2018, residential mortgage loans, including HELOCs and second mortgage loans, were $741.8 million and represented 37% of the Bank's total loan portfolio.

Consumer/Commercial Lending. The Bank offers business overdraft lines of credit and passbook loans. In 2017, the Bank discontinued the origination of personal loans and personal overdraft lines of credit, although the legacy book remains in place and will run off over time. The Bank originates business overdraft lines of credit to local businesses in its market area generally on a secured basis with personal guarantees from the principals of any borrowing entity. The Bank generally also has deposit and commercial real estate relationships with such borrowers. Such lines are generally written at a fixed rate of interest. Consumer and commercial lending is not the focus of the Bank's origination program. At December 31, 2018, consumer and commercial loans totaled $542,000 and represented less than 1% of the Bank's total loan portfolio.

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

Commercial real estate, construction and residential mortgage loans are reviewed and approved by the Executive Committee of the Board of Directors, which takes an active role in managing risk for the Bank. The Executive Committee meets at least twice monthly or more often as needed. No lenders or officers of the Bank have the authority to make these types of loans. The Chief Executive Officer, the President and Chief Operating Officer, and the Vice President for Retail Lending have limited authority to approve HELOCs up to $250,000. Any HELOCs that constitute an exception to loan policy must be approved by the Chief Executive Officer or the President. Additionally, all loans above $1.5 million and all loans to credit relationships with aggregate exposure of $6 million, inclusive of the subject transaction and regardless of size, are reviewed and approved by the full Board of Directors. Consequently, the majority of our commercial real estate exposure has been reviewed and approved on an individual credit basis by the Board of Directors or a committee thereof. In accordance with governing banking laws, the Bank is permitted to make loans and commitments to any one borrower, including related entities, in the aggregate amount of not more than 20% of the Bank's stockholders equity, or $42.5 million, at December 31, 2018, which is the Bank's legal lending limit. The Bank's largest relationship as of December 31, 2018, consisted of six loans with aggregate committed balances of $34.2 million and outstanding balances of $16.8 million, secured by multiple personal residences and commercial properties in Boston and Cape Cod. The relationship is with a long standing customer group and all credits with this group have always performed as agreed.

In November 1993, the Bank adopted a policy providing that the Bank will not originate loans (excluding passbook loans) to Directors and Officers of the Bank, Principal Stockholders, their related interests, or any entities in which Directors, Officers or Principal Stockholders have a significant financial interest. This policy was informed by the experience of the Directors at that time as private investors in New England banks and thrifts, including the Bank, that suffered significant losses because of poor controls over insider lending. The Board strongly believes that insider lending, even when well-intentioned and subject to strong internal controls, poses an unacceptable risk to the Bank. Through this policy, the Bank seeks to eliminate the risks associated with insider lending rather than manage them.

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

Asset Quality. The Bank evaluates its loan portfolio regularly so as to recognize potential problem loans at an early stage and minimize losses. Given the leverage inherent in banking, maintaining good asset quality is critical to the Bank's business. The Bank commences collection procedures on commercial real estate loans once a loan payment is more than 10 days past due and on residential loans once a loan payment is 15 days past due. The Executive Committee of the Board of Directors reviews a list of all loans two payments past due every two weeks, as well as all loans in technical default due to bankruptcy, delinquent payment of real estate taxes, insurance, condo/homeowners association fees, or any other breach of loan covenants. The Committee also reviews the status of any collection-related legal proceedings every two weeks. The Board of Directors reviews a detailed list of all loans two or more payments past due at each monthly meeting.

The accrual of interest on mortgage and commercial loans is discontinued at the time a loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than becoming 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

The Bank maintains two parallel quality control and loan review programs. The Bank's internal Quality Control Group reviews originated commercial and residential mortgage loan files following origination for compliance with the Bank's policies and procedures in the areas of origination, underwriting, processing, servicing, and legal settlement. Issues are addressed at the working level immediately and reviewed with the Chief Executive Officer and the President and Chief Operating Officer on a quarterly basis. The Bank has also retained an independent third-party to conduct ongoing loan review and credit risk rating. Loans are assigned an initial risk rating by the Bank at origination. An independent third party reviews all commercial real estate relationships with exposure in excess of $850,000, all new credits in excess of $500,000, and all loans on the Bank's Watch List on a rolling quarterly basis. Watch List loans are those loans that are more than two payments past due at the end of the quarter, loans for which the borrowing entity or sponsor has filed bankruptcy, loans rated four or higher using our internal rating system in a previous review, loans past contractual maturity, impaired loans, or loans identified as troubled debt restructures. The independent third party reviews updated financial information on borrowing entities and principals, as well as updated statements of income and expense for collateral properties, and recalculates debt service coverage ratios for commercial properties based on the most recent financial information. Results of the review are reported to the Bank's Audit Committee and the full Board of Directors on a quarterly basis and serve as a mechanism for monitoring the overall credit quality of the portfolio.

Investment Activities

The Bank's investment portfolio is composed primarily of overnight cash at the Federal Reserve Bank of Boston ("FRBB") and other correspondent banks and common equity investments. The Bank occasionally invests in other short-term fixed income investments, such as U.S. Treasury debt securities, U.S. Government Sponsored Enterprise ("US GSE") debt securities, and FDIC insured certificates of deposit. The Bank also has a significant investment in the stock of the Federal Home Loan Bank of Boston ("FHLB"), held to secure the Bank's borrowing relationship, and an investment in the Community Reinvestment Act ("CRA") Fund, held for CRA investment test purposes. The Bank's investment portfolio is managed by the Bank's senior officers in accordance with the investment policy approved by the Board of Directors. At December 31, 2018 and 2017, the Bank's investment portfolio totaled $355.1 million and $405.8 million, which represented 15% and 18% of the Bank's total assets, respectively.

Cash and Fixed Income. Cash and short-duration fixed-income investments are primarily a source of liquidity to fund the Bank's real estate lending operation and absorb any volatility in the Bank's funding position. As of December 31, 2018, the Bank held $287.8 million in cash at the FRBB and $14,000 in US GSE debt securities. In total, these investments amounted to 12% of total assets. US GSE debt securities are recorded at fair value with any unrealized gains or losses, net of taxes, reported as a component of stockholders' equity. The Bank occasionally purchases certificates of deposit issued by FDIC insured banks. Each certificate is purchased in an amount not to exceed $250,000 per issuing bank and is carried at cost. Certificates of deposit are reported separately from the Bank's securities portfolio. At December 31, 2018 and 2017, the Bank did not hold certificates of deposit.

Common Equities. The Bank's marketable common equity holdings, by contrast, are not viewed as a source of liquidity and are managed to produce superior returns on capital over a longer time horizon. The Bank's process is focused on identifying businesses with strong returns on capital, owner-oriented management teams, good reinvestment opportunities or capital discipline, and reasonable valuations. At December 31, 2018, the Bank held $30.8 million in common equity investments primarily concentrated in the financial services sector, with investments in banks, diversified insurance companies, payment networks, ratings agencies, technology and one industrial company.

The Bank receives two sources of advantageous tax treatment through these investments. First, dividend distributions from these companies to the Bank are partially excluded from the Bank's taxable income due to the Dividends Received Deduction ("DRD"). Second, to the extent that these companies are capable of internal reinvestment at high rates of return or capital deployment via tax-advantaged repurchases, the deferred tax liability associated with any long-term unrealized gains on our investments constitutes an interest-free source of financing.

The Bank also derives important intangible returns from these investments by studying high-performance companies with long track records of operational excellence and superior returns on capital. We study these companies to understand what we are doing well and where we might improve. Even if we cannot generate immediately actionable equity investment ideas, this process exposes our Board of Directors and our management team to new operational concepts that may help us to improve the returns in our core business.

CRA Investment. At December 31, 2018, the Bank's equity securities included a $7.7 million investment in the CRA Fund, a mutual fund which invests in fixed-income securities which qualify under the CRA investment test.

Federal Home Loan Bank Stock. The Bank holds FHLB stock which, at December 31, 2018, totaled $28.7 million. As a member of the FHLB, the Bank is required to maintain a Membership Stock Investment plus an Activity-based Stock Investment in an amount which approximates 5% of FHLB advances.

Bank-Owned Life Insurance. The Bank has an investment in Bank-Owned Life Insurance ("BOLI") which insures the life of a current Bank officer. At December 31, 2018, the policies had a cash surrender value of $12.5 million.

Sources of Funds

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

Deposits. At December 31, 2018, the Bank had $1.573 billion in savings accounts, demand accounts, Negotiable Order of Withdrawal ("NOW") accounts, money market accounts and certificates of deposit. Certificates have maturities ranging in terms from ninety-one days to five years. Included among these deposit products are Individual Retirement Account certificates. The Bank also accepts deposits through its on-premises ATMs and is a member of other ATM networks, including the SUM network. The Bank accepts term certificates of deposit through two Internet listing services and through approved brokers ("wholesale time deposits"). The Bank's cost of funds, and its ability to attract and maintain deposits, have been, and will continue to be, significantly affected by economic and competitive conditions. The Bank offers a variety of deposit accounts to individuals and commercial customers. The Bank's deposits are insured by the FDIC, up to $250,000 per separately insured depositor and up to $250,000 for retirement accounts. The DIF insures the portion of deposits in excess of these amounts.

Borrowings. At December 31, 2018, the Bank had $606.6 million in borrowings from the FHLB. The Bank can borrow up to approximately $1.146 billion, in total, based on the Bank's qualified collateral, which includes certain residential mortgage loans, first mortgage loans on non-owner occupied residential property, first mortgage loans on multi-family residential property, certain securities, and pledged commercial mortgage loans. Upon specific approval from the FHLB, the Bank may also pledge other mortgage loans to secure additional borrowings.

Personnel

At December 31, 2018, the Bank had 87 full-time employees and 9 part-time employees. The Bank provides its full-time employees with a comprehensive suite of employee benefit programs, including a 401(k) plan, life, health, travel accident and long-term disability insurance and a stock option plan for employees and directors as the Nominating and Personnel Committee of the Board of Directors may determine. None of the employees of the Bank are represented by a labor union or other collective bargaining group and management believes that its employee relationships are excellent.

Supervision and Regulation

As a Massachusetts-chartered savings bank, the Bank is subject to regulation, supervision and examination by the Massachusetts Commissioner of Banks ("Commissioner of Banks"). The Bank is an insured depository institution the deposits of which are insured to the extent provided by law by the FDIC. As a result, the Bank is also subject to regulation, supervision and examination by the FDIC. While the Bank is not a member of the Federal Reserve System, it is nonetheless subject to certain provisions of the Federal Reserve Act and regulations issued thereunder. The description of certain laws and regulations below and elsewhere in this report does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

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

Community Reinvestment Act Regulations. The CRA requires each bank to delineate an assessment area which generally consists of the communities served by the bank's deposit-taking facilities, and it requires that the bank's primary federal regulator, which is the FDIC in the case of the Bank, take into account the bank's the record of performance in meeting the credit needs of the entire community served, including low and moderate-income neighborhoods, in terms of (1) making loans in its assessment areas, (2) investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and small businesses in its assessment areas, and (3) delivering services through its branches, ATMs and other offices. Failure of a bank to receive at least a "satisfactory" rating could inhibit a bank from undertaking certain activities, including acquisitions of other financial institutions and establishment of branches, which require regulatory approval based, in part, on the bank's record of performance under the CRA. Massachusetts has enacted a CRA with similar requirements applicable to banking institutions chartered by that state, including the Bank. In its most recent CRA examination, the Bank received a CRA rating of "Outstanding," the highest possible rating.

Acquisitions and Branching. Prior approval from the Commissioner of Banks and the FDIC is required in order for the Bank to acquire another bank or establish a new branch office. Well capitalized and well managed banks may acquire other banks in any state, subject to certain deposit concentration limits and other conditions, pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). In addition, the Dodd-Frank Act authorizes a state-chartered bank, such as the Bank, to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches.

Activities and Investments. Section 24 of the Federal Deposit Insurance Act (the "FDIA") generally limits the types of equity investments an FDIC-insured state-chartered bank, such as the Bank, may make and the kinds of activities in which such a bank may engage, as a principal, to those that are permissible for national banks. Further, the Gramm-Leach-Bliley Act of 1999 ("GLBA") permits national banks and state banks, to the extent permitted under state law, to engage via financial subsidiaries in certain activities that are permissible for subsidiaries of a financial holding company. In order to form a financial subsidiary, a state-chartered bank must be "well capitalized," and such banks must comply with certain capital deduction, risk management and affiliate transaction rules, among other requirements.

Lending Restrictions. Federal law limits a bank's authority to extend credit to its directors, executive officers and 10% or more stockholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. The Dodd-Frank Act explicitly provides that an extension of credit to an insider includes credit exposure arising from a derivatives transaction, repurchase agreement, reverse repurchase agreement, securities lending transaction or securities borrowing transaction. Additionally, the Dodd-Frank Act requires that asset sale transactions with insiders must be on market terms, and if the transaction represents more than 10% of the capital and surplus of the Bank, be approved by a majority of the disinterested directors of the Bank.

Brokered Deposits. Section 29 of the FDIA and FDIC regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution's capital category is "well capitalized" or, with the FDIC's approval, "adequately capitalized." Depository institutions that have brokered deposits in excess of 10% of total assets will be subject to increased FDIC deposit insurance premium assessments.

Deposit Insurance. Deposits obligations of the Bank are insured by the FDIC to the legal maximum of $250,000 for each insured depositor for deposits held by such depositor in the same right and capacity. The FDIA, as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to take steps as may be necessary to cause the ratio of deposit insurance reserves to estimated insured deposits - the designated reserve ratio - to reach 1.35% by September 30, 2020, and it mandates that the reserve ratio designated by the FDIC for any year thereafter may not be less than 1.35%. Further, the Dodd-Frank Act required that, in setting assessments, the FDIC offset the effect of the increase in the minimum reserve ratio from 1.15% to 1.35% on banks with less than $10 billion in assets. To satisfy these requirements, in 2016, the FDIC's Board of Directors approved a final rule to increase the FDIC DIF's reserve ratio to the statutorily required minimum ratio of 1.35% of estimated insured deposits. The final rule imposes on large banks a surcharge of 4.5 basis points of their assessment base, after making certain adjustments. Large banks, which are generally banks with $10 billion or more in assets, will pay quarterly surcharges in addition to their regular risk-based assessments. Overall regular risk-based assessment rates will decline once the reserve ratio reaches 1.15%. Small banks, such as the Bank, will receive credits to offset the portion of their assessments that help to raise the reserve ratio from 1.15% to 1.35%. After the reserve ratio reaches 1.38%, the FDIC will automatically apply a small bank's credit to reduce its regular assessment up to the entire amount of the assessment for each period when the ratio is at or above 1.38%.

Deposit premiums are based on assets. To determine its deposit insurance premium, the Bank computes the base amount of its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and the applicable assessment rate. In 2016, the FDIC's Board of Directors adopted a final rule that changed the manner in which deposit insurance assessment rates are calculated for established small banks, generally those banks with less than $10 billion of assets that have been insured for at least five years. Under this method, each of seven financial ratios and a weighted average of CAMELS composite ratings will be multiplied by a corresponding pricing multiplier. The sum of these products will be added to a uniform amount, with the resulting sum being an institution's initial base assessment rate (subject to minimum or maximum assessment rates based on a bank's CAMELS composite rating). This method takes into account various measures, including an institution's leverage ratio, brokered deposit ratio, one year asset growth, the ratio of net income before taxes to total assets and considerations related to asset quality. Under the small bank pricing rule, where the FDIC DIF's reserve ratio has reached 1.15%, assessments for established small banks with a CAMELS rating of 1 or 2 will range from 1.5 to 16 basis points after adjustments, while assessment rates for established small institutions with a CAMELS composite rating of 4 or 5 may range from 11 to 30 basis points, after adjustment. Assessments for established banks with a CAMELS rating of 3 will range from 3 to 30 basis points.

The FDIC has the authority to adjust deposit insurance assessment rates at any time. In addition, under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices; is in an unsafe or unsound condition to continue operations; or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Deposit balances in excess of those insured by the FDIC are insured in full by the DIF.

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

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

Consumer Protection Regulation

The Bank is subject to federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices including the Equal Credit Opportunity Act, Fair Housing Act, Home Ownership Protection Act, Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), the GLBA, the Truth in Lending Act, CRA, the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, National Flood Insurance Act and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with customers when taking deposits, making loans, collecting loans and providing other services. Further, the Dodd-Frank Act established the CFPB, which has the responsibility for making rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair, deceptive or abusive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The FDIC examines the Bank for compliance with CFPB rules and enforces CFPB rules with respect to the Bank.

Mortgage Reform. The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower's ability to repay such mortgage loan and allows borrowers to assert violations of certain provisions of the Truth in Lending Act as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. In addition, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages. Additionally, CFPB's qualified mortgage rule, requires creditors, such as the Bank, to make a reasonable good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling.

Privacy and Customer Information Security. The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Bank must provide its customers with an initial and annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information except as provided in such policies and procedures. However, an annual disclosure is not required to be provided by a financial institution if the financial institution only discloses information under exceptions from GLBA that do not require an opt out to be provided and if there has been no change in its privacy policies and practices since its most recent disclosure provided to consumers. The GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank is also required to send a notice to customers whose sensitive information has been compromised if unauthorized use of the information is reasonably possible. Most states, including the states where the Bank has customers, have enacted legislation concerning breaches of data security and the duties of the Bank in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of data security breaches. In addition, Massachusetts has promulgated data security regulations with respect to personal information of Massachusetts residents. Pursuant to the FACT Act, the Bank had to develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Anti-Money Laundering

The Bank Secrecy Act. Under the Bank Secrecy Act ("BSA"), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the U.S.

Treasury any cash transactions involving more than $10,000. In addition, financial institutions are required to file suspicious activity reports for any transaction or series of transactions that involve at least $5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), which amended the BSA, together with implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application under the Bank Merger Act to merge banks or effect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target. In addition, under the USA PATRIOT Act financial institutions are required to take steps to monitor their correspondent banking and private banking relationships as well as, if applicable, their relationships with "shell banks."

OFAC. The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"), take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial or other transactions relating to a sanctioned country or with certain designated persons and entities; (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons); and (iii) restrictions on transactions with or involving certain persons or entities. Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the Bank.

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

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

- minimum leverage capital ratios or Tier 1 capital to total assets ratios;
- minimum capital levels measured as a percentage of a bank's risk-adjusted assets;
- as noted above, requirements that federal banking regulators take "prompt corrective action" with respect to, and impose significant restrictions on, any bank that fails to satisfy its applicable minimum capital requirements;
- assignment of a bank by the FDIC to capital categories consisting of (1) well capitalized, (2) adequately capitalized, (3) undercapitalized, (4) significantly undercapitalized, and (5) critically undercapitalized;
- restrictions on the ability of a bank to accept brokered deposits;
- authorization of the FDIC to appoint itself as conservator or receiver for a state chartered bank under certain circumstances and expansion of the grounds for its appointment as conservator or receiver;
- adoption of uniform real estate lending standards;
- standards for safety and soundness related to, internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate;
- restrictions on the activities and investments of state-chartered banks; and
- consumer protection provisions.

In July 2013, federal banking regulators approved final rules that implement changes to the regulatory capital framework for U.S. banks. The regulation requires a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6%, a minimum ratio of total capital to risk-weighted assets of 8%, and a minimum leverage ratio of 4% for all banking organizations. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers. The capital conservation buffer and certain deductions from and adjustments to regulatory capital and risk-weighted assets are being phased in over several years, with full compliance phased in by January 1, 2019. The required minimum capital conservation buffer is 1.875% as of December 31, 2018 and will increase to 2.5% on January 1, 2019. At December 31, 2017 and 2018, the Bank exceeded all capital requirements necessary to be considered well capitalized.

Section 201 of the Growth Act directs the federal bank regulatory agencies to establish a community bank leverage ratio of tangible capital to average total consolidated assets of not less than 8% or more than 10%. The legislation provides that a qualifying community bank, which the legislation defines as a depository institution or depository institution holding company with total consolidated assets of less than $10 billion, that exceeds the community bank leverage ratio shall be considered to have met the generally applicable leverage capital requirements and the generally applicable risk-based capital requirements. In addition, a depository institution that exceeds the community bank leverage ratio will be regarded as having met the capital ratio requirements that are required in order to be considered well capitalized under Section 38 of the FDIA. The federal banking agencies may exclude institutions from availing themselves of this relief based on the institution's risk profile, taking into account off-balance sheet exposures, trading assets and liabilities, total notional derivatives exposures, and such other factors as the federal banking agencies determine appropriate. The federal banking agencies have proposed a community bank leverage ratio of 9%, which means that qualifying institutions with a community bank leverage ratio exceeding 9% would be eligible for the relief provided by Section 201 of the Growth Act. The federal banking agencies have also proposed excluding from this relief institutions with levels of off-balance sheet exposures, trading assets and liabilities, mortgage servicing assets and deferred tax assets exceeding certain levels as well as all advanced approaches banking organizations.

Available Information

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

Executive Officers of the Registrant

Name and Age	Positions with the Bank and Principal Occupation	Term of Office
Robert H. Gaughen, Jr. [1] Age – 70	Chief Executive Officer Chairman of the Board	1993 to Present
Patrick R. Gaughen [2] Age – 38	President and Chief Operating Officer Director	2012 to Present
Cristian A. Melej [3] Age – 41	Vice President - Chief Financial Officer	2016 to Present
James J. Dell'Anno [4] Age – 57	Vice President - Retail Lending Officer	2018 to Present
Shawn T. Sullivan [5] Age – 57	Vice President - Commercial Lending Officer	1996 to Present

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

[2] Mr. Patrick R. Gaughen joined the Bank in July 2012 as Vice President - Chief Strategy/Corporate Development Officer. In 2013, he was promoted to Senior Vice President - Chief Strategy/Corporate Development Officer, in 2014 was promoted to Executive Vice President and in 2018 was promoted to President and Chief Operating Officer. Before joining the Bank, Mr. Gaughen was a Foreign Service Officer with the U.S. Department of State providing analytical and decision-support for senior U.S. policymakers regarding U.S. foreign policy in the Near East. Mr. Gaughen is a graduate of Yale University, Georgetown University Walsh School of Foreign Service and Duke University. Mr. Gaughen is the son of Robert H. Gaughen Jr., Chief Executive Officer.

[3] Mr. Cristian A. Melej, the Bank's Chief Financial Officer, joined the Bank in 2016 as Vice President - Chief Financial Officer, having previously been Executive Vice President and Chief Financial Officer at C1 Financial (and its subsidiary C1 Bank) since 2013. Previous to that, Mr. Melej served as Financial Officer for Restoque Comércio e Confecção de Roupas S.A., a publicly listed Brazilian clothing retailer from 2011 to 2013. Mr. Melej holds a Master of Business Administration degree from IE Business School (Madrid, Spain), a Master of Science in Accounting from Post University and a bachelor's degree in civil engineering from Pontificia Universidad Católica de Chile. He is also a CFA® charterholder.

[4] Mr. James J. Dell'Anno joined the Bank in 2018 to serve as Vice President - Retail Lending. Before joining the Bank, Mr. Dell'Anno was Director of Mortgage Banking at Northeast Bank and prior to this was Vice President - Loan Administration at Stoneham Bank.

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

Item 1A. Risk Factors.

A downturn in local economic conditions could negatively impact the Bank's business. The Bank primarily serves individuals and small businesses located in eastern Massachusetts and adjoining areas. The Bank began lending to commercial real estate borrowers in the greater Washington, D.C. metropolitan area and closed its first loan in that area in early 2017. At December 31, 2018, the substantial majority of the Bank's loans and deposits came from the eastern Massachusetts area. Local events and the economic conditions in the area could have a material adverse impact on the ability of the Bank to attract deposits, the ability of the Bank's borrowers to repay their loans and on the value of the collateral securing these loans.

A downturn in Massachusetts and/or Washington D.C. real estate values could hurt our profits. Because of the concentration of the Bank's loans in real estate, the Bank stands to be more severely impacted by adverse trends affecting real estate than if its loan portfolio had a larger component of non-real estate related commercial loans. At December 31, 2018, approximately 99.9% of the Bank's loan portfolio consisted of real estate related loans, including mortgage loans on developed commercial properties (57%), residential mortgages (37%) and construction loans (6%). At December 31, 2018, approximately 6% of the portfolio was secured by commercial real estate located in the greater Washington D.C. metropolitan area.

The Bank's commercial loans, with limited exceptions, are secured primarily by real estate (usually income producing residential and commercial properties). All of the Bank's residential mortgages and home equity lines of credit are secured by residential property in eastern Massachusetts. Consequently, the Bank's ability to continue to originate real estate loans may be impaired by adverse changes in local and regional real estate markets, or by acts of nature, including hurricanes or earthquakes. Further, the value realized on the sales of foreclosed assets may be diminished by the volume of foreclosed assets being liquidated by other financial institutions. Although the Bank maintains a program to ensure its borrowers maintain appropriate hazard and flood insurance, as well as a mortgage impairment policy with a special rider for earthquake coverage, such coverage may be insufficient and the Bank may suffer losses in the event of a natural disaster.

Reliance on the Federal Home Loan Bank system may adversely affect our liquidity and/or capital position. The Bank is a member of the FHLB and the amount of its equity investment in the FHLB is based upon the amount of borrowed funds. FHLB decisions therefore directly impact the Bank's liquidity. Significant disruptions in the Federal Home Loan Bank's lending operations or significant disruptions in the Federal Home Loan Bank's access to capital markets could have a negative effect on the Bank's operations. Although the Bank maintains a borrowing relationship with the Federal Reserve Bank of Boston Discount Window, there is no guarantee that the Bank could obtain sufficient funding from the FRBB in the event that FHLB funding was not available. Impairment of the FHLB's assets could also negatively affect the value of the Bank's equity investment in the FHLB stock and the receipt of dividends on this investment. Dividends on this investment are declared at the discretion of the FHLB board. At December 31, 2018, the Bank held $28.7 million in FHLB stock, borrowed funds were $606.6 million, and the Bank had $538.7 million in unused available capacity (net of accrued interest on outstanding advances).

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

Our funding sources may prove insufficient to replace deposits at maturity and support our future growth. We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we maintain a significant level of overnight cash which is immediately accessible for liquidity. We combine this with the use of a number of funding sources including customer deposits, nationally marketed time deposits, brokered time deposits, FHLB borrowings and repayments and maturities of loans and investments. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these funding sources. Moreover, if the Bank ceases to be categorized as "well capitalized" under banking regulations, it would be prohibited from accepting, renewing or rolling over brokered deposits except with a waiver from the FDIC. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

Environmental liability associated with commercial real estate lending could result in losses. In the course of business, we may acquire, through foreclosure or other similar proceedings, properties securing loans we have originated that are in default. Particularly in commercial real estate lending, there is a risk that material environmental violations could be discovered at these properties. In this event, we might be required to remedy these violations at the affected properties at our sole cost and expense. The cost of this remedial action could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties as a result of their condition. Although the Bank seeks to mitigate these risks by conducting pre-origination environmental due diligence on commercial real estate, this due diligence may fail to discover environmental violations that exist at the time of origination. The Bank also generally acquires title to foreclosed real estate through special purpose entities designed to limit the Bank's liability. There can be no guarantee that such entities will successfully limit such liability. These events could have an adverse effect on our business, results of operations and financial condition.

The Bank's loan loss reserves may prove to be insufficient if future economic conditions deteriorate. The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loans being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. The Bank maintains an allowance for loan losses based upon, among other things, historical losses, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types, as well as other factors such as local economic trends, real estate market conditions and credit concentrations. Based upon such factors, the Bank makes various assumptions and judgments about the ultimate collectability of the loan portfolio and provides an allowance for loan losses based upon a percentage of the outstanding balances and for specific loans when their ultimate collectability is considered questionable. If the Bank's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb inherent losses, the Bank's earnings and capital could be significantly and adversely affected. As of December 31, 2018, the allowance for loan losses was $13.8 million, which represented 0.68% of total outstanding loans. At such date, the Bank had $484,000 in non-accrual loans. Although the Bank believes that its allowance for loan losses is adequate, there can be no assurance that the allowance will prove sufficient to cover loan losses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Provision for Loan Losses."

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

We could be adversely affected by the loss of one or more key executives or an inability to attract and retain qualified personnel. Our success depends on our ability to retain the services of our existing key executives and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executives or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct or grow our business.

We operate in a highly regulated industry, and laws and regulations, or changes in them, could limit or restrict our activities and could have a material adverse effect on our operations. We are subject to regulation and supervision by the FDIC and the Commissioner of Banks. Federal and state laws and regulations govern numerous matters affecting us, including changes in the ownership or control of banks; maintenance of adequate capital and the financial condition of a financial institution; permissible types, amounts and terms of extensions of credit and investments; the manner in which we conduct mortgage banking activities; permissible non-banking activities; the level of reserves against deposits; and restrictions on dividend payments. The FDIC and the Commissioner of Banks have the power to issue consent orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation. These and other restrictions limit the manner in which we may conduct business and obtain financing. The laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. These changes could adversely and materially impact us. Failure to comply with laws, regulations, policies, or supervisory guidance could result in enforcement and other legal actions by federal and state authorities, including criminal and civil penalties, the loss of FDIC insurance, revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties, and/or reputational damage, which could have a material adverse effect on our business, financial condition, and results of operations. See "Business-Supervision and Regulation."

We are subject to capital and liquidity standards that require banks and bank holding companies to maintain more and higher quality capital and greater liquidity than has historically been the case. We became subject to new capital requirements in 2015. These new standards, which now apply and have been fully phased-in force bank holding companies and their bank subsidiaries to maintain substantially higher levels of capital as a percentage of their assets, with a greater emphasis on common equity as opposed to other components of capital. The need to maintain more and higher quality capital, as well as greater liquidity, and generally increased regulatory scrutiny with respect to capital levels, may at some point limit our business activities, including lending, and our ability to expand. It could also result in the Bank being required to take steps to increase regulatory capital and may dilute stockholder value or limit our ability to pay dividends or otherwise return capital to our investors through stock repurchases.

We are subject to numerous laws designed to protect consumers, including the CRA and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions. The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose community investment and nondiscriminatory lending requirements on financial institutions. The CFPB, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the CRA, the Equal Credit Opportunity Act, the Fair Housing

Act or other fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We invest a portion of our stockholder capital in equity securities, which may result in significant variability in our investment results and may negatively impact stockholders' equity and reported earnings. Equity securities have historically produced higher returns than fixed-income investments; however, investing in equity securities may result in significant variability in investment returns from one period to the next. In volatile financial markets, we could experience significant declines in the fair value of our equity investment portfolio. Our equity portfolio is concentrated in particular companies and industries and, as a result, is exposed to more volatility from one period to the next. Effective January 1, 2018, the Bank adopted FASB ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. Following the adoption of this guidance, net unrealized gains and losses on the Bank's equity securities portfolio are reflected in the income statement, regardless of whether such gains and losses are realized, which can increase variability of the Bank's earnings and regulatory capital.

System failure or breaches of our network security could subject us to increase operating costs as well as possible liability and damage our reputation. Our computer systems and network infrastructure could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, our security measures may not be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the encryption we and third-party service providers use to protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations. It is possible that significant amount of time and money may be spent to rectify the harm caused by a breach. While we have general liability insurance and cyber liability insurance, there are limitations on coverage as well as dollar amount. Furthermore, cyber incidents carry a greater risk of injury to our reputation. Finally, depending on the type of incident, banking regulators can impose restrictions on our business and consumer laws may require reimbursement of customer loss.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. We outsource many of our major systems, such as data processing, loan servicing and deposit processing systems. In particular, we rely primarily on Fiserv, Google and US Bank for key information management and payment handling systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process new and renewal loans or gather deposits and provide customer service, compromise our ability to operate effectively, result in potential noncompliance with applicable laws or regulations, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

Our ability to successfully compete may be reduced if we are unable to make technological advances. The banking industry is experiencing rapid changes in technology. In addition to improving customer service, effective use of technology increases efficiency and enables financial institutions to reduce costs. As a result, our future success will depend in part on our ability to address our customers' needs by using technology. We cannot be sure whether we will be able to effectively develop new technology-driven products and services or be successful in marketing these products to our customers. Many of our competitors have far greater resources than we have to invest in technology.

Natural disasters, acts of terrorism and other external events could harm our business. Natural disasters can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. A significant natural disaster, such as a tornado, hurricane, earthquake, fire or flood, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. Acts of terrorism, war, civil unrest, violence or human error could cause disruptions to our business or the economy as a whole. Although the Bank increasingly requires certain borrowers obtain hazard policies that cover terrorism risk, such coverage may be insufficient and may cover only direct physical damage to our collateral. Given the concentration of the Bank's collateral in two high-profile urban environments, the Bank may suffer losses in the event of a terrorist attack. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

Changes in accounting standards can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of our financial statements. To the extent such changes may impact the level of the Bank's regulatory capital, such changes could have a substantive effect on the Bank's operations and growth.

Our common stock is not insured by any governmental entity. Our common stock is not a deposit account or other obligation of any bank and is not insured by the FDIC or any other governmental entity.

Item 1 B. Unresolved Staff Comments.

None

Item 2. Properties.

The following table sets forth certain information relating to the Bank's premises at December 31, 2018.

	Location	Year Acquired/Leased	Ownership
Main Office & Corporate Offices:			
49-55 Main Street Hingham, MA 02043	Hingham	1950	Owned
Branch Offices:			
37 Whiting Street Hingham, MA 02043	South Hingham	1979	Owned
401 Nantasket Avenue Hull, MA 02045	Hull	1976	Owned
13 Elm Street Cohasset, MA 02025	Cohasset	1995	Owned
32 Pleasant Street South Weymouth, MA 02190	South Weymouth	1998	Owned
300 Linden Ponds Way Hingham, MA 02043	South Hingham	2004	Leased
540 Tremont Street Boston, MA 02116	Boston	2006	Leased
5 Assinippi Avenue Hanover, MA 02339	Norwell/Hanover	2008	Owned
80 Charles Street Boston, MA 02114	Boston	2011	Leased
35 Main Street Nantucket, MA	Nantucket	2012	Owned
Drive-up:			
71 Main Street Hingham, MA 02043	Hingham	2001	Owned

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable

PART II

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

The Board of Directors declared cash dividends totaling $1.92 per share during 2018, which included a special dividend of $0.50 per share declared in the fourth quarter of 2018. In 2017, the Board of Directors declared cash dividends totaling $1.66 per share, which included a special dividend of $0.34 per share declared in the fourth quarter.

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

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

The Bank's common shares are listed and traded on The NASDAQ Stock Market ("NASDAQ") under the symbol "HIFS."

As of December 31, 2018, there were approximately 225 stockholders of record.

The following table presents the dividend declared by the Bank each quarter.

	Dividend
2017	
First Quarter	$ 0.32
Second Quarter	0.32
Third Quarter	0.34
Fourth Quarter	0.68
2018	
First Quarter	$ 0.34
Second Quarter	0.35
Third Quarter	0.36
Fourth Quarter	0.87

The closing sale price of the Bank's common stock at December 31, 2018 was $197.74 per share.

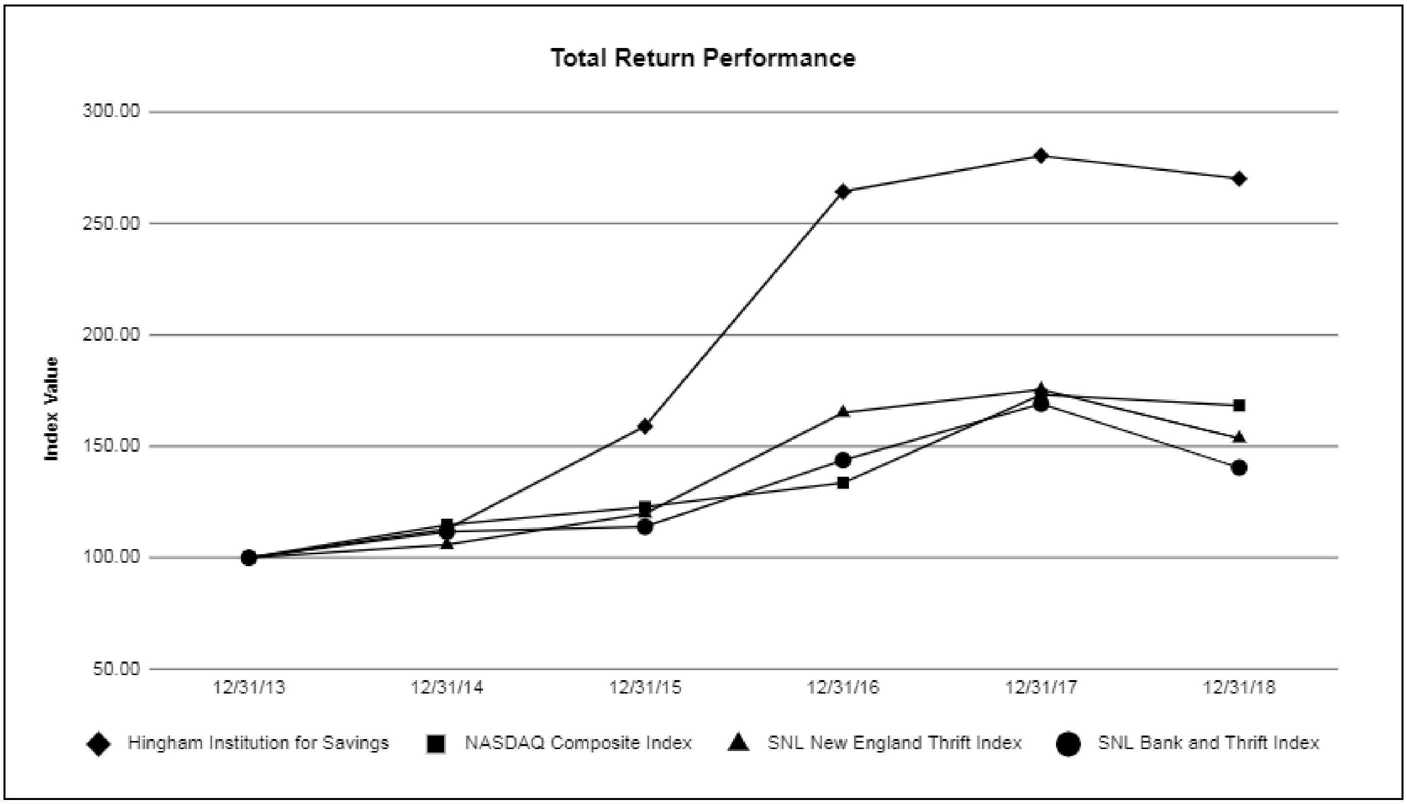
Comparative Stock Performance Graph

The chart which appears below sets forth the percentage change, on an annual basis, in the cumulative total stockholder return on the Bank's Common Stock since December 31, 2013 through December 31, 2018. For comparative purposes, changes in the cumulative total stockholder return on the three indices of publicly traded stocks (the "Indices") are also set forth on the chart.

- The NASDAQ Composite Index reflects the total return of a group of stocks in a cross section of industries. Many of these stocks have substantially larger market capitalizations than the Bank.
- The SNL New England Thrift Index tracks a peer group of all publicly traded thrift institutions located in New England. The SNL Bank and Thrift Index, tracks a national group of publicly traded bank and thrift institutions. SNL Securities is a research and publishing firm specializing in the collection and dissemination of data on the banking, thrift, and financial services industries.

The chart begins with an equal base value of $100 for the Bank's stock and for each of the Indices on December 31, 2013 and reflects year-end closing prices and dividends paid thereafter by the Bank and by the companies which comprise the Indices. The chart assumes full reinvestment of such dividends.

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



Index	Year Ending 12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Hingham Institution for Savings	100.00	112.83	158.96	264.30	280.42	270.10
NASDAQ Composite	100.00	114.75	122.74	133.62	173.22	168.30
SNL New England Thrift	100.00	105.79	119.86	165.07	175.47	153.64
SNL Bank and Thrift	100.00	111.63	113.89	143.78	169.07	140.45

Item 6. Selected Financial Data.

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

	At December 31,				
	2014	2015	2016	2017	2018
	(In Thousands)				
Balance Sheet Data:					
Total assets	$ 1,552,205	$ 1,768,528	$ 2,014,599	$ 2,284,599	**$ 2,408,587**
Cash and cash equivalents	177,222	261,013	322,932	355,229	**295,975**
Securities available for sale	70,570	40,603	27,168	34,304	**14**
Equity securities	—	—	—	—	**38,446**
Loans:					
Residential loans	576,665	635,522	685,674	721,809	**741,841**
Commercial mortgage	607,851	681,601	796,063	998,567	**1,150,535**
Construction	60,371	95,433	131,778	122,715	**127,274**
Other	996	644	678	701	**542**
Allowance for loan losses	9,108	9,905	11,030	12,537	**13,808**
Deposits	1,089,217	1,217,027	1,366,109	1,505,862	**1,573,154**
Federal Home Loan Bank advances	329,602	402,464	475,318	579,164	**606,600**
Stockholders' equity	121,515	138,015	161,024	186,158	**212,576**

	At or For the Years Ended December 31,				
	2014 *	2015	2016	2017	2018
	(Dollars in Thousands, Except Per Share Amounts)				
Income Statement Data:					
Total interest and dividend income	$ 56,193	$ 61,859	$ 71,769	$ 81,059	**$ 94,169**
Total interest expense	9,936	10,910	13,385	17,261	**28,384**
Net interest income	46,257	50,949	58,384	63,798	**65,785**
Provision for loan losses	625	625	1,135	1,505	**1,270**
Other income (loss)	7,863	1,483	1,735	1,410	**(1,735)**
Operating expenses	20,089	19,031	19,215	19,576	**20,051**
Income before income taxes	33,406	32,776	39,769	44,127	**42,729**
Income tax provision	11,142	13,430	16,346	18,370	**12,330**
Net income	$ 22,264	$ 19,346	$ 23,423	$ 25,757	**$ 30,399**
Loss on equity securities, net	—	—	—	—	**3,023**
Gain on sale of available for sale securities, net	5	(29)	(344)	(77)	—
Related income tax provision	(2)	10	123	28	**(646)**
Core net income	$ 22,267	$ 19,327	$ 23,202	$ 25,708	**$ 32,776**
Earnings per common share:					
Basic	$ 10.46	$ 9.09	$ 10.99	$ 12.08	**$ 14.25**
Diluted	$ 10.44	$ 9.02	$ 10.89	$ 11.81	**$ 13.90**
Financial Ratios:					
Return on average assets	1.52 %	1.18 %	1.22 %	1.21 %	**1.32 %**
Return on average equity	19.30	14.81	15.59	14.73	**14.97**
Core return on average assets	1.52	1.18	1.21	1.21	**1.42**
Core return on average equity	19.30	14.80	15.44	14.70	**16.14**
Average equity to average assets	7.87	7.97	7.85	8.22	**8.80**
Tier 1 capital to average assets	7.86	7.95	7.98	7.97	**9.09**
Interest rate spread	3.13	3.06	2.99	2.91	**2.66**
Net interest margin	3.23	3.17	3.10	3.05	**2.90**
Dividend payout ratio (basic)	20.08	16.06	14.19	13.75	**13.47**
Efficiency ratio	37.12	36.32	32.15	30.06	**29.89**
Allowance for loan losses/total loans	0.73	0.70	0.68	0.68	**0.68**
Allowance for loan losses/non-performing loans	397.04	540.37	614.43	735.74	**2,852.89**
Net charge-offs (recoveries)/average loans outstanding	—	(0.01)	—	—	—
Non-performing loans/total loans	0.18	0.13	0.11	0.09	**0.02**
Non-performing assets/total assets	0.20	0.10	0.09	0.07	**0.02**
Cash dividends declared per common share	$ 2.10	$ 1.46	$ 1.56	$ 1.66	**$ 1.92**
Book value per common share	$ 57.08	$ 64.83	$ 75.50	$ 87.29	**$ 99.67**
Market value per common share	$ 87.01	$ 119.80	$ 196.78	$ 207.00	**$ 197.74**

* Includes a net gain of approximately $5.7 million related to non-taxable life insurance death benefit income of $6.3 million less an accrual of $949,000 for a contractual death benefit liability, and $388,000 in related income tax benefits.

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

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

SIGNIFICANT ACCOUNTING POLICIES; CRITICAL EARNINGS ESTIMATES

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

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

RESULTS OF OPERATIONS
COMPARISON OF THE YEARS 2016, 2017 AND 2018

For the year ended December 31, 2018, the Bank earned $30.4 million, as compared to $25.8 million in 2017 and $23.4 million in 2016. On a per-share basis, the Bank earned $14.25 per share basic and $13.90 per share diluted, as compared to $12.08 per share basic and $11.81 per share diluted in 2017 and $10.99 per share basic and $10.89 per share diluted in 2016. Core net income was $32.8 million in 2018, as compared to $25.7 million in 2017 and $23.2 million in 2016. This represents $15.37 per share basic and $14.99 per share diluted for 2018, as compared to $12.05 per share basic and $11.79 per share diluted in 2017 and $10.89 per share basic and $10.79 per share diluted in 2016.

Net income for 2018 increased 18% as compared to 2017, due principally to a $2.0 million increase in net interest income, a $6.0 million decrease in the income tax provision and a $235,000 decrease in the provision for loan losses, partially offset by a $3.1 million decrease in other income (loss) and a $475,000 increase in operating expenses. Net income for 2017 increased 10% as compared to 2016, due principally to a $5.4 million increase in net interest income, partially offset by a $370,000 increase in the provision for loan losses, a $325,000 decrease in other income (loss), a $361,000 increase in operating expenses and a $2.0 million increase in the income tax provision.

Total interest and dividend income increased by $13.1 million in 2018 compared to 2017 due to a $179.6 million, or 9%, increase in average interest-earning assets combined with a 27 basis point increase in the average yield on earning assets. Interest expense increased by $11.1 million due to a $123.2 million, or 7%, increase in average interest-bearing liabilities combined with a 52 basis point increase in the average rate paid. Total interest and dividend income increased by $9.3 million in 2017 compared to 2016 due to a $209.9 million increase in average interest-earning assets combined with a six basis point increase in the average yield on earning assets. Interest expense increased by $3.9 million due to a 10% increase in average interest-bearing liabilities and a 14 basis point increase in the average rate paid.

Other income (loss) is comprised of gains (losses) on equity securities, net, customer service fees on deposits, increases in the cash surrender value of bank-owned life insurance policies and miscellaneous income. Beginning in 2018, unrealized gains or losses resulting from changes in fair value of the Bank's equity securities are recognized in other income (loss), included in gain (loss) on equity securities, net. Other income (loss) decreased by $3.1 million in 2018 compared to 2017 due to a decrease in gain (loss) on equity securities, net, income from bank-owned life insurance policies and customer service fees from deposits. Other income (loss) decreased by $325,000 in 2017 compared to 2016 due to a decrease in gain (loss) on sale of equity securities, net, income from bank-owned life insurance policies and customer service fees from deposits.

Operating expenses include salaries and employee benefits, occupancy and equipment, data processing, deposit insurance, marketing, foreclosure, and other general and administrative expenses. Operating expenses increased by $475,000 in 2018 compared to 2017 primarily in the categories of salaries and employee benefits, marketing and data processing expenses. In 2018, salaries and employee benefits increased by $358,000, or 3%, due to annual salary increases. Data processing expenses increased by $132,000, or 10%, from 2017 to 2018 primarily due to higher data processing charges associated with improvements made to the Bank's systems and volume increases. Occupancy and equipment expenditures increased by $9,000, or 1%, from 2017 to 2018 due to lower rental income received in 2018, partially offset by lower depreciation expense. Marketing expense increased by $172,000, or 43%, when comparing 2018 to 2017 primarily due to marketing efforts for the Bank's Commercial Real Estate and Specialized Deposit Groups. Deposit insurance expense decreased by $103,000, or 10%, in 2018 compared to 2017 due to a lower assessed rate, partially offset by an increase in the size of the balance sheet, as this charge is calculated based on total assets. Foreclosure income increased $19,000 in 2018 compared to 2017 due to the lower level of OREO properties, along with reduced collection activity combined with higher recovery of expenses from the resolution of delinquent loans. Also included in foreclosure expense are gains and losses recognized on the sale or write-downs of OREO properties. In 2018, the Bank did not record any sales of OREO, compared to a net gain of $23,000 recorded on the sale of one property in 2017. Other general and administrative expense decreased by $74,000, or 3%, in 2018 compared to 2017, reflecting lower loan related and legal expenses combined with a decrease in other operating expenses.

Operating expenses increased by $361,000 in 2017 compared to 2016 primarily in the categories of salaries and employee benefits and other general and administrative expenses. In 2017, salaries and employee benefits increased by $276,000, or 2%, due to annual salary increases. Occupancy and equipment expenditures decreased by $91,000, or 5%, from 2016 to 2017 due to lower depreciation expense and higher rental income received in 2017. Data processing expenses increased by $40,000, or 3%, from 2016 to 2017 primarily due to higher network, software and mobile banking related expenses. Deposit insurance expense increased by $57,000, or 6%, in 2017 due to an increase in total assets, partially offset by a decrease in the assessment rate. Marketing expense declined by 1% when comparing 2017 to 2016 as the Bank continued to carefully allocate resources to advertising related activities during 2017. Foreclosure expenses decreased $47,000 in 2017 compared to 2016 due to the lower level of OREO properties, along with reduced collection activity and the recovery of expenses from the resolution of delinquent loans. Also included in foreclosure expense are gains and losses recognized on the sale or write-downs of OREO properties. In 2017, the Bank recorded a net gain of $23,000 on the sale of one property compared to a net loss of $3,000 on the sale of one property in 2016. Other general and administrative expense increased in 2017 compared to 2016, reflecting higher loan related and legal expenses partially offset by a decrease in other operating expenses.

Net Interest Income

The Bank reported $65.8 million in net interest income in 2018 compared to $63.8 million in 2017 and $58.4 million in 2016. The net interest margin decreased from 3.10% in 2016 to 3.05% in 2017 and 2.90% in 2018. During the same period, the Bank recognized significant increases in loan and deposit balances contributing to an increase in net interest income; however the declining yield on interest-earning assets combined with an increase in rates paid on interest-bearing liabilities narrowed the weighted average interest rate spread. In recent years long-term rates have increased slightly from recent historic lows; while, starting in December 2015, the Federal Reserve began gradually increasing the overnight rate, impacting many short-term rates. In this environment, the Bank's cost of funds has increased in tandem with short-term rates over the last two years, while the yield on earning assets has increased at a slower pace, as the Federal Reserve has increased interest on excess reserves and the Bank has been gradually increasing the interest rate on certain loan products, particularly in 2018. To mitigate the negative effect of these market conditions on its net interest margin, the Bank began using brokered time deposits in 2017 as an alternative to other wholesale funding sources, such as FHLB borrowings or Internet listing services certificates of deposit. In 2018, the Bank shifted a portion of its wholesale funding mix from FHLB advances to brokered deposits, to take advantage of their lower cost and/or longer duration. At the same time, the Bank reduced the balance of excess reserves held at the Federal Reserve Bank, in order to minimize the carrying cost of its on-balance sheet liquidity.

Average total interest-earning assets increased 9% in 2018 over 2017, and 11% in 2017 as compared to 2016. The Bank earned an average yield of 4.15% on its earning assets in 2018 compared to 3.88% in 2017 and 3.82% in 2016. Interest income is derived from commercial and residential mortgage loans, home equity lines of credit, consumer and commercial loans, the securities portfolio and short-term investments. Interest income on loans increased 15% in 2018 over 2017, and 10% in 2017 over 2016, resulting from continued growth in loans, which accounted for approximately 84% of average total assets in 2018, as compared to 80% in 2017 and 2016. Mortgage loans accounted for more than 99% of average outstanding loans in each of the past three years. Interest income derived from securities and short-term investments increased in the last three years due to the higher dividend income on equity investments and FHLB stock, as well as the increase in interest on excess reserves paid by the Federal Reserve. Marketable equity securities produced dividend income of $590,000 in 2018 compared to $499,000 in 2017 and $435,000 in 2016. FHLB stock produced dividends totaling $1.4 million in 2018 compared to $1.0 million in 2017 and $814,000 in 2016.

Non-accrual loans totaled $484,000 at December 31, 2018, as compared to $1.7 million at December 31, 2017 and $1.8 million at December 31, 2016. Interest income includes actual payments received on loans classified as non-accrual. Excluded from interest income is interest not paid on such loans, which totaled $30,000 for 2018, as compared to $19,000 for 2017 and $115,000 for 2016. During 2018, the balance of non-accrual loans declined as non-performing loans resolved due to payoff or renewed performance were not offset by new delinquent loans. The process of accessing collateral continues to be delayed by Massachusetts laws relative to foreclosure and the protections afforded to both residential and commercial borrowers through the bankruptcy process, but the Bank remains focused on ensuring that borrowers perform in accordance with contractual terms and will continue to work to resolve remaining non-accrual credits in 2019. The Bank believes that its loans classified as non-accrual are significantly collateralized, that these loans pose minimal risk of loss to the Bank, and that the allowance for loan losses is sufficient to absorb such losses. However, the Bank continues to monitor the loan portfolio and additional reserves will be recorded if necessary.

Beginning in 2015, the Bank has seen 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, changes in the economic environment and increasing short-term rates. The

Bank has increased certain core product rates and continued to use wholesale time deposits to provide an efficient means for balanced growth. As a result, the average rate paid on interest-bearing deposits increased by 43 basis points from 2017 to 2018. Given the current economic environment, management believes it is possible that deposit market rates will continue to increase in 2019.

Interest expense on borrowed funds increased in 2018 as compared to 2017 due to a 87 basis point increase in the average rate paid, partially offset by a 9% decline in the average balance. In 2017, the Bank borrowed $85 million of 10 and 15-year final maturities FHLB option advances, callable quarterly by the FHLB after one year. These advances had favorable rates, were called during 2018 and replaced with higher rate short-term advances. In 2016, the Bank borrowed $330 million of 10 and 15-year final maturities FHLB option advances, callable quarterly by the FHLB after one year. Both advances had favorable rates, were called during 2017 and replaced with higher rate short-term advances. At December 31, 2018, the weighted average rate on FHLB borrowings was 2.63% compared to 1.44% at December 31, 2017. The average cost of all borrowings was 2.03% for 2018 as compared to 1.16% for 2017 and 0.86% for 2016. The increase in FHLB borrowings rate was primarily driven by the higher short-term rates.

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

	Years Ended December 31,								
	2016			2017			2018		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 1,524,184	$ 68,875	4.52 %	$ 1,710,502	$ 75,801	4.43 %	**$ 1,940,568**	**$ 86,984**	**4.48 %**
Commercial loans	140	11	7.86	171	14	8.19	**155**	**13**	**8.39**
Other loans	534	31	5.81	479	28	5.85	**436**	**25**	**5.73**
Total loans (1)(2)	1,524,858	68,917	4.52	1,711,152	75,843	4.43	**1,941,159**	**87,022**	**4.48**
Securities (3)(4)	54,494	1,300	2.39	50,036	1,531	3.06	**53,055**	**1,986**	**3.74**
Federal Reserve and other short-term investments	301,322	1,552	0.52	329,415	3,685	1.12	**276,000**	**5,161**	**1.87**
Total interest-earning assets	1,880,674	71,769	3.82	2,090,603	81,059	3.88	**2,270,214**	**94,169**	**4.15**
Other assets	33,378			35,662			**38,357**		
Total assets	$ 1,914,052			$ 2,126,265			**$ 2,308,571**		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
Regular	$ 92,509	20	0.02 %	$ 95,569	21	0.02 %	**$ 93,123**	**14**	**0.02 %**
Money market	504,738	3,184	0.63	543,771	3,760	0.69	**542,865**	**5,656**	**1.04**
NOW (5)	34,800	3	0.01	38,341	3	0.01	**28,078**	**2**	**0.01**
Term certificates	544,425	6,392	1.17	595,739	7,582	1.27	**776,317**	**13,307**	**1.71**
Total interest-bearing deposits	1,176,472	9,599	0.82	1,273,420	11,366	0.89	**1,440,383**	**18,979**	**1.32**
Borrowed funds	442,134	3,786	0.86	507,457	5,895	1.16	**463,726**	**9,405**	**2.03**
Total interest-bearing liabilities	1,618,606	13,385	0.83	1,780,877	17,261	0.97	**1,904,109**	**28,384**	**1.49**
Demand deposits	140,758			165,839			**196,048**		
Other liabilities	4,456			4,665			**5,369**		
Stockholders' equity	150,232			174,884			**203,045**		
Total liabilities and stockholders' equity	$ 1,914,052			$ 2,126,265			**$ 2,308,571**		
Net interest income		$ 58,384			$ 63,798			**$ 65,785**	
Weighted average interest rate spread			2.99 %			2.91 %			**2.66 %**
Net yield on average earning assets (6)			3.10 %			3.05 %			**2.90 %**

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

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

	Years Ended December 31,					
	2017 Compared to 2016 Increase (Decrease)			2018 Compared to 2017 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 8,279	$ (1,353)	$ 6,926	**$ 10,302**	**$ 877**	**$ 11,179**
Securities	(113)	344	231	**97**	**358**	**455**
Federal Reserve and other short-term investments	157	1,976	2,133	**(676)**	**2,152**	**1,476**
Total interest and dividend income	8,323	967	9,290	**9,723**	**3,387**	**13,110**
Interest expense:						
Interest-bearing deposits:						
Regular	1	—	1	**(1)**	**(6)**	**(7)**
Money market	257	319	576	**(6)**	**1,902**	**1,896**
NOW	—	—	—	**(1)**	—	**(1)**
Term certificates	629	561	1,190	**2,670**	**3,055**	**5,725**
Total interest-bearing deposits	887	880	1,767	**2,662**	**4,951**	**7,613**
Borrowed funds	618	1,491	2,109	**(547)**	**4,057**	**3,510**
Total interest expense	1,505	2,371	3,876	**2,115**	**9,008**	**11,123**
Net interest income	$ 6,818	$ (1,404)	$ 5,414	**$ 7,608**	**$ (5,621)**	**$ 1,987**

Provision for Loan Losses

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

In 2018, the Bank had net recoveries of $1,000, compared to net recoveries of $2,000 in 2017 and net charge-offs of $10,000 in 2016. The Bank continues to closely monitor its non-accrual loans, which were 0.02% of total loans at December 31, 2018, as compared to 0.09% at December 31, 2017 and 0.11% at December 31, 2016, and its loans past due greater than 30 days, which have declined $3.1 million to 0.55% of total loans at December 31, 2018, as compared to 0.77% at December 31, 2017 and 0.69% at December 31, 2016. The lower level of delinquent loans in 2018 over 2017 was primarily in the 30-59 day and 60-89 day categories. The provision for loan losses for 2018 was $1.3 million, as compared to $1.5 million in 2017 and $1.1 million in 2016. The increase in the allowance for loan loss reserves has been driven by the growth in the loan portfolio. Although most economic and market indicators continue to show stability in our market area, the Bank remains cautious. As a percentage of the gross loan portfolio, the allowance for loan losses was 0.68% at December 31, 2018, 2017 and 2016.

Other Income (Loss)

Other income (loss) is comprised of gains (losses) on equity securities, net, customer service fees on deposits, increases in the cash surrender value of bank-owned life insurance policies and miscellaneous income. Beginning in 2018, unrealized gains or losses resulting from changes in fair value of the Bank's equity securities are recognized in other income (loss), included in gain (loss) on equity securities, net (Refer to Note 3 to the Consolidated Financial Statements for more details). Other loss was $1.7 million in 2018, compared to other income of $1.4 million in 2017 and $1.7 million in 2016. Other loss in 2018 includes a $3.0 million loss on equity securities, net, compared to a $77,000 and $344,000 gain on equity securities, net, in 2017 and 2016, respectively. In 2016 and 2017, unrealized gains and losses on equity securities were recorded in accumulated other comprehensive income. From 2016 through 2018, there has been a continuous 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 consumer and business 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 in 2018, 2017 and 2016. The Bank held $12.5 million in life insurance policies at year-end 2018, as compared to $12.2 million at year-end 2017. Income from these assets is fully excludable from federal income taxes and contributed $255,000 to other income in 2018, $259,000 in 2017, and $265,000 in 2016. The policies accrete at a variable rate of interest with minimum stated guaranteed rates.

Operating Expenses

Operating expenses include salaries and employee benefits, occupancy and equipment, data processing, deposit insurance, marketing, foreclosure, and other general and administrative expenses. Total operating expenses as a percentage of average total assets were 0.87% in 2018, 0.92% in 2017 and 1.00% in 2016. Operating expenses were $20.1 million in 2018, $19.6 million in 2017 and $19.2 million in 2016. The Bank continues to focus on generating operating leverage by controlling non-interest expense while growing the balance sheet, driving down non-interest expense as a percentage of total assets.

Salaries and employee benefits continue to be the largest component of operating expenses at $12.7 million for 2018, $12.3 million for 2017 and $12.0 million for 2016. The increases in 2017 and 2018 are primarily due to annual merit increases combined with increase in staffing levels, primarily in the Bank's Specialized Deposit Group, partially offset by a decrease in staff in some branch locations. As with most financial institutions, branch transaction levels have declined in recent years as customers use electronic banking and debit cards, reducing the staffing requirements in some locations. In 2018, the Bank closed the branch located in Scituate and began servicing the Scituate customers from its neighboring Cohasset location. Health care benefits, including medical and dental expenses were up slightly when comparing 2018 to 2017 due to higher premiums. Health care premiums rose 7% in 2018 over 2017. Additionally, in 2014, stockholders approved a stock option plan that included the issuance of stock options to certain executive officers. Expenses related to the 2014 issuance totaled $113,000 in 2018, $175,000 in 2017 and $137,000 in 2016.

Occupancy and equipment expenses increased by $9,000, or 1%, in 2018 compared to 2017, and decreased by $91,000, or 5%, in 2017 compared to 2016. The increase in 2018 was due to lower rental income received in 2018, partially offset by lower depreciation expense, while the decrease in 2017 was primarily due to higher rental income and declining depreciation expenses, partially offset by higher building and equipment maintenance costs. In 2018, the Bank generated less revenue from rental apartments located above its Nantucket branch as compared to 2017 and is exploring ways to enhance rental yield in the 2019 summer season. The Bank has also implemented a rent increase for a tenant in one of its South Shore locations. The Bank continues to explore ways to optimize rental income from all of its owned real property. This category also includes $329,000, $320,000 and $316,000 in rent expenses for 2018, 2017 and 2016, respectively.

Data processing expenses increased $132,000, or 10%, in 2018 from 2017 and increased $40,000, or 3%, in 2017 from 2016. The increase in 2018 was primarily due to data processing charges associated with improvements made to the Bank's systems and volume increases, partially offset by savings derived from the retirement of certain legacy systems. The increase in data processing expenses in 2017 was primarily due to data processing charges associated with improvements made to Bank systems, which were partially offset by savings associated with renegotiating certain key vendor contracts, including the Bank's core processor. Technology spending is focused on three primary objectives: delivering new or improved customer experience, reducing costs through simplification and automation of internal processes, and securing customer and Bank confidential information.

Deposit insurance expenses were $977,000 in 2018, compared to $1.1 million in 2017 and $1.0 million in 2016. Deposit insurance expense consists of premiums paid to the FDIC and the Massachusetts Deposit Insurance Fund ("DIF"). The FDIC assessment rate is determined based on several factors, including capitalization, asset growth, earnings, use of brokered deposits and level of non-performing assets, among others. The DIF assessment rate is based on an institution's risk category, which is defined based on similar factors. The decrease in 2018 was due to a lower FDIC assessed rate, partially offset by the Bank's larger asset base and higher DIF insurance expense. The increase in 2017 was due to the Bank's asset growth and higher DIF insurance expense, partially offset by a decline in the FDIC assessment rate. The Bank carefully manages its balance sheet to control the deposit insurance expense associated with excess liquidity.

Marketing expenses were $570,000 in 2018, $398,000 in 2017 and $403,000 in 2016. The increase in 2018 was due primarily to marketing efforts for the Bank's Commercial Real Estate and Specialized Deposit Groups. The Bank continues to carefully allocate resources to advertising related activities.

Foreclosure expenses include expenses related to foreclosing on collateral, maintaining properties, subsequent write-downs in the value of collateral and any net gains or losses associated with their disposition. During 2018, total foreclosure income was $32,000, compared to $13,000 income in 2017 and $34,000 expense in 2016. Income in 2018 included a net recovery of legal, real estate taxes, utilities and other expenses from the resolution of certain delinquent loans, which had been previously incurred in connection with the collection and foreclosure process. Income in 2017 included $23,000 in net gains on the disposal of one property, partially offset by $10,000 in legal, real estate taxes, utilities and other expenses related to the loan collection and foreclosure process and maintenance of properties, net of the recovery of expenses from the resolution of certain delinquent loans. Expenses in 2016 included $29,000 in legal, real estate taxes, utilities and other expenses related to the loan collection and foreclosure process and maintenance of properties, net of the recovery of expenses from the resolution of delinquent loans, combined with $3,000 in net losses on the disposal of one property and $2,000 in write-downs associated with other real estate owned during the year.

Other expenses include audit fees, directors' fees, supplies, postage, legal fees, bank fees, reporting costs and other items. Other expenses were $2.7 million for 2018, $2.8 million for 2017 and $2.6 million for 2016. The decrease in 2018 was due to lower loan related and legal expenses combined with a decrease in other operating expenses, while the increase in 2017 was driven by higher loan related and legal expenses, partially offset by a decrease in other operating expenses.

Income Taxes

The Bank's effective tax rate for 2018 was 28.9%, compared to 41.6% in 2017 and 41.1% in 2016. The decrease in the effective tax rate in 2018 was a result of the Tax Cut and Jobs Act ("The Act") enacted on December 22, 2017, which reduced the federal income tax rate from 35% to 21% effective January 1, 2018. The Act also required the Bank to remeasure its deferred tax assets and liabilities at the new corporate federal income tax rate, which resulted in an additional $218,000 income tax provision in 2017.

BALANCE SHEET ANALYSIS
COMPARISON OF THE YEARS 2018 AND 2017

The Bank had total assets of $2.409 billion at December 31, 2018, an increase of $124.0 million, or 5%, from the $2.285 billion at year-end 2017. During 2018, the Bank reduced the balance of excess reserves held at the Federal Reserve Bank, in order to minimize the carrying cost of its on-balance sheet liquidity. This resulted in lower asset growth compared to prior years, and below the loan growth in 2018 compared to 2017.

Loans

At December 31, 2018 and 2017, the Bank reported net loans of $2.009 billion and $1.834 billion, representing 83% and 80% of total assets, respectively. In 2018, the Bank originated $534.6 million in mortgage and other loans, which resulted in net growth of $175.3 million, or 10%. This compares to 2017, when the Bank originated $580.6 million in mortgage and other loans, which resulted in net growth of $228.3 million, or 14%. The 2018 and 2017 totals included $62.1 million and $60.0 million, respectively, in commercial real estate loans originated in the greater WMA, $112.3 million of which are outstanding as of December 31, 2018, compared to $57.8 million as of December 31, 2017.

A summary of the balances of loans is as follows:

	As of December 31,									
	2014		2015		2016		2017		2018	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)									
Mortgage loans:										
Residential	$ 548,004	44.0 %	$ 602,290	42.6 %	$ 652,444	40.4 %	$ 689,273	37.4 %	**$ 709,982**	**35.1 %**
Commercial	607,851	48.8	681,601	48.2	796,063	49.3	998,567	54.1	**1,150,535**	**57.0**
Construction	60,371	4.8	95,433	6.8	131,778	8.2	122,715	6.7	**127,274**	**6.3**
Home equity	28,661	2.3	33,232	2.3	33,230	2.1	32,536	1.8	**31,859**	**1.6**
Total mortgage loans	1,244,887	99.9	1,412,556	99.9	1,613,515	100.0	1,843,091	100.0	**2,019,650**	**100.0**
Other loans:										
Consumer	693	0.1	568	0.1	525	—	480	—	**414**	—
Commercial	303	—	76	—	153	—	221	—	**128**	—
Total other loans	996	0.1	644	0.1	678	—	701	—	**542**	—
Total loans	1,245,883	100.0 %	1,413,200	100.0 %	1,614,193	100.0 %	1,843,792	100.0 %	**2,020,192**	**100.0 %**
Allowance for loan losses	(9,108)		(9,905)		(11,030)		(12,537)		**(13,808)**	
Net deferred loan origination costs	1,881		2,238		2,484		2,732		**2,904**	
Loans, net	$ 1,238,656		$ 1,405,533		$ 1,605,647		$ 1,833,987		**$ 2,009,288**	

The Bank's lending strategy has continued to focus on the origination of commercial, multi-family and single-family mortgage loans. Mortgage loans increased by 10% in 2018.

Maturities and sensitivities of construction and commercial loans, at December 31, 2018, are as follows:

	1 Year or Less	Over 1 Year through 5 Years	Over 5 Years	Total
	(In Thousands)			
Construction, net				
Fixed rate	**$ 43,826**	**$ 37,630**	**$ 10,610**	**$ 92,066**
Adjustable rate	**7,551**	**18,573**	**9,084**	**35,208**
Total	**$ 51,377**	**$ 56,203**	**$ 19,694**	**$ 127,274**
Commercial				
Fixed rate	**$ 83**	**$ —**	**$ 45**	**$ 128**

The Bank's loan portfolio is reported net of the allowance for loan losses. At December 31, 2018 and 2017, the allowance was $13.8 million and $12.5 million, respectively. The allowance is maintained at a level which the Bank believes is adequate to absorb inherent losses in the portfolio. The allowance is reviewed by senior management on at least a quarterly basis to determine its adequacy. This review considers historic losses, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types as well as other factors such as local economic trends, real estate market conditions and credit concentrations. Trends in the portfolio including charge-offs, delinquency levels and stabilization in the local real estate markets, have allowed the Bank to reduce its allowance for loan losses coverage ratio in comparison to total loans over the past five years, stabilizing in the last three years. (Refer to Notes 1 and 4 to the Consolidated Financial Statements for more details). Loan losses are charged against the allowance when the uncollectibility of loan principal is confirmed. In 2018, the Bank had net recoveries of $1,000, compared to net recoveries of $2,000 in 2017 and net charge-offs of $10,000 in 2016.

Commercial mortgage loans by collateral type at December 31, 2017 and 2018, are as follows:

	2017		2018	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Multifamily (5+)	$ 297,600	30 %	**$ 350,984**	**31 %**
Residential (1-4)	251,864	25	**292,541**	**26**
Office	170,047	17	**177,211**	**15**
Mixed use	119,708	12	**149,256**	**13**
Retail	68,357	7	**72,428**	**6**
Industrial	21,207	2	**22,962**	**2**
Land	8,603	1	**12,672**	**1**
Others	61,181	6	**72,481**	**6**
Total	$ 998,567	100 %	**$ 1,150,535**	**100 %**

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

	Years Ended December 31,				
	2014	2015	2016	2017	2018
	(In Thousands)				
Balance at beginning of year	$ 8,509	$ 9,108	$ 9,905	$ 11,030	**$ 12,537**
Charge-offs:					
Residential real estate	11	—	9	—	—
Home equity	31	—	—	—	—
Other loans	2	—	3	1	**2**
Total	44	—	12	1	**2**
Recoveries:					
Residential real estate	1	—	2	2	**2**
Commercial real estate	1	172	—	—	—
Home equity	15	—	—	—	—
Other loans	1	—	—	1	**1**
Total	18	172	2	3	**3**
Net charge-offs (recoveries)	26	(172)	10	(2)	**(1)**
Provision for loan losses	625	625	1,135	1,505	**1,270**
Balance at end of year	$ 9,108	$ 9,095	$ 11,030	$ 12,537	**$ 13,808**
Ratio of net charge-offs (recoveries) during the year to average loans outstanding	— %	(0.01) %	— %	— %	**— %**

As a percentage of the gross loan portfolio, the allowance for loan losses was 0.68% at December 31, 2018, as compared to 0.68%, 0.68%, 0.70%, and 0.73%, respectively, for each of the previous four years. The stable percentage in 2018 and 2017 reflects the continuation of trends in the housing and commercial real estate markets and in the general economy.

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

	2014		2015		2016		2017		2018	
	Amount	Percent *	Amount	Percent *	Amount	Percent *	Amount	Percent *	Amount	Percent *
	(Dollars in Thousands)									
Residential real estate	$ 2,895	44 %	$ 3,102	43 %	$ 2,634	41 %	$ 2,607	37 %	**$ 2,674**	**35 %**
Commercial real estate	5,684	49	5,457	48	6,690	49	8,508	54	**9,687**	**57**
Construction	456	5	1,142	7	1,556	8	1,301	7	**1,337**	**6**
Home equity	69	2	196	2	141	2	113	2	**105**	**2**
Other loans	4	—	8	—	9	—	8	—	**5**	—
Total	$ 9,108	100 %	$ 9,905	100 %	$ 11,030	100 %	$ 12,537	100 %	**$ 13,808**	**100 %**

* Percent of loans in each category to total 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.

The Bank had non-accrual loans with an outstanding balance of $484,000 at December 31, 2018 and $1.7 million at December 31, 2017. As a percentage of total loans, these non-accrual loans were 0.02% at December 31, 2018 and 0.09% at December 31, 2017. Additionally, at December 31, 2018 and 2017, total impaired loans were $1.9 million and $3.5 million, respectively. All loans on non-accrual and troubled debt restructurings are considered impaired and, as such, are reviewed for specific reserve allocation. Management determines the amount of reserves on a case-by-case basis using either the present value of expected cash flows, or the fair value of the underlying collateral when the loan is collateral dependent. Updated appraisals on collateral are obtained when management believes that the value of the property has deteriorated. At December 31, 2018 and 2017, $118,000 and $138,000, respectively, was allocated to impaired loans.

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

	Non-accrual	Past-due 90 or More Days and Still Accruing	Troubled Debt Restructures [(1)]
		(In Thousands)	
December 31, 2014	$ 2,294	$ —	$ 3,401
December 31, 2015	1,833	—	2,667
December 31, 2016	1,795	—	2,330
December 31, 2017	1,705	—	1,747
December 31, 2018	**484**	**—**	**1,397**

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

Securities

The Bank's securities portfolio includes debt and equity securities. The equity securities portfolio is not viewed as a primary source of liquidity and includes holdings concentrated primarily in the financial services sector, with investments in banks, diversified insurance companies, payment networks, ratings agencies, technology and one industrial company. These investments are managed to produce superior returns on capital over a longer time horizon. The equity securities portfolio also includes an investment in the CRA Fund, a mutual fund which invests in fixed-income securities which qualify under the CRA investment test. At December 31, 2018, the portfolio of $38.5 million represented 2% of total assets, as compared to $34.3 million, or 2% of total assets, at year-end 2017. At December 31, 2018 and 2017, less than 1% of the securities were issued or guaranteed by government-sponsored enterprises. For the most part, these securities are offered at a fixed rate and term and at spreads above comparable U.S. Treasury issues. In recent years, the Bank has allowed the bond portfolio to shrink as the proceeds on maturities were moved to overnight cash accounts.

At December 31, 2018, equity securities included a $7.7 million investment in the CRA Fund and $30.8 million in common equity securities. These equity investments accounted for approximately 100% of the investment portfolio at December 31, 2018.

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

	December 31,		
	2016	2017	2018
		(In Thousands)	
Debt securities:			
Residential mortgage-backed securities	$ 30	$ 17	**$ 14**
Equity securities:			
CRA Fund	6,839	7,341	**7,680**
Other equity securities	20,299	26,946	**30,766**
Total	$ 27,168	$ 34,304	**$ 38,460**

At December 31, 2017, 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 ("AOCI"). The unrealized gain on securities available for sale, net of tax, was $6.7 million at December 31, 2017 and was all related to equity securities. Beginning January 1, 2018, equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income. On January 1, 2018, $6.7 million of unrealized gains on equity securities available for sale held at December 31, 2017 were reclassified from AOCI to undivided profits as a cumulative-effect adjustment (Refer to Note 3 to the Consolidated Financial Statements for more details). At December 31, 2017 and 2018, there were no unrealized gains or losses on debt securities available for sale reported in accumulated other comprehensive income. The fair value of securities fluctuates with the movement of interest rates and equity markets. The primary driver in net unrealized gain on the securities portfolio is the fair value of the Bank's equity holdings.

As a member of the FHLB, the Bank is required to hold a Membership Stock Investment plus an Activity-based Stock Investment which generally approximates 5% of the Bank's borrowings balance. At December 31, 2018 and 2017, the Bank held $28.7 million and $27.1 million, respectively, in FHLB stock, or 1% of total assets. In 2018 and 2017, the Bank received $1.4 million and $1.0

million, respectively, in dividends.

Foreclosed Assets

At December 31, 2018 and 2017, the Bank had no properties in foreclosed assets. During 2017, the Bank took in one property and disposed of it for a net gain of $23,000. The Bank did not acquire any property via foreclosure in 2018.

Bank-owned Life Insurance

The Bank held $12.5 million in bank-owned life insurance at December 31, 2018, as compared to $12.2 million at December 31, 2017. 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 December 31, 2018, 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

At December 31, 2018, the Bank held a total of $1.573 billion in deposits, an increase of $67.3 million, or 4%, from the $1.506 billion in deposits at year-end 2017. Non-certificate deposits comprised of savings, NOW, money market, and demand deposit accounts, were $821.9 million at December 31, 2018, as compared to $835.5 million at year-end 2017, a decrease of $13.6 million, or 2%, which was attributable to a decline in transaction accounts (NOW and Demand) of $2.3 million, or 1%, a $9.3 million, or 10%, decline in regular savings accounts and a decline in money market accounts of $2.0 million. Non-certificate deposits comprised 52% of total deposits at December 31, 2018 as compared to 55% at year-end 2017. Certificates of deposit were $751.2 million at December 31, 2018 as compared to $670.4 million at year-end 2017. The growth in certificate account balances primarily reflects the success of special offerings launched in the Bank's retail network during 2018, and to a lower extent the increased use of more attractively priced brokered time deposits in lieu of short-term FHLB advances and Internet listing services deposits. During the third quarter of 2018, the Bank reviewed its deposit product offerings. As a result of this process, consumer and certain business NOW accounts were consolidated into their respective demand checking account products.

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

	December 31, 2016	December 31, 2017	December 31, 2018
	(In Thousands)		
Regular	$ 94,770	$ 96,438	**$ 87,173**
Money market	543,367	518,094	**516,107**
NOW	34,467	35,567	**5,064**
Demand	147,749	185,375	**213,573**
Total non-certificate accounts	820,353	835,474	**821,917**
Term certificates of less than $250,000	393,566	488,666	**555,266**
Term certificates of $250,000 or more	152,190	181,722	**195,971**
Total certificate accounts	545,756	670,388	**751,237**
Total deposits	$ 1,366,109	$ 1,505,862	**$ 1,573,154**

Term certificates of $250,000 or more, at December 31, 2018, by maturity are as follows:

Remaining Maturity	Amount (In Thousands)
3 months or less	**$ 41,722**
Over 3 through 6 months	**36,966**
Over 6 through 12 months	**54,198**
Over 12 months	**63,085**
	$ 195,971

Other banks and credit unions in the Bank's market areas, banking services through the Internet, and mutual funds make up the Bank's primary competition for deposits. 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 and Internet-based banking for consumers and commercial account holders. The Bank offers limited certificate of deposit products using national Internet listing services and brokered deposits. These alternatives provide the Bank with a source of funding across different maturities at lower cost and/or longer duration than may be available via retail or other wholesale channels. At December 31, 2018, the Bank had $321.1 million in deposits from these sources, as compared to $316.7 million at December 31, 2017. During 2018, the Bank shifted a portion of its wholesale funding mix from FHLB advances and Internet listing services deposits to brokered deposits to mitigate the negative effect of increasing short-term market rates on the Bank's cost on interest-bearing liabilities and net interest margin.

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

Borrowings

The Bank had $606.6 million, or 25% of total assets, in borrowed funds from the FHLB at December 31, 2018 as compared to $579.2 million, or 25% of total assets, at year-end 2017, representing an increase of $27.4 million, or 5%. Of the total at year-end 2018, $602.6 million with a weighted average rate of 2.62% had original maturities of less than 12 months. Generally, borrowings are drawn with a fixed rate and term; however, at December 31, 2018, $4.0 million, or less than 1% of total borrowings, can be called by the issuer after an initial specified term. This callable advance matures in 2019. At December 31, 2018, 100% of the FHLB advances will mature within one year as compared to 85% at December 31, 2017. In 2016, the Bank borrowed $330 million of long-term advances with two FHLB option advances, callable quarterly by the FHLB after one year. Both advances had favorable rates, were called during 2017 and replaced with higher rate short-term advances. In 2017, the Bank borrowed $85 million of long-term advances with FHLB option advances with 10-year and 15-year final maturities, callable quarterly by the FHLB after one year. These advances had favorable rates, were called during 2018 and replaced with higher rate short-term advances. The average rate paid on FHLB borrowings held at year-end 2018 was 2.63%, up from 1.44% at year-end 2017, driven by increasing short-term market rates.

The Bank also has a loan payable by the Bank for the purchase from an unrelated party of property which was used for a branch office. The note is secured by the real estate and bears an interest rate of 6.00%. Principal and interest is payable in 240 monthly installments and may be prepaid without penalty beginning in 2020.

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

	2016	2017	2018
	(Dollars in Thousands)		
Total borrowings:			
Balance outstanding at end of year	$ 476,186	$ 579,976	**$ 607,351**
Average amount outstanding during the year	442,134	507,457	**463,726**
Weighted average interest rate during the year	0.86 %	1.16 %	**2.03 %**
Weighted average interest rate at end of year	0.83	1.45	**2.64**
Borrowings with original maturities less than one year:			
Balance outstanding at end of year	$ 85,000	$ 480,000	**$ 602,600**
Average amount outstanding during the year	158,028	277,168	**426,932**
Maximum outstanding at any month end	348,000	480,000	**602,600**
Weighted average interest rate during the year	0.49 %	1.22 %	**2.07 %**
Weighted average interest rate at end of year	0.73	1.52	**2.62**

Liquidity, Capital Resources and Contractual Obligations

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

The Bank's initial source of liquidity is cash and cash equivalents which comprised 12% of total assets at December 31, 2018. A significant portion of this consists of overnight cash balances at the Federal Reserve Bank of Boston, which are immediately accessible for liquidity. The Bank reduced these overnight cash balances during 2018 to minimize the carrying cost of on-balance sheet liquidity.

Mortgage-backed securities, which comprised less than 1% of the portfolio, are subject to repayment at the discretion of the underlying borrower and are not considered material to the overall balance sheet or liquidity targets.

Marketable common equity holdings, although liquid, are not viewed as a source of liquidity and are managed to produce superior returns on capital over a longer time horizon.

Investment in FHLB stock is illiquid.

Residential loans are susceptible to principal repayment at the discretion of the borrower. Commercial mortgage loans, while subject to significant penalties for early repayment in most cases, can also prepay at the borrower's discretion. In 2018, prepayment rates were slightly higher when compared to the previous year.

The Bank invests in key executive life insurance policies that are illiquid during the life of the executive. Such policies totaled $12.5 million and $12.2 million, or less than 1% of total assets, at December 31, 2018 and 2017, respectively.

Non-certificate deposit balances can generally be withdrawn from the Bank at any time. Retail certificates of deposit, with predefined maturity dates and subject to early redemption penalties, can also be withdrawn subject to the discretion of the Bank. Internet listing service certificates are offered on the same terms as retail certificates, although the Bank generally does not permit early withdrawal. Brokered certificates generally may not be withdrawn before the stated maturity. The Bank estimates the volatility of its deposits in light of the general economic climate and recent actual experience. Over the past 10 years, deposits have exceeded withdrawals resulting in net cash inflows from depositors.

Approximately 99% of the Bank's borrowings are fixed in terms of maturity. The Bank had no amortizing advances as of December 31, 2018, and less than 1%, or $4.0 million, of callable advances maturing in January 2019.

The Bank takes each of these preceding issues into consideration when measuring its liquidity position. Specific measurements include the Bank's cash flow position from the 30-day to 90-day horizon, the level of volatile liabilities to earning assets and loan to deposit ratios. Additionally, the Bank "shocks" its cash flows by assuming significant cash outflows in both non-certificate and certificate deposit balances. At December 31, 2018 and 2017, each measurement was within predefined Bank guidelines.

To supplement its liquidity position, should the need arise, the Bank maintains its membership in the FHLB where it is eligible to obtain both short and long-term credit advances. As of December 31, 2018, the Bank can borrow up to approximately $1.146 billion to meet its borrowing needs, based on the Bank's available qualified collateral which consists primarily of one-to-four family residential mortgage loans, certain multifamily residential property and commercial mortgage loans. The Bank can pledge other mortgage loans and assets as collateral to secure additional borrowings. Additionally, through the Federal Reserve Bank of Boston ("FRBB"), the Bank can borrow up to $20.4 million through the discount window based on the Bank pledging its home equity loan portfolio. The Bank can pledge other mortgage loans and assets as collateral to secure additional borrowings with the FRBB. At December 31, 2018, the Bank had $606.6 million in advances outstanding from the FHLB and had $538.7 million in available unused capacity (net of accrued interest on outstanding advances). This compares to an unused capacity of $457.8 million at December 31, 2017. The FHLB unused capacity increased in 2018 as the Bank increased pledged collateral. At December 31, 2018, the Bank did not have any advances outstanding at the FRBB.

At December 31, 2018, the Bank had capital of $212.6 million, or 8.8% of total assets, as compared to $186.2 million, or 8.1% of total assets, at December 31, 2017. Total capital at December 31, 2017 included $6.7 million of after-tax unrealized gains in the Bank's available for sale equity securities portfolio, included in accumulated other comprehensive income. Beginning January 1, 2018, equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income. On January 1, 2018, $6.7 million in unrealized gains on equity securities available for sale held at December 31, 2017 were reclassified from accumulated other comprehensive income to undivided profits as a cumulative-effect adjustment (Refer to Note 3 to the Consolidated Financial Statements for more details). Total capital at December 31, 2018 included $5.8 million of after-tax unrealized gains in the Bank's equity securities portfolio, included in undivided profits.

Massachusetts-chartered savings banks that are insured by the FDIC are subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets and average total assets. The Bank's ratios exceeded these regulatory capital requirements in both 2018 and 2017 (Refer to Note 14 to the Consolidated Financial Statements for more details).

During 2018, the Bank declared dividends of $1.92 per share which included a $0.50 special dividend declared in the fourth quarter. In comparison, in 2017, the Bank declared dividends of $1.66 per share that also included a $0.34 special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share by earnings per share, was 13.5% for 2018 as compared to 13.7% for 2017.

In the normal course of business, there are outstanding commitments and contingencies which are not reflected in the consolidated financial statements and are expected to be paid through current and future cash flows. At December 31, 2018, the Bank had the following contractual obligations outstanding:

	Payments Due by Year				
	Total	Less than One Year	One to Three Years	Over Three to Five Years	Over Five Years
	(In Thousands)				
Contractual Obligations:					
Certificates of deposit	$ 751,237	$ 607,483	$ 132,153	$ 11,601	$ —
Federal Home Loan Bank advances (1)	606,600	606,600	—	—	—
Mortgage payable (2)	751	64	140	158	389
Data processing agreements (3)	4,184	907	1,829	1,448	—
Lease agreements (4)	1,841	328	592	498	423

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

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

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

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

Off-Balance Sheet Arrangements

The Bank also monitors its off-balance sheet items. At December 31, 2018, the Bank had approximately $258.9 million in commitments to extend credit, as compared to $264.8 million at December 31, 2017. As noted above, the Bank also has commitments for lease obligations and data processing agreements totaling $1.8 million and $4.2 million, respectively, at December 31, 2018. See Note 10 to the Consolidated Financial Statements.

IMPACT OF INFLATION AND CHANGING PRICES

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The earnings of most banking institutions are exposed to interest rate risk because their balance sheets, both assets and liabilities, are predominantly interest-bearing. It is the Bank's objective to minimize, to the degree prudently possible, its exposure to interest rate risk, bearing in mind that the Bank, by its very nature, will always be in the business of taking on interest rate risk. Interest rate risk is monitored on a quarterly basis by the Asset Liability Committee (the "ALCO") and Board of Directors of the Bank. The ALCO is comprised of members of Bank Management and the Executive Committee of the Board. The ALCO establishes and monitors the various components of the balance sheet including volume, maturities, pricing and mix of assets along with funding sources. The goal is to balance liquidity, interest rate risk and profitability.

The primary tool used in managing interest rate risk is income simulation modeling. Income simulation modeling measures changes in net interest income by projecting the future composition of the Bank's balance sheet and applying different interest rate scenarios.

Management incorporates numerous assumptions into the simulation model, such as asset prepayment speeds, balance sheet growth and non-maturity deposits elasticity. The Bank's model assumes a 100 and 200 basis point parallel and instantaneous increase and decrease in interest rates. The most recent model estimates that, over a twenty-four month period, net interest income will decrease 8% if rates rise 100 basis points and will decrease 17% if rates rise 200 basis points. Over the same period, the model estimates net interest income will increase 10% if rates decline 100 basis points and will increase 23% if rates decline 200 basis points. The Bank's interest rate risk exposure is believed by management to be well managed and within predefined limits.

The following tables present interest-rate sensitive assets and liabilities categorized by expected maturity (or interest rate adjustment date, if earlier) and weighted average rates. Expected maturities of loans are adjusted for amortization and estimated prepayments of principal. Prepayment speeds range from 0% to 20% depending upon the particular asset category. Generally, adjustable-rate loans are indexed to Prime and treasury rates. Non-certificate deposits do not have contractual maturities and repricing sensitivity ("beta") range from 0% to 75%. The tables reflect management's current assumptions about the volatility of such deposits.

Maturing or repricing within:	**One Year**	**1-2 Years**	**2-3 Years**	**3-4 Years**	**4-5 Years**	**Thereafter**	**Total**
				(Dollars in Thousands)			
December 31, 2018							
Interest-earning assets:							
Securities (at cost) (1), short-term investments and certificates of deposit	**$ 347,673**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 347,673**
	2.68 %	**— %**	**— %**	**— %**	**— %**	**— %**	**2.68 %**
Loans:							
Fixed rate	**$ 89,487**	**$ 76,780**	**$ 62,453**	**$ 55,215**	**$ 50,089**	**$ 155,190**	**$ 489,214**
	4.55 %	**4.45 %**	**4.36 %**	**4.34 %**	**4.35 %**	**4.40 %**	**4.42 %**
Adjustable rate	**$ 341,365**	**$ 294,300**	**$ 237,857**	**$ 262,424**	**$ 203,345**	**$ 191,687**	**$ 1,530,978**
	4.72 %	**4.50 %**	**4.21 %**	**4.31 %**	**4.62 %**	**4.47 %**	**4.48 %**
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	**$ 146,562**	**$ —**	**$ —**	**$ —**	**$ 461,782**	**$ —**	**$ 608,344**
	1.98 %	**— %**	**— %**	**— %**	**0.90 %**	**— %**	**1.16 %**
Term certificates	**$ 607,483**	**$ 109,291**	**$ 22,862**	**$ 9,855**	**$ 1,746**	**$ —**	**$ 751,237**
	1.89 %	**2.12 %**	**1.75 %**	**1.90 %**	**2.050 %**	**— %**	**1.92 %**
Borrowed funds	**$ 606,664**	**$ 687**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 607,351**
	2.63 %	**6.00 %**	**— %**	**— %**	**— %**	**— %**	**2.67 %**
December 31, 2017							
Interest-earning assets:							
Securities (at cost) (1), short-term investments and certificates of deposit	$ 397,216	$ —	$ —	$ —	$ —	$ —	$ 397,216
	1.73 %	— %	— %	— %	— %	— %	1.73 %
Loans:							
Fixed rate	$ 72,038	$ 63,552	$ 58,151	$ 51,731	$ 47,396	$ 166,834	$ 459,702
	4.41 %	4.36 %	4.36 %	4.33 %	4.34 %	4.34 %	4.36 %
Adjustable rate	$ 308,283	$ 254,243	$ 210,958	$ 201,764	$ 220,177	$ 188,665	$ 1,384,090
	4.59 %	4.46 %	4.23 %	4.14 %	4.26 %	4.35 %	4.36 %
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 236,188	$ —	$ —	$ —	$ 413,911	$ —	$ 650,099
	0.96 %	— %	— %	— %	0.33 %	— %	0.56 %
Term certificates	$ 488,154	$ 102,416	$ 48,371	$ 21,699	$ 9,748	$ —	$ 670,388
	1.28 %	1.61 %	1.87 %	1.72 %	1.90 %	— %	1.40 %
Borrowed funds	$ 575,224	$ 4,064	$ 688	$ —	$ —	$ —	$ 579,976
	1.43 %	4.02 %	6.00 %	— %	— %	— %	1.45 %

(1) Includes FHLB stock

At December 31, 2018 and 2017, loans, as a percentage of total earning assets, were 85% and 82%, respectively. The composition of the Bank's liabilities was such that interest-bearing deposits to total interest-bearing liabilities were 69% at both year-end 2018 and 2017.

At December 31, 2018, the Bank estimates liabilities that reprice within one year exceeded assets repricing within the same period by $582 million, as compared to $522 million at December 31, 2017. This calculation indicates that the Bank is susceptible to lower net interest income in the event that market rates rise in the near term. Over the last year, the Bank continued to target ongoing loan growth, which includes a mix of variable and fixed rate loans. The Bank decreased overnight cash balances in 2018 to minimize the carrying cost of its on-balance sheet liquidity. The Bank continues to focus on growing core deposit balances along with retail term deposits, combined with a mix of wholesale funding sources, allocated opportunistically based on market conditions.

Item 8. Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements:

Management's Annual Report on Internal Control over Financial Reporting

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

Management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2018, utilizing the framework established in *Internal Control-Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Bank's internal control over financial reporting as of December 31, 2018 is effective.

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

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

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2018 has been audited by Wolf & Company, P.C., an independent registered public accounting firm, as stated in their report which follows. This report expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2018.

Robert H. Gaughen, Jr.
Chief Executive Officer
March 5, 2019

Patrick R. Gaughen
President and Chief Operating Officer
March 5, 2019

Cristian A. Melej
Chief Financial Officer
March 5, 2019

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

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

Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Hingham Institution for Savings and subsidiaries (the "Bank") as of December 31, 2018 and 2017, and the related consolidated statements of net income, comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Bank's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO.

Basis for Opinions

The Bank's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's consolidated financial statements and an opinion on the Bank's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Wolf & Company, P.C.

We have served as the Bank's auditor since 1993.

Boston, Massachusetts
March 5, 2019

Consolidated Balance Sheets

ASSETS

	December 31,	
	2017	2018
	(In Thousands)	
Cash and due from banks	$ 10,852	**$ 8,004**
Federal Reserve and other short-term investments	344,377	**287,971**
Cash and cash equivalents	355,229	**295,975**
Securities available for sale, at fair value	34,304	**14**
Equity securities, at fair value	—	**38,446**
Federal Home Loan Bank stock, at cost	27,102	**28,696**
Loans, net of allowance for loan losses of $12,537,000 and $13,808,000 at December 31, 2017 and 2018, respectively	1,833,987	**2,009,288**
Bank-owned life insurance	12,221	**12,476**
Premises and equipment, net	14,068	**14,553**
Accrued interest receivable	4,398	**4,581**
Deferred income tax asset, net	1,301	**2,258**
Other assets	1,989	**2,300**
Total assets	$ 2,284,599	**$ 2,408,587**

LIABILITIES AND STOCKHOLDERS' EQUITY

	2017	2018
Deposits:		
Interest-bearing	$ 1,320,487	**$ 1,359,581**
Demand	185,375	**213,573**
Total deposits	1,505,862	**1,573,154**
Federal Home Loan Bank advances	579,164	**606,600**
Mortgage payable	812	**751**
Mortgagors' escrow accounts	6,424	**7,402**
Accrued interest payable	575	**2,187**
Other liabilities	5,604	**5,917**
Total liabilities	2,098,441	**2,196,011**
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $1.00 par value, 2,500,000 shares authorized, none issued	—	**—**
Common stock, $1.00 par value, 5,000,000 shares authorized; 2,132,750 shares issued and outstanding at December 31, 2017 and 2018	2,133	**2,133**
Additional paid-in capital	11,750	**11,863**
Undivided profits	165,596	**198,580**
Accumulated other comprehensive income	6,679	**—**
Total stockholders' equity	186,158	**212,576**
Total liabilities and stockholders' equity	$ 2,284,599	**$ 2,408,587**

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

Consolidated Statements of Net Income

	Years Ended December 31,		
	2016	2017	2018
	(In Thousands, Except Per Share Amounts)		
Interest and dividend income:			
Loans	$ 68,917	$ 75,843	**$ 87,022**
Debt securities	52	1	**1**
Equity securities	1,248	1,530	**1,985**
Federal Reserve and other short-term investments	1,552	3,685	**5,161**
Total interest and dividend income	71,769	81,059	**94,169**
Interest expense:			
Deposits	9,599	11,366	**18,979**
Federal Home Loan Bank advances	3,732	5,845	**9,358**
Mortgage payable	54	50	**47**
Total interest expense	13,385	17,261	**28,384**
Net interest income	58,384	63,798	**65,785**
Provision for loan losses	1,135	1,505	**1,270**
Net interest income, after provision for loan losses	57,249	62,293	**64,515**
Other income (loss):			
Customer service fees on deposits	928	889	**860**
Increase in cash surrender value of bank-owned life insurance	265	259	**255**
Gain on sale of securities available for sale, net	344	77	**—**
Loss on equity securities, net	—	—	**(3,023)**
Miscellaneous	198	185	**173**
Total other income (loss)	1,735	1,410	**(1,735)**
Operating expenses:			
Salaries and employee benefits	12,024	12,300	**12,658**
Occupancy and equipment	1,856	1,765	**1,774**
Data processing	1,230	1,270	**1,402**
Deposit insurance	1,023	1,080	**977**
Marketing	403	398	**570**
Foreclosure	34	(13)	**(32)**
Other general and administrative	2,645	2,776	**2,702**
Total operating expenses	19,215	19,576	**20,051**
Income before income taxes	39,769	44,127	**42,729**
Income tax provision	16,346	18,370	**12,330**
Net income	$ 23,423	$ 25,757	**$ 30,399**
Earnings per share:			
Basic	$ 10.99	$ 12.08	**$ 14.25**
Diluted	$ 10.89	$ 11.81	**$ 13.90**

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

Consolidated Statements of Comprehensive Income

	Years Ended December 31,		
	2016	2017	2018
	(In Thousands)		
Net income	$ 23,423	$ 25,757	**$ 30,399**
Other comprehensive income:			
Net unrealized holding gain on securities available for sale	4,060	4,379	—
Reclassification adjustment for gain on sales of available for sale securities, net recognized in income (1)	(344)	(77)	—
Net unrealized gain	3,716	4,302	—
Tax effect	(1,333)	(1,559)	—
	2,383	2,743	—
Comprehensive income	$ 25,806	$ 28,500	**$ 30,399**

(1) Included in gain (loss) on equity securities, net in the consolidated statements of net income. Provision for income taxes associated with the reclassification adjustments amounted to $123,000 and $28,000 for the years ended December 31, 2016 and 2017, respectively.

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

Consolidated Statements of Changes in Stockholders' Equity

	Years Ended December 31, 2016, 2017 and 2018				
	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(In Thousands)				
Balance at December 31, 2015	$ 2,129	$ 11,052	$ 124,481	$ 353	$ 138,015
Comprehensive income	—	—	23,423	2,383	25,806
Share-based compensation expense	—	156	—	—	156
Stock options exercised, including tax benefit of $158,000	4	367	—	—	371
Cash dividends declared-common ($1.56 per share)	—	—	(3,324)	—	(3,324)
Balance at December 31, 2016	2,133	11,575	144,580	2,736	161,024
Comprehensive income	—	—	25,757	2,743	28,500
Share-based compensation expense	—	175	—	—	175
Cash dividends declared-common ($1.66 per share)	—	—	(3,541)	—	(3,541)
Reclassification due to tax rate change (Note 9)	—	—	(1,200)	1,200	—
Balance at December 31, 2017	**2,133**	**11,750**	**165,596**	**6,679**	**186,158**
Comprehensive income	**—**	**—**	**30,399**	**—**	**30,399**
Share-based compensation expense	**—**	**113**	**—**	**—**	**113**
Cash dividends declared-common ($1.92 per share)	**—**	**—**	**(4,094)**	**—**	**(4,094)**
Cumulative effect of change in accounting principle (Note 3)	**—**	**—**	**6,679**	**(6,679)**	**—**
Balance at December 31, 2018	**$ 2,133**	**$ 11,863**	**$ 198,580**	**$ —**	**$ 212,576**

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

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2016	2017	2018
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 23,423	$ 25,757	**$ 30,399**
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,135	1,505	**1,270**
Amortization of securities premiums, net	17	—	—
Amortization of deferred loan origination costs, net	623	607	**609**
Share-based compensation expense	156	175	**113**
Excess tax benefits from share-based compensation arrangements	(158)	—	—
Depreciation and amortization of premises and equipment	730	650	**638**
Increase in cash surrender value of bank-owned life insurance	(265)	(259)	**(255)**
Deferred income tax benefit	(541)	(371)	**(957)**
Gain on sale of securities available for sale, net	(344)	(77)	—
Loss on equity securities, net	—	—	**3,023**
Net (gain) loss on sales and write-downs of foreclosed assets	5	(23)	—
Changes in:			
Accrued interest receivable and other assets	(129)	(920)	**(494)**
Accrued interest payable and other liabilities	484	397	**1,521**
Net cash provided by operating activities	25,136	27,441	**35,867**
Cash flows from investing activities:			
Activity in available for sale securities:			
Maturities, prepayments and calls	25,022	12	**3**
Proceeds from sales	1,425	945	**—**
Purchases	(8,969)	(3,714)	**—**
Activity in equity securities:			
Proceeds from sales	—	—	**6,363**
Purchases	—	—	**(13,545)**
Maturities, prepayments and calls of certificates of deposit	6,206	—	—
Loans originated, net of principal payments received	(202,042)	(231,015)	**(177,180)**
Proceeds from redemption of Federal Home Loan Bank stock	7,393	—	**6,331**
Purchase of Federal Home Loan Bank stock	(12,069)	(2,630)	**(7,925)**
Proceeds from sales of foreclosed assets	165	586	**—**
Additions to premises and equipment	(98)	(256)	**(1,123)**
Net cash used in investing activities	(182,967)	(236,072)	**(187,076)**

(continued)

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

Consolidated Statements of Cash Flows
(concluded)

	Years Ended December 31,		
	2016	2017	2018
	(In Thousands)		
Cash flows from financing activities:			
Increase in deposits	149,082	139,753	**67,292**
Increase in mortgagors' escrow accounts	735	839	**978**
Proceeds from stock options exercised	213	—	—
Cash dividends paid on common stock	(3,238)	(3,454)	**(3,690)**
Excess tax benefits from share-based compensation arrangements	158	—	—
Net change in Federal Home Loan Bank advances with maturities of three months or less	(220,000)	395,000	**122,000**
Proceeds from Federal Home Loan Bank advances with maturities of more than three months	330,000	95,000	**600**
Repayments of Federal Home Loan Bank advances with maturities of more than three months	(37,146)	(386,154)	**(95,164)**
Repayment of mortgage payable	(54)	(56)	**(61)**
Net cash provided by financing activities	219,750	240,928	**91,955**
Net change in cash and cash equivalents	61,919	32,297	**(59,254)**
Cash and cash equivalents at beginning of year	261,013	322,932	**355,229**
Cash and cash equivalents at end of year	$ 322,932	$ 355,229	**$ 295,975**
Supplementary information:			
Interest paid on deposit accounts	$ 9,591	$ 11,195	**$ 17,392**
Interest paid on borrowed funds	3,697	5,891	**9,380**
Income taxes paid, net of refunds	16,909	18,743	**13,380**
Non-cash activities:			
Real estate acquired through foreclosure	$ 170	$ 563	**$ —**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Hingham Institution for Savings ("Bank") and its wholly-owned subsidiaries, Hingham Unpledged Securities Corporation and Hingham Pledged Securities Corporation, which hold title to certain equity securities, as well as the 49 Main Street Realty Trust and the HIFS Realty Trusts, which hold title to certain Bank properties used for banking purposes. All intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

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

Business and operating segments

The Bank provides a variety of financial services to individuals and small businesses through its ten offices in Boston and southeastern Massachusetts. Its primary deposit products are savings, checking, and term certificate accounts, and its primary lending products are residential and commercial mortgage loans secured by properties in eastern Massachusetts. In 2016, the Bank began lending to commercial real estate borrowers in the greater Washington, D.C. metropolitan area.

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

Fair value hierarchy

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks and short-term investments which mature within 90 days from the date of purchase and are carried at cost. At December 31, 2018, the Bank had a concentration of cash on deposit at the Federal Reserve Bank amounting to $287.8 million.

Securities available for sale

Securities classified as available for sale are recorded at fair value, with unrealized gains and losses, after tax effects, excluded from earnings and reported in accumulated other comprehensive income/loss as a separate component of stockholders' equity.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities, with the exception of callable debt securities, whose premiums are amortized to the earliest call date. Gains and losses on disposition of securities available for sale are recorded on the trade date and are determined using the specific identification method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Each reporting period, the Bank evaluates all securities with a decline in fair value below the amortized cost to determine whether or not the impairment is deemed to be other than temporary ("OTTI"). OTTI is required to be recognized if (1) the Bank intends to sell the security; (2) it is "more likely than not" that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. Prior to January 1, 2018, marketable equity securities are evaluated for OTTI based on the severity and duration of the impairment and, if deemed to be other than temporary, the declines in fair value are reflected in earnings as realized losses. For impaired debt securities that the Bank intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income/loss, net of applicable taxes.

Equity securities

Effective January 1, 2018, the Bank adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-01, *Financial Instruments – Overall, (Subtopic 825-10)*. Consequently, beginning January 1, 2018, equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are recorded at fair value with changes in fair value recognized in the statement of net income in gain (loss) on equity securities, net (See Note 3). Prior to January 1, 2018, equity securities were classified in securities available for sale.

Federal Home Loan Bank stock

The Bank, as a member of the Federal Home Loan Bank system, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Boston ("FHLB"). Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of December 31, 2018, no impairment has been recognized.

Loans

The Bank's loan portfolio includes residential real estate, commercial real estate, construction, home equity, commercial and consumer segments. A substantial portion of the loan portfolio is secured by real estate in the southeastern Massachusetts area. In November 2016, the Bank initiated lending to commercial real estate borrowers in the greater Washington D.C. metropolitan area. The first closing took place in early 2017, and at December 31, 2018, the Bank had $112.3 million in net loans outstanding in that area. The ability of the Bank's debtors to honor their contracts is dependent upon real estate, construction, and general economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and net deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment to the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time a loan is 90 days past due (the loan is in default) unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than becoming 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance when collected.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general and allocated loss components, as further discussed below.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by loan segment. Management uses a rolling average of historical losses based on a time frame (currently two years) appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels and 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, and depth of lending management and staff; national and local economic trends and conditions; industry conditions and effects of changes in credit concentrations. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during 2018.

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 residential real estate that is owner-occupied at the time of origination 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. The Bank only originates these loans in Massachusetts.

Commercial real estate – Loans in this segment are primarily secured by income-producing properties throughout Massachusetts. Beginning in late 2016, the Bank began lending on income producing commercial real estate in the greater Washington D.C. metropolitan area. Underwriting and portfolio management policies are the same for both markets. 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. The Bank only originates these loans in Massachusetts.

Home equity – Loans in this segment include equity lines of credit and second mortgage loans, 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. The Bank only originates these loans in Massachusetts.

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. These loans are not a focus of the Bank's origination program and are originated only in Massachusetts.

Consumer – Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower. These loans are not a focus of the Bank's origination program and are originated only in Massachusetts.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Foreclosed assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations, changes in the valuation allowance and any direct write-downs are included in foreclosure expenses. At December 31, 2017 and 2018, the Bank did not hold any foreclosed property.

Bank-owned life insurance

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

Premises and equipment

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

Marketing costs

Marketing costs are expensed as incurred.

Transfers of financial assets

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

Income taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws in the period of enactment. A valuation allowance is established against deferred tax assets when, based upon the available evidence, including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized. The Bank has no uncertain tax positions at December 31, 2017 or 2018. The Bank records interest and penalties as part of income tax expense.

Stock compensation plans

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

Earnings per share

Basic earnings per share represent net income divided by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect additional shares that would have been outstanding if dilutive potential shares had been issued, as well as any adjustment to net income that would result from the assumed issuance. Potential shares that may be issued by the Bank relate solely to outstanding stock options and are determined using the treasury stock method. The amount of excess tax benefit that would be credited to additional paid-in capital assuming exercise of the options is not considered in the proceeds when applying the treasury stock method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Earnings per share have been computed based on the following:

	Years Ended December 31,		
	2016	2017	2018
	(In Thousands)		
Average number of shares outstanding used to calculate basic earnings per share	2,131	2,133	**2,133**
Effect of dilutive options	21	48	**54**
Average number of shares outstanding used to calculate diluted earnings per share	2,152	2,181	**2,187**

There were no anti-dilutive options for the years ended December 31, 2016, 2017 or 2018.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income. Effective January 1, 2018, the Bank adopted FASB ASU 2016-01, *Financial Instruments – Overall, (Subtopic 825-10)*. Consequently, beginning January 1, 2018, equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income. As a result, net unrealized gains and losses for equity securities are no longer reflected in accumulated other comprehensive income ("AOCI") (See Note 3) and at December 31, 2018, the Bank had no AOCI.

At December 31, 2017, AOCI related to net unrealized gains on available for sale securities of $8.6 million, net of tax effects of $1.9 million. These unrealized gains pertained entirely to the equity securities portfolio.

Accounting Standards Issued But Yet Not Adopted

The following identifies ASUs applicable to the Bank that have been issued but are not yet effective:

On January 1, 2019, the Bank adopted FASB ASU 2016-02, *Leases (Topic 842)*. The amendments in this Update are 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. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which reduces the transition requirements for ASU 2016-02, allowing companies to elect not to restate comparative periods in transition and to recognize the effects of ASU 2016-02 as a cumulative-effect adjustment to retained earnings as of the adoption date. The Bank has made this election. As a result of the adoption of ASU 2016-02, the Bank recorded a right-of-use asset and corresponding lease liability of $1.7 million, effective January 1, 2019.

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

Recently Adopted Accounting Principles Previously Disclosed

In addition to ASU 2016-01 and ASU 2018-13, which are discussed in Notes 3 and 15, the Bank adopted the following ASUs effective as of January 1, 2018:

- ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*
- ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*
- ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*
- ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*

The adoption of these accounting standards did not have a material impact on the Bank's consolidated financial statements.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2017 and 2018, cash and due from banks included $9.2 million and $9.9 million, respectively, to satisfy such reserve requirements.

3. SECURITIES

Securities available for sale

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2017				
Debt securities:				
Residential mortgage-backed	$ 17	$ —	$ —	$ 17
Equity securities:				
Community Reinvestment Act Qualified Investment Fund	7,500	—	(159)	7,341
Other equity securities	18,220	8,732	(6)	26,946
Total equity securities	25,720	8,732	(165)	34,287
Total securities available for sale	$ 25,737	$ 8,732	$ (165)	$ 34,304
December 31, 2018				
Residential mortgage-backed securities	**$ 14**	**$ —**	**$ —**	**$ 14**

At December 31, 2017, all other equity securities are in the banking, insurance, ratings, payments, technology and industrial sectors. At December 31, 2017 and 2018, all debt securities were pledged to secure Federal Home Loan Bank advances. See Note 8.

For the year ended December 31, 2016, proceeds from sales of securities available for sale amounted to $1.4 million, resulting in gross realized gains of $344,000 and no gross realized losses. For the year ended December 31, 2017, proceeds from sales of securities available for sale amounted to $945,000, resulting in gross realized gains of $77,000 and no gross realized losses. There were no sales of securities available for sale during the year ended December 31, 2018.

There were no securities available for sale with gross unrealized losses at December 31, 2018. Information pertaining to securities with gross unrealized losses at December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2017				
Equity securities	$ 6	$ 242	$ 159	$ 7,341

Equity securities

At December 31, 2018, equity securities include a $7.7 million investment in the Community Reinvestment Act Qualified Investment Fund and a $30.7 million investment in equity securities in the banking, insurance, rating agencies, technology, payments and industrial sectors. At year-end 2017, the entire securities portfolio was classified as available for sale and was carried at fair value with unrealized gains or losses reported in accumulated other comprehensive income/loss, a separate component of stockholders' equity. The net unrealized gain on the portfolio amounted to $6.7 million, net of tax effects, at December 31, 2017. Effective January 1, 2018, the Bank adopted FASB ASU 2016-01, *Financial Instruments – Overall, (Subtopic 825-10).* Consequently, beginning January 1, 2018, equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income. As a result, net unrealized gains and losses are reflected in the consolidated statements of net income, regardless of whether such gains and losses are realized. The cumulative effect of adopting this standard was to increase undivided profits and decrease accumulated other comprehensive income by $6.7 million.

3. SECURITIES (concluded)

For the year ended December 31, 2018, proceeds from sales of equity securities amounted to $6.4 million. Unrealized losses recognized during the year ended December 31, 2018, on equity securities still held at December 31, 2018, totaled $1.1 million.

4. LOANS

A summary of the balances of loans follows:

	December 31,	
	2017	2018
	(In Thousands)	
Real estate loans:		
Residential	$ 689,273	**$ 709,982**
Commercial	998,567	**1,150,535**
Construction	122,715	**127,274**
Home equity	32,536	**31,859**
Total real estate loans	1,843,091	**2,019,650**
Other loans:		
Commercial	221	**128**
Consumer	480	**414**
Total other loans	701	**542**
Total loans	1,843,792	**2,020,192**
Allowance for loan losses	(12,537)	**(13,808)**
Net deferred loan origination costs	2,732	**2,904**
Loans, net	$ 1,833,987	**$ 2,009,288**

4. LOANS (continued)

Activity in the allowance for loan losses for the years ended December 31, 2016, 2017 and 2018 and allocation of the allowance to loan segments at December 31, 2017 and 2018, follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
				(In Thousands)			
Allowance for loan losses:							
Balance December 31, 2015	$ 3,102	$ 5,457	$ 1,142	$ 196	$ 1	$ 7	$ 9,905
Provision (credit) for loan losses	(461)	1,233	414	(55)	1	3	1,135
Loans charged-off	(9)	—	—	—	—	(3)	(12)
Recoveries of loans previously charged off	2	—	—	—	—	—	2
Balance December 31, 2016	2,634	6,690	1,556	141	2	7	11,030
Provision (credit) for loan losses	(29)	1,818	(255)	(28)	—	(1)	1,505
Loans charged-off	—	—	—	—	—	(1)	(1)
Recoveries of loans previously charged off	2	—	—	—	—	1	3
Balance December 31, 2017	2,607	8,508	1,301	113	2	6	12,537
Provision (credit) for loan losses	**65**	**1,179**	**36**	**(8)**	**—**	**(2)**	**1,270**
Loans charged-off	**—**	**—**	**—**	**—**	**(1)**	**(1)**	**(2)**
Recoveries of loans previously charged off	**2**	**—**	**—**	**—**	**—**	**1**	**3**
Balance December 31, 2018	**$ 2,674**	**$ 9,687**	**$ 1,337**	**$ 105**	**$ 1**	**$ 4**	**$ 13,808**

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
				(In Thousands)			
December 31, 2017							
Allowance for impaired loans	$ 133	$ 5	$ —	$ —	$ —	$ —	$ 138
Allowance for non-impaired loans	2,474	8,503	1,301	113	2	6	12,399
	$ 2,607	$ 8,508	$ 1,301	$ 113	$ 2	$ 6	$ 12,537
Impaired loans	$ 2,723	$ 480	$ —	$ 249	$ —	$ —	$ 3,452
Non-impaired loans	686,550	998,087	122,715	32,287	221	480	1,840,340
	$ 689,273	$ 998,567	$ 122,715	$ 32,536	$ 221	$ 480	$ 1,843,792
December 31, 2018							
Allowance for impaired loans	**$ 118**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 118**
Allowance for non-impaired loans	**2,556**	**9,687**	**1,337**	**105**	**1**	**4**	**13,690**
	$ 2,674	**$ 9,687**	**$ 1,337**	**$ 105**	**$ 1**	**$ 4**	**$ 13,808**
Impaired loans	**$ 1,397**	**$ 484**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1,881**
Non-impaired loans	**708,585**	**1,150,051**	**127,274**	**31,859**	**128**	**414**	**2,018,311**
	$ 709,982	**$ 1,150,535**	**$ 127,274**	**$ 31,859**	**$ 128**	**$ 414**	**$ 2,020,192**

4. LOANS (continued)

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

December 31, 2017	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans on Non-accrual
			(In Thousands)		
Residential real estate	$ 7,148	$ 1,212	$ 334	$ 8,694	$ 1,301
Commercial real estate	4,972	—	—	4,972	155
Home equity	198	—	249	447	249
Commercial	1	—	—	1	—
Total	$ 12,319	$ 1,212	$ 583	$ 14,114	$ 1,705
December 31, 2018					
Residential real estate	**$ 9,200**	**$ 89**	**$ —**	**$ 9,289**	**$ —**
Commercial real estate	**1,104**	**—**	**484**	**1,588**	**484**
Home equity	**171**	**—**	**—**	**171**	**—**
Commercial	**2**	**—**	**—**	**2**	**—**
Total	**$ 10,477**	**$ 89**	**$ 484**	**$ 11,050**	**$ 484**

At December 31, 2017 and 2018, there were no loans past due 90 days or more and still accruing interest.

The following is a summary of impaired loans:

	December 31, 2017			December 31, 2018		
	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	$ 1,668	$ 1,721		**$ 362**	**$ 415**	
Commercial real estate	155	155		**484**	**484**	
Home equity	249	249		**—**	**—**	
Total	2,072	2,125		**846**	**899**	
Impaired loans with a valuation allowance:						
Residential real estate	1,055	1,055	$ 133	**1,035**	**1,035**	**$ 118**
Commercial real estate	325	325	5	**—**	**—**	**—**
Total	1,380	1,380	138	**1,035**	**1,035**	**118**
Total impaired loans	$ 3,452	$ 3,505	$ 138	**$ 1,881**	**$ 1,934**	**$ 118**

4. LOANS (continued)

The following is information pertaining to impaired loans:

	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In Thousands)	
Year Ended December 31, 2016			
Residential real estate	$ 3,071	$ 141	$ 149
Commercial real estate	1,944	52	35
Construction	369	57	57
Home equity	62	1	2
Total	$ 5,446	$ 251	$ 243
Year Ended December 31, 2017			
Residential real estate	$ 2,387	$ 66	$ 39
Commercial real estate	1,593	35	176
Home equity	226	—	13
Total	$ 4,206	$ 101	$ 228
Year Ended December 31, 2018			
Residential real estate	**$ 2,078**	**$ 66**	**$ 37**
Commercial real estate	**635**	**10**	**173**
Home equity	**161**	—	**11**
Total	**$ 2,874**	**$ 76**	**$ 221**

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 years ended 2016, 2017 and 2018, troubled debt restructures 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 our ability to collect on the collateral. This rating is consistent with the "Other Assets Especially Mentioned" category used by the FDIC.

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

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

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

4. LOANS (concluded)

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 rolling quarterly basis, all commercial, construction and residential loan relationships with individual loans of $500,000 or more are assigned a risk rating. An in-depth review is performed on all commercial real estate relationships with exposure in excess of $850,000, new credits in excess of $500,000 and all the loans on the Bank's Watch List. Watch List loans are those loans that are more than two payments past due at the end of the quarter, loans for which the borrowing entity or sponsor has filed bankruptcy, loans rated four or higher in a previous review, impaired loans, troubled debt restructurings and loans past contractual maturity. Results of the independent loan review are reported to the Bank's Audit Committee on a quarterly basis and become the mechanism for monitoring the overall credit quality of the portfolio.

The following table presents the Bank's loans by risk ratings as of December 31, 2017 and 2018:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial
	(In Thousands)			
December 31, 2017				
1- 3B	$ 685,563	$ 993,988	$ 122,715	$ 221
4	3,343	4,579	—	—
5	367	—	—	—
	$ 689,273	$ 998,567	$ 122,715	$ 221
December 31, 2018				
1- 3B	**$ 708,421**	**$ 1,148,094**	**$ 127,274**	**$ 128**
4	**1,199**	**2,110**	**—**	**—**
5	**362**	**331**	**—**	**—**
	$ 709,982	**$ 1,150,535**	**$ 127,274**	**$ 128**

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

5. FORECLOSED ASSETS

Expenses applicable to foreclosed assets include the following:

	Years Ended December 31,		
	2016	2017	2018
	(In Thousands)		
Net (gain) loss on sales of real estate	$ 3	$ (23)	**$ —**
Write-downs of real estate	2	—	**—**
Operating expenses, net of rental income	29	10	**(32)**
	$ 34	$ (13)	**$ (32)**

6. PREMISES AND EQUIPMENT

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

	December 31,		Estimated Useful Life
	2017	2018	
	(In Thousands)		
Land	$ 4,408	**$ 5,075**	N/A
Buildings	13,988	**14,271**	3-40 years
Leasehold improvements	812	**826**	10 years
Land improvements	—	**91**	3-15 years
Equipment	5,133	**5,193**	3-25 years
	24,341	**25,456**	
Less accumulated depreciation and amortization	(10,273)	**(10,903)**	
	$ 14,068	**$ 14,553**	

Depreciation and amortization expense for the years ended December 31, 2016, 2017 and 2018 amounted to $730,000, $650,000 and $638,000, respectively.

7. DEPOSITS

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

	December 31, 2017	December 31, 2018
	(In Thousands)	
Regular	$ 96,438	**$ 87,173**
Money market	518,094	**516,107**
NOW	35,567	**5,064**
Demand	185,375	**213,573**
Total non-certificate accounts	835,474	**821,917**
Term certificates of less than $250,000	488,666	**555,266**
Term certificates of $250,000 or more	181,722	**195,971**
Total certificate accounts	670,388	**751,237**
Total deposits	$ 1,505,862	**$ 1,573,154**

The maturity distribution of term certificates is as follows:

	December 31,			
	2017		2018	
Maturing	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Within one year	$ 488,154	1.28 %	**$ 607,483**	**1.89 %**
Over 1 to 2 years	102,416	1.61	**109,291**	**2.12**
Over 2 to 3 years	48,371	1.87	**22,862**	**1.75**
Over 3 to 4 years	21,699	1.72	**9,855**	**1.90**
Over 4 to 5 years	9,748	1.90	**1,746**	**2.05**
	$ 670,388	1.40 %	**$ 751,237**	**1.92 %**

A summary of interest expense on deposits is as follows:

	Years Ended December 31, 2016	2017	2018
	(In Thousands)		
Regular	$ 20	$ 21	**$ 14**
Money market	3,184	3,760	**5,656**
NOW	3	3	**2**
Term certificates	6,392	7,582	**13,307**
	$ 9,599	$ 11,366	**$ 18,979**

8. BORROWED FUNDS

Federal Home Loan Bank Advances

A summary of advances from the FHLB follows:

Maturing During the Year Ending December 31,	December 31, 2017 Amount	2017 Weighted Average Rate	December 31, 2018 Amount	2018 Weighted Average Rate
	(Dollars in Thousands)			
2018	$ 490,164	1.50 %	**$ —**	**— %**
2019	4,000	3.99	**606,600**	**2.63**
2020	—	—	—	—
2021	—	—	—	—
2022	—	—	—	—
2023	—	—	—	—
Thereafter	85,000	1.01	—	—
	$ 579,164	1.44 %	**$ 606,600**	**2.63 %**

At December 31, 2018, advances aggregating $4.0 million can be called by the FHLB after an initial specified term. In 2017, the Bank borrowed $85 million of long-term advances with FHLB option advances. The advances had 10 and 15-year final maturities and were callable quarterly after the first year anniversary. These advances were called in 2018.

All borrowings from the FHLB are secured by a blanket lien on "qualified collateral" defined principally as 67-78% of the carrying value of first mortgage loans on certain owner-occupied residential property, 77% of the carrying value of first mortgage loans on certain non-owner-occupied residential property, 71% of the carrying value of first mortgage loans on certain multi-family residential property and 57% of the carrying value of loans on certain commercial property. In addition, qualified collateral includes 93% of the fair value of all debt securities. As of December 31, 2018, the Bank can borrow up to approximately $1.146 billion to meet its borrowing needs, based on the Bank's available qualified collateral. See Note 3.

Available Lines of Credit

The Bank has an available line of credit with the FHLB at an interest rate that adjusts daily. Borrowings under this line are limited to $4.6 million at December 31, 2018. No amounts were drawn on the line of credit as of December 31, 2017 or 2018. Additionally, the Bank has registered with the Federal Reserve Bank to access the discount window. The Bank may access this line by assigning assets as collateral. The Bank has pledged the bulk of its home equity portfolio to secure borrowings from the discount window and may increase availability by pledging additional assets.

Mortgage Payable

The balance represents a loan payable by the Bank for the purchase of property from an unrelated party which was used for a new branch office. The note is secured by the real estate and bears interest at a fixed rate of 6.00%. Principal and interest is payable in 240 monthly installments and matures in 2028. The Bank may prepay the note in 2020 without penalty. As of December 31, 2018, future principal payments amount to:

Year	Amount
	(In Thousands)
2019	**$ 64**
2020	**68**
2021	**72**
2022	**77**
2023	**81**
Thereafter	**389**
Total	**$ 751**

9. INCOME TAXES

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

	Years Ended December 31,		
	2016	2017	2018
	(In Thousands)		
Current tax provision:			
Federal	$ 13,173	$ 14,642	**$ 9,022**
State	3,714	4,099	**4,265**
	16,887	18,741	**13,287**
Deferred tax benefit:			
Federal	(435)	(469)	**(819)**
State	(106)	(120)	**(138)**
Effect of tax rate change	—	218	**—**
	(541)	(371)	**(957)**
	$ 16,346	$ 18,370	**$ 12,330**

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

	Years Ended December 31,		
	2016	2017	2018
Statutory rate	35.0 %	35.0 %	**21.0 %**
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	5.9	5.9	**7.6**
Bank-owned life insurance	(0.2)	(0.2)	**(0.1)**
Effect of tax rate change	—	0.5	**—**
Other, net	0.4	0.4	**0.4**
Effective rate	41.1 %	41.6 %	**28.9 %**

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

	December 31,	
	2017	2018
	(In Thousands)	
Deferred tax assets:		
Federal	$ 2,873	**$ 3,521**
State	1,353	**1,513**
	4,226	**5,034**
Deferred tax liabilities:		
Federal	(2,521)	**(2,350)**
State	(404)	**(426)**
	(2,925)	**(2,776)**
Net deferred tax asset	$ 1,301	**$ 2,258**

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

	December 31,	
	2017	2018
	(In Thousands)	
Allowance for loan losses	$ 3,524	**$ 3,882**
Employee benefit plans	696	**759**
Fixed assets	(219)	**(272)**
Deferred fees on loans	(806)	**(850)**
Net unrealized gain on securities available for sale	(1,888)	**—**
Net unrealized gain on equity securities	—	**(1,643)**
Capital loss carryover	—	**308**
Other, net	(6)	**74**
Net deferred tax asset	$ 1,301	**$ 2,258**

9. INCOME TAXES (concluded)

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

	Years Ended December 31,		
	2016	2017	2018
	(In Thousands)		
Balance at beginning of year	$ 3,281	$ 2,489	**$ 1,301**
Deferred tax benefit	541	371	**957**
Deferred tax effects of net unrealized gain on securities available for sale	(1,333)	(1,559)	—
Balance at end of year	$ 2,489	$ 1,301	**$ 2,258**

At December 31, 2018, the Bank has a capital loss carryforward of $1.5 million, which expires in 2023.

The federal income tax reserve for loan losses at the Bank's base year was $3.8 million. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used, limited to the amount of the reserve, will be subject to taxation in the year in which used. As the Bank currently intends to use the reserve only to absorb loan losses, a deferred tax liability of $1.1 million has not been provided.

The Bank's income tax returns are subject to review and examination by federal and state taxing authorities. The Bank is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2015 through 2018. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2015 are open.

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (the "Act"). The Act included a number of changes in existing tax law impacting businesses including, among other things, a permanent reduction in the corporate income tax rate from 35% to 21%, effective on January 1, 2018. As a result of this rate reduction, the Bank revalued its net deferred tax asset as of December 22, 2017 resulting in a reduction in the value of the net deferred tax asset of $218,000, which was recorded as additional income tax provision in the Bank's consolidated statement of net income in 2017. The $218,000 additional income tax provision included a tax benefit of $1.2 million relating to the impact of the rate change on deferred tax items (net unrealized gains on securities available for sale) originally recorded through accumulated other comprehensive income ("AOCI"). This accounting treatment effectively stranded $1.2 million of deferred tax items in AOCI. In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220),* which allowed a reclassification from AOCI to undivided profits to eliminate the stranded tax effects resulting from the Act. The Bank elected to early adopt the ASU and recorded a $1.2 million reduction in undivided profits and a corresponding increase in accumulated other comprehensive income as of December 31, 2017.

10. COMMITMENTS AND CONTINGENCIES

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

Legal claims

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

Loan commitments

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

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

10. COMMITMENTS AND CONTINGENCIES (concluded)

At December 31, 2017 and 2018, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31,	
	2017	2018
	(In Thousands)	
Unused lines of credit	$ 116,396	**$ 127,535**
Commitments to originate loans	50,013	**26,865**
Unadvanced funds on construction loans	98,367	**104,484**
Standby letters-of-credit	32	**25**
	$ 264,808	**$ 258,909**

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

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

Employment agreements

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

Certain agreements provide for death benefits, which are accrued ratably over the employees' remaining service period. The Bank has purchased life insurance policies for these individuals which provide a death benefit payable to the Bank when the executive dies. The death benefits on these policies exceed the death benefit liability to the executive as of December 31, 2018. For the years ended December 31, 2016, 2017 and 2018, expenses attributable to the accrued death benefit amounted to $65,000, $69,000 and $74,000, respectively.

Lease commitments

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2018, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

Year Ending December 31,	Amount
	(In Thousands)
2019	**$ 328**
2020	**336**
2021	**256**
2022	**245**
2023	**253**
Thereafter	**423**
Total	**$ 1,841**

Lease commitments are based on the initial contract term, or longer, when in the opinion of management it is probable that the extension options will be exercised. Total rent expense for the years ended December 31, 2016, 2017 and 2018 amounted to $316,000, $320,000, and $329,000, respectively.

Data processing commitments

The Bank has entered into contracts with various data processing vendors. The contracts range in terms from three years to seven years and call for monthly fixed payments along with variable charges based on activity and the number of accounts managed. At December 31, 2018, the contracts have estimated payments totaling $4.2 million over the next five years.

11. STOCK OPTION PLAN

In 2014, the Bank's Board of Directors adopted the 2014 Nonstatutory Stock Option Plan (the "2014 Stock Option Plan"). The 2014 Stock Option Plan allows for the issuance of up to 100,000 shares of common stock (subject to adjustment in the event of stock splits, stock dividends or similar events) pursuant to non-statutory stock options. Options may not be granted at an exercise price that is less than 100% of the fair market value of the common stock on the date of grant. Under the terms of the 2014 Stock Option Plan, options may not be granted for a term in excess of 10 years and may vest immediately or over a period of time. As of December 31, 2018, there were 16,000 stock options available for future grants.

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

Stock option activity is as follows:

	2016		2017		2018	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	74,500	$ 68.76	89,500	$ 82.33	**89,500**	**$ 82.33**
Granted	19,000	129.36	—	—	—	—
Exercised	(4,000)	53.09	—	—	—	—
Outstanding at end of year	89,500	$ 82.33	89,500	$ 82.33	**89,500**	**$ 82.33**
Options exercisable at end of year	51,500	$ 70.25	61,500	$ 70.36	**71,500**	**$ 70.44**

As of December 31, 2018, the aggregate intrinsic value of options outstanding and options exercisable amounted to $10.3 million and $9.1 million, respectively.

Options outstanding consist of the following:

	December 31,			
	2017		2018	
	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life in Years
Option price				
$ 51.95	4,500	3	**4,500**	**2**
57.92	3,000	4	**3,000**	**3**
70.93	62,000	6	**62,000**	**5**
105.34	1,000	7	**1,000**	**6**
126.17	14,000	8	**14,000**	**7**
138.30	5,000	9	**5,000**	**8**
Options outstanding	89,500	7	**89,500**	**6**
Options exercisable	61,500	6	**71,500**	**5**

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

	2016
Expected dividends	1.2%
Expected term	6 years
Expected volatility	14%
Risk-free interest rate	2.0%

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

11. STOCK OPTION PLAN (concluded)

The weighted-average grant-date fair value of options granted during the year ended December 31, 2016 was $19.38. There were no options granted in 2017 and 2018. For the years ended December 31, 2016, 2017 and 2018, share-based compensation expense applicable to the plan amounted to $156,000, $175,000 and $113,000 and the recognized tax benefit related to this expense amounted to $64,000, $71,000 and $32,000, respectively. As of December 31, 2018, unrecognized share-based compensation expense related to non-vested options amounted to $139,000. This amount is expected to be recognized over a weighted average period of one year.

12. RELATED PARTY TRANSACTIONS

The Bank has a policy providing that loans (excluding passbook loans) will not be granted to Directors and Officers. During the years ended December 31, 2016, 2017 and 2018, legal fees were paid to a law firm owned by certain Directors of the Bank totaling $2.0 million each year. Such fees related to the representation of the Bank in closing commercial and residential mortgage loans, foreclosure and collection actions and certain other routine litigation. Additionally, this law firm received the sum of $956,000, $853,000 and $1.0 million in agency fees for title insurance due to them in connection with loan originations during the years ended December 31, 2016, 2017 and 2018, respectively. The Bank believes that the foregoing sums have been reasonable in relation to the services provided to the Bank. All of these services are provided pursuant to a written master agreement between the Bank and the law firm which was reviewed and approved by the independent Directors of the Board. All of the above described legal fees and title insurance fees paid to the law firm have been reimbursed to the Bank by its borrowers, with the exception of $181,000, $150,000 and $213,000 for the years ended December 31, 2016, 2017 and 2018, respectively. These unreimbursed fees are primarily associated with foreclosure and collection matters and the Bank generally collects these fees upon resolution of the loans.

13. EMPLOYEE BENEFIT PLANS

401(k) Plan

The Bank has a 401(k) plan whereby each employee, having completed at least three months of continuous service beginning with date of employment, becomes a participant in the plan. Employees may contribute a percentage of their compensation subject to certain limits based on federal tax laws. The Bank contributes 3% of an employee's compensation, regardless of the employee's contribution, and makes a matching contribution of $0.50 for each dollar contributed by the employee up to a maximum matching contribution equal to 3% of the employee's yearly compensation. Matching contributions vest to the employee after two years, or at age 59½, if earlier. For the years ended December 31, 2016, 2017 and 2018, expense attributable to the plan amounted to $425,000, $427,000 and $435,000, respectively.

Supplemental Employee Retirement Plan

The Bank had a supplemental employee retirement plan ("SERP") for a senior executive. In connection with the plan, the Bank purchased life insurance policies amounting to $10.1 million and contributed them to a Rabbi Trust. The policies accrete at a variable rate of interest with minimum stated guaranteed rates. In addition, in accordance with the SERP, a secular trust was established for the executive into which the Bank made contributions, which became the property of the executive. The SERP was terminated on April 26, 2018, as part of the recodification of the executive's employment agreement. A new employment agreement was signed on the same date, which incorporated the SERP's health and death benefits and increased the executive's salary accordingly, while other conditions remained unchanged. This agreement did not result in a material change to the level of the executive's total compensation. The secular and rabbi trusts were left with no effect. The value of the life insurance policies is $12.2 million and $12.5 million at December 31, 2017 and 2018, respectively, and is reflected on the consolidated balance sheets. Expense related to the SERP contributions amounted to $604,000 for the years ended December 31, 2016 and 2017, and $201,000 in the year ended December 31, 2018.

14. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

14. MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

Regulations require a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6% and a minimum leverage ratio of 4% for all banking organizations. Additionally, the Bank must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. The capital conservation buffer and certain deductions from and adjustments to regulatory capital and risk-weighted assets are being phased in over several years, with full compliance phased in by January 1, 2019. The required minimum capital conservation buffer is 1.875% as of December 31, 2018 and will increase to 2.5% on January 1, 2019. Management believes the Bank's capital levels will remain "well-capitalized" through the phase-in period.

As of December 31, 2018, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. Management believes that as of December 31, 2017 and 2018, the Bank meets all capital adequacy requirements to which it is subject.

The Bank's actual capital amounts and ratios as of December 31, 2017 and 2018 are presented in the following tables.

	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, 2017						
Total Capital to Risk-Weighted Assets	$ 195,871	12.76 %	$ 141,948	9.250 %	$ 153,457	10.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	179,479	11.70	88,238	5.750	99,747	6.50
Tier 1 Capital to Risk-Weighted Assets	179,479	11.70	111,257	7.250	122,766	8.00
Tier 1 Capital to Average Assets	179,479	7.97	90,092	4.000	112,615	5.00
December 31, 2018						
Total Capital to Risk-Weighted Assets	**$ 226,384**	**13.27 %**	**$ 168,417**	**9.875 %**	**$ 170,548**	**10.00 %**
Common Equity Tier 1 Capital to Risk-Weighted Assets	**212,576**	**12.46**	**108,725**	**6.375**	**110,856**	**6.50**
Tier 1 Capital to Risk-Weighted Assets	**212,576**	**12.46**	**134,307**	**7.875**	**136,439**	**8.00**
Tier 1 Capital to Average Assets	**212,576**	**9.09**	**93,503**	**4.000**	**116,879**	**5.00**

* Minimum risk-based regulatory capital ratios and amounts at December 31, 2017 and 2018 include the applicable minimum risk-based capital ratios and capital conservation buffer of 1.25% and 1.875%, respectively.

15. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and 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.

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, 2017</u>				
Securities available for sale:				
Debt securities	$ —	$ 17	$ —	$ 17
Equity securities	31,306	2,981	—	34,287
Total securities available for sale	$ 31,306	$ 2,998	$ —	$ 34,304
<u>December 31, 2018</u>				
Securities available for sale - debt securities	**$ —**	**$ 14**	**$ —**	**$ 14**
Equity securities	**35,730**	**2,716**	**—**	**38,446**
Total	**$ 35,730**	**$ 2,730**	**$ —**	**$ 38,460**

During the year ended December 31, 2018, the Bank adopted FASB ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* The adoption did not have a material impact on the Bank's disclosures.

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.

There are no assets or liabilities measured at fair value on a non-recurring basis at December 31, 2017 and 2018.

15. FAIR VALUES OF ASSETS AND LIABILITIES (concluded)

Summary of Fair Values of Financial Instruments

Effective January 1, 2018, the Bank adopted FASB ASU 2016-01, *Financial Instruments – Overall, (Subtopic 825-10)*. The amendments in this Update, among other provisions, require public business entities to use the exit price notion when measuring the fair value of financial instruments. In addition, the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet was eliminated.

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

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
		(In Thousands)		
December 31, 2017				
Financial assets:				
Cash and cash equivalents	$ 355,229	$ 355,229	$ —	$ —
Securities available for sale	34,304	31,306	2,998	—
Federal Home Loan Bank stock	27,102	—	—	27,102
Loans, net	1,833,987	—	—	1,842,923
Accrued interest receivable	4,398	—	—	4,398
Financial liabilities:				
Deposits	$ 1,505,862	$ —	$ —	$ 1,507,159
Federal Home Loan Bank advances	579,164	—	578,991	—
Mortgage payable	812	—	—	872
Mortgagors' escrow accounts	6,424	—	—	6,424
Accrued interest payable	575	—	—	575
December 31, 2018				
Financial assets:				
Cash and cash equivalents	**$ 295,975**	**$ 295,975**	**$ —**	**$ —**
Debt securities available for sale	**14**	**—**	**14**	**—**
Equity securities	**38,446**	**35,730**	**2,716**	**—**
Federal Home Loan Bank stock	**28,696**	**—**	**—**	**28,696**
Loans, net	**2,009,288**	**—**	**—**	**2,018,874**
Accrued interest receivable	**4,581**	**—**	**—**	**4,581**
Financial liabilities:				
Deposits	**$ 1,573,154**	**$ —**	**$ —**	**$ 1,576,359**
Federal Home Loan Bank advances	**606,600**	**—**	**606,568**	**—**
Mortgage payable	**751**	**—**	**—**	**776**
Mortgagors' escrow accounts	**7,402**	**—**	**—**	**7,402**
Accrued interest payable	**2,187**	**—**	**—**	**2,187**

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2017 and 2018 are as follows:

	Year Ended December 31, 2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In Thousands, Except Per Share Data)			
Interest and dividend income	$ 18,930	$ 19,678	$ 20,686	$ 21,765
Interest expense	3,491	4,002	4,608	5,160
Net interest income	15,439	15,676	16,078	16,605
Provision for loan losses	255	285	558	407
Net interest income, after provision for loan losses	15,184	15,391	15,520	16,198
Gain on sale of available for sale securities, net	—	77	—	—
All other income	331	336	327	339
Operating expenses	5,118	4,798	4,818	4,842
Income before income taxes	10,397	11,006	11,029	11,695
Income tax provision	4,285	4,536	4,545	5,004
Net income	$ 6,112	$ 6,470	$ 6,484	$ 6,691
Earnings per share:				
Basic	$ 2.87	$ 3.03	$ 3.04	$ 3.14
Diluted	$ 2.80	$ 2.97	$ 2.97	$ 3.06
Cash dividends declared per share	$ 0.32	$ 0.32	$ 0.34	$ 0.68 (1)

	Year Ended December 31, 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In Thousands, Except Per Share Data)			
Interest and dividend income	**$ 22,137**	**$ 23,127**	**$ 24,343**	**$ 24,562**
Interest expense	**5,672**	**6,622**	**7,597**	**8,493**
Net interest income	**16,465**	**16,505**	**16,746**	**16,069**
Provision for loan losses	**285**	**415**	**350**	**220**
Net interest income, after provision for loan losses	**16,180**	**16,090**	**16,396**	**15,849**
Gain (loss) on equity securities, net	**966**	**(220)**	**544**	**(4,313)**
All other income	**318**	**319**	**323**	**328**
Operating expenses	**5,103**	**5,039**	**4,980**	**4,929**
Income before income taxes	**12,361**	**11,150**	**12,283**	**6,935**
Income tax provision	**3,449**	**3,176**	**3,435**	**2,270**
Net income	**$ 8,912**	**$ 7,974**	**$ 8,848**	**$ 4,665**
Earnings per share:				
Basic	**$ 4.18**	**$ 3.74**	**$ 4.15**	**$ 2.18**
Diluted	**$ 4.08**	**$ 3.64**	**$ 4.05**	**$ 2.13**
Cash dividends declared per share	**$ 0.34**	**$ 0.35**	**$ 0.36**	**$ 0.87 (2)**

(1) Includes a special dividend of $0.34 per common share declared on November 21, 2017 and paid on January 17, 2018.
(2) Includes a special dividend of $0.50 per common share declared on November 20, 2018 and paid on January 16, 2019.

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

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Bank's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness, as of December 31, 2018, 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 only provide reasonable assurance of achieving their objectives and management therefore applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Bank's disclosure controls and procedures as of December 31, 2018, the CEO and CFO concluded that, as of such date, the Bank's disclosure controls and procedures were effective at the reasonable assurance level.

Internal Control over Financial Reporting

Management's Annual Report on Internal Control over Financial Reporting

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

Management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2018, utilizing the framework established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). See "Management's Annual Report on Internal Control over Financial Reporting" in this Form-10-K.

The effectiveness of our internal control over financial reporting as of December 31, 2018, has been audited by Wolf & Company, P.C., an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

There were no significant changes in the Bank's internal control over financial reporting, as defined in Rules 13a-15(e) and 15d-15(e), during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

Item 9B. Other information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The response to this Item is incorporated herein by reference to the information which will be included in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 25, 2019. Also incorporated herein by reference is the information which appears in Appendix B of the Bank’s Proxy Statement for the Annual Meeting of Stockholders held on April 29, 2004.

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

Item 11. Executive Compensation.

The response to this Item is incorporated herein by reference to the information which will be included in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 25, 2019.

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

Except as provided below, the response to this Item is incorporated herein by reference to the information which will be included in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 25, 2019.

The following table provides information about the securities authorized for issuance under the Bank’s equity compensation plans as of December 31, 2018 (Refer to Note 11 in Notes to Consolidated Financial Statements):

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders: 1996 and 2014 Stock Option Plans	89,500	$82.33	16,000
Equity compensation plans not approved by security holders:	----	----	----
Total	89,500	$82.33	16,000

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

The response to this Item is incorporated herein by reference to the information which will be included in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 25, 2019.

Item 14. Principal Accountant Fees and Services.

The response to this item is incorporated by reference to the information which will be included in the Bank’s Proxy Statement for the Annual Meeting of Stockholders to be held on April 25, 2019.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

(1) Exhibits:

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

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

Exhibit 10. Material Contracts

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

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

Change in Control Agreement, dated November 26, 2018, by and between Hingham Institution for Savings and James J. Dell'Anno, which is incorporated by reference to the Bank's Form 8-K filed on November 26, 2018.

Amended and Restated Employment Agreement, dated April 26, 2018, by and between Hingham Institution for Savings and Robert H. Gaughen, Jr. dated April 26, 2018, which is incorporated by reference to the Bank's Form 8-K filed on April 26, 2018.

Change in Control Agreement, dated October 17, 2016, by and between Hingham Institution for Savings and Cristian Melej, which is incorporated by reference to the Bank's Form 8-K filed on September 28, 2016.

Employment Agreement, dated April 24, 2014, by and between Hingham Institution for Savings and Patrick R. Gaughen, filed herewith.

Employment Agreement, dated as of April 29, 1999, by and between Hingham Institution Savings and Shawn T. Sullivan, filed herewith.

Exhibit 21. Subsidiaries of Hingham Institution for Savings

In June 1978, the Bank established Hingham Institution for Savings Realty Trust.

In December 1998, the Bank established 49 Main Street Realty Trust.

In August 2003, the Bank established a Massachusetts subsidiary incorporated as the Hingham Unpledged Securities Corporation. The subsidiary is wholly-owned by the Bank.

In November 2016, the Bank established a Massachusetts subsidiary incorporated as the Hingham Pledged Securities Corporation. The subsidiary is wholly-owned by the Bank.

Exhibit 31.1 Certifications – Chief Executive Officer

Exhibit 31.2 Certifications – Chief Financial Officer

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

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

Item 16. Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HINGHAM INSTITUTION FOR SAVINGS

March 5, 2019	/s/ Robert H. Gaughen, Jr. Chief Executive Officer (Principal Executive Officer)

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

/s/ Robert H. Gaughen, Jr.	Chief Executive Officer and Director (Principal Executive Officer)	03/05/19 Date
/s/ Cristian A. Melej	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	03/05/19 Date
/s/ Patrick R. Gaughen	Director	03/05/19 Date
/s/ Jacqueline M. Youngworth	Clerk of the Board and Directors	03/05/19 Date
/s/ Howard M. Berger	Director	03/05/19 Date
/s/ Michael J. Desmond	Director	03/05/19 Date
/s/ Ronald D. Falcione	Director	03/05/19 Date
/s/ Kevin W. Gaughen	Director	03/05/19 Date
/s/ Kara Gaughen Smith	Director	03/05/19 Date
/s/ Julio R. Hernando	Director	03/05/19 Date
/s/ Brian T. Kenner	Director	03/05/19 Date
/s/ Robert A. Lane	Director	03/05/19 Date
/s/	Director	03/05/19

Scott L. Moser		Date
/s/	Director	03/05/19
Stacey M. Page		Date
/s/	Director	03/05/19
Robert K. Sheridan		Date
/s/	Director	03/05/19
Edward L. Sparda		Date
/s/	Director	03/05/19
Geoffrey C. Wilkinson, Sr.		Date

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

1. I have reviewed this annual report on Form 10-K of Hingham Institution for Savings;

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

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

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

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

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

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

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

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

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

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

Date: March 5, 2019

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

CERTIFICATIONS

I, Cristian A. Melej, certify that:

1. I have reviewed this annual report on Form 10-K of Hingham Institution for Savings;

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

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

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

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

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

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

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

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

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

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

Date: March 5, 2019

/s/
Cristian A. Melej
Chief Financial Officer
(Principal Financial Officer
and Principal Accounting 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 Annual Report on Form 10-K of Hingham Institution for Savings (the "Bank") for the year ended December 31, 2018, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), the undersigned Robert H. Gaughen, Jr., Chief Executive Officer of the Bank, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: March 5, 2019

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

In connection with the Annual Report on Form 10-K of Hingham Institution for Savings (the "Bank") for the year ended December 31, 2018, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), the undersigned Cristian A. Melej, Chief Financial Officer of the Bank, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: March 5, 2019