

UNITED STATES FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 20429

FORM 10 - Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

OR

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

Commission File Number: FDIC Certificate No. 90211-0

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

Massachusetts
(State of incorporation)

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

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

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

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

(1) YES NO

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

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

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

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

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

At November 1, 2015, there were 2,128,750 shares of the registrant's common stock outstanding.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)	
Consolidated Balance Sheets – December 31, 2014 and September 30, 2015	3
Consolidated Statements of Net Income – Three and nine months ended September 30, 2014 and 2015	4
Consolidated Statements of Comprehensive Income – Three and nine months ended September 30, 2014 and 2015	5
Consolidated Statements of Changes in Stockholders’ Equity – Nine months ended September 30, 2014 and 2015	6
Consolidated Statements of Cash Flows – Nine months ended September 30, 2014 and 2015	7
Condensed Notes to Unaudited Consolidated Financial Statements	9
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	40
Item 4. Controls and Procedures	40

PART II OTHER INFORMATION

Item 1. Legal Proceedings	41
Item 1A. Risk Factors.	41
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 3. Defaults Upon Senior Securities	41
Item 4. Mine Safety Disclosures (not applicable)	41
Item 5. Other Information	41
Item 6. Exhibits	41
Signatures	42

Exhibit No.

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

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES**Consolidated Balance Sheets**

(Dollars in thousands, except per share data)	December 31,	September 30,
(Unaudited)	2014	2015
ASSETS		
Cash and due from banks	\$ 6,917	\$ 6,646
Short-term investments	170,305	231,311
Cash and cash equivalents	177,222	237,957
Certificates of deposit	12,926	7,448
Securities available for sale, at fair value	70,570	48,943
Federal Home Loan Bank stock, at cost	17,855	18,454
Loans, net of allowance for loan losses of \$9,108 at December 31, 2014 and \$9,635 at September 30, 2015	1,238,656	1,342,634
Foreclosed assets	786	118
Bank-owned life insurance	11,416	11,628
Premises and equipment, net	15,211	15,130
Accrued interest receivable	2,959	3,156
Deferred income tax asset, net	2,642	2,627
Other assets	1,962	2,864
Total assets	<u>\$ 1,552,205</u>	<u>\$ 1,690,959</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$ 1,089,217	\$ 1,179,970
Federal Home Loan Bank advances	329,602	367,499
Mortgage payable	973	935
Mortgagors' escrow accounts	4,476	4,629
Accrued interest payable	350	281
Other liabilities	6,072	3,669
Total liabilities	<u>1,430,690</u>	<u>1,556,983</u>
Stockholders' equity:		
Preferred stock, \$1.00 par value, 2,500,000 shares authorized; none issued	—	—
Common stock, \$1.00 par value, 5,000,000 shares authorized; 2,128,750 shares issued and outstanding at December 31, 2014 and September 30, 2015	2,129	2,129
Additional paid-in capital	10,942	11,029
Undivided profits	108,243	120,524
Accumulated other comprehensive income	201	294
Total stockholders' equity	<u>121,515</u>	<u>133,976</u>
Total liabilities and stockholders' equity	<u>\$ 1,552,205</u>	<u>\$ 1,690,959</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES**Consolidated Statements of Net Income**

(In thousands, except per share amounts) (Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Interest and dividend income:				
Loans	\$ 14,109	\$ 15,180	\$ 40,598	\$ 44,450
Debt securities	80	43	263	162
Equity securities	116	231	346	545
Short-term investments and certificates of deposit	95	154	246	424
Total interest and dividend income	<u>14,400</u>	<u>15,608</u>	<u>41,453</u>	<u>45,581</u>
Interest expense:				
Deposits	1,598	2,047	4,554	5,748
Federal Home Loan Bank advances	846	728	2,802	2,162
Mortgage payable	15	14	45	43
Total interest expense	<u>2,459</u>	<u>2,789</u>	<u>7,401</u>	<u>7,953</u>
Net interest income	11,941	12,819	34,052	37,628
Provision for loan losses	150	175	475	525
Net interest income, after provision for loan losses	<u>11,791</u>	<u>12,644</u>	<u>33,577</u>	<u>37,103</u>
Other income:				
Customer service fees on deposits	257	250	756	731
Increase in bank-owned life insurance	73	71	238	212
Gain on life insurance distribution	—	—	6,302	—
Gain on sale of securities	—	29	—	29
Miscellaneous	69	46	232	142
Total other income	<u>399</u>	<u>396</u>	<u>7,528</u>	<u>1,114</u>
Operating expenses (income):				
Salaries and employee benefits	2,887	2,875	9,578	8,701
Occupancy and equipment	486	513	1,522	1,586
Data processing	308	291	893	891
Deposit insurance	205	224	592	662
Foreclosure	(62)	30	234	62
Marketing	99	126	354	384
Other general and administrative	648	713	2,195	2,015
Total operating expenses	<u>4,571</u>	<u>4,772</u>	<u>15,368</u>	<u>14,301</u>
Income before income taxes	7,619	8,268	25,737	23,916
Income tax provision	3,138	3,394	8,008	9,804
Net income	<u>\$ 4,481</u>	<u>\$ 4,874</u>	<u>\$ 17,729</u>	<u>\$ 14,112</u>
Weighted average common shares outstanding:				
Basic	<u>2,129</u>	<u>2,129</u>	<u>2,129</u>	<u>2,129</u>
Diluted	<u>2,135</u>	<u>2,146</u>	<u>2,132</u>	<u>2,144</u>
Earnings per common share:				
Basic	<u>\$ 2.10</u>	<u>\$ 2.29</u>	<u>\$ 8.33</u>	<u>\$ 6.63</u>
Diluted	<u>\$ 2.10</u>	<u>\$ 2.27</u>	<u>\$ 8.32</u>	<u>\$ 6.58</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands) (Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Net income	\$ 4,481	\$ 4,874	\$ 17,729	\$ 14,112
Other comprehensive income (loss):				
Net unrealized holding gain (loss) on securities available for sale	144	(48)	283	173
Reclassification adjustment for gain on sales of securities recognized in other income (1)	—	(29)	—	(29)
Net unrealized gain (loss)	144	(77)	283	144
Tax effect	<u>(52)</u>	<u>28</u>	<u>(102)</u>	<u>(51)</u>
	<u>92</u>	<u>(49)</u>	<u>181</u>	<u>93</u>
Comprehensive income	\$ <u>4,573</u>	\$ <u>4,825</u>	\$ <u>17,910</u>	\$ <u>14,205</u>

(1) Amounts are included in gain on sale of securities in the consolidated statements of net income. Provision for income taxes associated with the reclassification adjustment for the three and nine months ended September 30, 2015 amounted to \$10,000.

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 - FINANCIAL STATEMENTS (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended
September 30, 2014 and 2015

(In thousands) (Unaudited)	Common Stock	Additional Paid-In Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2013	\$ 2,129	\$ 10,659	\$ 90,449	\$ (20)	\$ 103,217
Comprehensive income	—	—	17,729	181	17,910
Share-based compensation expense	—	260	—	—	260
Cash dividends declared – common (\$0.82 per share)	—	—	(1,746)	—	(1,746)
Balance at September 30, 2014	<u>\$ 2,129</u>	<u>\$ 10,919</u>	<u>\$ 106,432</u>	<u>\$ 161</u>	<u>\$ 119,641</u>
Balance at December 31, 2014	\$ 2,129	\$ 10,942	\$ 108,243	\$ 201	\$ 121,515
Comprehensive income	—	—	14,112	93	14,205
Share-based compensation expense	—	87	—	—	87
Cash dividends declared – common (\$0.86 per share)	—	—	(1,831)	—	(1,831)
Balance at September 30, 2015	<u>\$ 2,129</u>	<u>\$ 11,029</u>	<u>\$ 120,524</u>	<u>\$ 294</u>	<u>\$ 133,976</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES**Consolidated Statements of Cash Flows**

(In thousands) (Unaudited)	Nine Months Ended September 30,	
	2014	2015
Cash flows from operating activities:		
Net income	\$ 17,729	\$ 14,112
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	475	525
Amortization of securities, net	419	120
Amortization of deferred loan origination costs, net	144	372
Share-based compensation expense	260	87
Deferred income tax benefit	(108)	(36)
Depreciation and amortization of premises and equipment	578	577
Increase in cash surrender value of life insurance	(238)	(212)
Gain on life insurance distribution	(6,302)	—
Gain on sale of securities	—	(29)
Gain on foreclosed assets	(48)	(105)
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(484)	(1,099)
Accrued interest payable and other liabilities	438	(386)
Net cash provided by operating activities	12,863	13,926
Cash flows from investing activities:		
Activity in certificates of deposit:		
Maturities	4,363	5,478
Purchases	(5,812)	—
Activity in available-for-sale securities:		
Maturities, prepayments and calls	48,537	26,283
Proceeds from sales of securities	—	682
Purchases	(24,110)	(5,285)
Purchase of Federal Home Loan Bank stock	(1,877)	(599)
Proceeds from sale of foreclosed assets	877	1,177
Proceeds from bank-owned life insurance death benefit	10,570	—
Loans originated, net of payments received	(130,600)	(105,279)
Additions to premises and equipment	(105)	(496)
Net cash used in investing activities	(98,157)	(78,039)

(continued)

See accompanying Notes to Unaudited Consolidated Financial Statements.

ITEM 1 – FINANCIAL STATEMENTS (continued)

Consolidated Statements of Cash Flows (concluded)

(In thousands) (Unaudited)	Nine Months Ended	
	September 30,	
	2014	2015
Cash flows from financing activities:		
Increase in deposits	114,795	90,753
Increase in mortgagors' escrow accounts	530	153
Cash dividends paid on common stock	(2,320)	(3,917)
Net change in borrowings with maturities of less than three months	11,000	165,000
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	243,000	15,000
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(236,097)	(142,103)
Repayment of mortgage payable	(35)	(38)
Net cash provided by financing activities	<u>130,873</u>	<u>124,848</u>
Net change in cash and cash equivalents	45,579	60,735
Cash and cash equivalents at beginning of period	<u>102,847</u>	<u>177,222</u>
Cash and cash equivalents at end of period	<u>\$ 148,426</u>	<u>\$ 237,957</u>
Supplementary information:		
Interest paid on deposit accounts	\$ 4,565	\$ 5,777
Interest paid on Federal Home Loan Bank advances and mortgage payable	2,980	2,244
Income taxes paid	7,606	11,062
Non-cash investing and financing activities:		
Transfer from loans to foreclosed assets	\$ 1,379	\$ 404
Transfer of cash surrender value receivable from bank-owned life insurance to other assets	4,268	—

See accompanying Notes to Unaudited Consolidated Financial Statements.

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

September 30, 2014 and 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial information as of September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 is unaudited, and in the opinion of management, reflects all adjustments necessary for a fair presentation of such information. Such adjustments were of a normal recurring nature. Interim results are not necessarily indicative of results to be expected for the entire year. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Bank for the year ended December 31, 2014 filed on Form 10-K.

Earnings per common share

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

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Average number of common shares outstanding used to calculate basic earnings per share	2,129	2,129	2,129	2,129
Effect of dilutive options	<u>6</u>	<u>17</u>	<u>3</u>	<u>15</u>
Average number of common shares outstanding used to calculate diluted earnings per common share	<u>2,135</u>	<u>2,146</u>	<u>2,132</u>	<u>2,144</u>

Loans

The Bank’s loan portfolio includes residential real estate, commercial real estate, construction, home equity, commercial and consumer segments. Over 99% of the loan portfolio is secured by real estate in the Eastern Massachusetts area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate, construction, and general economic conditions.

Notes to Unaudited Consolidated Financial Statements (continued)

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

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

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

Allowance for loan losses

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

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

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by loan segment. Management uses a rolling average of historical losses based on a time frame (currently two years) appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during the nine months ended September 30, 2015 or 2014.

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

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

Notes to Unaudited Consolidated Financial Statements (continued)

Commercial real estate – Loans in this segment are primarily secured by income-producing properties throughout Massachusetts. Loan amounts do not generally exceed 75% of the lower of the Bank's estimate of collateral value or the appraised value of the collateral. Loan amounts to an individual borrower or credit relationship generally do not exceed \$12.0 million. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates which, in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these properties.

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

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

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

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

Allocated component

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

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

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE 2: COMMITMENTS

At December 31, 2014 and September 30, 2015, outstanding loan commitments were as follows:

(In thousands)	December 31, 2014	September 30, 2015
Commitments to originate loans	\$ 55,007	\$ 82,440
Unused lines of credit	72,664	80,541
Unadvanced construction funds	33,760	41,445
Standby letters of credit	35	191
Total	\$ 161,466	\$ 204,617

At September 30, 2015, the Bank had the following contractual obligations outstanding:

(In thousands)	Payments Due by Year				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More than Five Years
Certificates of deposit	\$ 527,337	\$ 333,983	\$ 147,465	\$ 45,889	\$ —
Federal Home Loan Bank advances	367,499	297,000	56,000	14,499	—
Data processing agreements*	3,026	984	1,832	210	—
Lease agreements**	2,135	300	621	650	564
Mortgage payable	935	53	116	766	—

* Estimated payments subject to change based on transaction volume.

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

NOTE 3: DIVIDEND DECLARATION

On September 23, 2015, the Board of Directors declared a cash dividend of \$0.30 per share to all stockholders of record as of October 9, 2015, payable October 20, 2015.

NOTE 4: FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures of certain assets and liabilities. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various 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 assets and liabilities.

Notes to Unaudited Consolidated Financial Statements (continued)

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

Level 1 – Valuation is based on quoted prices in active exchange markets for identical assets or liabilities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

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

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

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

The following methods and assumptions were used by the Bank in estimating fair value disclosure for financial instruments:

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

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

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

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

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

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

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

Notes to Unaudited Consolidated Financial Statements (continued)

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

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

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

Off-balance-sheet instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. At December 31, 2014 and September 30, 2015, the fair value of commitments outstanding is not significant since fees charged are not material.

Assets Measured at Fair Value on a Recurring Basis

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

(In thousands)	December 31, 2014			
	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale:				
Debt securities	\$ —	\$ 60,519	\$ —	\$ 60,519
Equity securities	10,051	—	—	10,051
Total securities available for sale	<u>\$ 10,051</u>	<u>\$ 60,519</u>	<u>\$ —</u>	<u>\$ 70,570</u>

(In thousands)	September 30, 2015			
	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale:				
Debt securities	\$ —	\$ 34,118	\$ —	\$ 34,118
Equity securities	14,825	—	—	14,825
Total securities available for sale	<u>\$ 14,825</u>	<u>\$ 34,118</u>	<u>\$ —</u>	<u>\$ 48,943</u>

Assets Measured at Fair Value on a Non-recurring Basis

The Bank may also be required, from time to time, to measure certain other assets on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting, or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of December 31, 2014 and September 30, 2015. Total losses represent the losses recorded during the periods noted on assets held at the end of the period. There are no liabilities measured at fair value on a non-recurring basis at December 31, 2014 and September 30, 2015.

(In thousands)	September 30, 2014			Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
	Level 1	Level 2	Level 3	Total Losses	Total Losses
Impaired loans	\$ —	\$ —	\$ 779	\$ —	\$ —
Foreclosed assets	—	—	821	—	10
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,600</u>	<u>\$ —</u>	<u>\$ 10</u>

Notes to Unaudited Consolidated Financial Statements (continued)

		December 31, 2014				
(In thousands)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>			
Impaired loans	\$ —	\$ —	\$ 239			
Foreclosed assets	—	—	786			
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,025</u>			

		September 30, 2015			Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
(In thousands)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Losses</u>	<u>Total Losses</u>	
Impaired loans	\$ —	\$ —	\$ —	\$ —	\$ —	
Foreclosed assets	—	—	118	—	—	
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 118</u>	<u>\$ —</u>	<u>\$ —</u>	

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

Summary of Fair Values of Financial Instruments

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

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

Notes to Unaudited Consolidated Financial Statements (continued)

(In thousands)	September 30, 2015			
	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 237,957	\$ 237,957	\$ —	\$ —
Certificates of deposit	7,448	7,459	—	—
Securities available for sale	48,943	34,118	14,825	—
Federal Home Loan Bank stock	18,454	—	—	18,454
Loans, net	1,342,634	—	—	1,355,798
Accrued interest receivable	3,156	—	—	3,156
Financial liabilities:				
Deposits	\$ 1,179,970	\$ —	\$ —	\$ 1,184,836
Federal Home Loan Bank advances	367,499	—	370,103	—
Mortgage payable	935	—	—	1,081
Mortgagors' escrow accounts	4,629	—	—	4,629
Accrued interest payable	281	—	—	281

NOTE 5: SECURITIES AVAILABLE FOR SALE

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2014</u>				
Debt securities:				
Government-sponsored enterprises	\$ 60,417	\$ 50	\$ (35)	\$ 60,432
Residential mortgage-backed	85	2	—	87
Total debt securities	60,502	52	(35)	60,519
Equity securities	9,755	356	(60)	10,051
Total securities available for sale	<u>\$ 70,257</u>	<u>\$ 408</u>	<u>\$ (95)</u>	<u>\$ 70,570</u>
<u>September 30, 2015</u>				
Debt securities:				
Government-sponsored enterprises	\$ 34,039	\$ 18	\$ (1)	\$ 34,056
Residential mortgage-backed	61	1	—	62
Total debt securities	34,100	19	(1)	34,118
Equity securities	14,386	659	(220)	14,825
Total securities available for sale	<u>\$ 48,486</u>	<u>\$ 678</u>	<u>\$ (221)</u>	<u>\$ 48,943</u>

At December 31, 2014 and September 30, 2015, debt securities with a fair value of \$60.5 million and \$34.1 million, respectively, were pledged to secure Federal Home Loan Bank advances.

Notes to Unaudited Consolidated Financial Statements (continued)

The amortized cost and estimated fair value of debt securities by contractual maturity at September 30, 2015 are shown below. Expected maturities will differ from contractual maturities because of prepayments and scheduled payments on mortgage-backed securities.

(In thousands)	<u>Amortized Cost</u>	<u>Fair Value</u>
Bonds and obligations:		
Within 1 year	\$ 34,039	\$ 34,056
Residential mortgage-backed securities	<u>61</u>	<u>62</u>
Total debt securities	<u>\$ 34,100</u>	<u>\$ 34,118</u>

Information pertaining to securities with gross unrealized losses at December 31, 2014 and September 30, 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

(In thousands)	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2014</u>				
Debt securities:				
Government-sponsored enterprises	\$ 34	\$ 18,037	\$ 1	\$ 5,019
Equity securities	59	762	1	4,999
Total temporarily impaired securities	<u>\$ 93</u>	<u>\$ 18,799</u>	<u>\$ 2</u>	<u>\$ 10,018</u>
<u>September 30, 2015</u>				
Debt securities:				
Government-sponsored enterprises	\$ 1	\$ 1,998	\$ —	\$ —
Equity securities	220	3,165	—	—
Total temporarily impaired securities	<u>\$ 221</u>	<u>\$ 5,163</u>	<u>\$ —</u>	<u>\$ —</u>

At September 30, 2015, 1 debt security had an unrealized loss with aggregate depreciation of less than 1% from the Bank's amortized cost basis. Because the decline in market value is attributable to changes in interest rates and not the credit quality, and because the Bank does not intend to sell the security and it is more likely than not that the Bank will not be required to sell the security before recovery of its amortized cost basis, which may be maturity, the Bank does not consider this security to be other-than-temporarily impaired at September 30, 2015.

At September 30, 2015, \$3.2 million in equity securities had unrealized losses with aggregate depreciation of 7% from the Bank's cost basis. No credit issues have been identified that cause management to believe the decline in fair value is other than temporary, and the Bank has the ability and intent to hold these investments until a recovery of fair value.

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE 6: LOANS

A summary of the balances of loans are as follows:

(In thousands)	December 31, 2014	September 30, 2015
Mortgage loans:		
Residential	\$ 548,004	\$ 580,803
Commercial	607,851	665,976
Construction	60,371	70,601
Home equity and second mortgages	28,661	31,996
Total mortgage loans	<u>1,244,887</u>	<u>1,349,376</u>
Other loans:		
Commercial	303	232
Consumer	693	581
Total other loans	<u>996</u>	<u>813</u>
Total loans	1,245,883	1,350,189
Allowance for loan losses	(9,108)	(9,635)
Net deferred loan origination costs	<u>1,881</u>	<u>2,080</u>
Loans, net	<u>\$ 1,238,656</u>	<u>\$ 1,342,634</u>

The Bank has sold mortgage loans in the secondary mortgage market and has retained the servicing responsibility and receives fees for the services provided. Loans sold and serviced for others amounted to \$4.9 million and \$3.5 million at December 31, 2014 and September 30, 2015, respectively. All loans serviced for others were sold without recourse provisions and are not included in the accompanying consolidated balance sheets.

The Bank generally retains all commercial real estate loans originated for its own account and does not participate in transactions led by other lenders, as it prefers to evaluate all investment opportunities directly. At December 31, 2014 the Bank had one participation loan where the Bank was the lead lender with a participated balance of \$2.9 million. During the first nine months of 2015 the Bank repurchased this participated balance and at September 30, 2015, the Bank had no participation balances.

A blanket lien on “qualified collateral”, defined principally as 50-75% of the carrying value of first mortgage loans on certain owner-occupied residential property, 75% of the carrying value of first mortgage loans on certain non-owner-occupied residential property, 70-75% of the carrying value of first mortgage loans on certain multi-family residential property and 65% of the carrying value of loans on certain commercial property, is used to secure borrowings from the Federal Home Loan Bank of Boston.

Notes to Unaudited Consolidated Financial Statements (continued)

An analysis of the activity in the allowance for loan losses, by segment, for the periods ended September 30, 2014 and 2015 follows:

(In thousands)	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Home Equity</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
<u>Three months ended September 30, 2014</u>							
Balance June 30, 2014	\$ 3,100	\$ 5,202	\$ 479	\$ 52	\$ 1	\$ 3	\$ 8,834
Provision for loan losses	(9)	97	18	45	(1)	—	150
Loans charged off	(3)	—	—	(31)	—	—	(34)
Recoveries of loans previously charged off	2	1	—	—	—	—	3
Balance September 30, 2014	<u>\$ 3,090</u>	<u>\$ 5,300</u>	<u>\$ 494</u>	<u>\$ 66</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 8,953</u>
<u>Nine months ended September 30, 2014</u>							
Balance December, 2013	\$ 3,327	\$ 4,758	\$ 364	\$ 56	\$ 1	\$ 3	\$ 8,509
Provision for loan losses	(227)	541	130	31	(1)	1	475
Loans charged off	(13)	—	—	(31)	—	(2)	(46)
Recoveries of loans previously charged off	3	1	—	10	—	1	15
Balance September 30, 2014	<u>\$ 3,090</u>	<u>\$ 5,300</u>	<u>\$ 494</u>	<u>\$ 66</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 8,953</u>
<u>Three months ended September 30, 2015</u>							
Balance June 30, 2015	\$ 2,804	\$ 6,096	\$ 478	\$ 78	\$ 1	\$ 2	\$ 9,459
Provision for loan losses	57	73	51	(6)	—	—	175
Loans charged off	—	—	—	—	—	—	—
Recoveries of loans previously charged off	—	1	—	—	—	—	1
Balance September 30, 2015	<u>\$ 2,861</u>	<u>\$ 6,170</u>	<u>\$ 529</u>	<u>\$ 72</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 9,635</u>
<u>Nine months ended September 30, 2015</u>							
Balance December 31, 2014	\$ 2,895	\$ 5,684	\$ 456	\$ 69	\$ 1	\$ 3	\$ 9,108
Provision for loan losses	(34)	484	73	3	—	(1)	525
Loans charged off	—	—	—	—	—	—	—
Recoveries of loans previously charged off	—	2	—	—	—	—	2
Balance September 30, 2015	<u>\$ 2,861</u>	<u>\$ 6,170</u>	<u>\$ 529</u>	<u>\$ 72</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 9,635</u>

Notes to Unaudited Consolidated Financial Statements (continued)

An analysis of the allowance for loan losses, by segment, as of December 31, 2014 and September 30, 2015:

(In thousands)	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Home Equity</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
<u>December 31, 2014</u>							
Allowance for loans deemed to be impaired	\$ 270	\$ 38	\$ —	\$ 1	\$ —	\$ —	\$ 309
Allowance for loans not deemed to be impaired	<u>2,625</u>	<u>5,646</u>	<u>456</u>	<u>68</u>	<u>1</u>	<u>3</u>	<u>8,799</u>
	<u>\$ 2,895</u>	<u>\$ 5,684</u>	<u>\$ 456</u>	<u>\$ 69</u>	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 9,108</u>
Loans deemed to be impaired	\$ 2,619	\$ 2,223	\$ 567	\$ 286	\$ —	\$ —	\$ 5,695
Loans not deemed to be impaired	<u>545,385</u>	<u>605,628</u>	<u>59,804</u>	<u>28,375</u>	<u>303</u>	<u>693</u>	<u>1,240,188</u>
	<u>\$ 548,004</u>	<u>\$ 607,851</u>	<u>\$ 60,371</u>	<u>\$ 28,661</u>	<u>\$ 303</u>	<u>\$ 693</u>	<u>\$ 1,245,883</u>
<u>September 30, 2015</u>							
Allowance for loans deemed to be impaired	\$ 248	\$ 28	\$ —	\$ 2	\$ —	\$ —	\$ 278
Allowance for loans not deemed to be impaired	<u>2,613</u>	<u>6,142</u>	<u>529</u>	<u>70</u>	<u>1</u>	<u>2</u>	<u>9,357</u>
	<u>\$ 2,861</u>	<u>\$ 6,170</u>	<u>\$ 529</u>	<u>\$ 72</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 9,635</u>
Loans deemed to be impaired	\$ 3,565	\$ 2,466	\$ 462	\$ 225	\$ —	\$ —	\$ 6,718
Loans not deemed to be impaired	<u>577,238</u>	<u>663,510</u>	<u>70,139</u>	<u>31,771</u>	<u>232</u>	<u>581</u>	<u>1,343,471</u>
	<u>\$ 580,803</u>	<u>\$ 665,976</u>	<u>\$ 70,601</u>	<u>\$ 31,996</u>	<u>\$ 232</u>	<u>\$ 581</u>	<u>\$ 1,350,189</u>

Notes to Unaudited Consolidated Financial Statements (continued)

The following is a summary of past due and non-accrual loans at December 31, 2014 and September 30, 2015:

(In thousands)	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Loans on Non-accrual</u>
December 31, 2014					
Residential real estate	\$ 4,339	\$ 272	\$ 357	\$ 4,968	\$ 1,180
Commercial real estate	811	—	106	917	267
Construction	—	—	567	567	567
Home equity	105	—	257	362	280
Total loans	<u>\$ 5,255</u>	<u>\$ 272</u>	<u>\$ 1,287</u>	<u>\$ 6,814</u>	<u>\$ 2,294</u>
September 30, 2015					
Residential real estate	\$ —	\$ —	\$ 1,352	\$ 1,352	\$ 1,591
Commercial real estate	689	—	—	689	534
Construction	—	—	462	462	462
Home equity	174	—	—	174	197
Total loans	<u>\$ 863</u>	<u>\$ —</u>	<u>\$ 1,814</u>	<u>\$ 2,677</u>	<u>\$ 2,784</u>

At December 31, 2014 and September 30, 2015, there were no loans past due 90 days or more and still accruing interest.

The following is a summary of impaired loans at December 31, 2014 and September 30, 2015:

(In thousands)	<u>December 31, 2014</u>			<u>September 30, 2015</u>		
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
Impaired loans without a valuation allowance:						
Residential real estate	\$ 762	\$ 815		\$ 1,787	\$ 1,840	
Commercial real estate	267	267		535	535	
Construction	567	567		462	462	
Home equity	256	256		198	198	
Total	<u>1,852</u>	<u>1,905</u>		<u>2,982</u>	<u>3,035</u>	
Impaired loans with a valuation allowance:						
Residential real estate	1,857	1,857	\$ 270	1,778	1,778	\$ 248
Commercial real estate	1,956	2,127	38	1,931	2,102	28
Home equity	30	30	1	27	27	2
Total	<u>3,843</u>	<u>4,014</u>	<u>309</u>	<u>3,736</u>	<u>3,907</u>	<u>278</u>
Total impaired loans	<u>\$ 5,695</u>	<u>\$ 5,919</u>	<u>\$ 309</u>	<u>\$ 6,718</u>	<u>\$ 6,942</u>	<u>\$ 278</u>

Notes to Unaudited Consolidated Financial Statements (continued)

The following is information pertaining to impaired loans for periods ended September 30, 2014 and 2015:

(In thousands)	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
Residential real estate	\$ 4,137	\$ 29	\$ 21	\$ 3,939	\$ 166	\$ 107
Commercial real estate	3,638	74	74	4,356	260	209
Construction	528	—	—	364	20	16
Home equity	567	4	4	505	2	—
Total impaired loans	<u>\$ 8,870</u>	<u>\$ 107</u>	<u>\$ 99</u>	<u>\$ 9,164</u>	<u>\$ 448</u>	<u>\$ 332</u>

(In thousands)	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
Residential real estate	\$ 3,057	\$ 34	\$ 30	\$ 2,790	\$ 114	\$ 82
Commercial real estate	2,470	57	57	2,251	148	128
Construction	462	11	11	481	36	21
Home equity	198	9	9	235	13	12
Total impaired loans	<u>\$ 6,187</u>	<u>\$ 111</u>	<u>\$ 107</u>	<u>\$ 5,757</u>	<u>\$ 311</u>	<u>\$ 243</u>

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

In the course of resolving non-performing loans, the Bank may choose to restructure the contractual terms of certain loans, with terms modified to fit the ability of the borrower to repay in line with its current financial status. A loan is considered a troubled debt restructure if, for reasons related to the debtor's financial difficulties, a concession is granted to the debtor that would not otherwise be considered. For the nine months ended September 30, 2014 and 2015, troubled debt restructurings were not considered material.

Credit Quality Information

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

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

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

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

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

Notes to Unaudited Consolidated Financial Statements (continued)

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

Commercial loans are assigned an initial grade at the origination of the loan. After origination, the Bank has a quality control program performed by an independent third party. On a quarterly basis, all commercial, construction and residential real estate loan relationships with individual loans \$500,000 or more are assigned a risk rating. An in-depth review is performed on all relationships totaling \$850,000 or greater along with loans on the Bank’s Watchlist. Watchlist loans are those loans that are more than two payments past due at the end of the quarter, loans rated four or higher in a previous review, loans that are determined to be troubled debt restructures or loans past contractual maturity. Results of the 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 rating as of December 31, 2014 and September 30, 2015:

<u>Rating</u>	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Commercial</u>
	(In thousands)			
<u>December 31, 2014</u>				
1- 3B	\$ 542,566	\$ 605,946	\$ 59,804	\$ 303
4	3,722	1,423	567	—
5	1,716	482	—	—
	<u>\$ 548,004</u>	<u>\$ 607,851</u>	<u>\$ 60,371</u>	<u>\$ 303</u>
<u>September 30, 2015</u>				
1- 3B	\$ 576,072	\$ 663,508	\$ 70,053	\$ 232
4	2,864	2,104	548	—
5	1,867	364	—	—
	<u>\$ 580,803</u>	<u>\$ 665,976</u>	<u>\$ 70,601</u>	<u>\$ 232</u>

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

NOTE 7: NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2015, the Bank adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-04, *Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. This update is intended to reduce diversity in the application of guidance by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. Adoption of this guidance did not have any impact on the Bank’s consolidated financial statements.

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

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

FORWARD-LOOKING STATEMENTS

The following discussion of the financial condition and results of operations of the Bank should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2014. Matters discussed in this Quarterly Report on Form 10-Q and in our public disclosures, whether written or oral, relating to future events or our future performance, including any discussion, express or implied, of our anticipated growth, operating results, future earnings per share, plans and objectives, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are often identified by the words “believe”, “plan”, “estimate”, “project”, “target”, “continue”, “intend”, “expect”, “future”, “anticipate”, and similar expressions that are not statements of historical fact. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict, including changes in political and economic climate, interest rate fluctuations and competitive product and pricing pressures within the Bank’s market, bond market fluctuations, personal and corporate customers’ bankruptcies and inflation. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings with the FDIC. It is routine for internal projections and expectations to change as the year or each quarter in the year progresses, and therefore, it should be clearly understood that all forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report on Form 10-Q and may change. While we may elect to update forward-looking statements at some point in the future, we do not undertake any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

INTRODUCTION

Net income for the quarter ended September 30, 2015 was \$4,874,000 or \$2.29 per share basic and \$2.27 per share diluted as compared to \$4,481,000 or \$2.10 per share (basic and diluted) in earnings for the third quarter of 2014. Net income per share (basic) for the third quarter of 2015 increased 9% over the same period in 2014. The Bank’s annualized return on average equity for the third quarter of 2015 was 14.67%, and the annualized return on average assets was 1.18% as compared to 15.12% and 1.20% for the same period in 2014.

Net income for the nine months ended September 30, 2015 was \$14,112,000 or \$6.63 per share basic and \$6.58 per share diluted as compared to \$17,729,000 or \$8.33 per share basic and \$8.32 per share diluted for the same period last year. Earnings for first nine months of 2014 included a net gain of approximately \$5.7 million related to a non-taxable life insurance transaction, the details of which were fully reported in the Bank’s 2014 Annual Report on Form 10-K. Excluding this event, the Bank earned \$11,988,000 or \$5.63 per share basic and \$5.62 per share diluted for the first nine months of 2014. Net income per share for the first nine months of 2015 increased 18% over the same period in 2014 excluding the impact of the life insurance transaction.

Strong growth trends of recent years continued, as deposits increased by \$90.8 million from December 31, 2014 and \$124.3 million from September 30, 2014, representing 11% annualized growth year to date and 12% from September 30, 2014. Net loans increased by \$104.0 million from December 31, 2014 and \$135.2 million from September 30, 2014, representing 11% annualized growth year to date and 11% growth from September 30, 2014. Total assets increased by \$138.8 million from December 31, 2014 and \$185.0 million from September 30, 2014, representing 12% annualized growth year to date and 12% from September 30, 2014. Stockholders’ equity increased to \$134.0 million as of September 30, 2015, representing 14% annualized growth year to date and a 12% increase from September 30, 2014. Book value per share increased to \$62.94 per share at September 30, 2015 from \$57.08 per share at December 31, 2014 and \$56.20 per share at September 30, 2014.

Key credit and operational metrics remained steady in the third quarter of 2015. At September 30, 2015, non-performing assets totaled 0.17% of total assets, compared with 0.20% at December 31, 2014 and 0.43% at September 30, 2014. Non-performing loans as a percentage of the total loan portfolio totaled 0.21% at September 30, 2015, as compared to 0.18% at December 31, 2014 and 0.46% at September 30, 2014. The efficiency ratio improved to 36.19% for the third quarter of 2015, as compared to 37.04% in the same period last year. Non-interest expense (annualized) as a percentage of average assets fell to 1.15% for the third quarter of 2015, as compared to 1.22% for the same period last year. These reductions reflect the Bank's continued focus on credit quality and disciplined expense controls.

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

GENERAL

The Bank reported net income of \$4.9 million for the quarter ended September 30, 2015 as compared to \$4.5 million for the quarter ended September 30, 2014. Net income was \$2.29 per share basic and \$2.27 per share diluted for the quarter ended September 30, 2015 as compared with \$2.10 per share (basic and diluted) for the same period in 2014.

NET INTEREST INCOME

Net interest income was positively impacted by the increase in new loan volume and by lower rates on borrowings. As short-term market rates fall, rates paid to depositors decrease and maturing borrowings may be refinanced at lower rates. New loans and securities may earn lower rates. Adjustable rate loans may also re-set at lower rates.

For the quarter ended September 30, 2015, the weighted average rate spread and net interest margin were 3.04% and 3.16%, respectively, compared to 3.16% and 3.26%, respectively for the quarter ended September 30, 2014. Although average interest-earning assets increased by \$159.3 million, or 11%, the yield on total earning assets decreased by 9 basis points. Average interest-bearing liabilities increased by \$128.8 million, or 10%, and the rate paid on interest-bearing liabilities increased by 3 basis points.

Net interest income was \$12.8 million for the third quarter of 2015 and \$11.9 million for the third quarter of 2014. The \$878,000 increase was due to an 11% increase in average interest-earning assets. The weighted average rate spread decreased by 12 basis points from the third quarter of 2014 to the third quarter of 2015.

Interest and dividend income increased by \$1.2 million, to \$15.6 million for the third quarter of 2015, from \$14.4 million for the third quarter of 2014. The yield on total interest-earning assets was 3.84% for the quarter ended September 30, 2015 as compared to 3.93% for the quarter ended September 30, 2014.

Interest income on loans increased \$1.1 million when comparing the two periods, primarily resulting from a 9% increase in average loan balances, offset, in part by a 7 basis point decrease in yield. Both short-term and long-term rates have remained at historic lows. Loans that reset to market rates, such as prime-based home equity loans and commercial lines remained relatively stable. Adjustable rate residential and commercial mortgages with reset dates in the last three months of 2014 and through the first nine months of 2015 were impacted by lower market rates.

Securities and short-term investments accounted for 19% of the total average earning assets for the quarter ended September 30, 2015 and 18% for the same period in 2014. Income for these categories combined increased \$137,000 when comparing the two periods. Income on securities increased by \$78,000 primarily due to an increase of 78 basis points in the average yield and was partially offset by a decrease of \$34.6 million in average balance. Income on short-term investments increased \$59,000 due to an increase of \$80.8 million in average balances combined with a 2 basis point increase in the average yield. During 2014 and the first nine months of 2015, the Bank has purchased equity securities that have provided a higher yield than other portfolio securities combined with an increased FHLB dividend rate in 2015. At the same time US Treasury and Agency

securities were allowed to mature and the proceeds were reinvested in overnight cash balances which had a lower yield.

The average rate on interest-bearing liabilities increased to 0.80% for the third quarter of 2015 from 0.77% for the comparable quarter of 2014. Total interest expense increased by \$330,000 when comparing the quarters ended September 30, 2015 and 2014. Deposits along with borrowed funds have been the primary source of funding growth.

Interest expense on deposits increased by \$449,000 due to an increase of \$103.3 million in average interest-bearing deposits combined with a 10 basis point increase in the weighted average rate. The rates paid on deposit accounts were increased during the last three months of 2014 and through the first nine months of 2015 and reflect market conditions. The Bank has seen a shift in deposit balances from money market accounts to higher priced certificates of deposit but has also seen growth in the average balance of low cost demand deposit balances. The increase in deposit balances has allowed the Bank to fund lending activity and maintain an elevated level of liquidity.

Interest expense on borrowed funds for the third quarter of 2015 decreased \$119,000 as compared to the same quarter in 2014, due primarily to a 21 basis point decrease in the weighted average rate, offset in part by a \$25.5 million increase in average outstanding balance. Maturities of FHLB advances during the last quarter of 2015 and through the first nine months of 2015 were rolled into new advances for shorter terms and at lower rates. The combination of higher growth in deposit products along with borrowed funds have been the primary source for funding asset growth.

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

Three Months Ended September 30,

(Dollars in thousands)	2014			2015		
	AVERAGE BALANCE	INTEREST	YIELD/ RATE *	AVERAGE BALANCE	INTEREST	YIELD/ RATE *
Loans (1) (2)	\$ 1,207,348	\$ 14,109	4.67 %	\$ 1,320,522	\$ 15,180	4.60 %
Securities (3) (4)	106,538	196	0.74	71,903	274	1.52
Short-term investments and certificates of deposit	151,394	95	0.25	232,181	154	0.27
Total interest-earning assets	1,465,280	14,400	3.93	1,624,606	15,608	3.84
Other assets	33,737			33,424		
Total assets	\$ 1,499,017			\$ 1,658,030		
Interest-bearing deposits (5)	\$ 940,681	1,598	0.68	\$ 1,043,970	2,047	0.78
Borrowed funds	331,458	861	1.04	356,930	742	0.83
Total interest-bearing liabilities	1,272,139	2,459	0.77	1,400,900	2,789	0.80
Demand deposits	104,433			120,303		
Other liabilities	3,894			3,952		
Total liabilities	1,380,466			1,525,155		
Stockholders' equity	118,551			132,875		
Total liabilities and stockholders' equity	\$ 1,499,017			\$ 1,658,030		
Net interest income		\$ 11,941			\$ 12,819	
Weighted average rate spread			3.16 %			3.04 %
Net interest margin (6)			3.26 %			3.16 %
Average interest-earning assets to average interest-bearing liabilities (7)			115.18 %			115.97 %

* Annualized

(1) Before allowance for loan losses.

(2) Includes non-accrual loans.

(3) Excludes the impact of the average net unrealized gain or loss on securities available for sale.

(4) Includes Federal Home Loan Bank stock.

(5) Includes mortgagors' escrow accounts.

(6) Net interest income divided by average total earning assets.

(7) Total earning assets divided by total interest-bearing liabilities.

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

(In thousands)	Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2015 Increase (Decrease)		
	Due to		Total
	Volume	Rate	
Interest and dividend income:			
Loans	\$ 1,304	\$ (233)	\$ 1,071
Securities and FHLB stock	(80)	158	78
Short-term investments and certificates of deposit	53	6	59
Total interest and dividend income	<u>1,277</u>	<u>(69)</u>	<u>1,208</u>
Interest expense:			
Deposits	187	262	449
Borrowed funds	62	(181)	(119)
Total interest expense	<u>249</u>	<u>81</u>	<u>330</u>
Net interest income	<u>\$ 1,028</u>	<u>\$ (150)</u>	<u>\$ 878</u>

PROVISION FOR LOAN LOSSES

At September 30, 2015, management's review of the allowance for loan losses concluded that a balance of \$9.6 million was adequate to provide for losses based upon evaluation of risk in the loan portfolio. During the third quarter of 2015, management provided \$175,000 to achieve such a loan loss allowance balance at September 30, 2015. The Bank recorded recoveries less than \$1,000 and no charge-offs for the third quarter of 2015. Due to the growth in the loan portfolio the Bank added to the allowance for loan loss balance during the three months ended September 30, 2015. Comparably, for the three months ended September 30, 2014, management's evaluation of the balance of the allowance for loan losses indicated the need for a provision of \$150,000.

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

OTHER INCOME

Other income is comprised of customer service fees, increases in the cash surrender value of life insurance policies, gains on security sales and miscellaneous income. Total other income was \$396,000 for the quarter ended September 30, 2015 compared to \$399,000 for the same period in 2014. Customer service fees decreased \$7,000 when comparing the two periods as lower return check and account activity charges were partially offset by increased debit card interchange fees. During the third quarter of 2015, the Bank sold equity securities with a cost basis of \$653,000 for a gain of \$29,000. The Bank did not sell any securities during the same period in 2014.

OPERATING EXPENSES

Total operating expenses were \$4.8 million, or an annualized 1.15% of average total assets, for the quarter ended September 30, 2015 as compared to \$4.6 million, or 1.22% of average total assets, for the same quarter of 2014. Operating expenses include salaries and employee benefits, occupancy and equipment, data processing, deposit insurance, foreclosure, marketing and other general and administrative expenses.

Salaries and employee benefits expenses decreased \$12,000, primarily due to reductions in staffing primarily through attrition at the branches. This was partially offset by annual merit-based salary increases offset and increases in health insurance and other employee benefits.

Occupancy and equipment expenditures increased by \$27,000, or 6%, due to increased maintenance and repair costs associated with the Bank's facilities.

Data processing expenses decreased by \$17,000, or 6%, due to the Bank renegotiating certain data processing contracts. This was offset by charges related to improvements made to Bank systems and transaction volume increases.

Deposit insurance expense increased \$19,000, or 9%. The increase in expense is due to an increase in the balance sheet as this charge is calculated based on total assets.

Foreclosure related expenses were \$30,000 for the quarter ending September 30, 2015 compared to income of \$62,000 for the same period in 2014. The Bank recognized a gain during the quarter ended September 30, 2014 totaling \$150,000 on the sale of a property that was previously written down by \$81,000 in early 2013. Adjusting for this gain, foreclosure expenses decreased by \$58,000 from the third quarter of 2014 to 2015. In the quarter ending September 30, 2015 there were lower expenses associated with the foreclosure and bankruptcy process along with expenses related to maintaining the properties. At September 30, 2015, the Bank held one property with a carrying value of \$118,000. This compares to three properties totaling \$786,000 at December 31, 2014 and three properties totaling \$821,000 at September 30, 2014.

Marketing expenses increased by \$27,000 to \$126,000 for the third quarter 2015. The increase was due to the timing of various marketing campaigns in 2015 compared to 2014. In 2015, the Bank has expanded its program of advertising across channels to gather retail deposits and solicit real estate mortgage customers.

Other expenses, which include director fees, supplies, deposit related losses and audit-related expenses, among others, increased \$65,000, or 10%, when comparing the two periods and is due to normal fluctuations in the payment of expenses.

INCOME TAXES

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

During the third quarter of 2015, the Bank recorded \$3.4 million, or 41.0% of pre-tax income, in tax expense as compared to \$3.1 million, or 41.2%, for the same quarter in 2014.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

GENERAL

The Bank reported net income of \$14.1 million for the nine months ended September 30, 2015 as compared to \$17.7 million for the nine months ended September 30, 2014. Net income was \$6.63 per share basic and \$6.58 per share diluted for the first nine months of 2015 as compared to \$8.33 per share basic and \$8.32 per share diluted for the same period in 2014. Earnings for the first nine months of 2014 included a net gain of approximately \$5.7 million related to a non-taxable life insurance transaction, the details of which were fully reported in the Bank's Annual Report on Form 10-K for 2014. Excluding this event, the Bank earned \$12.0 million or \$5.63 per share basic and \$5.62 per share diluted for the first nine months of 2014. Net income per share for the first nine months of 2015 increased 18% over the same period in 2014 excluding the impact of the life insurance transaction.

The Bank's annualized return on average equity for the first nine months of 2015 was 14.63%, and the annualized return on average assets was 1.17%. Excluding the impact of the life insurance transaction, the Bank's annualized return on average equity for the first nine months of 2014 was 14.08%, and the annualized return on average assets was 1.11%.

NET INTEREST INCOME

Net interest income is impacted by portfolio growth and market interest rates. As short-term market rates fall, rates paid to depositors decrease and maturing borrowings may be refinanced at lower rates. New loans and securities may earn lower rates. Adjustable rate loans may also re-set at lower rates.

During the last five years, interest rates have been at historical lows as the Federal Reserve Bank has lowered the Federal Funds rate to near zero and long-term rates have remained low due to a combination of Federal Reserve Bank programs combined with international economic events. More recently, shorter-term rates have started to rise on expectations of the Federal Reserve Bank increasing short-term rates. Longer-term rates have continued to remain at lower rates due to global economic and political issues.

For the first nine months of 2015 the Bank's weighted average rate spread and net interest margin were 3.08% and 3.19%, respectively, as compared to 3.13% and 3.24%, respectively, for the nine months ended September 30, 2014. When comparing the two periods, the yield on total earning assets decreased 8 basis points and the rate on interest-bearing liabilities decreased by 3 basis points.

Net interest income was \$37.6 million for the first nine months of 2015 as compared to \$34.1 million for the first nine months of 2014. The \$3.6 million improvement was primarily due to a 12% increase in average earning assets in the first nine months of 2015 compared to the same period in 2014 and was partially offset by a decrease in the weighted average rate on interest-earning assets of 8 basis points.

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

(Dollars in thousands)	Nine Months Ended September 30,					
	2014			2015		
	<u>Average Balance</u>	<u>Interest</u>	<u>Yield/ Rate</u> *	<u>Average Balance</u>	<u>Interest</u>	<u>Yield/ Rate</u> *
Loans (1) (2)	\$ 1,163,600	\$ 40,598	4.65 %	\$ 1,282,979	\$ 44,450	4.62 %
Securities (3) (4)	114,459	609	0.71	80,275	707	1.17
Short-term investments and certificates of deposit	125,289	246	0.26	211,054	424	0.27
Total interest-earning assets	<u>1,403,348</u>	<u>41,453</u>	<u>3.94</u>	<u>1,574,308</u>	<u>45,581</u>	<u>3.86</u>
Other assets	<u>36,586</u>			<u>32,972</u>		
Total assets	<u>\$ 1,439,934</u>			<u>\$ 1,607,280</u>		
Interest-bearing deposits (5)	\$ 909,248	4,554	0.67	\$ 1,021,266	5,748	0.75
Borrowed funds	<u>315,078</u>	<u>2,847</u>	<u>1.20</u>	<u>337,806</u>	<u>2,205</u>	<u>0.87</u>
Total interest-bearing liabilities	<u>1,224,326</u>	<u>7,401</u>	<u>0.81</u>	<u>1,359,072</u>	<u>7,953</u>	<u>0.78</u>
Demand deposits	98,656			115,296		
Other liabilities	<u>3,398</u>			<u>4,327</u>		
Total liabilities	<u>1,326,380</u>			<u>1,478,695</u>		
Stockholders' equity	<u>113,554</u>			<u>128,585</u>		
Total liabilities and stockholders' equity	<u>\$ 1,439,934</u>			<u>\$ 1,607,280</u>		
Net interest income		<u>\$ 34,052</u>			<u>\$ 37,628</u>	
Weighted average rate spread			<u>3.13 %</u>			<u>3.08 %</u>
Net interest margin (6)			<u>3.24 %</u>			<u>3.19 %</u>
Average interest-earning assets to average interest-bearing liabilities (7)			<u>114.62 %</u>			<u>115.84 %</u>

* Annualized

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

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

(In thousands)	Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2015 Increase (Decrease)		
	Due to		Total
	Volume	Rate	
Interest and dividend income:			
Loans	\$ 4,138	\$ (286)	\$ 3,852
Securities and FHLB stock	(219)	317	98
Short-term investments and certificates of deposit	172	6	178
Total interest and dividend income	<u>4,091</u>	<u>37</u>	<u>4,128</u>
Interest expense:			
Deposits	596	598	1,194
Borrowed funds	194	(836)	(642)
Total interest expense	<u>790</u>	<u>(238)</u>	<u>552</u>
Net interest income	<u>\$ 3,301</u>	<u>\$ 275</u>	<u>\$ 3,576</u>

Interest and dividend income increased by \$4.1 million to \$45.6 million for the first nine months of 2015 as compared to \$41.5 million for the first nine months of 2014. The yield on total interest-earning assets was 3.86% for the first nine months ended September 30, 2015 as compared to 3.94% for the first nine months ended September 30, 2014.

Interest income on loans increased \$3.9 million when comparing the two periods, primarily resulting from a 10% increase in average loans, offset, in part, by a 3 basis point decrease in overall yield. Although short-term market rates remained at historic lows during the last year, longer-term rates were more volatile, fluctuating between 25-50 basis points during the period. Loans that reset to market rates, such as prime-based home equity loans and commercial lines remained relatively stable. Adjustable rate residential and commercial mortgages, with reset dates in late 2014 and through the first nine months of 2015, were impacted by lower market rates.

Securities, Federal Home Loan Bank stock and short-term investments accounted for 19% of the total average earning assets for the nine months ended September 30, 2015 and 17% for the same period in 2014. Income for these categories combined increased \$276,000 when comparing the two periods. Income on securities increased by \$98,000 primarily due to an increase of 46 basis points in the average yield and was partially offset by a decrease of \$34.2 million in average balance. Income on short-term investments increased \$178,000 due to an increase of \$85.8 million in average balances combined with a 1 basis point increase in the average yield. During 2014 and the first nine months of 2015, the Bank has purchased equity securities that have provided a higher yield than other portfolio securities combined with an increased FHLB dividend rate in 2015. At the same time US Treasury and Agency securities were allowed to mature and the proceeds were reinvested in overnight cash balances which had a lower yield.

The average rate on interest-bearing liabilities decreased to 0.78% for the first nine months of 2015 from 0.81% for the comparable period in 2014. Total interest expense decreased by \$552,000 when comparing the nine months ended September 30, 2015 and 2014. During the last 12 months, there has been an increase of \$112.0 million in average interest bearing deposits and a \$22.7 million increase in borrowed funds. Most of the funding growth has come from deposits which have served as the primary funding source for asset growth.

Interest expense on deposits increased by \$1.2 million due to an increase of \$112.0 million in average interest-bearing deposits along with an 8 basis point increase in the weighted average rate. Deposit balances

shifted from money market products to higher priced short-term certificates of deposit but the Bank has also seen growth in the average balance of low cost demand deposit balances. The increase in deposit balances has allowed the Bank to fund lending activity and maintain an elevated level of liquidity.

Interest expense on borrowed funds for the first nine months of 2015 decreased \$642,000 as compared to the same period in 2014, due primarily to a 33 basis point decrease in the weighted average rate offset by a \$22.7 million increase in average outstanding balance.

PROVISION FOR LOAN LOSSES

At September 30, 2015, management's review of the allowance for loan losses concluded that a balance of \$9.6 million was adequate to provide for losses based upon evaluation of risk in the loan portfolio. During the first nine months of 2015, management provided \$525,000 to achieve such a loan loss allowance balance at September 30, 2015. The Bank recorded recoveries totaling \$2,000 and no charge-offs during the first nine month of 2015. The growth and composition of the loan portfolio warranted additional provisions to the Bank's allowance for loan losses. Comparably, at September 30, 2014, management's evaluation of the balance of the allowance for loan losses indicated the need for a provision of \$475,000.

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

OTHER INCOME

Other income is comprised of customer service fees, increases in the cash surrender value of life insurance policies, gains on security sales and miscellaneous income. In 2014 it also includes a non-taxable life insurance death benefit of \$6.3 million representing the difference between the death benefit payment of \$10.6 million and the cash surrender value of the related policies totaling \$4.3 million. Adjusting for this event, other income totaled \$1.2 million for the first nine months of 2014 and compares to \$1.1 million for the nine months ended September 30, 2015. Customer service fees decreased by \$25,000 over the two periods, primarily the result of lower volume of fee-based customer transactions and was partially offset by an increase in debit card interchange fees. The Bank recognized a gain of \$29,000 on the sale of equity securities in 2015 with a cost basis of \$653,000. Miscellaneous income decreased due to the receipt of interest on the insurance proceeds noted above in 2014. Additionally, there was a decrease of \$26,000 in life insurance income as the balance of insurance policies declined as a result of the death benefit payout.

OPERATING EXPENSES

Total operating expenses were \$14.3 million, or an annualized 1.19% of average total assets, for the nine months ended September 30, 2015 as compared to \$15.4 million, or 1.42%, for the same period of 2014. Operating expenses include salaries and employee benefits, data processing, occupancy and equipment, deposit insurance, foreclosure, marketing and other general and administrative expenses.

Salaries and employee benefits expenses declined by \$877,000 or 9% due to an accrual in 2014 for \$949,000 to adjust a death benefit liability related to a former executive officer. Adjusting for this transaction, salaries and employee benefits increased by \$72,000 or 1% due to annual merit-based salary increases offset by a reduction in staffing levels. Additionally, in 2014 stock options were issued to certain key executives that vested immediately and the full impact was recognized during that period. Similar options were not granted in 2015.

Occupancy and equipment expenditures increased by \$64,000, or 4%, due primarily to costs associated with snow removal and damage caused by the severe winter in 2015. Additionally, the Bank has had an increased level of facility and equipment maintenance in 2015 compared to the same period in 2014.

Data processing expenses decreased by less than 1% primarily due to savings associated with renegotiating certain key vendor contracts. This was offset by data processing charges associated with improvements made to Bank systems along with the increase in transaction volume.

Deposit insurance expense increased \$70,000, or 12%, from \$592,000 for the first nine months of 2014 to \$662,000 in the first nine months of 2015. The increase in expense is due to an increase in the balance sheet as this charge is calculated based on total assets.

Foreclosure related expenses decreased by \$172,000 to \$62,000 for the first nine months of 2015. The decrease is primarily related to a net gains totaling \$105,000 recorded in the first nine months of 2015 compared to net gains totaling \$48,000 during the same period in 2014. At September 30, 2015, the Bank held one property with a carrying value of \$118,000. This compares to three properties totaling \$786,000 at December 31, 2014 and three properties totaling \$821,000 September 30, 2014. During the first nine months of 2015, the Bank added one property and sold two of the properties. During the first nine months of 2014, the Bank added four properties and sold two of the properties. Expenses associated with the foreclosure process, including legal expenses, appraisal expenses, insurance expenses and other related foreclosure expenses are also included in this category.

Marketing expenses increased by \$30,000 when comparing the two periods. The Bank continues to use broadcast media as well as direct mailing to drive the Bank's image and to solicit new business. In 2015, the Bank has expanded its program of advertising across channels to gather retail deposits and solicit real estate mortgage customers.

Other expenses, which include director fees, supplies, deposit related losses and audit-related expenses, among others, decreased \$180,000, or 8%, when comparing the two periods and is primarily due to the cost of issuing stock options to members of the Board of Directors in 2014.

INCOME TAXES

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

During the first nine months of 2015, the Bank recorded \$9.8 million, or 41.0% of pre-tax income, in tax expense as compared to \$8.0 million, or 31.1%, for the same period in 2014, an increase of \$1.8 million. As noted above, the Bank recognized a non-taxable life insurance death benefit of \$6.3 million in the first quarter of 2014. Adjusting for this non-taxable event, the Bank's effective tax rate was 41.2% for the first nine months of 2014.

BALANCE SHEET ANALYSIS - COMPARISON AT SEPTEMBER 30, 2015 TO DECEMBER 31, 2014

Assets totaled \$1.691 billion at September 30, 2015, as compared to \$1.552 billion at December 31, 2014, an increase of \$138.8 million or 12% annualized.

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

At September 30, 2015 cash and cash equivalents amounted to \$238.0 million compared to \$177.2 million at December 30, 2014. Securities were \$48.9 million at September 30, 2015, a decrease of \$21.6 million when compared to the \$70.6 million at December 31, 2014. During the first nine months of 2015, there were \$26.3 million in maturities, calls and principal pay downs along with \$682,000 in sales, offset by \$5.3 million securities purchased. Net proceeds from securities transactions were reinvested in new securities or placed in cash reserves.

At September 30, 2015 and December 31, 2014, the Bank's entire securities portfolio was classified as available for sale and reflected on the balance sheet at fair value with unrealized gains and losses, net of tax effect, excluded from earnings and reported in accumulated other comprehensive income. The net unrealized gain on securities available for sale, net of tax, was \$294,000 at September 30, 2015 and compares to an unrealized gain of \$201,000, net of tax, at December 31, 2014 and an unrealized gain of \$161,000, net of tax, at September 30, 2014. The fair value of fixed income securities fluctuates with the movement of interest rates. Generally, during periods of falling interest rates, the fair values increase whereas the opposite may hold true during a rising interest rate environment.

The securities portfolio is comprised primarily of bonds issued by U.S. government-sponsored enterprises and marketable equity securities. At September 30, 2015, approximately 70% of the portfolio consisted of fixed-rate agency bond issues. Residential mortgage-backed issues, which are guaranteed by FNMA and FHLMC, comprised less than 1% of the portfolio. Repayment of these issues is anticipated from payments made on the underlying mortgages. The majority of the bond and mortgage-backed holdings are short-term in nature with nearly the entire portfolio maturing in one year or less.

At September 30, 2015, the Bank held a \$5.0 million (fair value) investment in the CRA Fund, a mutual fund which invests in fixed income securities which qualify for Community Reinvestment Act (CRA) securities test. The portfolio also includes \$9.8 million (fair value) in publicly traded common equity securities, pursuant to authorities under Massachusetts General Law and an FDIC Part 362 exemption to make equity investments. The Bank receives tax-advantaged dividend income from these investments and participates in the long-term capital appreciation of the companies of which it is a part-owner. Investments in common equities are viewed by the Bank as long-term partnership interests. As of September 30, 2015, the Bank held investments in three banks and two diversified insurance companies. During the first nine months of 2015 the Bank divested holdings in one bank with a cost basis of \$653,000 and recognized a gain on the sale totaling \$29,000. Equity investments accounted for 20% of the investment portfolio at September 30, 2015.

The Bank held an investment of \$7.4 million in FDIC-insured certificates of deposit issued by other financial institutions at September 30, 2015. This compares to \$12.9 million as of December 31, 2014. No single certificate held by the Bank exceeds the FDIC maximum insurance coverage of \$250,000 and, therefore, all are insured in full by the FDIC. During the first nine months of 2015 the Bank made no new purchases of FDIC-insured certificates of deposit.

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Bank is required to hold a Membership Stock Investment plus an Activity-based Stock Investment in the FHLB, which is based primarily on the amount of FHLB borrowings. For the nine months ended September 30, 2015, the Bank purchased \$599,000 in stock. The Bank received dividends totaling \$302,000 for the nine months ended September 30, 2015 compared to \$177,000 for the same period in 2014. At September 30, 2015, the Bank held \$18.5 million in FHLB stock compared to \$17.9 million at December 31, 2014.

LOANS AND FORECLOSED REAL ESTATE

During the first nine months of 2015, total loans outstanding increased by \$104.0 million to \$1.343 billion, from \$1.239 billion at December 31, 2014, attributable primarily to originated loans of \$319.0 million offset by payoffs and amortization. Comparably, loan originations for the same period in 2014 were \$274.8 million. At September 30, 2015 and December 31, 2014, net loans outstanding represented 79% and 80% of assets, respectively. Mortgage loans continue to account for more than 99% of the loan portfolio.

Loans are carried net of the allowance for loan losses. The allowance is maintained at a level to absorb losses within the loan portfolio. At September 30, 2015, the allowance had a balance of \$9.6 million as compared to \$9.1 million at December 31, 2014. The allowance for loan losses represented 0.71% of gross loans as of September 30, 2015 compared to 0.73% at December 31, 2014 and 0.74% at September 30, 2014.

At September 30, 2015, the Bank allocated \$278,000 to loans classified as impaired. At December 31, 2014, \$309,000 was allocated to impaired loans. The Bank works closely with delinquent mortgagors to bring their loans current and commences foreclosure proceedings if the mortgagor is unable to satisfy their outstanding obligation. Although regulatory changes have slowed the foreclosure process in recent years, the

Bank continues to pursue delinquencies vigorously.

At September 30, 2015, there were 9 loans classified as non-accrual totaling \$2.8 million as compared to 12 non-accrual loans totaling \$2.3 million at December 31, 2014. At September 30, 2015, the Bank held one foreclosed property for \$118,000 compared to three properties totaling \$786,000 at December 31, 2014. At September 30, 2015, non-performing assets were 0.17% of total assets as compared to 0.20% at December 31, 2014. Management believes that its loans classified as non-accrual are significantly collateralized, pose minimal risk of loss to the Bank, and the allowance for loan loss reserves allocated to these loans are sufficient to absorb such losses, if any. However, management continues to monitor the loan portfolio and additional reserves will be taken if necessary.

Non-Performing Assets

(Dollars in thousands)	December 31, 2014	September 30, 2015
Non-accrual loans:		
Residential mortgages	\$ 1,180	\$ 1,591
Commercial mortgages	267	534
Construction	567	462
Home equity	280	198
Total non-accrual loans	<u>2,294</u>	<u>2,785</u>
Foreclosed real estate	<u>786</u>	<u>118</u>
Total non-performing assets	<u>\$ 3,080</u>	<u>\$ 2,903</u>
Percent of non-accrual loans to:		
Total loans	0.18 %	0.21 %
Total assets	0.15 %	0.16 %
Percent of non-performing assets to:		
Total loans and foreclosed real estate	0.25 %	0.22 %
Total assets	0.20 %	0.17 %
Allowance for loan losses to total loans	0.73 %	0.71 %

OTHER ASSETS

The Bank held \$11.6 million in Bank-owned life insurance at September 30, 2015 as compared to \$11.4 million at December 31, 2014. The increase during the first nine months of 2015 is due to increases in the cash surrender value of policies insuring the life of a current Bank executive. The policies 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 September 30, 2015, two of three issuers were rated at or above Bank guidelines. The third issuer retained a rating from A.M. Best at or above Bank guidelines, while the issuer's Standard and Poor (S&P) rating was below Bank guidelines at BBB+ (Good) with a stable outlook.

DEPOSITS

Deposits increased by \$90.8 million to \$1.180 billion at September 30, 2015 from \$1.089 billion at December 31, 2014. Core deposits, which include regular, money market, NOW and demand deposits, decreased \$13.9 million from the December 31, 2014 balance. Certificate accounts were \$527.3 million, or 44.7% of total deposits, at September 30, 2015, as compared to \$422.7 million, or 38.8% of total deposits, at December 31, 2014.

The Bank faces competition for deposit funding from other banks and credit unions in the Bank's marketplace, as well as Internet-based competitors. The Bank also faces competition for deposit funding from other non-deposit investment alternatives available to our deposit customers, including but not limited to equity

and fixed income market investments. The Bank's ability to attract and retain deposits depends upon satisfaction of depositors' requirements with respect to insurance, product, rate and service. The Bank offers traditional deposit products, competitive rates, convenient branch locations, ATMs, debit cards, telephone banking, internet-based banking and mobile banking. In 2014, the Bank began offering certificate of deposit products using two national Internet-based listing services. These services provide the Bank with a source of long-term time funding at lower cost than is generally available via retail channels. At September 30, 2015, the Bank has over \$178 million in deposits from these services.

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

Deposit growth over the first nine months of 2015 was used to fund growth in the loan portfolio.

(Dollars in thousands)	Deposit Balances by Type			
	December 31, 2014	% of Total	September 30, 2015	% of Total
Non-certificate accounts				
Regular	\$ 82,382	7.5 %	\$ 89,292	7.6 %
Money market deposits	436,299	40.1	402,550	34.1
NOW	30,623	2.8	38,212	3.2
Demand	117,243	10.8	122,579	10.4
Total non-certificate accounts	<u>666,547</u>	<u>61.2</u>	<u>652,633</u>	<u>55.3</u>
Term certificates less than \$100,000	131,292	12.0	133,583	11.3
Term certificates \$100,000 or more	291,378	26.8	393,754	33.4
Total certificate accounts	<u>422,670</u>	<u>38.8</u>	<u>527,337</u>	<u>44.7</u>
Total deposits	\$ <u>1,089,217</u>	<u>100.0 %</u>	\$ <u>1,179,970</u>	<u>100.0 %</u>

BORROWINGS

FHLB advances were \$367.5 million or 22% of total assets at September 30, 2015 as compared to \$329.6 million or 21% of total assets at December 31, 2014. These advances are predominately fixed rate in nature with 81% scheduled to mature in the next twelve months. During the first nine months of 2015, total borrowings increased by \$37.9 million.

LIQUIDITY AND CAPITAL RESOURCES

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

The Bank's initial source of liquidity is cash and cash equivalents. At September 30, 2015, the Bank had \$238.0 million, or 14% of total assets in cash or cash equivalents. \$228.9 million of this consisted of overnight cash balances at the Federal Reserve Bank of Boston. These balances are immediately accessible for liquidity.

The majority of the Bank's investment portfolio is fixed with respect to rate and maturity date. Mortgage-backed securities, which comprise less than 1% of the portfolio, are subject to repayment at the discretion of the underlying borrower.

Residential loans are susceptible to principal repayment at the discretion of the borrower. Commercial

mortgages, while subject to significant penalties for early repayment in most cases, can also prepay at the borrower's discretion. Additionally, many of the Bank's residential and commercial loans have rate adjustment features where the interest rate and amortization schedule will adjust to current market indices.

Core deposit balances can generally be withdrawn from the Bank at any time. Certificates of deposit, with predefined maturity dates and subject to early redemption penalties, can also be withdrawn. The Bank estimates the volatility of its deposits in light of the general economic climate and recent actual experience.

Approximately 93% of the Bank's borrowings were fixed in terms of rate and maturity. Approximately 7% or \$25.0 million can be called for earlier repayment at the discretion of the issuer. It is considered unlikely that these borrowings will be called by the issuer in the near term.

The Bank also monitors its off-balance sheet items. See "Commitments" appearing in Note 2 within the "Notes to Unaudited Consolidated Financial Statements" section of this document. At September 30, 2015, the Bank had \$204.6 million in commitments to extend credit as compared to \$161.5 million at December 31, 2014.

The Bank considers the above information when measuring its liquidity position. Specific measurements include the Bank's cash flow position at the 30 day, 60 day and 90 day horizon, the level of volatile liabilities on earning assets and loan to deposit ratios. These estimates anticipate the possibility of deposit outflows. At September 30, 2015, each measurement was within pre-defined Bank guidelines.

To supplement its liquidity position, should the need arise, the Bank maintains its membership in the Federal Home Loan Bank of Boston where it is eligible to obtain both short and long-term credit advances. As of September 30, 2015, the Bank could borrow up to \$644.6 million to meet its borrowing needs, based on the Bank's available qualified collateral which consists primarily of 1-4 family residential mortgages, five or more family residential mortgages, the majority of the Bank's investment in securities issued by government-sponsored enterprises and certain commercial mortgages. The Bank can pledge other mortgages and assets as collateral to secure additional borrowings. At September 30, 2015, the Bank had \$367.5 million in advances outstanding and consequently had approximately \$277.1 million in available unused capacity to fund growth or meet liquidity requirements. Additionally, the Bank has registered with the Federal Reserve Bank to access the Discount Window. The Bank may access the Discount Window by assigning assets as collateral.

At September 30, 2015, the Bank had capital of \$134.0 million, or 7.92% of total assets, as compared to \$121.5 million, or 7.83%, at December 31, 2014. During the nine months ended September 30, 2015, stockholders' equity increased by \$12.5 million due primarily to net income for the period of \$14.1 million, partially offset by the declaration of dividends of \$0.86 per share, which reduced capital by \$1.8 million.

Total capital is adjusted by the unrealized gains or losses in the Bank's available for sale securities portfolio and, as such, it is subject to fluctuations resulting from changes in the market values of its securities. At September 30, 2015, the Bank's entire securities portfolio was classified as available for sale which had the effect of increasing capital over the nine-month period by \$93,000.

Massachusetts-chartered savings banks that are insured by the FDIC are subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets and average total assets. In July 2013, federal banking regulators approved final rules that implement changes to the regulatory capital framework for U.S. banks (Basel III). The rules set minimum requirements for both the quantity and quality of capital held by community banking institutions. The final rule includes a new minimum ratio of common equity Tier 1 capital to risk weighted assets of 4.5%, raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking organizations. These ratios were effective on January 1, 2015. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers. The phase-in period for the capital conservation buffer will begin for the Bank on January 1, 2016, with full compliance phased in by January 1, 2019. At September 30, 2015, the Bank exceeds all current and final capital requirements to be considered well capitalized.

The following table details the Bank's actual capital ratios and minimum regulatory ratios at December 31, 2014 under the previous requirements.

(Dollars in thousands)	Actual Regulatory Capital Ratios	Minimum Capital Requirement Ratios	Minimum To Be Well Capitalized Under Prompt Corrective Actions Provision Ratios
Tier 1 Leverage Ratio	7.86 %	4.0 %	5.0 %
Tier 1 (Risk-based) Capital Ratio	12.83 %	4.0 %	6.0 %
Total (Risk-based) Capital Ratio	13.80 %	8.0 %	10.0 %
Total Risk-Weighted Assets	\$ 945,920		

The following table details the Bank's actual capital ratios and minimum regulatory ratios under the new Basel III requirements as of September 30, 2015.

(Dollars in thousands)	Actual Regulatory Capital Ratios	Minimum Capital Requirement Ratios	Minimum To Be Well Capitalized Under Prompt Corrective Action Provision Ratios	Minimum Including Capital Conservation Buffer Ratios*
Tier 1 Leverage Ratio	8.07 %	4.0 %	5.0 %	4.0 %
Common Equity Tier 1 Capital Ratio	13.03 %	4.5 %	6.5 %	7.0 %
Tier 1 (Risk-based) Capital Ratio	13.03 %	6.0 %	8.0 %	8.5 %
Total (Risk-based) Capital Ratio	13.99 %	8.0 %	10.0 %	10.5 %
Total Risk-Weighted Assets	\$ 1,025,837			

* Represents the fully phased in ratios

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The earnings of most banking institutions are exposed to interest rate risk because their balance sheets, both assets and liabilities, are predominantly interest bearing. It is the Bank's objective to minimize, to the degree prudently possible, its exposure to interest rate risk, and bearing in mind that the Bank, by its very nature, will always be in the business of taking on interest rate risk. Interest rate risk is monitored on a quarterly basis by the Asset Liability Committee of the Bank. The primary tool used by the Bank in managing interest rate risk is income simulation modeling. Income simulation modeling measures changes in net interest income by projecting the future composition of the Bank's balance sheet and applying different interest rate scenarios. Management incorporates numerous assumptions into the simulation model, such as prepayment speeds, interest rate environments, balance sheet growth and deposit elasticity. To a significantly lesser degree, the Bank also utilizes "GAP" analysis which involves comparing the difference between interest-rate sensitive assets and liabilities that mature or reprice during a given period of time. Management believes that there has been no material changes in the interest rate risk reported in the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Federal Deposit Insurance Corporation. The information is contained in the Form 10-K within the Market Risk and Asset Liability Management section of Management's Discussion and Analysis of Results of Operations and Financial Condition.

ITEM 4 – CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Bank's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness, as of September 30, 2015, of the Bank's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Bank's disclosure controls and procedures as of September 30, 2015, the CEO and CFO concluded that, as of such date, the Bank's disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in Internal Control

There were no significant changes in the Bank's internal control over financial reporting, as defined in Rules 13a-15(e) and 15d-15(e), during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None.

ITEM 1A – RISK FACTORS

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

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

None.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 – EXHIBITS

Exhibit No.

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

SIGNATURES

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

HINGHAM INSTITUTION FOR SAVINGS

Date: November 3, 2015

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

Date: November 3, 2015

/s/
Robert A. Bogart
Vice President & Treasurer

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

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

Date: November 3, 2015

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

I, Robert A. Bogart, certify that:

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

Date: November 3, 2015

/s/
Robert A. Bogart
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Hingham Institution for Savings (the “Bank”) for the fiscal quarter ended September 30, 2015, 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 represents, in all material respects, the financial condition and results of operations of the Bank.

/s/

Robert H. Gaughen, Jr.
Chief Executive Officer

Date: November 3 2015

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

In connection with the Quarterly Report on Form 10-Q of Hingham Institution for Savings (the “Bank”) for the fiscal quarter ended September 30, 2015, as filed with the Federal Deposit Insurance Corporation on the date hereof (the “Report”), the undersigned Robert A. Bogart, Chief Financial Officer of the Bank, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 3, 2015