DEPOSIT INSURANCE CORPORATION

Washington, D.C., 20429

FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to ____________

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

HINGHAM INSTITUTION FOR SAVINGS

(Exact name of registrant as specified in its charter)

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

(781) 749-2200

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $1.00 par value per share	HIFS	NASDAQ Stock Market, LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging Growth Company	☐

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of voting stock held by non-affiliates as of June 30, 2022, was $436,647,966 based on a closing sales price of $283.77.

The number of shares outstanding of each of the registrant's common stock, $1.00 par value per share, outstanding as of March 1, 2023 was 2,147,400.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 27, 2023 are incorporated by reference into Part III of this Form 10-K.

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Cautionary Note Regarding Forward-Looking Statements

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

PART I

Item 1. Business.

General and Principal Business Lines

Hingham Institution for Savings (the “Bank”) is a Massachusetts-chartered savings bank headquartered in Hingham, Massachusetts. The Bank was originally chartered in 1834. It is the only financial institution headquartered in Hingham, and is one of the oldest banks in the United States. In addition to its main office and drive-up facility in Hingham, branch banking offices are located in South Hingham, Hull, Cohasset, Boston and Nantucket. The Bank also has an office located in the Washington D.C. metropolitan area (“WMA”). At December 31, 2022, the Bank had total assets of $4.194 billion, total deposits of $2.505 billion and total stockholders' equity of $386.0 million.

The Bank is principally engaged in the business of commercial and residential real estate mortgage lending, funded by retail and commercial deposits, wholesale deposits and borrowings. At December 31, 2022, the loan portfolio was $3.658 billion, or 87% of total assets.

At December 31, 2022, 81% of the Bank’s total loan portfolio was invested in commercial real estate (including multifamily housing), 14% in residential mortgage loans - including home equity lines of credit (“HELOCs”), 5% in residential and commercial construction loans, and less than 1% in commercial business loans and consumer loans. The Bank focuses on the origination of commercial and residential real estate loans in eastern Massachusetts, Washington D.C., and to a lesser extent, San Francisco. In its residential lending business, the Bank originates both qualified mortgage loans and non-qualified mortgage loans, as defined in the regulations of the Consumer Financial Protection Bureau (“CFPB”).

What We Do Not Do

The Bank does not currently engage in any of the following business activities:

Commercial and Industrial Lending (“C&I” Lending)

- Asset Based Lending
- Leasing
- Small Business Administration (“SBA”) Lending
- Leveraged Loans
- Search Fund Lending

Consumer Lending

- Credit Card Lending
- Boat Lending
- Auto Lending
- Recreational Vehicle Lending

Investment Management

- Wealth Management
- Trust Activities
- Investment Advisory and Financial Planning

Insurance

- Brokerage
- Underwriting

Other

- Secondary Market Residential Mortgage Originations
- Tax Credit Lending
- Solar Lending
- Acquisition of Commercial Mortgage Participations from Other Banks
- Cryptocurrency - Depository or Lending

Market Area and Competition

The Bank operates in three metropolitan area markets, in order of size and current importance to the Bank's business operations: Boston, Washington D.C., and the San Francisco Bay Area. We believe these markets share significant commonalities as dense, coastal cities with favorable demographics, substantial wealth, supply constraints, and concentrations of multifamily real estate.

Boston

The Bank's primary market area is eastern Massachusetts, with the significant majority of deposit funding and mortgage lending in the urban market of Greater Boston. This market is attractive and the Bank faces considerable competition for loans and deposits from both traditional competitors (banks and credit unions), as well as non-traditional competitors (insurance companies, Internet-based direct banks, financial technology companies and non-bank lenders). The banking market in Greater Boston is considerably more fragmented, given the long-standing history of mutuality in Massachusetts banking.

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

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

Washington D.C. Metropolitan Area ("WMA")

The Bank's secondary market area is the greater Washington D.C. Metropolitan Area, where the Bank has a substantial commercial real estate portfolio and a growing deposit portfolio. Operations in the WMA began six years ago in November 2016, when the Bank began making commercial real estate loans after several years of research and preparation. The Bank had also held direct equity investments in other WMA area banks prior to entering the market operationally. In 2019, the Bank opened a commercial lending office at a temporary location and hired a commercial real estate lender. In February 2020, the Bank acquired a property in the Georgetown neighborhood of Washington, D.C., renovated the property, and opened a commercial banking office in 2022. The Bank has a senior commercial real estate lender based in the WMA, along with two relationship managers from its Specialized Deposit Group ("SDG"). When needed, the Bank also utilizes Boston-based staff in its Commercial Real Estate Group and SDG with experience in the WMA, on a fly-away basis from its main office. The Bank originated $307.6 million and $525.3 million in commercial real estate loans in the WMA in 2021 and 2022, respectively, and at December 31, 2021 and 2022, $647.8 million and $1.039 billion were outstanding, respectively.

The Bank originally identified the WMA as an attractive opportunity for three reasons. First, the region has favorable economic characteristics that will support long-term investments in commercial real estate. It is the capital of the world's largest economy, it is an international economic gateway, it has one of the highest household median income of any of the nation's major metropolitan areas, and it has a relatively high concentration of young people. Second, the commercial real estate product in the market bears significant similarity to Boston, characterized by high density, urban infill development, transit-oriented multifamily, and scarcity imposed by land supply and restrictions on vertical development. Third, we believe that the banking market in Washington, D.C. has experienced a level of consolidation and disruption that has left smaller and mid-sized real estate investors underserved as compared to the Boston market. Although we are relatively new to this marketplace, we believe that our history as one of America's oldest banks and our family management team provide stability and surety of execution that is valued by our customers. With over five years of operation in the market, we have gained increasing confidence in this thesis. We view this as an attractive opportunity for internal capital allocation and superior to geographically proximate, product-adjacent businesses like wealth management, insurance, or commercial-industrial lending in our home marketplace. The Bank did not initially make commercial construction loans in this market, as these loans have a higher level of inherent risk. As the Bank developed greater familiarity with the market and the portfolio grew, the Bank made the investment in the operational capacity to originate and manage such loans in the WMA and the Bank now originates the full range of commercial mortgages in Washington. For similar reasons, the Bank also delayed originating residential owner occupant loans in the WMA, but as the Bank's customer base has grown, the Bank has seen significant demand for this service. The Bank has begun operational preparations to originate residential mortgage loans in the WMA and anticipates lending will begin in 2023 to existing commercial and private clients of the Bank.

San Francisco Bay Area ("SFBA")

The San Francisco Bay Area is the Bank's newest and smallest market, having begun operations in 2021 with a focus on commercial real estate customers and associated deposit relationships. The Bank does not have a local office yet and does not have local staff, relying on Boston and WMA-based staff to cover the initial operations in this market. The Bank built the operational framework for originating commercial real estate loans in the SFBA and began engaging with prospective customers in 2021. The Bank closed its first loan in the SFBA in the fourth quarter of 2021 and continued to originate loans in 2022. The Bank originated $31.6 million and $84.7 million in commercial real estate loans in the SFBA in 2021 and 2022, respectively, and at December 31, 2021 and 2022, $31.6 million and $113.2 million were outstanding, respectively.

This initiative builds on several years of research and direct equity investments that provided the Bank with exposure and insight into the SFBA real estate and banking markets, but the Bank's long-term plans were accelerated to capitalize the pandemic-related disruption in those markets. The Bank continues to believe that the most attractive markets for its business are coastal, urban, gateway cities with substantial wealth, favorable demographics, substantial multifamily real estate, and consolidation among small and mid-sized banks. This initiative has initially focused on both investor and owner-occupied commercial real estate and multifamily properties. The Bank does not have plans at this time to originate commercial construction or owner-occupied residential loans in the SFBA. The Bank utilizes existing staff in the Commercial Real Estate Group and SDG that travel to the SFBA on a fly-away basis. The Bank does not currently have full-time staff in the SFBA but is currently looking for a senior commercial real estate lender and a relationship manager. The Bank maintains and seeks to expand deposit relationships with SFBA borrowers through the Bank's SDG in Hingham.

Underwriting and Approvals in the "New Markets"

All WMA and SFBA underwriting and approval processes are identical to those utilized in the Boston marketplace and all loans are reviewed and approved by the Bank's Executive Committee and when larger than $2.0 million, by the Bank's full Board of Directors. A member of the Executive Committee performs a site visit for every collateral property. The Bank has retained local counsel in both markets to advise on all of its transactional needs, with oversight on each individual transaction by the Bank's primary real estate counsel in Boston. The Bank uses the same consulting firm in Boston, Washington, D.C., and San Francisco for environmental assessments and property condition reports to ensure quality of execution and manage risk. This firm also performs seismic risk assessments in San Francisco for the Bank. The Bank generally requires that all third-party assessments are conducted by the Bank's consultants and will not generally accept reports ordered separately by a borrower. Once closed, these loans are subject to all of the Bank's regular quality control and portfolio management processes.

The Bank approaches prospective borrowers directly via advertising programs, and indirectly via intermediaries such as attorneys, accountants and mortgage brokers. The Bank also has existing Boston-based customers with real estate investment holdings in both the Massachusetts and the WMA or SFBA markets.

Lending Activities

General. At December 31, 2022, the Bank's net loan portfolio totaled $3.658 billion, representing 87% of its total assets. The Bank's principal focus is real estate mortgage lending, with well over 99% of the loan portfolio secured by real estate mortgage loans. The portfolio is primarily composed of commercial real estate, residential owner-occupied real estate, and loans for the construction of residential real estate. The loan portfolio is the Bank's primary earning asset. Commercial and industrial loans and consumer loans represent less than 1% of the loan portfolio and are not a focus of the Bank's origination program. The Bank's lending activities are conducted in the Massachusetts, the WMA and SFBA markets and as of December 31, 2022, 69% of the loan portfolio was secured by properties in the Commonwealth of Massachusetts.

Commercial Real Estate Loans. The Bank originates mortgage loans for the refinancing, acquisition, or renovation of existing commercial real estate properties such as apartments, offices, manufacturing and industrial complexes, small retail properties, various special purpose properties, and land. Although terms vary, commercial real estate loans generally have maturities of 15 years or less, with an initial fixed rate period and subsequent adjustments with a margin to a designated interest rate. The initial fixed-rate period is generally five years, with a limited volume of loans with longer initial fixed-rate periods. These loans are generally underwritten with floors near the initial rate at time of underwriting. The Bank generally amortizes commercial real estate mortgage loans over a 30-year or 35-year period, with a balloon payment at 10 or 15 years, although the Bank also originates commercial real estate loans with interest-only features. The Bank generally underwrites commercial real estate mortgage loans with "step-down" prepayment fees in the event the loan pays off prior to maturity; these fees are generally stated as a percentage of the face amount of the note. Generally, loan amounts do not exceed 75% of the lesser of the Bank estimate of value or independent appraised value of the collateral. At December 31, 2022, commercial mortgage loans totaled $2.975 billion and represented 81% of the Bank's total loan portfolio.

Construction Loans. As of December 31, 2022, there were $177.6 million in construction loans, net of unadvanced amounts, which represented 5% of the Bank's total loan portfolio and consisted primarily of residential real estate for long-term investment, speculative sale, or owner-occupants (the former categories are referred to as "commercial construction loans" below). Although the Bank has financed the construction of commercial purpose properties (e.g. retail, industrial, office, or special purpose), this is not the focus of the Bank's construction loan program and as of December 31, 2022, the Bank had no loans outstanding for the construction of retail, industrial, office, or special purpose properties. Residential construction loans are offered on both a fixed rate and an adjustable rate basis, with a six to twelve month interest-only period that converts to an amortizing loan. Commercial construction loans are generally underwritten as eighteen month interest-only notes, with a balloon payment at maturity or conversion to permanent, amortizing financing. Larger or more complex projects may have a twenty-four to thirty-six month interest only period. Commercial construction loans are generally structured with origination fees in addition to the note rate of interest. All disbursements on construction loans are paid in arrears for work completed, subject to on-site inspection by a member of the Executive Committee of the Board of Directors, a Bank officer or a Bank engineer, and approved by the Chief Executive Officer or the President.

Residential Real Estate Loans. The Bank originates a full range of qualified and non-qualified mortgage loans on one-to four-family residential properties. The Bank generally holds all residential real estate loans in portfolio and consequently enjoys greater latitude in structuring and executing transactions in support of its customers' needs. Loans are originated on both an adjustable rate and fixed rate basis. Qualified mortgage loans are generally originated with loan to value ratios up to 80% of a property's appraised value, with mortgage insurance required for those loans exceeding 80%. Non-qualified mortgage loans, including but not limited to super jumbo loans in excess of $1.5 million, co-operative loans, non-warrantable condominium loans, loans to foreign nationals, owner-occupant loans to irrevocable trusts and limited liability corporations, vacation and seasonal properties, and loans underwritten using alternative verification of the ability to repay, are generally originated up to 65% of the lesser of a Bank estimate of value or a third-party appraisal and they are generally underwritten with a premium to the Bank's conforming rates. The Bank also originates HELOCs in both first and second lien positions, generally at variable rates indexed to the Wall Street Journal Prime Rate, with floors near the origination rate. The maximum loan amount is generally $250,000, subject to 60% of the appraised value of the collateral less the first mortgage loan or $150,000, subject to 70% of the appraised value of the collateral, less the first mortgage loan. As of December 31, 2022, residential mortgage loans, including HELOCs and second mortgage loans, were $527.6 million and represented 14% of the Bank's total loan portfolio.

Consumer/Commercial Lending. The Bank offers business overdraft lines of credit. In 2017, the Bank discontinued the origination of personal loans and personal overdraft lines of credit, although the legacy book remains in place and continues to run off over time. The Bank originates business overdraft lines of credit to local businesses in its market area generally on a secured basis with personal guarantees from the principals of any borrowing entity. The Bank generally also has deposit and commercial real estate relationships with such borrowers. Consumer and commercial lending is not the focus of the Bank's origination program. This segment includes loans originated under the SBA's Paycheck Protection Program ("PPP"). At December 31, 2022, consumer and commercial loans totaled $442,000 and represented less than 1% of the Bank's total loan portfolio. There were no PPP loans outstanding at December 31, 2022.

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

Commercial real estate, construction and residential mortgage loans are reviewed and approved by the Executive Committee of the Board of Directors, which takes an active role in managing risk for the Bank. The Executive Committee meets at least twice monthly or more often as needed. No lenders or officers of the Bank have the authority to make these types of loans. The Chief Executive Officer or the President may approve HELOCs up to $250,000. Additionally, all residential real estate loans, commercial real estate or construction loans above $2.0 million, and all loans to credit relationships with aggregate exposure of $6 million, inclusive of the subject transaction and regardless of size, are reviewed and approved by the full Board of Directors. Consequently, all of our commercial real estate exposure has been reviewed and approved on an individual credit basis by the Board of Directors or a committee thereof. In accordance with governing banking laws, the Bank is permitted to make loans and commitments to any one borrower, including related entities, in the aggregate amount of not more than 20% of the Bank's stockholders equity, or $77.2 million, at December 31, 2022, which is the Bank's legal lending limit. The Bank's largest relationship as of December 31, 2022, consisted of a series of loans with an outstanding balance of $64.5 million and no unfunded commitments, secured by apartment buildings located in Boston, Somerville and Brookline. All loans to this credit relationship, both existing and previously outstanding, have always performed as agreed.

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

Loan Rates and Fees. Interest rates and fees charged by the Bank on its loan products are based upon the type of loan, the degree of risk, competitive market rates, and the underlying collateral. As a general matter, the Bank prefers to use competitive pricing in order to select for lower leverage, lower risk assets. The Bank generally does not charge origination fees on commercial and residential mortgage loans. Fees are subject to the limitations imposed by the regulations of the Massachusetts Commissioner of Banks ("Commissioner of Banks"). Loan origination and commitment fees, net of direct loan origination costs, are deferred and are recognized as adjustments to loan interest income. The Bank amortizes these amounts over the contractual life of the related loans using the level-yield method. Exit fees and prepayment fees are recognized in full at the time of receipt.

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

The accrual of interest on mortgage and commercial loans is discontinued at the time a loan is 90 days past due unless the credit is well-secured and in the 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.

Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") stipulated that a financial institution may elect to not apply United States Generally Accepted Accounting Principles ("U.S. GAAP") requirements to loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a troubled debt restructuring ("TDR"), and suspended the determination of loan modifications related to the COVID-19 pandemic from being treated as TDRs. Modifications within the scope of the suspension include forbearance agreements, interest-rate modifications, repayment plans, and any other similar arrangements that defer or delay payments of principal or interest. The Consolidated Appropriations Act, 2021 extended the suspension of TDR accounting to January 1, 2022. The Bank elected not to apply U.S. GAAP requirements to such loan modifications with respect to categorization of loans as TDRs. The Bank is also aware that some financial institutions may opt to recognize income on an accrual basis on loans for which they are not collecting interest pursuant to extended forbearance agreements. Unless such contracts are modified by legislative action that mandates the deferral of interest without regard to need, the Bank does not believe such an approach is appropriate.

The Bank conducts three mutually supporting programs to maintain and monitor the credit quality of the portfolio:

- **Internal Quality Control:** The Bank's internal Quality Control Group reviews all originated and non-originated commercial and residential mortgage loan files for compliance with the Bank's policies and procedures in the areas of origination, underwriting, processing, servicing, and legal settlement. Some elements of the residential mortgage loan quality control process are conducted by a third party under this group's supervision. Issues are addressed at the working level immediately and reviewed with the Chief Executive Officer, the President, and legal counsel on a quarterly basis.
- **Independent Loan Review:** The Bank has also retained an independent third-party to conduct ongoing loan review and credit risk rating. Commercial real estate loans are assigned an initial risk rating by the Bank at origination. Subsequently, the Bank has a quality control program in place. Quarterly, all new commercial, construction and residential loan relationships with outstanding balances or commitments of $500,000 or more are reviewed and assigned a risk rating. On a rolling quarterly basis, an in-depth review is performed on all commercial real estate relationships (and related residential loans) with exposure in excess of $850,000 and all the loans on the Bank's Watch List. Commercial real estate relationships (and related residential loans) with exposure between $500,000 and $850,000 are reviewed at least annually. Watch List loans are those loans that are more than two payments past due at the end of the quarter, loans for which the borrowing entity or sponsor has filed bankruptcy, loans rated four or higher in a previous review, impaired loans, TDRs, and loans past contractual maturity. Results of the independent loan review are reported to the Bank's Audit Committee on a quarterly basis and become the mechanism for monitoring the overall credit quality of the portfolio.
- **Stress Testing:** The Bank conducts scenario analysis for the entire loan portfolio every quarter using a third-party probability of default/loss given default model. This model incorporates instrument level data from the Bank's loan portfolio and allows the Bank to project loan and portfolio performance using base case scenarios, as well as scenarios based on the Federal Reserve's Dodd-Frank Act Stress Testing (DFAST) program. The results from this review are reported to the Bank's Board of Directors on a quarterly basis as part of the Bank's consolidated Enterprise Stress Testing program.

Investment Activities

The Bank's investment portfolio is composed primarily of overnight cash at the Federal Reserve Bank of Boston ("FRBB") and other correspondent banks and common equity investments. The Bank occasionally invests in other short-term income investments, such as U.S. Treasury debt securities, U.S. Government-sponsored enterprise ("US GSE") debt securities, bank subordinated debt, and FDIC-insured certificates of deposit. The Bank also has a significant investment in the stock of the Federal Home Loan Bank of Boston ("FHLB"), held to secure the Bank's borrowing relationship, and an investment in the Community Reinvestment Act ("CRA") Fund, a mutual fund which invests in securities which qualify under the CRA securities test. The Bank's investment portfolio is managed by the Bank's senior officers in accordance with the investment policy approved by the Board of Directors. At December 31, 2022 and 2021, the Bank's investment portfolio totaled $473.4 million and $387.6 million, respectively, which represented 11% of the Bank's total assets.

<u>Cash</u>. Cash is primarily a source of liquidity to fund the Bank's real estate lending operation and absorb any volatility in the Bank's funding position. As of December 31, 2022, the Bank held $341.5 million in cash at the FRBB, which represented 8% of total assets.

<u>Equity Investments</u>. Utilizing its authorities under FDIC regulations and Massachusetts law, the Bank makes investments in marketable public common equity securities. These investments are not viewed as a source of liquidity and are managed to produce

superior returns on capital over a longer time horizon. The Bank's process is focused on identifying businesses with strong returns on capital, owner-oriented management teams, good reinvestment opportunities or capital discipline, and reasonable valuations. At December 31, 2022, the Bank held $55.0 million in common equity investments. The portfolio is concentrated in a relatively small number of investments in the financial services and technology areas.

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

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

The Bank may also, from time to time, make private equity investments directly in other banks or financial services companies. At December 31, 2022, the Bank held a $2.4 million investment in the common stock of Founders Bank, a de novo bank organization in Washington, D.C. that opened in April 2020. This investment represents a non-marketable equity security and is included in other assets on the Consolidated Balance Sheets.

Corporate Bonds. At December 31, 2022, the Bank held $3.5 million in corporate bonds, made up of an investment in the subordinated debt issued by a Washington D.C.-based bank holding company in which the Bank also maintains a common equity investment. The notes have a 3.75% five-year fixed to floating rate, mature in 2031, and are callable quarterly at the option of the issuer after the fifth year anniversary. The Bank intends to hold the bonds until maturity, and therefore, they are recorded at amortized cost on the Consolidated Balance Sheet.

CRA Investments. The Bank also makes investments to satisfy its obligations under the CRA. At December 31, 2022, the Bank had four such investments:

- The Bank's equity securities included a $8.2 million investment in the CRA Fund, a mutual fund which invests in fixed-income securities which qualify under the CRA investment test. This has been a long-standing investment for the Bank.
- The Bank held a $1.0 million long-term subordinated debt investment in the BlueHub Community Loan Fund (formerly Boston Community Loan Fund). This has been a long-standing investment for the Bank and is accounted for in other assets, included in the Consolidated Balance Sheets.
- The Bank has a commitment to make a $1.0 million investment in the Washington Housing Initiative Impact Pool LLC ("WHI"), an investment vehicle that provides low cost loans to acquire and develop affordable workforce housing in Washington D.C. As of December 31, 2022, $571,000 of this commitment had been called by the Investment Manager. This investment is accounted for in other assets, included in the Consolidated Balance Sheets.
- The Bank held a $5.0 million subordinated debt investment in The San Francisco Housing Accelerator Fund (the "SFHA Fund"), an investment vehicle that provides low cost loans to acquire and develop affordable workforce housing in San Francisco. This investment is accounted for in other assets, included in the Consolidated Balance Sheets.

Federal Home Loan Bank Stock. The Bank holds FHLB stock which, at December 31, 2022, totaled $52.6 million. As a member of the FHLB, the Bank is required to maintain an investment in FHLB stock that approximates 5% of FHLB advances outstanding.

Bank-Owned Life Insurance. The Bank has an investment in bank-owned life insurance ("BOLI") which insures the life of a current Bank officer. At December 31, 2022, the policies had a cash surrender value of $13.3 million.

Sources of Funds

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

Deposits. At December 31, 2022, the Bank had $2.505 billion in savings accounts, demand accounts, negotiable order of withdrawal ("NOW") accounts, money market accounts and certificates of deposit. Certificates have maturities ranging in terms from sixty days to five years. Included among these deposit products are individual retirement account certificates. The Bank also accepts deposits through its on-premises ATMs and is a member of other ATM networks. The Bank opens deposit accounts, including checking accounts, money market accounts, and certificates of deposit, directly online for personal customers. The Bank accepts term certificates of deposit through Internet listing services and through approved brokers (together "wholesale time deposits"). The Bank's cost of funds, and its ability to attract and maintain deposits, have been, and will continue to be, significantly affected by economic and competitive conditions. The Bank offers a variety of deposit accounts to individuals and commercial customers. The Bank's deposits are insured by the FDIC, up to $250,000 per separately insured depositor and up to $250,000 for retirement accounts. The

DIF insures the portion of deposits in excess of these amounts.

Borrowings. At December 31, 2022, the Bank had $1.276 billion in borrowings from the FHLB. The Bank can borrow up to approximately $2.085 billion, in total, based on the Bank's qualified collateral, which includes certain residential mortgage loans, first mortgage loans on non-owner occupied residential property, first mortgage loans on multifamily residential property, and pledged commercial mortgage loans. Upon specific approval from the FHLB, the Bank may also pledge other mortgage loans to secure additional borrowings.

Personnel and Human Capital Resources

At December 31, 2022, the Bank had 89 full-time employees and three part-time employees. The Bank provides its full-time employees with a comprehensive suite of employee benefit programs, including a 401(k) plan, life, health, short- and long-term disability insurance and a stock option plan for employees and directors as the Nominating and Personnel Committee of the Board of Directors may determine. We are committed to the continuous growth and improvement of our team through an active recruiting process utilizing our senior management rather than third party recruiters, a performance management process focused on objectives and key results, internal training programs, and sponsored external educational programs. Our culture has always prioritized performance - not presence - and even prior to the onset of the COVID-19 pandemic many of our staff worked remotely. Our ongoing investments in our cloud-first infrastructure already supported mobile, remote, and collaborative work. We anticipate many of our staff will continue working remotely on a permanent basis following COVID-19. We are also leveraging these technological and cultural investments in remote work to build a more geographically diverse workforce, targeting lower cost labor markets or individuals with specialized skills. As of December 31, 2022, the Bank had employees in 14 states. None of the employees of the Bank are represented by a labor union or other collective bargaining group and management believes that its employee relationships are excellent.

Supervision and Regulation

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

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

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

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

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

Lending Restrictions. Federal law limits a bank's authority to extend credit to its directors, executive officers and 10% or more stockholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, asset purchase and sale transactions with insiders must be on market terms, and if the transaction represents more than 10% of the capital and surplus of the Bank, be approved by the majority of the disinterested directors of the Bank.

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

Deposit Insurance. Deposit obligations of the Bank are insured by the FDIC's Deposit Insurance Fund ("FDIC DIF") to the legal maximum of $250,000 for each insured depositor for deposits held by such depositor in the same right and capacity.

Deposit insurance premiums are based on assets. The FDIC calculates deposit insurance assessment rates for established small banks, generally those banks with less than $10 billion of assets that have been insured for at least five years, using the CAMELS rating system and other factors. Under this method, each of seven financial ratios and a weighted average of CAMELS composite ratings are multiplied by a corresponding pricing multiplier. The sum of these products is added to a uniform amount, with the resulting sum being an institution's initial base assessment rate (subject to minimum or maximum assessment rates based on a bank's CAMELS composite rating). This method takes into account various measures, including an institution's leverage ratio, brokered deposit ratio, one year asset growth, the ratio of net income before taxes to total assets and considerations related to asset quality. Under the small bank pricing rule effective through December 31, 2022, where the FDIC DIF's reserve ratio has reached 1.15%, assessments for established small banks with a CAMELS rating of 1 or 2 range from 1.5 to 16 basis points after adjustments, while assessment rates for established small institutions with a CAMELS composite rating of 4 or 5 range from 11 to 30 basis points, after adjustment. Assessments for established banks with a CAMELS rating of 3 range from 3 to 30 basis points. On October 18, 2022, the FDIC approved a final rule, applicable to all insured depository institutions, to increase initial base deposit insurance assessment rate schedules uniformly by 2 basis points, beginning in the first quarterly assessment period of 2023. The revised assessment rate schedules will remain in effect unless and until the FDIC DIF's reserve ratio meets or exceeds 2 percent, absent further action by the FDIC Board of Directors. Progressively lower assessment rate schedules will take effect when the FDIC DIF's reserve ratio reaches 2 percent, and again when it reaches 2.5 percent.

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

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

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

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

Consumer Protection Regulation

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

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

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

Anti-Money Laundering

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

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

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

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

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

The federal banking regulation requires a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%, a minimum ratio of total capital to risk-weighted assets of 8.0%, and a minimum leverage ratio of 4.0% for all banking organizations. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers. At December 31, 2022, the Bank exceeded all capital requirements necessary to be considered well capitalized.

Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act directs the federal bank regulatory agencies to establish a Community Bank Leverage Ratio ("CBLR") of tangible capital to average total consolidated assets of not less than 8.0% or more than 10.0%. Under the final rule issued by the federal banking agencies, effective January 1, 2020, depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to Tier 1 capital divided by average total consolidated assets) of greater than 9.0%, is eligible to opt into the CBLR framework. A community banking organization that elects to use the CBLR framework and that maintains a leverage ratio of greater than 9.0% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the banking agencies' generally applicable capital rules and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of Section 38 of the FDIA. The final rule includes a two-quarter grace period during which a qualifying banking organization that temporarily fails to meet any of the qualifying criteria, including the greater than 9.0% leverage ratio requirement, generally would still be deemed well-capitalized so long as the banking organization maintains a leverage ratio greater than 8.0%. At the end of the grace period, the banking organization must meet all qualifying criteria to remain in the CBLR framework or otherwise must comply with and report under the generally applicable rule. As required by Section 4012 of the CARES Act, the federal banking agencies temporarily lowered the CBLR, issuing two interim final rules to set the CBLR at 8.0%. Effective January 1, 2022, the CBLR framework returned to 9.0%. The Bank has not elected to adopt the CBLR framework, but may do so in the future.

Available Information

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

Item 1A. Risk Factors.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

A downturn in local economic conditions could negatively impact the Bank's business. The Bank primarily serves individuals, businesses, and nonprofits located in eastern Massachusetts and adjoining areas. The Bank also lends to commercial real estate borrowers and services deposit customers in the greater WMA and in the SFBA. At December 31, 2022, the majority of the Bank's loans and deposits came from the eastern Massachusetts area. Local events and the economic conditions in either eastern Massachusetts or the WMA could have a material adverse impact on the ability of the Bank to attract deposits, the ability of the Bank's borrowers to repay their loans and on the value of the collateral securing these loans.

At December 31, 2022, approximately all of the Bank's loan portfolio outstanding consisted of real estate related loans, including mortgage loans on commercial real estate (81%), owner-occupied residential real estate (14%) and construction loans (5%). At December 31, 2022, approximately 28% of the portfolio was secured by commercial real estate located in the greater WMA, and 3% was secured by commercial real estate located in the SFBA.

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

Reliance on the Federal Home Loan Bank system may adversely affect our liquidity and/or capital position. The Bank is a member of the FHLB and the amount of its equity investment in the FHLB is based upon the amount of borrowed funds. FHLB decisions therefore directly impact the Bank's liquidity. Significant disruptions in the Federal Home Loan Bank's lending operations or significant disruptions in the Federal Home Loan Bank's access to capital markets could have a negative effect on the Bank's operations. Although the Bank maintains a borrowing relationship with the FRBB Discount Window, there is no guarantee that the Bank could obtain sufficient funding from the FRBB in the event that FHLB funding was not available. Impairment of the FHLB's assets could also negatively affect the value of the Bank's equity investment in the FHLB stock and the receipt of dividends on this investment. Furthermore, the FHLB could suspend the Bank's ability to redeem the portion of its equity investment in FHLB in excess of that required to support its borrowing position. Dividends on this investment are declared at the discretion of the FHLB board. At December 31, 2022, the Bank held $52.6 million in FHLB stock, borrowed funds were $1.276 billion, and the Bank had $806.6 million in unused available capacity (net of accrued interest on outstanding advances).

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

Inflationary pressures and rising prices may affect our results of operations and financial condition. Inflation rose sharply at the end of 2021 and throughout 2022. Inflationary pressures are currently expected to remain elevated throughout 2023. Consequently, the ability of our business customers to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to increase, which could adversely affect our results of operations and financial condition.

Our cost of funds for banking operations may increase as a result of general economic conditions, interest rates and competitive pressures. We compete with banks and other financial institutions for deposits. The Bank also faces increasing competition, both directly and via intermediation, from U.S. Treasury fixed income securities. If, as a result of general economic conditions, market interest rates, competitive pressures, or otherwise, the amount of deposits at the Bank decreases relative to its overall banking operations, the Bank may have to rely more heavily on borrowings or other sources of wholesale funds that may have higher interest rate and sensitivity to short-term market rates, or otherwise reduce its loan growth or pursue loan sales. Higher funding costs reduce our net interest margin, net interest income and net income.

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

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

The Bank's loan loss reserves may prove to be insufficient if future economic conditions deteriorate. The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loans being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. The Bank maintains an allowance for loan losses based upon, among other things, historical losses, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types, as well as other factors such as local economic trends, real estate market conditions and credit concentrations. Based upon such factors, the Bank makes various assumptions and judgments about the ultimate collectability of the loan portfolio and provides an allowance for loan losses based upon a percentage of the outstanding balances and for specific loans when their ultimate collectability is considered questionable. If the Bank's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb inherent losses, the Bank's earnings and capital could be significantly and adversely affected. In addition, bank regulatory agencies periodically review the allowance for loan losses, and may require us to adjust the allowance based on their judgment about information available to them at the time of their examination. As of December 31, 2022, the allowance for loan losses was $25.0 million, which represented 0.68% of total outstanding loans. At such a date, the Bank had $1.2 million in non-accrual loans. Although the Bank believes that its allowance for loan losses is adequate, there can be no assurance that the allowance will prove sufficient to cover loan losses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Provision for Loan Losses."

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

We could be adversely affected by the loss of one or more key employees or an inability to attract and retain qualified personnel. Our success depends on our ability to retain the services of our existing key employees and to attract and retain additional qualified personnel in the future. Competition for the best people can be intense, and we may not be able to hire or retain the employees that we depend upon for success, or the employees that we do hire may be restricted for a period of time in the activities that they may perform for us as a result of agreements with their previous employers. The unexpected loss of services of one or more of our key employees could jeopardize our relationships with our clients and lead to the loss of client accounts and relationships, causing an adverse impact on our business, due to the loss of employee skills, institutional knowledge, and client relationships. Frequently, we compete in the market for talent with entities that are not subject to comprehensive regulation, including with respect to the structure of incentive compensation. Our inability to attract new employees and retain and motivate our existing employees could adversely impact our business.

Damage to our reputation could significantly harm our business, including our competitive position and business prospects. We are dependent on our reputation within our market area, as a trusted and responsible financial services company, for all aspects of our relationships and business with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future businesses. Negative public opinion about the financial services industry generally or us specifically could adversely affect our reputation and our ability to keep and attract customers and employees. Our actual or perceived failure to address various issues could give rise to negative public opinion and reputational risk that could cause harm to us and our business prospects. These issues include, but are not limited to, legal and regulatory requirements; properly maintaining customer and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses.

We invest a portion of our stockholder capital in equity securities, which may result in significant variability in our investment results and may negatively impact stockholders' equity and reported earnings. Equity securities have historically produced higher returns than fixed-income investments; however, investing in equity securities may result in significant variability in investment returns from one period to the next. In volatile financial markets, we could experience significant declines in the fair value of our equity investment portfolio. Our equity portfolio is concentrated in particular companies and industries and, as a result, is exposed to more volatility from one period to the next. Net unrealized gains and losses on the Bank's equity securities portfolio are reflected in the consolidated statements of net income, regardless of whether such gains and losses are realized, which can increase the variability of the Bank's earnings and regulatory capital.

The fair value of our debt securities can fluctuate due to factors outside of our control. Factors beyond our control can significantly influence the fair value of the debt securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions with respect to individual securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods, which could materially and adversely affect our business, results of operations, financial condition and prospects. The process for determining whether impairment of a security is other than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Significant negative changes to valuations could result in impairments in the value of the Bank's securities portfolio, which could have an adverse effect on the Bank's financial condition or results of operations.

Our business may be adversely affected if we fail to adapt our products and services to evolving industry standards and consumer preferences. The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The widespread adoption of new technologies could require substantial expenditures to modify or adapt our existing products and services as we grow and develop our internet banking and mobile banking channel strategies in addition to remote connectivity solutions. We might not be successful in developing or introducing new products and services, integrating new products or services into our existing offerings, responding or adapting to changes in consumer behavior, preferences, spending, investing and/or saving habits, achieving market acceptance of our products and services, reducing costs in response to pressures to deliver products and services at lower prices or sufficiently developing and maintaining loyal customers.

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

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

Natural disasters, acts of terrorism, climate change, pandemics and other external events could harm our business. Natural disasters can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. A significant natural disaster, such as a tornado, hurricane, earthquake, fire or flood, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. To the extent that certain types of natural disasters, particularly floods, may become more common as a result of climate change, our portfolio may be exposed to losses for which the Bank does not maintain insurance coverage. Acts of terrorism, war, civil unrest, or pandemics could cause disruptions to our business or the economy as a whole. Although the Bank increasingly requires certain borrowers to obtain hazard policies that cover terrorism risk, such coverage may be insufficient and may cover only direct physical damage to our collateral. Given the concentration of the Bank's collateral in three high-profile urban environments, especially Washington D.C., the Bank may suffer losses in the event of a terrorist attack or other act of war or civil unrest. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

As a multifamily lender focused on a small set of coastal, urban markets, the Bank benefits from the balance between structural economic growth drivers and legal and physical constraints on the supply of new housing. To the extent that new potential rent control regulations disrupt this balance, these changes may have a negative impact on the value of the Bank's real estate collateral. The City of Boston is currently considering a variety of new regulations governing both multifamily development and rent control for existing buildings. Given the Bank's concentration of multifamily properties in the Boston area, this could have a negative impact on the value of the Bank's existing real estate collateral and could negatively impact the ability of the Bank to originate multifamily loans in this market in the future. Most importantly, we believe the introduction of rent control in Boston may have a significant negative long-term impact on the availability of affordable housing which, in turn, would have a negative economic impact on the Bank's primary market area.

We rely on well-functioning civil and bankruptcy courts to exercise our remedies and access our collateral in the event of default. To the extent such courts are closed, operating inefficiently, or limited to emergency matters, there may be a material adverse impact on our operations. We rely on such courts for a myriad of collections-related litigation, including foreclosure actions, contract suits, and small-claims actions. Although the Bank does not have and has not historically had a high volume of litigation, the Bank's very ability to exercise its remedies quickly and vigorously provides a strong incentive for performance on the part of the Bank's counterparties. To the extent that the prospect of such action is diminished by the perceived or real incapacity of courts, counterparties may be incentivized to delay or cease payment. As of December 31, 2022, federal and state courts in each of the jurisdictions in which the Bank operates were open and operating normally.

Possible U.S. federal and state tax code changes could adversely affect us. The current administration has previously proposed significant changes to the Internal Revenue Code, including among other things changes to U.S. federal corporate income tax rates, to the dividends received deduction, and to Section 1031 of the Internal Revenue Code regarding qualifying exchanges of real property. There is substantial uncertainty regarding both the timing and the details of any such tax reform. The impact of any potential tax reform on our business is uncertain and could be materially adverse. The Commonwealth of Massachusetts has also implemented new graduated income taxes that may have a significant impact on some of the Bank's customers. The impact of this tax reform on the Bank's customers and the Massachusetts economy remains uncertain, but could adversely impact the Bank.

Changes in accounting standards can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board ("FASB") changes the financial accounting and reporting standards that govern the preparation of our financial statements. To the extent such changes may impact the level of the Bank's regulatory capital, such changes could have a substantive effect on the Bank's operations and growth. In particular, the adoption of Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, could produce higher volatility in future provisions for credit losses than our current process and may adversely impact our results of operations.

RISKS RELATED TO OUR REGULATORY ENVIRONMENT

We operate in a highly regulated industry, and laws and regulations, or changes in them, could limit or restrict our activities and could have a material adverse effect on our operations. We are subject to extensive federal and state regulation and supervision. Federal and state laws and regulations govern numerous matters affecting us, including changes in the ownership or control of banks;

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

Although we are generally not subject to regulations that affect the servicing of federally-backed mortgage loans, we may be subject to local legislative and regulatory changes that restrict our ability to foreclose when certain residential loans fall into default and may restrict our ability to impose late fees on such loans. Such legal changes may force the Bank to defer collection of interest, without penalty or fee, and without any showing of financial hardship or need by the borrower. Our operations may also be impacted by changes in laws or regulations governing the activities of multifamily and small business landlords to whom we have extended commercial mortgage loans. To the extent that such legal changes may allow tenants to avoid or defer rental payments, ongoing cash flow from properties that secure our mortgage loans may be reduced. Depending on the extent of such legal changes, the Bank may also re-evaluate its approach to new originations, particularly with respect to residential and small multifamily commercial loans. This could have a significant impact on the Bank's ability to originate new loans that meet the Bank's credit criteria and may have a negative impact on future growth, if any. To the extent that the Bank may view such legislation as unconstitutional and may challenge such legislation via litigation, either alone or in conjunction with other lenders, there is a risk of significantly elevated legal expense associated with such action. Finally, recent legislation has limited the ability of many lenders to provide accurate data to the credit reporting agencies with respect to delinquent payments by borrowers. To the extent that the Bank utilizes such data to assess borrower creditworthiness, particularly on residential owner-occupied loans, the absence of such data may negatively impact the Bank's underwriting process.

We are subject to stringent capital requirements which may adversely impact return on equity, require additional capital raises, or limit the ability to pay dividends or repurchase shares. Federal regulations establish minimum capital requirements for insured depository institutions, including minimum risk-based capital and leverage ratios, and define "capital" for calculating these ratios. The minimum capital requirements are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. The regulations also establish a "capital conservation buffer" of 2.5%, which if complied with, will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the capital conservation buffer amount. The application of these capital requirements could, among other things, require us to maintain higher capital resulting in lower returns on equity, or require us to obtain additional capital to comply, which could dilute stockholder value. We could be subject to regulatory actions if we are unable to comply with such requirements.

We are subject to numerous laws designed to protect consumers, including the CRA and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions. The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose community investment and nondiscriminatory lending requirements on financial institutions. The CFPB, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the CRA, the Equal Credit Opportunity Act, the Fair Housing Act or other fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At December 31, 2022, the Bank conducted its business through its main office and corporate offices located in Hingham, Massachusetts. In addition, the Bank owns three branch offices and leases two branch offices in Hingham, Hull, Cohasset, Boston and Nantucket, Massachusetts. The Bank also owns a former branch property located in Norwell, Massachusetts that it is currently marketing for sale or long-term lease and a commercial lending office in Washington, D.C.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

The Bank's common shares trade on The NASDAQ Stock Market ("NASDAQ") under the symbol "HIFS." As of December 31, 2022, there were approximately 186 stockholders of record.

The following table presents the dividend declared by the Bank each quarter. While the Bank expects comparable cash dividends will be paid in the future, the declaration and amount of future dividends are subject to the discretion of the Bank's Board of Directors and will depend on various factors, including the Bank's net earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by the Bank's Board of Directors. A description of the restrictions on the payment of dividends by the Bank is included above in Part I, Item 1, "Business—Supervision and Regulation—Dividends."

	Dividend
2021	
First Quarter	$ 0.49
Second Quarter	0.51
Third Quarter	0.53
Fourth Quarter	1.30
2022	
First Quarter	$ 0.57
Second Quarter	0.59
Third Quarter	0.61
Fourth Quarter	1.26

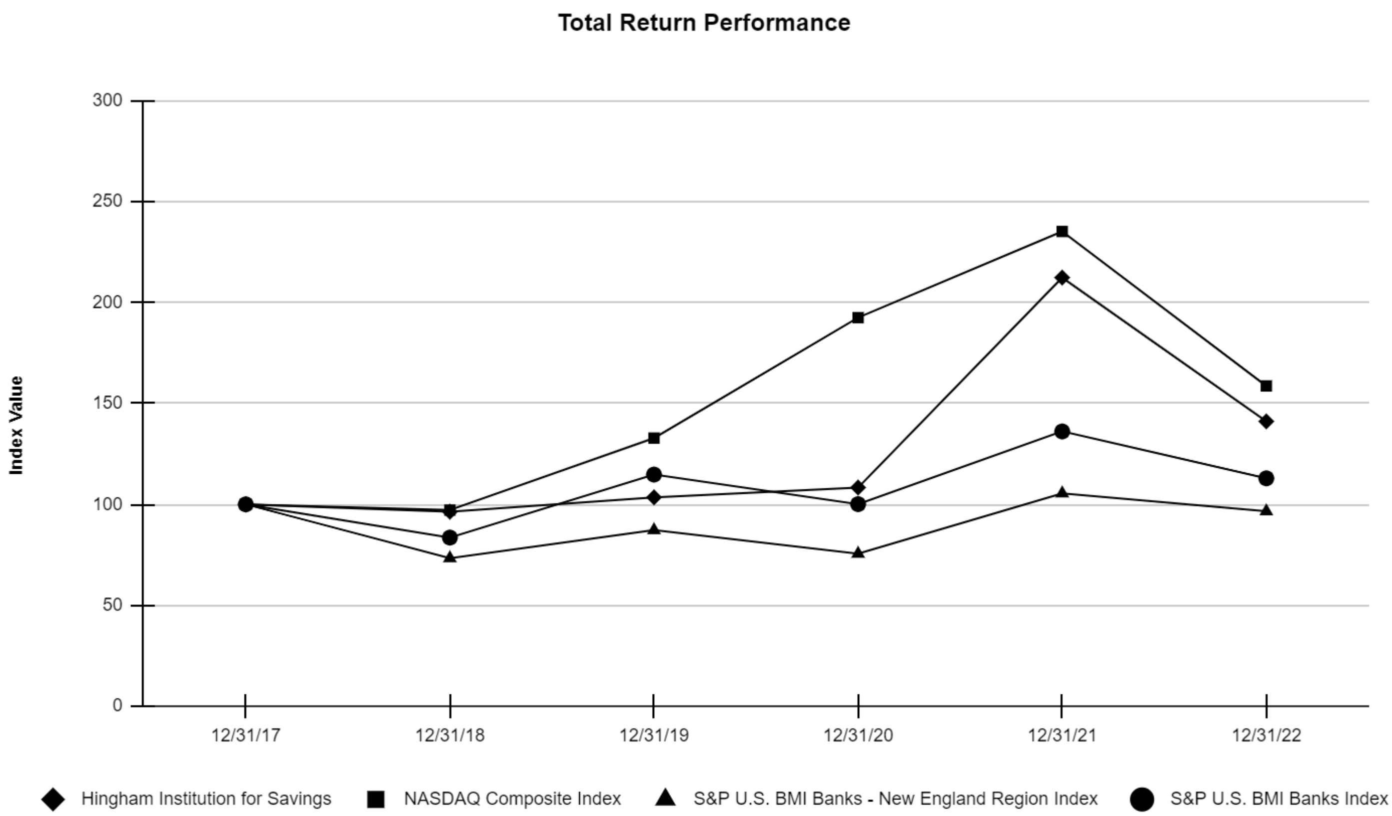
Comparative Stock Performance Graph

The chart which appears below sets forth the percentage change, on an annual basis, in the cumulative total stockholder return on the Bank's Common Stock since December 31, 2017 through December 31, 2022. For comparative purposes, changes in the cumulative total stockholder return on the three indices of publicly traded stocks (the "Indices") are also set forth on the chart.

- The NASDAQ Composite Index reflects the total return of a group of stocks in a cross section of industries. Many of these stocks have substantially larger market capitalizations than the Bank.
- The S&P U.S. BMI Banks - New England Region Index tracks a peer group of all publicly traded banks headquartered in New England. The S&P U.S. BMI Banks Index tracks U.S. based publicly traded banks.

The chart begins with an equal base value of $100 for the Bank's stock and for each of the Indices on December 31, 2017 and reflects year-end closing prices and dividends paid thereafter by the Bank and by the companies which comprise the Indices. The chart assumes full reinvestment of such dividends.

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



	Year Ending					
Index	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**	**12/31/22**
Hingham Institution for Savings	100.00	96.33	103.50	108.34	212.31	141.07
NASDAQ Composite	100.00	97.16	132.81	192.47	235.15	158.65
S&P U.S. BMI Banks - New England Region Index	100.00	73.31	87.21	75.53	105.42	96.55
S&P U.S. BMI Banks Index	100.00	83.54	114.74	100.10	136.10	112.89

Item 6. [Reserved]

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

The following information should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements contained in this report. Information pertaining to fiscal year 2020 was included in the Bank's Annual Report on Form 10-K for the year ended December 31, 2021 under Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," which was filed with the FDIC on March 9, 2022.

SIGNIFICANT ACCOUNTING POLICIES; CRITICAL ACCOUNTING ESTIMATES

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

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, the most significant accounting policy followed by the Bank has been identified by management as the determination of the allowance for loan losses. This policy requires the most subjective and complex judgments and, as such, could be most subject to revision as new information becomes available. An understanding of the judgments, estimates and assumptions underlying this accounting policy is essential in order to understand the Bank's reported financial condition and results of operations. In developing this estimate, management considers historical charge-offs, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types as well as other factors such as local economic trends, market conditions and credit concentrations. Given the Bank's history of immaterial net charge-offs, the allowance for loan losses estimate is driven entirely by management's qualitative adjustments, which are determined based on the factors described above. Therefore, the estimate is sensitive to management's subjectivity in the assessment of these factors. This accounting policy and its application in recent periods is described in more detail in the "Provision for Loan Losses" section of this discussion and analysis and in Notes 1 and 3 to the Consolidated Financial Statements contained in this Annual Report on Form 10-K. If management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb inherent losses, or if bank regulatory authorities require the Bank to increase the allowance for loan losses as a part of their examination process, the Bank's earnings and capital could be significantly and adversely affected.

In addition, the adoption of ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, on January 1, 2023 will impact the Bank's methodology for estimating the allowance for loan losses. See Note 1 - "Accounting Standards Issued But Yet Not Adopted" in the notes to consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data" elsewhere in this report.

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

In accordance with Accounting Standards Codification *Topic 321, Investments - Equity Securities,* equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in the Consolidated Statements of Net Income, regardless of whether such gains and losses are realized, and included in the other income category. This affects the Bank's portfolio of marketable common equity securities, which includes marketable common equity securities and a mutual fund that invests in securities which qualify for the Community Reinvestment Act securities test. This portfolio primarily includes marketable common equity investments, which the Bank views as long-term partnership interests in operating companies. Consequently, the Bank does not view the quarterly fluctuation in fair value as indicative of the change in the intrinsic value of these portfolio holdings. The performance of these holdings should be evaluated on the basis of their contribution to growth in book value per share over time, not via quarterly adjustments to net income.

In calculating core net income, the Bank has not traditionally made any adjustments other than those relating to after-tax gains and losses on equity securities, both realized and unrealized. However, net income in 2021 included a $2.3 million pre-tax gain on the sale of the Bank's former branch properties located in Weymouth and South Hingham. Given the significant gains on disposal of fixed assets recorded in 2021, the Bank has excluded these gains from the calculation of core net income. Therefore, "Management's Discussion and Analysis of Financial Condition and Results of Operations" incorporates core net income, core return on average equity, and core return on average assets, which are non-U.S. GAAP measurements that exclude the after-tax effect of gain (loss) on equity securities, net, both realized and unrealized, and the after-tax gains on the disposal of fixed assets. These disclosures should not be viewed as a substitute for financial results determined in accordance with U.S. GAAP, nor are they necessarily comparable to non-U.S. GAAP performance measures which may be presented by other companies.

INTRODUCTION

Over thirty years, the Bank has consistently executed its strategy to originate commercial and residential real estate mortgage loans, funded by retail and commercial deposits, wholesale deposits and borrowings. In doing so, the Bank has remained focused on credit quality and operational efficiency as important drivers of profitability. The Bank has utilized the retained earnings generated through these operations to provide the necessary capital to support a steady rate of organic growth. The Bank's total assets have grown from $2.409 billion to $4.194 billion from the year ended December 31, 2018 to the year ended December 31, 2022, and total stockholder's equity has grown from $212.6 million to $386.0 million during the same period.

The tables below present five years of relevant information that management utilizes to assess the Bank's financial condition and results of operations. This information does not purport to be complete and is qualified in its entirety by the more detailed information contained elsewhere herein.

	At December 31,				
	2018	2019	2020	2021	2022
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 2,408,587	$ 2,590,346	$ 2,857,093	$ 3,431,165	**$ 4,193,799**
Cash and cash equivalents	295,975	252,147	233,986	271,161	**362,033**
Equity securities	38,446	47,175	65,862	88,473	**63,196**
Securities available for sale, at fair value	14	11	6	—	**—**
Securities held to maturity, at amortized cost	—	—	—	3,500	**3,500**
Loans:					
Residential loans	741,841	725,524	656,220	562,783	**527,601**
Commercial mortgage	1,150,535	1,327,126	1,693,215	2,296,566	**2,974,890**
Construction	127,274	186,094	153,020	155,668	**177,570**
Other *	542	782	7,438	2,495	**442**
Allowance for loan losses	13,808	15,376	17,404	20,431	**24,989**
Deposits	1,573,154	1,820,834	2,139,197	2,392,865	**2,505,289**
Federal Home Loan Bank advances	606,600	505,200	408,031	665,000	**1,276,000**
Stockholders' equity	212,576	247,223	292,943	354,612	**385,966**

* Includes $2,000,000 and $6,874,000 in loans originated under the SBA PPP at December 31, 2021 and 2020, respectively.

	At or For the Years Ended December 31,				
	2018	2019	2020	2021	2022
		(Dollars in Thousands, Except Per Share Amounts)			
Income Statement Data:					
Total interest and dividend income	$ 94,169	$ 106,952	$ 106,362	$ 110,491	**$ 139,028**
Total interest expense	28,384	40,050	21,158	8,026	**32,894**
Net interest income	65,785	66,902	85,204	102,465	**106,134**
Provision for loan losses	1,270	1,567	2,288	3,028	**4,508**
Other income (loss)	(1,735)	8,828	9,192	15,308	**(20,719)**
Operating expenses	20,051	20,615	21,978	22,076	**26,592**
Income before income taxes	42,729	53,548	70,130	92,669	**54,315**
Income tax provision	12,330	14,621	19,359	25,211	**16,796**
Net income	$ 30,399	$ 38,927	$ 50,771	$ 67,458	**$ 37,519**
Loss (gain) on securities, net	3,023	(7,608)	(7,916)	(11,820)	**21,777**
Gain on disposal of fixed assets	—	—	(218)	(2,337)	**—**
Related income tax provision (benefit)	(646)	1,677	1,806	3,262	**(4,727)**
Core net income **	$ 32,776	$ 32,996	$ 44,443	$ 56,563	**$ 54,569**
Earnings per common share:					
Basic	$ 14.25	$ 18.24	$ 23.76	$ 31.50	**$ 17.49**
Diluted	$ 13.90	$ 17.83	$ 23.25	$ 30.65	**$ 17.04**
Financial Ratios:					
Return on average assets	1.32 %	1.55 %	1.88 %	2.25 %	**0.98 %**
Return on average equity	14.97	16.82	18.96	20.62	**10.01**
Core return on average assets **	1.42	1.32	1.65	1.89	**1.43**
Core return on average equity * *	16.14	14.26	16.60	17.29	**14.56**
Average equity to average assets	8.80	9.24	9.93	10.93	**9.81**
Tier 1 capital to average assets	9.09	9.84	10.59	10.92	**9.50**
Interest rate spread	2.66	2.38	3.03	3.40	**2.60**
Net interest margin	2.90	2.72	3.22	3.48	**2.81**
Dividend payout ratio (basic)	13.47	11.96	10.40	8.98	**17.33**
Efficiency ratio	29.89	30.26	25.48	21.31	**24.81**
Allowance for loan losses/total loans	0.68	0.69	0.69	0.68	**0.68**
Allowance for loan losses/non-performing loans	2,852.89	274.57	438.28	4,784.78	**2,139.39**
Net charge-offs (recoveries)/average loans outstanding	—	—	0.01	—	**—**
Non-performing loans/total loans	0.02	0.25	0.16	0.01	**0.03**
Non-performing assets/total assets	0.02	0.22	0.27	0.01	**0.03**
Cash dividends declared per common share	$ 1.92	$ 2.18	$ 2.47	$ 2.83	**$ 3.03**
Book value per common share	$ 99.67	$ 115.75	$ 137.02	$ 165.52	**$ 179.74**
Market value per common share	$ 197.74	$ 210.20	$ 216.00	$ 419.88	**$ 275.96**

** Non-U.S. GAAP measurements that represent net income, return on average assets and return on average equity, excluding the after-tax gain (loss) on equity securities and gain on disposal of fixed assets.

RESULTS OF OPERATIONS
COMPARISON OF THE YEARS 2022 AND 2021

For the year ended December 31, 2022, the Bank earned $37.5 million, as compared to $67.5 million in 2021. On a per-share basis, the Bank earned $17.49 per share basic and $17.04 per share diluted, as compared to $31.50 per share basic and $30.65 per share diluted in 2021. Core net income was $54.6 million in 2022, as compared to $56.6 million in 2021. This represents $25.44 earnings per share basic and $24.78 per share diluted for 2022, as compared to $26.42 per share basic and $25.70 per share diluted in 2021.

Net income for 2022 decreased by $29.9 million, or 44%, as compared to 2021, due principally to a $36.0 million decrease in other income (loss), a $4.5 million increase in operating expenses and a $1.5 million increase in the provision for loan losses, partially offset by a $3.7 million increase in net interest income and a $8.4 million decrease in the income tax provision.

Total interest and dividend income increased by $28.5 million in 2022 compared to 2021, due to a $831.2 million, or 28%, increase in average interest-earning assets, partially offset by a 7 basis point decrease in the average yield on earning assets. Interest expense increased by $24.9 million due to a 73 basis point increase in the average rate paid, combined with a $723.0 million, or 31%, increase in average interest-bearing liabilities.

Other income (loss) consists of gain (loss) on equity securities, net, customer service fees on deposits, increases in the cash surrender value of bank-owned life insurance policies, gain on disposal of fixed assets and miscellaneous income. Unrealized gains or losses resulting from changes in the fair value of the Bank's equity securities are recognized in other income (loss), included in gain (loss) on equity securities, net. Other income (loss) decreased by $36.0 million in 2022, as compared to 2021, primarily due to a decrease in gain (loss) on equity securities, net, and a gain on disposal of fixed assets recorded in 2021.

Operating expenses include salaries and employee benefits, occupancy and equipment, data processing, deposit insurance, marketing, foreclosure and related, and other general and administrative expenses. Operating expenses increased by $4.5 million in 2022, as compared to 2021, due to increases in salaries and employee benefits, data processing, deposit insurance, marketing, foreclosure and related, and other general and administrative expenses, partially offset by a decrease in occupancy and equipment expenses.

Net Interest Income

The Bank reported $106.1 million in net interest income in 2022, as compared to $102.5 million in 2021. The net interest margin decreased from 3.48% in 2021 to 2.81% in 2022. During this period, the Bank recognized significant increases in loan and deposit balances contributing to an increase in net interest income. At the same time, the sharp increase in rates paid on interest-bearing liabilities outpaced the increase in the yield on interest-earning assets, reducing the weighted average interest rate spread by 80 basis points in 2022, as compared to 2021.

Beginning in early 2022, the Federal Reserve began increasing the overnight rate aggressively, while long term rates increased significantly. As a result of these market conditions, the Bank's average rate on interest-bearing liabilities increased significantly in 2022 as compared to 2021, while the yield on interest-earning assets decreased by a lesser extent, driven by a lower yield on loans, partially offset by a higher rate paid on excess reserves held at the FRBB and dividends received on the FHLB stock. This resulted in a lower net interest margin in 2022, as compared to the same period in 2021.

Average total interest-earning assets increased 28% in 2022 over 2021. The Bank earned an average yield of 3.68% on its earning assets in 2022 compared to 3.75% in 2021. Interest income is derived from commercial and residential mortgage loans, HELOCs, consumer and commercial loans, the securities portfolio and short-term investments. Interest income on loans increased 21% in 2022 over 2021, driven primarily by continued growth in loans, which accounted for approximately 89% of average total assets in both 2022 and 2021. This was partially offset by a declining yield on loans, as the Bank originated a large share of new loans in the first half of 2022, some of which reflected lower rates committed prior to the sharp increase in long term rates that began in early 2022 and during a period of intense market competition. Mortgage loans accounted for more than 99% of average outstanding loans in each of the past three years. Interest and dividend income derived from securities and short-term investments increased in 2022 due to the higher interest on excess reserves paid by the Federal Reserve and higher dividend income on FHLB stock and equity investments. Marketable equity securities produced dividend income of $555,000 in 2022, as compared to $436,000 in 2021. FHLB stock produced dividends totaling $1.2 million in 2022, as compared to $260,000 in 2021.

Non-accrual loans totaled $1.2 million at December 31, 2022, as compared to $427,000 at December 31, 2021. Interest income includes actual payments received on loans classified as non-accrual. Excluded from interest income is interest not paid on such loans, which totaled $31,000 for 2022, as compared to $56,000 for 2021.

Interest expense on deposits increased by $10.0 million in 2022 when compared to 2021, due to a 46 basis point increase in the weighted average rate, combined with an increase of $124.9 million, or 6%, in average interest-bearing deposits. After a sustained period of declining short-term rates, in 2022, the Bank observed rising market pricing for term deposits, money market accounts, and wholesale funds, particularly during the second half of the year. This trend was driven by increasing short-term market rates and intense competition, both from other banks as well as the U.S. Treasury fixed income securities. The Bank continued to manage core product rates, implemented special offerings, and continued to use wholesale time deposits to remain competitive while providing a cost efficient means for balanced growth.

Interest expense on borrowed funds in 2022 increased by $14.9 million as compared to 2021, due primarily to an increase of 139 basis points in the weighted average rate, combined with a $598.1 million increase in average outstanding balance. The increase in FHLB borrowings rate was primarily driven by the higher short-term market rates and the maturity of lower rate long term advances entered into in 2021.

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

	Years Ended December 31,								
	2020			2021			2022		
	Average Balance (7)	Interest	Yield/ Rate	Average Balance (7)	Interest	Yield/ Rate	Average Balance (7)	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 2,364,276	$ 103,703	4.39 %	$ 2,661,242	$ 109,365	4.11 %	**$ 3,404,183**	**$ 132,065**	**3.88 %**
Commercial loans	6,068	68	1.12	6,094	66	1.08	**122**	**7**	**5.74**
Consumer loans	525	26	4.95	476	18	3.78	**369**	**17**	**4.61**
Total loans (1)(2)	2,370,869	103,797	4.38	2,667,812	109,449	4.10	**3,404,674**	**132,089**	**3.88**
Securities (3)(4)	65,318	1,666	2.55	70,419	780	1.11	**105,612**	**1,884**	**1.78**
Federal Reserve and other short-term investments	212,490	899	0.42	204,500	262	0.13	**263,606**	**5,055**	**1.92**
Total interest-earning assets	2,648,677	106,362	4.02	2,942,731	110,491	3.75	**3,773,892**	**139,028**	**3.68**
Other assets	46,986			51,635			**47,772**		
Total assets	$ 2,695,663			$ 2,994,366			**$ 3,821,664**		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
Regular	$ 91,920	4	— %	$ 102,925	4	— %	**$ 107,703**	**4**	**— %**
Money market	593,910	4,044	0.68	727,161	2,396	0.33	**799,410**	**5,321**	**0.67**
NOW (5)	13,891	—	—	14,954	—	—	**19,533**	**1**	**0.01**
Term certificates	977,386	12,138	1.24	1,148,823	4,468	0.39	**1,192,152**	**11,556**	**0.97**
Total interest-bearing deposits	1,677,107	16,186	0.97	1,993,863	6,868	0.34	**2,118,798**	**16,882**	**0.80**
Borrowed funds	465,161	4,972	1.07	319,193	1,158	0.36	**917,252**	**16,012**	**1.75**
Total interest-bearing liabilities	2,142,268	21,158	0.99	2,313,056	8,026	0.35	**3,036,050**	**32,894**	**1.08**
Non-interest-bearing deposits	277,924			346,992			**402,890**		
Other liabilities	7,748			7,147			**7,857**		
Stockholders' equity	267,723			327,171			**374,867**		
Total liabilities and stockholders' equity	$ 2,695,663			$ 2,994,366			**$ 3,821,664**		
Net interest income		$ 85,204			$ 102,465			**$ 106,134**	
Weighted average interest rate spread			3.03 %			3.40 %			**2.60 %**
Net yield on average earning assets (6)			3.22 %			3.48 %			**2.81 %**

(1) Before allowance for loan losses
(2) Includes average non-accrual loans
(3) Excludes the impact of the average net unrealized gain or loss on securities
(4) Includes Federal Home Loan Bank stock
(5) Includes mortgagors' escrow accounts
(6) Net interest income divided by average total interest-earning assets
(7) Average balances are calculated on a daily basis

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

	Years Ended December 31,					
	2021 Compared to 2020 Increase (Decrease			2022 Compared to 2021 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 12,456	$ (6,804)	$ 5,652	**$ 28,858**	**$ (6,218)**	**$ 22,640**
Securities	121	(1,007)	(886)	**497**	**607**	**1,104**
Federal Reserve and other short-term investments	(33)	(604)	(637)	**97**	**4,696**	**4,793**
Total interest and dividend income	12,544	(8,415)	4,129	**29,452**	**(915)**	**28,537**
Interest expense:						
Interest-bearing deposits:						
Regular	—	—	—	**—**	**—**	**—**
Money market	765	(2,413)	(1,648)	**260**	**2,665**	**2,925**
NOW	—	—	—	**—**	**1**	**1**
Term certificates	1,832	(9,502)	(7,670)	**175**	**6,913**	**7,088**
Total interest-bearing deposits	2,597	(11,915)	(9,318)	**435**	**9,579**	**10,014**
Borrowed funds	(1,228)	(2,586)	(3,814)	**4,895**	**9,959**	**14,854**
Total interest expense	1,369	(14,501)	(13,132)	**5,330**	**19,538**	**24,868**
Net interest income	$ 11,175	$ 6,086	$ 17,261	**$ 24,122**	**$ (20,453)**	**$ 3,669**

Provision for Loan Losses

In 2022, the Bank had $50,000 in net recoveries, as compared to $1,000 in net charge-offs in 2021. The Bank continues to closely monitor its non-accrual loans, which were 0.03% of total loans at December 31, 2022, as compared to 0.01% at December 31, 2021, and its loans past due greater than 30 days, which were 0.04% of total loans at December 31, 2022, as compared to 0.17% at December 31, 2021. The provision for loan losses for 2022 was $4.5 million, as compared to $3.0 million in 2021. The increase in the provision for loan losses was driven by strong growth in the loan portfolio, partially offset by net recoveries recorded in 2022. Although the Bank has not seen a deterioration in credit quality in the current environment, the Bank remains cautious. As a percentage of the gross loan portfolio, the allowance for loan losses was 0.68% at both December 31, 2022 and 2021.

Other Income (Loss)

Other income (loss) consists of gain (loss) on equity securities, net, customer service fees on deposits, increases in the cash surrender value of bank-owned life insurance policies, gain on disposal of fixed assets and miscellaneous income. Other income (loss) was a $20.7 million loss in 2022, as compared to a $15.3 million income in 2021. Other income (loss) in 2022 includes a $21.8 million loss on equity securities, net, as compared to a $11.8 million gain in 2021. Other income (loss) in 2021 also includes a $2.3 million gain on sale of disposal of fixed assets related to the sale of two Bank former branch properties located in Weymouth and South Hingham.

Customer service fees on deposits decreased by $144,000 in 2022 compared to the prior year. In recent years, there has been a continuous decline in deposit account transaction fees, as the Bank has eliminated many fees on deposit products to simplify offerings and enhance the value proposition of our consumer and business checking accounts to customers. Generally, the Bank's strategy does not rely on generating substantial non-interest fee-based revenue from our deposit accounts.

An increase in the cash surrender value of BOLI also contributed to other income during 2022 and 2021. The Bank held $13.3 million in life insurance policies at December 31, 2022, as compared to $13.0 million at December 31, 2021. The policies accrete at a variable rate of interest with minimum stated guaranteed rates. Income from these assets is fully excludable from federal income taxes and contributed $332,000 to other income in 2022, as compared to $323,000 in 2021.

Operating Expenses

Operating expenses include salaries and employee benefits, occupancy and equipment, data processing, deposit insurance, marketing, foreclosure and related, and other general and administrative expenses. Total operating expenses as a percentage of average total assets were 0.70% in 2022, as compared to 0.74% in 2021. Operating expenses were $26.6 million in 2022 and $22.1 million in 2021. The Bank continues to focus on generating long-term operating leverage by controlling non-interest expenses while growing the balance sheet.

Salaries and employee benefits continue to be the largest component of operating expenses at $15.8 million for 2022 and $14.0 million for 2021. The increase in 2022 was primarily due to annual merit-based salary increases and enhancements to our operational teams. The number of employees increased, reflecting additional staff in the Bank's Specialized Deposit and Commercial Real Estate Lending Groups and operational teams, partially offset by a smaller branch staff. As with most financial institutions, branch transaction levels have declined in recent years as customers use electronic banking and debit cards, reducing the staffing requirements in some locations. The COVID-19 pandemic accelerated this trend, as both retail and commercial customers have increasingly adopted electronic channels to conduct their transactions. In 2021, the Bank closed the branches located in South Hingham and Norwell, and began servicing these customers from its main office and remotely. In 2020, the Bank closed the branches located in South Weymouth and in Beacon Hill in Boston, and began servicing these customers from its neighboring locations and remotely. Health care benefits, including medical and dental expenses were up when comparing 2022 to 2021 due to higher premiums, combined with a larger headcount. Health care premiums rose around 5% in 2022 over 2021. The Hingham Institution for Savings 2014 Nonstatutory Stock Option Plan (the "2014 Plan"), allows for the issuance of stock options to certain executive officers. Expenses related to the 2014 Plan for stock options granted to executive officers totaled $39,000 in 2021, as compared to $22,000 in 2022.

Occupancy and equipment expenses decreased by $72,000, or 5%, in 2022 compared to 2021. The decrease in 2022 was primarily driven by the closure of certain branches, resulting from the Bank's efforts to optimize its branch footprint. Higher rental income received in 2022 as compared to the prior year also contributed to this decrease. The Bank owns rental apartments located above its Nantucket branch which are rented during the summer season. The Bank continues to explore ways to optimize rental income from all of its owned real property.

Data processing expenses increased by $754,000, or 38%, in 2022 from 2021. The increase was driven primarily by higher data processing charges associated with improvements made to the Bank's systems and volume increases in 2022, partially offset by improvements in the Bank's management of the core processor contract. The increase was also driven by additional expenses incurred during the transition from existing to new systems. Technology spending at the Bank remains focused on three primary objectives: delivering new or improved customer experience, reducing costs through simplification and automation of internal processes, and securing customer and Bank confidential information.

Deposit insurance expenses increased by $929,000, or 100%, in 2022 compared to 2021. Deposit insurance expense consists of premiums paid to the FDIC and the DIF. The FDIC assessment rate is determined based on several factors, including capitalization, asset growth, earnings, use of brokered deposits, loan portfolio mix and level of non-performing assets, among others, and is calculated on an assessment base that takes into consideration the Bank's average total assets and average tangible equity, among other factors. The DIF assessment rate is based on an institution's risk category, which is defined based on similar factors. The increase in 2022 was the result of a larger assessment base, driven by the Bank's balance sheet growth, combined with an increase in the assessed rate. The Bank carefully manages its balance sheet to control the deposit insurance expense associated with excess liquidity while optimizing its funding mix.

Marketing expenses increased by $468,000, or 83%, in 2022 when compared to 2021, as the Bank expands its advertising activities into the WMA and the SFBA. The Bank continues to carefully manage these expenses focusing on business development for the Bank's Commercial Real Estate Group and SDG. In 2022, the Bank shifted its marketing spending towards supporting its commercial deposit acquisition activities.

Foreclosure and related expenses include expenses associated with the collection and foreclosure process, such as legal, tax, appraisal, insurance and other related expenses. These expenses may be recovered when the loan returns to performing status or when the Bank exercises its remedies, as they are generally secured by the Bank's mortgages. Such recoveries, if any, are reflected in future periods as contra-expense. During 2022, the total foreclosure and related expense was $24,000, as compared to a $49,000 contra-expense in 2021. The credit in the prior year was attributed to the recovery of expenses in connection with the resolution of certain non-performing loans, net of a $68,000 loss on disposal recorded on the sale of a foreclosed property.

Other expenses include audit fees, directors' fees, supplies, postage, legal fees, bank fees, reporting costs and other items. Other expenses increased by $521,000, or 16%, when comparing the two periods, reflecting higher miscellaneous expenses, including loan audit related expenses, employee education, travel expenses associated with the Bank's operations in the WMA and SFBA, expenses associated with remote work and completing the digitization of Bank's records, partially offset by lower legal fees.

Income Taxes

The Bank's effective tax rate for 2022 was 30.9%, as compared to 27.2% in 2021. The higher effective tax rate in 2022 was driven by unrealized losses on equity securities recognized during the year, as compared to unrealized gains recognized in the prior year, as these securities are held primarily on a tax-advantaged subsidiary. The Bank also recognized excess tax benefits of $114,000 and $296,000 on the exercise of stock options in 2022 and 2021, respectively.

BALANCE SHEET ANALYSIS
COMPARISON OF THE YEARS 2022 AND 2021

The Bank had total assets of $4.194 billion at December 31, 2022, an increase of $762.6 million, or 22%, from $3.431 billion at year-end 2021. Balance sheet growth was driven by a significant increase in the loan portfolio, particularly in the commercial real estate category. During 2022, the Bank continued to manage the balance of excess reserves held at the FRBB, in order to minimize the carrying cost of its on-balance sheet liquidity.

Loans

At December 31, 2022 and 2021, the Bank reported net loans of $3.658 billion and $2.999 billion, respectively, representing 87% of total assets. In 2022, the Bank originated $1.284 billion in mortgage and other loans, which resulted in net growth of $658.7 million, or 22%. This compares to 2021, when the Bank originated $1.120 billion in mortgage and other loans, which resulted in net growth of $503.8 million, or 20%. These figures include commercial real estate loans originated in the greater WMA and the SFBA. A breakdown of the originated loan by geography follows:

	2021		2022	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Massachusetts	$ 780,385	70 %	**$ 673,983**	**52 %**
Washington Metropolitan Area	307,551	27	**525,286**	**41**
San Francisco Bay Area	31,605	3	**84,711**	**7**
Total	$ 1,119,541	100 %	**$ 1,283,980**	**100 %**

At December 31, 2022, the Bank had $1.039 billion and $113.2 million, respectively, of commercial real estate loans originated in the WMA and the SFBA outstanding, as compared to $647.8 million and $31.6 million, respectively, at December 31, 2021.

A summary of the balances of loans is as follows:

	As of December 31,									
	2018		2019		2020		2021		2022	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)									
Real estate loans:										
Residential real estate	$ 709,982	35.1 %	$ 695,919	31.1 %	$ 630,338	25.1 %	$ 538,625	17.8 %	**$ 505,299**	**13.7 %**
Commercial real estate	1,150,535	57.0	1,327,126	59.3	1,693,215	67.5	2,296,566	76.1	**2,974,890**	**80.9**
Construction	127,274	6.3	186,094	8.3	153,020	6.1	155,668	5.2	**177,570**	**4.8**
Home equity	31,859	1.6	29,605	1.3	25,882	1.0	24,158	0.8	**22,302**	**0.6**
Total real estate loans	2,019,650	100.0	2,238,744	100.0	2,502,455	99.7	3,015,017	99.9	**3,680,061**	**100.0**
Other loans:										
Consumer	414	—	586	—	467	—	409	—	**345**	**—**
Commercial	128	—	196	—	6,971	0.3	2,086	0.1	**97**	**—**
Total other loans	542	—	782	—	7,438	0.3	2,495	0.1	**442**	**—**
Total loans	2,020,192	100.0 %	2,239,526	100.0 %	2,509,893	100.0 %	3,017,512	100.0 %	**3,680,503**	**100.0 %**
Allowance for loan losses	(13,808)		(15,376)		(17,404)		(20,431)		**(24,989)**	
Net deferred loan origination costs	2,904		2,912		2,842		2,015		**2,268**	
Loans, net	$ 2,009,288		$ 2,227,062		$2,495,331		$2,999,096		**$ 3,657,782**	

The Bank's lending strategy has continued to focus on the origination of commercial, multifamily and single-family real estate loans. Real estate loans increased by 22% in 2022. Commercial loans at December 31, 2021 included $2.0 million of PPP loans. There were no PPP loans outstanding at December 31, 2022.

Loan maturities, at December 31, 2022, are as follows:

	1 Year or Less	Over 1 Year through 5 Years	Over 5 Years through 15 years	Over 15 Years	Total
			(In Thousands)		
Residential real estate	**$ 17**	**$ 2,200**	**$ 58,543**	**$ 444,539**	**$ 505,299**
Commercial real estate	**21,200**	**293,658**	**2,160,607**	**499,425**	**2,974,890**
Construction	**16,181**	**21,437**	**88,635**	**51,317**	**177,570**
Home Equity	**92**	**562**	**9,451**	**12,197**	**22,302**
Other loans	**165**	**4**	**273**	**—**	**442**
Total	**$ 37,655**	**$ 317,861**	**$ 2,317,509**	**$ 1,007,478**	**$ 3,680,503**

The breakdown of loans with maturity above one year by interest rate type, at December 31, 2022, is as follows:

	Fixed	Floating or Adjustable
	(In Thousands)	
Residential real estate	$ 346,643	$ 158,639
Commercial real estate	576,791	2,376,899
Construction	33,349	128,040
Home Equity	91	22,119
Other loans	190	87
Total	$ 957,064	$ 2,685,784

Commercial real estate loans by collateral type at December 31, 2021 and 2022, are as follows:

	2021		2022	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Multifamily (5+)	$ 798,196	35 %	$ 997,011	34 %
Residential (1-4)	380,050	16	466,360	16
Office	419,173	18	553,283	18
Mixed use	318,789	14	506,058	17
Retail	182,671	8	219,452	7
Industrial	85,746	4	87,109	3
Land	51,788	2	47,444	2
Others	60,153	3	98,173	3
Total	$ 2,296,566	100 %	$ 2,974,890	100 %

The Bank's loan portfolio is reported net of the allowance for loan losses. At December 31, 2022 and 2021, the allowance was $25.0 million and $20.4 million, respectively. The allowance is maintained at a level which the Bank believes is adequate to absorb inherent losses in the portfolio. The allowance is reviewed by senior management on at least a quarterly basis to determine its adequacy. This review considers historic losses, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types as well as other factors such as local economic trends, real estate market conditions and credit concentrations. Loan losses are charged against the allowance when the uncollectibility of the loan principal is confirmed. In 2022, the Bank recorded net recoveries of $50,000, as compared to net charge-offs of $1,000 in 2021 and $260,000 in 2020. The amount recorded in 2020 was the product of $712,000 in gross charge-offs, primarily associated with residential mortgage loans subject to foreclosure, partially offset by $452,000 in recoveries related primarily to the same loans, including $425,000 recovered from ongoing litigation and $25,000 from an insurance claim. The charge-offs recorded in 2020 were unrelated to the COVID-19 pandemic.

The analysis of net charge-offs is as follows:

	Years Ended December 31,								
	2020			2021			2022		
	Average Balance	Net Charge-offs (Recoveries)	Charge - off Ratio	Average Balance	Net Charge-offs (Recoveries)	Charge - off Ratio	Average Balance	Net Charge-offs (Recoveries)	Charge - off Ratio
	(Dollars in Thousands)								
Loans:									
Residential real estate	$ 676,153	$ 260	0.04 %	$ 592,443	$ —	— %	$ 523,746	$ (50)	(0.01) %
Commercial real estate	1,496,582	—	—	1,890,856	—	—	2,685,492	—	—
Construction	162,981	—	—	152,526	—	—	170,946	—	—
Home equity	28,560	—	—	25,417	—	—	23,999	—	—
Other loans	6,593	—	—	6,570	1	0.02	491	—	—
Total loans	$ 2,370,869	$ 260	0.01 %	$ 2,667,812	$ 1	— %	$ 3,404,674	$ (50)	— %

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

	2018		2019		2020		2021		2022	
	Amount	Percent *	Amount	Percent *	Amount	Percent *	Amount	Percent *	Amount	Percent *
	(Dollars in Thousands)									
Residential real estate	$ 2,674	35.1 %	$ 2,448	31.1 %	$ 2,406	25.1 %	$ 1,561	17.8 %	**$ 1,400**	**13.7 %**
Commercial real estate	9,687	57.0	10,845	59.3	13,374	67.5	17,310	76.1	**21,796**	**80.9**
Construction	1,337	6.3	1,998	8.3	1,548	6.1	1,501	5.2	**1,727**	**4.8**
Home equity	105	1.6	77	1.3	70	1.0	53	0.8	**60**	**0.6**
Other loans	5	—	8	—	6	0.3	6	0.1	**6**	**—**
Total	$ 13,808	100.0 %	$ 15,376	100.0 %	$ 17,404	100.0 %	$ 20,431	100.0 %	**$ 24,989**	**100.0 %**

* Percent of loans in each category to total loans

As a percentage of the gross loan portfolio, the allowance for loan losses was 0.68% at both December 31, 2022 and 2021, as compared to 0.69% at December 31, 2020 and 0.68% for each of the previous two years. Credit quality in the portfolio, including the level of net charge-offs and delinquencies, as well the Bank's limited exposure to retail and hospitality lending, has allowed the Bank to maintain its allowance for loan losses coverage ratio in comparison to total loans relatively stable in recent years, despite the economic effects of the COVID-19 pandemic (Refer to Notes 1 and 3 to the Consolidated Financial Statements for more details).

On January 1, 2023, the Bank adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The Bank determined that a $546,000 adjustment to increase the allowance for credit losses and decrease retained earnings, net of deferred taxes of $153,000, and no adjustment for unfunded commitments was required upon adoption (Refer to Note 1 to the Consolidated Financial Statements for more details).

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

The Bank had non-accrual loans with an outstanding balance of $1.2 million at December 31, 2022 and $427,000 at December 31, 2021. As a percentage of total loans, these non-accrual loans were 0.03% at December 31, 2022 and 0.01% at December 31, 2021. Additionally, at December 31, 2022 and 2021, total impaired loans were $2.0 million and $1.3 million, respectively. All loans on non-accrual and TDRs are considered impaired and, as such, are reviewed for specific reserve allocation. Management determines the amount of reserves on a case-by-case basis using either the present value of expected cash flows, or the fair value of the underlying collateral when the loan is collateral dependent. Updated appraisals on collateral are obtained when management believes that the value of the property has deteriorated. At December 31, 2022 and 2021, $37,000 and $48,000, respectively, was allocated to impaired loans. The Bank remains focused on ensuring that borrowers perform in accordance with contractual terms and will continue to work to resolve remaining non-accrual credits in 2023. The Bank believes that its loans classified as non-accrual are significantly collateralized, that these loans pose minimal risk of loss to the Bank, and that the allowance for loan losses is sufficient to absorb such losses. However, the Bank continues to monitor the loan portfolio and additional reserves will be recorded if necessary.

Non-accrual loans and related ratios are as follows:

	Non-accrual loans	Non-accrual loans to total loans	Allowance for loan losses to non-accrual loans
	(Dollars In Thousands)		
December 31, 2018	$ 484	0.02 %	2,853 %
December 31, 2019	5,600	0.25	275
December 31, 2020	3,971	0.16	438
December 31, 2021	427	0.01	4,785
December 31, 2022	**1,168**	**0.03**	**2,139**

Securities

The Bank's securities portfolio includes debt and equity securities. The Bank's marketable common equity securities are not viewed as a source of liquidity and are managed to produce superior returns on capital over a longer time horizon. The Bank's process is focused on identifying businesses with strong returns on capital, owner-oriented management teams, good reinvestment opportunities or capital discipline, and reasonable valuations. The portfolio is concentrated in a relatively small number of investments in the financial services and technology areas. The equity securities portfolio also includes an investment in the CRA Fund, a mutual fund which invests in securities which qualify under the CRA securities test. At December 31, 2022 and 2021, the Bank's securities portfolio of $66.7 million and $92.0 million, represented 2% and 3% of total assets, respectively.

At December 31, 2022, equity securities included a $8.2 million investment in the CRA Fund and $55.0 million in marketable common equity securities. These equity investments accounted for approximately 95% of the investment portfolio at December 31, 2022.

At December 31, 2022, the Bank held a $3.5 million investment in the subordinated debt issued by a bank holding company in which the Bank also maintains an equity investment. The notes have a 3.75% five year fixed to floating rate, mature in 2031, and are callable quarterly at the option of the issuer after the fifth year anniversary. This investment is included in securities held to maturity on the Consolidated Balance Sheet.

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

	December 31,		
	2020	2021	2022
	(In Thousands)		
Debt securities held to maturity:			
Corporate bonds	$ —	$ 3,500	**$ 3,500**
Debt securities available for sale:			
Residential mortgage-backed securities	$ 6	$ —	**$ —**
Equity securities:			
CRA Fund	9,580	9,306	**8,229**
Other equity securities	56,282	79,167	**54,967**
Total	$ 65,868	$ 91,973	**$ 66,696**

At December 31, 2020, there were no unrealized gains or losses on debt securities available for sale reported in accumulated other comprehensive income. The fair value of equity securities fluctuates with the performance of equity markets. The primary driver in net unrealized gain on the securities portfolio is the fair value of the Bank's equity holdings.

The Bank holds a $2.4 million investment in the common stock of Founders Bank, a de novo bank in Washington, D.C. This balance includes a $50,000 unrealized gain recognized on the initial $1.0 million investment, based upon the subscription price of the second investment round in 2022. The Bank remains the largest shareholder of Founders Bank. This investment represents a non-marketable equity security and is included in other assets on the Consolidated Balance Sheets.

As a member of the FHLB, the Bank is required to maintain a membership plus an activity-based FHLB stock investment, which generally approximates 5% of the Bank's borrowings outstanding balance. At December 31, 2022 and 2021, the Bank held $52.6 million and $29.9 million, respectively, in FHLB stock, or 1% of total assets. In 2022, the Bank received $1.2 million in dividends, as compared to $260,000 in 2021.

Foreclosed Assets

The Bank did not own foreclosed assets at December 31, 2022 or 2021, and did not acquire any property via foreclosure in 2022 or 2021.

Bank-owned Life Insurance

The Bank held $13.3 million in bank-owned life insurance at December 31, 2022, as compared to $13.0 million at December 31, 2021. The policies, which insure the life of a current Bank executive, accrete at a variable rate of interest with minimum stated guaranteed rates. The Bank monitors the financial strength and counterparty credit ratings of the policy issuers and has determined that at December 31, 2022, one of three issuers was rated at or above Bank guidelines. Of the other two issuers, one retained a rating from A.M. Best one notch below Bank guidelines at A- (with a negative outlook), while the other retained a rating from Fitch and S&P one notch below Bank guidelines at A- (with a stable outlook).

Other Assets

As of December 31, 2022, the right-of-use asset and corresponding lease liability related to operating leases for some of the Bank's banking offices was $610,000 and $647,000, respectively. The right-of-use asset is included in other assets and the lease liability is included in other liabilities in the Consolidated Balance Sheets.

As of December 31, 2022, other assets included a $571,000 investment in the WHI, a CRA investment vehicle that provides low cost loans to acquire and develop affordable workforce housing in Washington D.C. and a $5.0 million investment in the SFHA Fund, a CRA investment vehicle that provides low cost loans to acquire and develop affordable workforce housing in San Francisco. At December 31, 2021, other assets included a $252,000 investment in the WHI.

In 2021, the Bank closed its South Hingham branch office located at 37 Whiting Street, Hingham. The Bank closed its South Weymouth location at 32 Pleasant Street, Weymouth in 2020. In 2021, the Bank sold both properties and recorded a pre-tax gain on disposal of fixed assets of $2.3 million.

In 2021, the Bank also closed its Norwell/Hanover branch office and retains ownership of the property and continues to market this property for sale or long-term lease. The carrying value of this property at December 31, 2022 was $1.5 million and is included in premises and equipment, net on the Consolidated Balance Sheets.

In 2020, the Bank sold the property located at 400 Gannett Road, Scituate and recorded a $218,000 gain on disposal of fixed assets.

In 2020, the Bank closed its Beacon Hill branch and the Bank consolidated its client service operations in Boston at its South End office. This branch was not owned by the Bank and the lease agreement expired in early 2021.

In 2020, the Bank concluded the purchase of a property in the Georgetown neighborhood of Washington, D.C., renovated the property and opened a commercial banking office in 2022.

Deposits

At December 31, 2022, the Bank held a total of $2.505 billion in deposits, an increase of $112.4 million, or 5%, from the $2.393 billion in deposits at year-end 2021. Non-certificate deposits comprised of savings, NOW, money market, and demand deposit accounts, were $1.201 billion at December 31, 2022, as compared to $1.285 billion at year-end 2021, a decrease of $84.2 million, or 7%, which was primarily attributable to a decrease in money market accounts of $82.3 million, or 10%. The decline in money market accounts reflects the extremely competitive environment for raising deposits experienced during 2022, with intense competition from both from other financial institutions, as well as from short-term U.S. Treasury fixed income securities. Non-certificate deposits comprised 48% of total deposits at December 31, 2022 as compared to 54% at year-end 2021. Certificates of deposit were $1.304 billion at December 31, 2022 as compared to $1.108 billion at year-end 2021. The increase in certificate account balances primarily reflects growth in retail and commercial time deposits, as the Bank increased offered rates during 2022, and to a lower extent an increased use of wholesale time deposits.

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

	December 31,		
	2020	2021	2022
		(In Thousands)	
Regular	$ 99,247	$ 104,395	**$ 103,514**
Money market	658,752	784,501	**702,205**
NOW	9,479	7,106	**8,021**
Demand	313,497	389,148	**387,244**
Total non-certificate accounts	1,080,975	1,285,150	**1,200,984**
Term certificates of less than $250,000	755,157	851,619	**901,790**
Term certificates of $250,000 or more	303,065	256,096	**402,515**
Total certificate accounts	1,058,222	1,107,715	**1,304,305**
Total deposits	$ 2,139,197	$ 2,392,865	**$ 2,505,289**

Term certificates of $250,000 or more, at December 31, 2022, by maturity are as follows:

Remaining Maturity	Amount (In Thousands)
3 months or less	**$ 74,554**
Over 3 through 6 months	**74,504**
Over 6 through 12 months	**198,865**
Over 12 months	**54,592**
	$ 402,515

Other banks and credit unions in the Bank's market areas, banking services through the Internet, and mutual funds make up the Bank's primary competition for deposits. At times, the Bank also faces direct and indirect competition from fixed income securities such as U.S Treasury bills or non-bank financial services companies with access to the Federal Reserve's Overnight Reverse Repurchase Facility. The Bank's ability to attract and retain deposits depends upon satisfaction of depositors' requirements with respect to insurance, product, rate and service. The Bank offers traditional deposit products, competitive rates, convenient branch locations, ATMs, debit cards and Internet-based banking for consumers and commercial account holders. The Bank also opens deposit accounts, including checking accounts, money market accounts, and certificates of deposit, directly online for personal customers. Occasionally, the Bank implements special offerings based on market conditions and the competitive environment. The Bank also offers a limited range of certificate of deposit products using national Internet listing services and brokered deposits. These alternatives, at times, provide the Bank with a source of funding across different maturities at lower cost and/or longer duration than may be available via retail or other wholesale channels. At December 31, 2022, the Bank had $612.9 million in deposits from these sources, as compared to $684.2 million at December 31, 2021. During 2021 and 2022, the Bank carefully managed its wholesale funding mix allocation based on market conditions to reduce the Bank's cost of interest-bearing liabilities and minimize the negative effect of increasing short-term rates on the Bank's net interest margin. This approach has allowed the Bank to maintain deposit balances to fund lending activity and operate with an elevated level of liquidity.

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

Borrowings

The Bank had $1.276 billion, or 30% of total assets, in borrowed funds from the FHLB at December 31, 2022 as compared to

$665.0 million, or 19% of total assets, at year-end 2021, representing an increase of $611.0 million, or 92%. Of the total at year-end 2022, $1.241 billion, with a weighted average rate of 4.34%, had original maturities of less than 12 months. The Bank had no floating rate advances outstanding at December 31, 2022, as compared to $170.0 million in floating rate advances indexed to the Secured Overnight Financing Rate (SOFR) at December 31, 2021. Generally, borrowings are drawn with a fixed term and at December 31, 2022, the Bank had no callable advances outstanding. At December 31, 2022, 100% of the FHLB advances will mature within one year, as compared to 95% at December 31, 2021. In 2021, the Bank borrowed $370 million of one-year and $35 million of two-year fixed rate advances. The average rate paid on FHLB borrowings held at year-end 2022 was 4.23%, up from 0.28% at year-end 2021, driven by increasing short-term market rates and the maturity of lower rate longer term advances entered into in 2021.

Liquidity and Capital Resources

In order to ensure the Bank has sufficient liquidity to fund its lending operations, off-balance sheet commitments and contractual obligations, the Bank maintains an adequate level of readily available liquidity, both on and off-balance sheet.

The Bank also assesses its liquidity position regularly 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 has no contractual maturity, or is subject to early repayment or redemption at the discretion of the issuer or customer, cash flows can be difficult to predict. Generally, these rights are exercised when it is most financially favorable to the issuer or customer.

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

Investment in FHLB stock is illiquid.

Residential loans are susceptible to principal repayment at the discretion of the borrower. Commercial mortgage loans, while subject to significant penalties for early repayment in most cases, can also prepay at the borrower's discretion. In 2022, prepayment rates were significantly lower when compared to the previous year.

The Bank invests in key executive life insurance policies that are illiquid during the life of the executive. Such policies totaled $13.3 million, or less than 1% of total assets, at December 31, 2022.

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

Time certificates of deposit, which have predefined maturity dates, have different redemption characteristics based on their nature. Retail certificates of deposit, subject to early redemption penalties, can be withdrawn subject to the discretion of the Bank. Internet listing service certificates are offered on the same terms as retail certificates, although the Bank generally does not permit early withdrawal. Brokered certificates generally may not be withdrawn before the stated maturity. The Bank had $1.304 billion in time deposits outstanding at December 31, 2022, of which $1.190 billion have a contractual maturity within one year.

All of the Bank's borrowings are fixed in terms of maturity. The Bank had no amortizing advances as of December 31, 2022, and none of the advances can be called for earlier repayment at the discretion of the issuer. The Bank had $1.276 billion in FHLB advances outstanding at December 31, 2022, all of which will mature within one year.

The Bank also monitors its off-balance sheet items. At December 31, 2022, the Bank had approximately $439.1 million in commitments to extend credit, as compared to $481.5 million at December 31, 2021. The Bank also has commitments for data processing agreements totaling $9.7 million at December 31, 2022. In 2022, the Bank renegotiated and extended the core processor contract until July of 2028.

The Bank takes each of these preceding issues into consideration when measuring its liquidity position. Specific measurements include the Bank's cash flow position from the 30-day to 365-day horizon, the level of volatile liabilities to earning assets and loan to deposit ratios. Additionally, the Bank "shocks" its cash flows by assuming significant cash outflows in both non-certificate and certificate deposit balances. At December 31, 2022, each measurement was within predefined Bank guidelines, with the exception of the loan to deposit ratio and the dependency ratio , which were above the guideline. The increase in the loan to deposit ratio was driven by the significant growth in the loan portfolio in 2022 and the modest deposit growth by comparison. This ratio is also impacted by the Bank's allocation of the wholesale funding mix between wholesale deposits and FHLB advances. The dependency ratio is an internal Bank defined measure of the share of longer term assets funded with potentially more volatile liabilities and, at December 31, 2022, was slightly above the Bank's guideline driven by the same factors described above. The Bank continues to carefully manage loan growth while focusing on gathering retail and commercial deposits.

The Bank's initial source of liquidity is cash and cash equivalents which comprised 9% of total assets at December 31, 2022. A significant portion of this consists of overnight cash balances at the FRBB, which are immediately accessible for liquidity. The Bank carefully managed these overnight cash balances during 2021 and 2022 to minimize the carrying cost of on-balance sheet liquidity.

To supplement its liquidity position, should the need arise, the Bank maintains its membership in the FHLB where it is eligible to obtain both short and long-term credit advances. As of December 31, 2022, the Bank can borrow up to approximately $2.085 billion to meet its borrowing needs, based on the Bank's available qualified collateral which consists primarily of one-to four-family residential mortgage loans, certain multifamily residential property and commercial mortgage loans. The Bank can pledge other mortgage loans and assets as collateral to secure additional borrowings. Additionally, through the FRBB, the Bank can borrow up to $13.2 million through the discount window based on the Bank pledging its home equity loan portfolio. The Bank can pledge other mortgage loans and assets as collateral to secure additional borrowings with the FRBB. At December 31, 2022, the Bank had $1.276 billion in advances outstanding from the FHLB and had $806.6 million in available unused capacity (net of accrued interest on outstanding advances). This compares to an unused capacity of $911.3 million at December 31, 2021. The FHLB unused capacity decreased by $104.7 million in 2022 primarily as a result of an increase in FHLB advances outstanding, partially offset by a $508.7 million increase in total FHLB capacity during this period, as the Bank continued to pledge additional collateral. At December 31, 2022, the Bank did not have any advances outstanding at the FRBB.

The Bank obtains the necessary capital to support its current and future requirements from the retained earnings generated though its operations.

At December 31, 2022, the Bank had capital of $386.0 million, or 9.2% of total assets, as compared to $354.6 million, or 10.3% of total assets, at December 31, 2021. During 2022, stockholders' equity increased by $31.4 million due primarily to net income for the period of $37.5 million, partially offset by the declaration of dividends of $3.03 per share, which reduced capital by $6.5 million.

The Bank is subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets and average total assets. The Bank's ratios exceeded these regulatory capital requirements in both 2022 and 2021 (Refer to Note 14 to the Consolidated Financial Statements for more details).

During 2022, the Bank declared dividends of $3.03 per share which included a $0.63 special dividend declared in the fourth quarter. In comparison, in 2021, the Bank declared dividends of $2.83 per share which included a $0.75 special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share by earnings per share, increased to 17.3% for 2022 as compared to 9.0% for 2021.

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

The earnings of most banking institutions are exposed to interest rate risk ("IRR") 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 IRR, bearing in mind that the Bank, by its very nature, will always be in the business of taking on such risk. IRR is monitored on a quarterly basis by the Asset Liability Committee (the "ALCO") and Board of Directors of the Bank. The ALCO is comprised of members of Bank Management and the Executive Committee of the Board. The ALCO establishes and monitors the various components of the balance sheet including volume, maturities, pricing and mix of assets along with funding sources. The goal is to balance liquidity, IRR and profitability through the full economic cycle.

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

Management incorporates numerous assumptions into the simulation model, such as asset prepayment speeds, balance sheet growth and non-maturity deposits elasticity. The Bank's model assumes a 100 and 200 basis point parallel and instantaneous increase and decrease in interest rates. The most recent model estimates that, over a twenty-four month period, net interest income would decrease 25% if rates rise 100 basis points and would decrease 51% if rates rise 200 basis points. Over the same period, the model estimates net interest income would increase 25% if rates decline 100 basis points and would increase 49% if rates decline 200 basis points. The Bank's IRR exposure is outside of predefined limits. The increased level of IRR sensitivity derives from the current economic environment, in which a sharp increase in short-term interest rates have compressed the Bank's net interest margin, resulting in larger percentage changes relative to the base scenario.

The following tables present interest-rate sensitive assets and liabilities categorized by expected maturity (or interest rate adjustment date, if earlier) and weighted average rates. Expected maturities of loans are adjusted for amortization and estimated prepayments of principal. Prepayment speeds range from 0% to 13% depending upon the asset category and rate environment. Generally, adjustable-rate loans are indexed to Prime and treasury rates. Non-certificate deposits do not have contractual maturities and repricing sensitivity ("beta") range from 0% to 80%. The tables below reflect these assumptions.

Maturing or repricing within:	One Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Thereafter	Total
				(Dollars in Thousands)			
December 31, 2022							
Interest-earning assets:							
Securities (at cost), short-term investments and certificates of deposit	**$ 455,711**	**$ —**	**$ —**	**$ 3,500**	**$ —**	**$ —**	**$ 459,211**
	4.15 %	**— %**	**— %**	**3.75 %**	**— %**	**— %**	**4.15 %**
Loans:							
Fixed rate	**$ 100,798**	**$ 143,403**	**$ 110,755**	**$ 93,294**	**$ 72,451**	**$ 446,022**	**$ 966,723**
	3.83 %	**3.65 %**	**3.83 %**	**3.75 %**	**3.81 %**	**3.63 %**	**3.70 %**
Adjustable rate	**$ 431,158**	**$ 361,375**	**$ 332,485**	**$ 346,177**	**$ 313,872**	**$ 928,713**	**$ 2,713,780**
	4.65 %	**4.11 %**	**3.86 %**	**3.77 %**	**4.16 %**	**3.63 %**	**3.96 %**
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	**$ 271,650**	**$ —**	**$ —**	**$ —**	**$ 542,090**	**$ —**	**$ 813,740**
	2.22 %	**— %**	**— %**	**— %**	**1.17 %**	**— %**	**1.52 %**
Term certificates	**$ 1,190,406**	**$ 94,282**	**$ 8,627**	**$ 6,898**	**$ 4,092**	**$ —**	**$ 1,304,305**
	2.42 %	**2.19 %**	**1.05 %**	**0.97 %**	**1.99 %**	**— %**	**2.39 %**
Borrowed funds	**$ 1,276,000**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1,276,000**
	4.23 %	**— %**	**— %**	**— %**	**— %**	**— %**	**4.23 %**
December 31, 2021							
Interest-earning assets:							
Securities (at cost), short-term investments and certificates of deposit	$ 354,784	$ —	$ —	$ —	$ 3,500	$ —	$ 358,284
	0.43 %	— %	— %	— %	3.75 %	— %	0.46 %
Loans:							
Fixed rate	$ 163,484	$ 119,649	$ 138,034	$ 90,133	$ 69,207	$ 193,406	$ 773,913
	4.04 %	3.83 %	3.62 %	3.61 %	3.55 %	3.55 %	3.72 %
Adjustable rate	$ 510,253	$ 351,160	$ 305,958	$ 276,912	$ 262,128	$ 537,188	$ 2,243,599
	4.01 %	4.09 %	3.98 %	3.77 %	3.75 %	3.53 %	3.84 %
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 388,545	$ —	$ —	$ —	$ 507,457	$ —	$ 896,002
	0.37 %	— %	— %	— %	0.20 %	— %	0.27 %
Term certificates	$ 950,328	$ 129,058	$ 14,599	$ 7,921	$ 5,809	$ —	$ 1,107,715
	0.28 %	0.30 %	1.54 %	0.95 %	0.57 %	— %	0.31 %
Borrowed funds	$ 630,000	$ 35,000	$ —	$ —	$ —	$ —	$ 665,000
	0.28 %	0.29 %	— %	— %	— %	— %	0.28 %

At both December 31, 2022 and 2021, loans, as a percentage of total earning assets, were 89%. The composition of the Bank's liabilities was such that interest-bearing deposits to total interest-bearing liabilities were 62% and 75%, respectively, at year-end 2022 and 2021.

At December 31, 2022, the Bank estimates liabilities that reprice within one year exceeded assets repricing within the same period by $1.750 billion, as compared to $940 million at December 31, 2021. This calculation indicates that the Bank is susceptible to lower net interest income in the event that short-term market rates rise in the near future. Over the last year, the Bank continued to target ongoing loan growth, which includes a mix of variable and fixed rate loans. The Bank continued to hold lower overnight cash balances, as a percentage of assets, at the FRBB to minimize the carrying cost of its on-balance sheet liquidity. The Bank continues to focus on growing core deposit balances along with retail term deposits, combined with a mix of wholesale funding sources, allocated opportunistically based on market conditions.

Item 8. Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements:

Management's Annual Report on Internal Control over Financial Reporting

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

Management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2022, utilizing the framework established in *Internal Control-Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Bank's internal control over financial reporting as of December 31, 2022 is effective.

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

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

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2022 has been audited by Wolf & Company, P.C., an independent registered public accounting firm, as stated in their report which follows. This report expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2022.

Robert H. Gaughen, Jr.
Chief Executive Officer
March 8, 2023

Patrick R. Gaughen
President and Chief Operating Officer
March 8, 2023

Cristian A. Melej
Chief Financial Officer
March 8, 2023

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

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

Opinion on the Internal Control Over Financial Reporting

We have audited Hingham Institution for Savings and its subsidiaries' (the "Bank") internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the December 31, 2022 consolidated financial statements of the Bank and our report dated March 8, 2023 expressed an unqualified opinion.

Basis for Opinion

The Bank's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Bank in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Wolf & Company, P.C.

Boston, Massachusetts
March 8, 2023

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Hingham Institution for Savings and its subsidiaries' (the "Bank") as of December 31, 2022 and 2021, the related consolidated statements of net income and comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes to the consolidated financial statements (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Bank's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 and our report dated March 8, 2023 expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the Bank's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Bank in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Qualitative Loss Factors

As described in Notes 1 and 3 to the financial statements, the Bank has recorded an allowance for loan losses in the amount of $25.0 million as of December 31, 2022, representing management's estimate of the probable losses inherent in the loan portfolio as of that date. The allowance is established as losses are estimated to have occurred through a provision for loan losses charged to earnings.

The Bank's allowance for loan losses is primarily determined by applying qualitative loss factors to groups of loan balances based on loan type. Factors considered in assigning loss factors include levels of and trends in portfolio charge-offs and recoveries, levels of and trends in portfolio delinquencies and impaired loans, changes in the risk profile of specific portfolios, trends in volume and terms of loans, effects of changes in credit concentrations, and management's assessment of current economic conditions.

The principal considerations for our determination that performing procedures relating to these qualitative loss factors is a critical audit matter are (i) the application of significant judgment and estimation by management in determining the loss factors, which led to a high degree of auditor judgment and subjectivity in performing procedures related thereto, (ii) a high degree of auditor judgment was necessary to evaluate the evidence obtained related to the loss factors.

How the Critical Audit Matter was addressed in the Audit

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the Bank's allowance for loan losses estimation process, including controls over qualitative loss factors. These procedures also included, among others, testing management's process for determining the allowance for loan losses, including testing the completeness and accuracy of data used in the estimate and evaluating the qualitative loss factors.

Wolf & Company, P.C.

Boston, Massachusetts
March 8, 2023

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

Consolidated Balance Sheets

ASSETS

	December 31, 2021	December 31, 2022
	(In Thousands, Except Share Amounts)	
Cash and due from banks	$ 5,428	**$ 7,936**
Federal Reserve and other short-term investments	265,733	**354,097**
Cash and cash equivalents	271,161	**362,033**
Equity securities, at fair value	88,473	**63,196**
Securities held to maturity, at amortized cost	3,500	**3,500**
Federal Home Loan Bank stock, at cost	29,908	**52,606**
Loans, net of allowance for loan losses of $20,431 and $24,989 at December 31, 2021 and 2022, respectively	2,999,096	**3,657,782**
Foreclosed assets	—	**—**
Bank-owned life insurance	12,980	**13,312**
Premises and equipment, net	15,825	**17,859**
Accrued interest receivable	5,467	**7,122**
Deferred income tax asset, net	—	**4,061**
Other assets	4,755	**12,328**
Total assets	$ 3,431,165	**$ 4,193,799**

LIABILITIES AND STOCKHOLDERS' EQUITY

	2021	2022
Deposits:		
Interest-bearing	$ 2,003,717	**$ 2,118,045**
Non-interest-bearing	389,148	**387,244**
Total deposits	2,392,865	**2,505,289**
Federal Home Loan Bank advances	665,000	**1,276,000**
Mortgagors' escrow accounts	9,183	**12,323**
Accrued interest payable	198	**4,527**
Deferred income tax liability, net	536	**—**
Other liabilities	8,771	**9,694**
Total liabilities	3,076,553	**3,807,833**
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $1.00 par value, 2,500,000 shares authorized, none issued	—	**—**
Common stock, $1.00 par value, 5,000,000 shares authorized; 2,142,400 and 2,147,400 shares issued and outstanding at December 31, 2021 and 2022, respectively	2,142	**2,147**
Additional paid-in capital	12,728	**13,061**
Undivided profits	339,742	**370,758**
Total stockholders' equity	354,612	**385,966**
Total liabilities and stockholders' equity	$ 3,431,165	**$ 4,193,799**

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

Consolidated Statements of Net Income and Comprehensive Income

	Years Ended December 31,		
	2020	2021	2022
	(In Thousands, Except Per Share Amounts)		
Interest and dividend income:			
Loans	$ 103,797	$ 109,449	**$ 132,089**
Debt securities	—	84	**132**
Equity securities	1,666	696	**1,752**
Federal Reserve and other short-term investments	899	262	**5,055**
Total interest and dividend income	106,362	110,491	**139,028**
Interest expense:			
Deposits	16,186	6,868	**16,882**
Federal Home Loan Bank advances	4,969	1,158	**16,012**
Mortgage payable	3	—	**—**
Total interest expense	21,158	8,026	**32,894**
Net interest income	85,204	102,465	**106,134**
Provision for loan losses	2,288	3,028	**4,508**
Net interest income, after provision for loan losses	82,916	99,437	**101,626**
Other income (loss):			
Customer service fees on deposits	678	746	**602**
Increase in cash surrender value of bank-owned life insurance	219	323	**332**
Gain (loss) on equity securities, net	7,916	11,820	**(21,777)**
Gain on disposal of fixed assets	218	2,337	**—**
Miscellaneous	161	82	**124**
Total other income (loss)	9,192	15,308	**(20,719)**
Operating expenses:			
Salaries and employee benefits	13,155	13,988	**15,831**
Occupancy and equipment	1,854	1,450	**1,378**
Data processing	1,909	2,003	**2,757**
Deposit insurance	860	933	**1,862**
Marketing	545	563	**1,031**
Foreclosure and related	528	(49)	**24**
Other general and administrative	3,127	3,188	**3,709**
Total operating expenses	21,978	22,076	**26,592**
Income before income taxes	70,130	92,669	**54,315**
Income tax provision	19,359	25,211	**16,796**
Net income and comprehensive income	$ 50,771	$ 67,458	**$ 37,519**
Earnings per share:			
Basic	$ 23.76	$ 31.50	**$ 17.49**
Diluted	$ 23.25	$ 30.65	**$ 17.04**

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

Consolidated Statements of Changes in Stockholders' Equity

	Years Ended December 31, 2020, 2021 and 2022			
	Common Stock	Additional Paid-in Capital	Undivided Profits	Total Stockholders' Equity
	(In Thousands)			
Balance at December 31, 2019	2,136	12,234	232,853	247,223
Comprehensive income	—	—	50,771	50,771
Share-based compensation expense	—	76	—	76
Stock options exercised	2	150	—	152
Cash dividends declared-common ($2.47 per share)	—	—	(5,279)	(5,279)
Balance at December 31, 2020	2,138	12,460	278,345	292,943
Comprehensive income	—	—	67,458	67,458
Share-based compensation expense	—	39	—	39
Stock options exercised	4	229	—	233
Cash dividends declared-common ($2.83 per share)	—	—	(6,061)	(6,061)
Balance at December 31, 2021	**2,142**	**12,728**	**339,742**	**354,612**
Comprehensive income	**—**	**—**	**37,519**	**37,519**
Share-based compensation expense	**—**	**22**	**—**	**22**
Stock options exercised	**5**	**311**	**—**	**316**
Cash dividends declared-common ($3.03 per share)	**—**	**—**	**(6,503)**	**(6,503)**
Balance at December 31, 2022	**$ 2,147**	**$ 13,061**	**$ 370,758**	**$ 385,966**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2020	2021	2022
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 50,771	$ 67,458	**$ 37,519**
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,288	3,028	**4,508**
Amortization of deferred loan origination costs, net	628	673	**310**
Share-based compensation expense	76	39	**22**
Depreciation and amortization of premises and equipment	703	543	**494**
Increase in cash surrender value of bank-owned life insurance	(219)	(323)	**(332)**
Deferred income tax provision (benefit)	450	1,299	**(4,597)**
(Gain) loss on equity securities, net	(7,916)	(11,820)	**21,777**
Gain on disposal of fixed assets	(218)	(2,337)	**—**
Write-downs of foreclosed assets	100	68	**—**
Changes in:			
Accrued interest receivable and other assets	(292)	(153)	**(9,178)**
Accrued interest payable and other liabilities	(779)	534	**5,331**
Net cash provided by operating activities	45,592	59,009	**55,854**
Cash flows from investing activities:			
Activity in available for sale securities:			
Principal payments	5	—	**—**
Proceeds from sales	—	6	**—**
Activity in equity securities:			
Proceeds from sales	9,755	4,569	**12,454**
Purchases	(20,056)	(15,360)	**(9,004)**
Activity in held to maturity securities:			
Purchases	—	(3,500)	**—**
Loans originated, net of principal payments received	(274,785)	(507,466)	**(663,504)**
Proceeds from redemption of Federal Home Loan Bank stock	22,394	8,624	**39,692**
Purchase of Federal Home Loan Bank stock	(16,849)	(19,187)	**(62,390)**
Proceeds from disposal of fixed assets	344	2,817	**—**
Proceeds from sale of foreclosed assets	—	3,758	**—**
Proceeds from surrender of bank-owned life insurance	289	—	**—**
Additions to premises and equipment	(1,529)	(1,600)	**(2,528)**
Net cash used in investing activities	(280,432)	(527,339)	**(685,280)**

(continued)

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

Consolidated Statements of Cash Flows
(concluded)

	Years Ended December 31,		
	2020	2021	2022
	(In Thousands)		
Cash flows from financing activities:			
Increase in deposits	318,363	253,668	**112,424**
Net increase in mortgagors' escrow accounts	955	413	**3,140**
Proceeds from stock options exercised	152	233	**316**
Cash dividends paid on common stock	(4,935)	(5,778)	**(6,582)**
Net change in Federal Home Loan Bank advances with maturities of three months or less	(145,000)	85,000	**1,016,000**
Proceeds from Federal Home Loan Bank advances with maturities of more than three months	263,631	440,000	**—**
Repayments of Federal Home Loan Bank advances with maturities of more than three months	(215,800)	(268,031)	**(405,000)**
Repayment of mortgage payable	(687)	—	**—**
Net cash provided by financing activities	216,679	505,505	**720,298**
Net change in cash and cash equivalents	(18,161)	37,175	**90,872**
Cash and cash equivalents at beginning of year	252,147	233,986	**271,161**
Cash and cash equivalents at end of year	$ 233,986	$ 271,161	**$ 362,033**
Supplementary information:			
Interest paid on deposit accounts	$ 16,417	$ 6,869	**$ 15,028**
Interest paid on borrowed funds	5,449	1,211	**13,537**
Income taxes paid, net of refunds	18,831	24,061	**21,210**
Non-cash activities:			
Real estate acquired through foreclosure	$ 3,600	$ —	**$ —**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2020, 2021 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("U.S. GAAP") and include the accounts of Hingham Institution for Savings (the "Bank") and its wholly-owned subsidiaries, Hingham Unpledged Securities Corporation and Hingham Pledged Securities Corporation, which hold certain marketable equity securities, Tamalpais Holdings I, which holds certain private equity investments, the Hingham Institution for Savings Realty Trust, which at times holds title to certain properties acquired through foreclosure, and HIFS DMV RE Holdings, which holds title to certain Bank property. All intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

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

Business and operating segments

The Bank provides a variety of financial services to individuals and small businesses through its six offices in Boston and eastern Massachusetts, and its commercial lenders and relationship managers in Washington, D.C. Its primary deposit products are savings, checking, and term certificate accounts, and its primary lending products are residential and commercial mortgage loans secured by properties in eastern Massachusetts. The Bank lends to commercial real estate borrowers and services deposits for customers in the greater Washington, D.C. metropolitan area ("WMA") and in the San Francisco Bay Area ("SFBA").

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

Fair value hierarchy

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks and short-term investments which mature within 90 days from the date of purchase and are carried at cost. At December 31, 2022, the Bank had a concentration of cash on deposit at the Federal Reserve Bank amounting to $341.5 million.

Debt securities

Debt securities are classified as either "held to maturity" or "available for sale" in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") *Topic 320, Investments – Debt Securities*. Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Debt securities classified as available for sale are recorded at fair value, with unrealized gains and losses, after tax effects, excluded from earnings and reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity.

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

Equity securities

Equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are recorded at fair value, with changes in fair value recognized in the Consolidated Statements of Net Income in gain (loss) on equity securities, net.

Federal Home Loan Bank stock

The Bank, as a member of the Federal Home Loan Bank system, is required to maintain an investment in the capital stock of the Federal Home Loan Bank of Boston ("FHLB"). Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of December 31, 2022, no impairment has been recognized.

Loans

The Bank's loan portfolio includes residential real estate, commercial real estate, construction, home equity, commercial and consumer segments. A substantial portion of the loan portfolio is secured by real estate in the eastern Massachusetts area. The Bank also lends to commercial real estate borrowers in the greater WMA and in the SFBA, and at December 31, 2021 and 2022, the Bank had an aggregate $679.4 million and $1.152 billion in net loans outstanding in these areas, respectively. The ability of the Bank's debtors to honor their contracts is dependent upon real estate, construction, and general economic conditions in these markets.

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

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

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

Allowance for loan losses

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

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

<u>General component</u>

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by loan segment. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This time frame is currently two years for all loan categories, except for residential real estate which is currently four years, to capture the longer term loss track record of the Bank in this segment. This historical loss factor is adjusted for the following qualitative factors: levels and trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience, ability, and depth of lending management and staff; national and local economic trends and conditions; industry conditions and effects of changes in credit concentrations. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during 2022.

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:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Commercial real estate – Loans in this segment are primarily secured by income-producing properties throughout Massachusetts, the greater WMA and the SFBA. Underwriting and portfolio management policies are the same across all markets. Generally, loan amounts do not exceed 75% of the appraised value of the collateral. The underlying cash flows generated by the properties could be adversely impacted by a downturn in the economy leading to increased vacancy rates which, in turn, would have an effect on the credit quality in this segment. Management obtains rent rolls annually and regularly monitors the cash flows of these loans.

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

Home equity – Loans in this segment include equity lines of credit and second mortgage loans, and are generally collateralized by second liens on residential real estate. Repayment is dependent on the credit quality of the individual borrower. The Bank generally does not originate loans with a combined loan-to-value ratio 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, could have an effect on the credit quality in this segment. The Bank only originates these loans in Massachusetts.

Commercial – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment. These loans are not a focus of the Bank's origination program and are only originated in Massachusetts. This segment also includes loans originated under the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). SBA PPP loans are excluded from the allowance for loan loss calculation as they are 100% guaranteed by the SBA.

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

Allocated component

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

The Bank periodically may agree to modify the contractual terms of certain 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. The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), Section 4013, stipulated that a financial institution may elect to not apply U.S. GAAP requirements to loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR, and suspended the determination of loan modifications related to the COVID-19 pandemic from being treated as TDRs. The CARES Act expired on December 31, 2020, however, the Consolidated Appropriations Act, 2021 extended the above provisions of the CARES Act through January 1, 2022. Modifications within the scope of the suspension include forbearance agreements, interest-rate modifications, repayment plans, and any other similar arrangements that defer or delay payments of principal or interest. In accordance with this statute, the Bank elected not to apply U.S. GAAP requirements to such loan modifications with respect to categorization of loans as TDRs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unallocated component

At times, the Bank may maintain an unallocated component of the allowance for loan loss based on market conditions and in accordance with U.S. GAAP. The Bank's Allowance for Loan Loss Policy limits the amount of the unallocated component to 5% of the recorded allowance for loan losses. As of December 31, 2022, the Bank's allowance for loan losses included an unallocated amount of $60,000, or less than 1% of the recorded allowance for loan losses, which was within the Bank's policy. This compares to an unallocated amount of $94,000, or less than 1% of the recorded allowance for loan losses, at December 31, 2021. The unallocated balance is allocated across the non-impaired loan categories presented in Note 3.

Leases

In accordance with ASC *Topic 842, Leases*, the Bank records operating lease right-of-use ("ROU") assets and operating lease liabilities relating to operating leases for some of its banking offices. These lease agreements have lease and non-lease components, which are generally accounted for separately. The ROU asset is included in other assets and the operating lease liability is included in other liabilities on the Bank's Consolidated Balance Sheets. At December 31, 2022, the ROU asset was $610,000 and the corresponding operating lease liability was $647,000, as compared to $831,000 and $870,000, respectively, at December 31, 2021.

Foreclosed assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations, changes in the valuation allowance and any direct write-downs are included in foreclosure and related expenses. At both December 31, 2021 and 2022, the Bank did not hold any foreclosed property.

Bank-owned life insurance

Bank-owned life insurance policies are reflected on the Consolidated Balance Sheets at cash surrender value. Changes in cash surrender value, as well as insurance proceeds received in excess of the cash surrender value, are reflected in other income in the Consolidated Statements of Net Income and are not subject to income taxes.

Premises and equipment

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

Marketing costs

Marketing costs are expensed as incurred.

Transfers of financial assets

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

Income taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws in the period of enactment. A valuation allowance is established against deferred tax assets when, based upon the available evidence, including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized. The Bank has no uncertain tax positions at December 31, 2021 or 2022. The Bank records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2020, 2021 and 2022.

Stock compensation plans

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share

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

Earnings per share have been computed based on the following:

	Years Ended December 31,		
	2020	**2021**	**2022**
		(In Thousands)	
Average number of shares outstanding used to calculate basic earnings per share	2,137	2,141	**2,145**
Effect of dilutive options	46	60	**57**
Average number of shares outstanding used to calculate diluted earnings per share	2,183	2,201	**2,202**

For the year ended December 31, 2022, there were 1,000 anti-dilutive options. There were no anti-dilutive options for the years ended December 31, 2021 and 2020.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the Consolidated Balance Sheets, such items, along with net income, are components of comprehensive income. The Bank did not have any accumulated other comprehensive income at December 31, 2021 and 2022.

Accounting Standards Issued But Yet Not Adopted

The following identifies Accounting Standards Updates ("ASU") applicable to the Bank that have been issued but are not yet effective:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)* ("ASU 2016-13"). This Update requires entities to measure current expected credit losses ("CECL") based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Credit losses on available for sale debt securities should be measured in a manner similar to current U.S. GAAP. However, the amendments in this Update require that credit losses be presented as an allowance rather than as a write down. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates.* This Update delayed the effective date of ASU 2016-13 for entities eligible to be smaller reporting companies ("SRC"), public business entities that are not SEC filers, and entities that are not public business entities, until fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. As of the date of issuance of ASU 2019-10, the Bank was an eligible SRC and therefore, the adoption of ASU 2016-13 was delayed to January 1, 2023. The Bank has completed the development of its CECL methodology, which will utilize an undiscounted cash flow model that uses loan level inputs and assumptions to calculate credit losses over the estimated life of financial assets and off-balance sheet credit exposures, which includes the impact of forecasted economic conditions. The estimate also incorporates qualitative factors that may not be reflected in the quantitative results to ensure that the allowance for credit losses reflects a reasonable estimate of current expected credit losses. The Bank completed quarterly "parallel" runs in 2022 and conducted an independent model validation prior to adoption.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The amendments in this Update affect a variety of Topics in the Codification and represent changes to clarify, correct errors in, or address implementation issues. The amendments to *Topic 326, Financial Instruments – Credit Losses* and *Topic 815, Derivatives and Hedging,* have the same effective dates and transition requirements as those standards, unless the entity has already adopted the standard. The amendments to *Topic 825, Financial Instruments* were effective for the Bank beginning on January 1, 2020. Management has evaluated the Update and determined that changes are not applicable or material to its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*. This Update provides transition relief by providing entities with an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for eligible financial assets measured at amortized cost basis upon adoption of ASU 2016-13. The election is not available for either available-for-sale or held-to-maturity debt securities. For entities that have not yet adopted ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in ASU 2016-13. The Bank does not intend to make this election at this time.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

In February 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosure.* This Update eliminates the TDR recognition and measurement guidance contained in ASC 310-40, *Receivables - Troubled Debt Restructuring by Creditors.* In addition, the Update enhances existing disclosure requirements and introduces new requirements related to certain modifications made to debtors experiencing financial difficulty. For public business entities only, the Update also requires disclosure of gross current period charge-offs by year of origination. For entities that have not yet adopted ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in ASU 2016-13. Management believes this Update will not have a significant impact on the Bank's financial statements or disclosures.

2. SECURITIES

Securities held to maturity

In 2021, the Bank purchased $3.5 million in corporate bonds, made up of an investment in the subordinated debt issued by a bank holding company in which the Bank also maintains a common equity investment. The notes have a 3.75% five year fixed to floating rate, mature in 2031, and are callable quarterly at the option of the issuer after the fifth year anniversary. The Bank intends to hold the bonds until maturity, and therefore they are recorded at amortized cost on the Consolidated Balance Sheet. There was no other-than-temporary impairment recorded during the year ended December 31, 2022.

Securities available for sale

At December 31, 2021 and 2022, there are no securities available for sale outstanding.

There were no sales of securities available for sale during the years ended December 31, 2020 and 2022. For the year ended December 31, 2021, proceeds from sales of securities available for sale amounted to $6,000. There were no gains or losses realized on the sales of securities available for sale during the year ended December 31, 2021.

Equity securities

At December 31, 2021 and 2022, equity securities include a $9.3 million and $8.2 million investment in the Community Reinvestment Act Qualified Investment Fund, respectively, and $79.2 million and $55.0 million of investments in marketable common equity securities, respectively.

For the years ended December 31, 2020, 2021 and 2022, proceeds from sales of equity securities amounted to $9.8 million, $4.6 million and $12.5 million, respectively. Unrealized gains recognized during the years ended December 31, 2020, and 2021, on equities still held at December 31, 2020 and 2021, totaled $7.9 million and $11.5 million, respectively. Unrealized losses recognized during the year ended December 31, 2022, on equities still held at December 31, 2022, totaled $20.5 million.

3. LOANS

A summary of the balances of loans follows:

	December 31, 2021	December 31, 2022
	(In Thousands)	
Real estate loans:		
Residential	$ 538,625	**$ 505,299**
Commercial	2,296,566	**2,974,890**
Construction	155,668	**177,570**
Home equity	24,158	**22,302**
Total real estate loans	3,015,017	**3,680,061**
Other loans:		
Commercial (1)	2,086	**97**
Consumer	409	**345**
Total other loans	2,495	**442**
Total loans	3,017,512	**3,680,503**
Allowance for loan losses	(20,431)	**(24,989)**
Net deferred loan origination costs	2,015	**2,268**
Loans, net	$ 2,999,096	**$ 3,657,782**

(1) At December 31, 2021, commercial loans included $2,000,000 in loans outstanding originated under the SBA PPP. The Bank had no SBA PPP loans outstanding at December 31, 2022.

The CARES Act was signed into law on March 27, 2020 and provided emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the SBA to temporarily guarantee loans under a new 7(a) loan program called the PPP. As a qualified SBA lender, the Bank was automatically authorized to originate PPP loans.

An eligible business could apply for a PPP loan up to the lesser of: (1) 2.5 times its average monthly “payroll costs;” or (2) $10.0 million. PPP loans had: (a) an interest rate of 1.0%, (b) a two or five-year loan term to maturity; and (c) principal and interest payments deferred until the SBA remits the forgiven amount to the Bank or 10 months from the end of the covered period, as defined. The SBA guaranteed 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower’s PPP loan, including any accrued interest, was eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and 60% of the loan proceeds are used for payroll expenses, with the remaining 40% of the loan proceeds used for other qualifying expenses.

At December 31, 2021 and 2022, the Bank had no loans modified pursuant to Section 4013 of the CARES Act outstanding.

3. LOANS (continued)

Activity in the allowance for loan losses for the years ended December 31, 2020, 2021 and 2022 follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity (In Thousands)	Commercial	Consumer	Total
Allowance for loan losses:							
Balance December 31, 2019	2,448	10,845	1,998	77	2	6	15,376
Provision (credit) for loan losses	218	2,529	(450)	(7)	(1)	(1)	2,288
Loans charged-off	(711)	—	—	—	—	(1)	(712)
Recoveries of loans previously charged-off	451	—	—	—	—	1	452
Balance December 31, 2020	2,406	13,374	1,548	70	1	5	17,404
Provision (credit) for loan losses	(845)	3,936	(47)	(17)	2	(1)	3,028
Loans charged-off	—	—	—	—	(1)	—	(1)
Recoveries of loans previously charged-off	—	—	—	—	—	—	—
Balance December 31, 2021	1,561	17,310	1,501	53	2	4	20,431
Provision (credit) for loan losses	**(211)**	**4,486**	**226**	**7**	**—**	**—**	**4,508**
Loans charged-off	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Recoveries of loans previously charged-off	**50**	**—**	**—**	**—**	**—**	**—**	**50**
Balance December 31, 2022	**$ 1,400**	**$ 21,796**	**$ 1,727**	**$ 60**	**$ 2**	**$ 4**	**$ 24,989**

In 2020, the Bank purchased a property at a foreclosure auction and recorded a $681,000 charge-off against the allowance for loan losses at the foreclosure date. Subsequently, the Bank collected $425,000 and $50,000 related to the same loan, which were recorded as a recovery to the allowance for loan losses in 2020 and 2022, respectively.

An analysis of the allowance for loan losses, by segment, as of December 31, 2021 and 2022 follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity (In Thousands)	Commercial	Consumer	Total
<u>December 31, 2021</u>							
Allowance for impaired loans	$ 48	$ —	$ —	$ —	$ —	$ —	$ 48
Allowance for non-impaired loans	1,513	17,310	1,501	53	2	4	20,383
	$ 1,561	$ 17,310	$ 1,501	$ 53	$ 2	$ 4	$ 20,431
Impaired loans	$ 983	$ 296	$ —	$ —	$ —	$ —	$ 1,279
Non-impaired loans	537,642	2,296,270	155,668	24,158	2,086	409	3,016,233
	$ 538,625	$ 2,296,566	$ 155,668	$ 24,158	$ 2,086	$ 409	$ 3,017,512
<u>December 31, 2022</u>							
Allowance for impaired loans	**$ 37**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 37**
Allowance for non-impaired loans	**1,363**	**21,796**	**1,727**	**60**	**2**	**4**	**24,952**
	$ 1,400	**$ 21,796**	**$ 1,727**	**$ 60**	**$ 2**	**$ 4**	**$ 24,989**
Impaired loans	**$ 1,686**	**$ 226**	**$ —**	**$ 90**	**$ —**	**$ —**	**$ 2,002**
Non-impaired loans	**503,613**	**2,974,664**	**177,570**	**22,212**	**97**	**345**	**3,678,501**
	$ 505,299	**$ 2,974,890**	**$ 177,570**	**$ 22,302**	**$ 97**	**$ 345**	**$ 3,680,503**

3. LOANS (continued)

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

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans on Non-accrual
			(In Thousands)		
Residential real estate	$ 4,583	$ —	$ 131	$ 4,714	$ 131
Commercial real estate	—	—	296	296	296
Home equity	243	—	—	243	—
Total	$ 4,826	$ —	$ 427	$ 5,253	$ 427
December 31, 2022					
Residential real estate	**$ 321**	**$ —**	**$ 403**	**$ 724**	**$ 852**
Commercial real estate	**—**	**—**	**226**	**226**	**226**
Home equity	**371**	**—**	**90**	**461**	**90**
Consumer	**190**	**—**	**—**	**190**	**—**
Total	**$ 882**	**$ —**	**$ 719**	**$ 1,601**	**$ 1,168**

At December 31, 2021 and 2022, there were no loans past due 90 days or more and still accruing interest.

The following is a summary of impaired loans:

	December 31, 2021			December 31, 2022		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
			(In Thousands)			
Impaired loans without a valuation allowance:						
Residential real estate	$ 478	$ 530		**$ 1,194**	**$ 1,247**	
Commercial real estate	296	296		**226**	**226**	
Home equity	—	—		**90**	**90**	
Total	774	826		**1,510**	**1,563**	
Impaired loans with a valuation allowance:						
Residential real estate	505	505	$ 48	**492**	**492**	**$ 37**
Total impaired loans	$ 1,279	$ 1,331	$ 48	**$ 2,002**	**$ 2,055**	**$ 37**

3. LOANS (continued)

The following is information pertaining to impaired loans:

	Average Recorded Investment		Interest Income Recognized		Interest Income Recognized on Cash Basis	
			(In Thousands)			
Year Ended December 31, 2020						
Residential real estate	$	2,610	$	54	$	29
Commercial real estate		830		—		38
Construction		555		—		5
Home equity		54		—		4
Total	$	4,049	$	54	$	76
Year Ended December 31, 2021						
Residential real estate	$	1,142	$	43	$	61
Commercial real estate		671		—		132
Construction		116		—		163
Total	$	1,929	$	43	$	356
Year Ended December 31, 2022						
Residential real estate	**$**	**1,455**	**$**	**37**	**$**	**39**
Commercial real estate		**72**		—		**52**
Home equity		**11**		—		—
Total	**$**	**1,538**	**$**	**37**	**$**	**91**

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 TDR if, for reasons related to the debtor's financial difficulties, a concession is granted to the debtor that would not otherwise be considered. For the years ended 2020, 2021 and 2022, the Bank did not execute any TDRs.

Credit Quality Information

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

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

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

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

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

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

3. LOANS (concluded)

Commercial real estate and construction loans are assigned an initial risk rating by the Bank at the origination of the loan. Subsequently, the Bank has a quality control program performed by an independent third party. Quarterly, all new commercial, construction and residential real estate loan relationships with outstanding balances or commitments of $500,000 or more are reviewed and assigned a risk rating. On a rolling quarterly basis, an in-depth review is performed on all commercial real estate relationships (and related residential loans) with exposure in excess of $850,000 and all loans on the Bank's Watch List. Commercial real estate relationships (and related residential loans) with exposure between $500,000 and $850,000 are reviewed at least annually. Watch List loans are those loans that are more than two payments past due at the end of the quarter, loans for which the borrowing entity or sponsor has filed bankruptcy, loans rated four or higher in a previous review, impaired loans, TDRs, and loans past contractual maturity. Results of the independent loan review are reported to the Bank's Audit Committee on a quarterly basis and become the mechanism for monitoring the overall credit quality of the portfolio.

The following table presents the Bank's loans by risk ratings as of December 31, 2021 and 2022:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial
		(In Thousands)		
December 31, 2021				
1- 3B	$ 538,146	$ 2,296,270	$ 155,668	$ 2,086
4	131	296	—	—
5	348	—	—	—
	$ 538,625	$ 2,296,566	$ 155,668	$ 2,086
December 31, 2022				
1- 3B	**$ 503,763**	**$ 2,974,664**	**$ 177,570**	**$ 97**
4	**1,194**	**226**	**—**	**—**
5	**342**	**—**	**—**	**—**
	$ 505,299	**$ 2,974,890**	**$ 177,570**	**$ 97**

Residential loans are rated 1-3B at origination with subsequent adjustments based on delinquency or upon review if included in the scope of the Bank's loan review process described above. For home equity and consumer loans, management uses delinquency reports as the key credit quality indicator.

4. FORECLOSED ASSETS

At December 31, 2021 and 2022, the Bank did not hold any foreclosed assets.

Expenses applicable to foreclosed assets include the following:

	Years Ended December 31,		
	2020	2021	2022
		(In Thousands)	
Net loss on sales of foreclosed assets	$ —	$ 68	**$ —**
Write-downs of foreclosed assets	100	—	**—**
Foreclosure and operating expenses, net of rental income	428	(117)	**24**
Foreclosure and related expense	$ 528	$ (49)	**$ 24**

5. PREMISES AND EQUIPMENT

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

	December 31, 2021	December 31, 2022	Estimated Useful Life
	(In Thousands)		
Land	$ 4,808	**$ 5,372**	N/A
Buildings	14,036	**18,418**	3-40 years
Leasehold improvements	847	**921**	10 years
Land improvements	169	**193**	3-15 years
Equipment	5,444	**5,747**	3-25 years
Construction in progress	2,819	**—**	N/A
	28,123	**30,651**	
Less accumulated depreciation and amortization	(12,298)	**(12,792)**	
	$ 15,825	**$ 17,859**	

Depreciation and amortization expense for the years ended December 31, 2020, 2021 and 2022 amounted to $703,000, $543,000 and $494,000, respectively.

Construction in progress at December 31, 2021 consisted of costs incurred to purchase a property located in Washington, D.C. and subsequent renovations. This property was placed in service in 2022. See Note 10.

6. LEASES

At December 31, 2022, the ROU asset and the corresponding operating lease liability were $610,000 and $647,000, respectively, as compared $831,000 and $870,000, respectively, at December 31, 2021. Operating lease expense for the years ended December 31, 2020, 2021 and 2022 was $348,000, $262,000 and $244,000, respectively.

ROU assets represent the Bank's right to use an underlying asset for the lease term and lease liabilities represent the Bank's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Bank's leases do not provide an implicit rate, the Bank uses the Bank's incremental borrowing rate, which is generally the FHLB classic advance rate, based on the information available at commencement date in determining the present value of lease payments. The Bank will use the implicit rate when readily determinable. The weighted average discount rate for operating leases as of both December 31, 2021 and 2022 was 2.9% and 3.0%, respectively. The Bank's lease terms may include options to extend when it is reasonably certain that the Bank will exercise that option. The initial term of these lease agreements is five years, and the agreements contain up to three extension options for subsequent five year terms. Management considered options that have been exercised or are reasonably certain to be exercised in the recognition of the operating lease ROU asset. The weighted average remaining lease term for operating leases as of December 31, 2021 and 2022 is 3.7 years and 2.8 years, respectively. For operating leases, lease expense is recognized on a straight-line basis over the lease term.

The Bank has lease agreements with lease and non-lease components, which are generally accounted for separately. The Bank did not elect the practical expedient to account for lease and non-lease components as one lease component.

The maturities of lease liabilities are as follows at December 31, 2022:

Years	Amount (In Thousands)
2023	**$ 253**
2024	**240**
2025	**146**
2026	**37**
Total lease payments	**676**
Imputed interest	**(29)**
Total lease liability	**$ 647**

At December 31, 2022, the Bank had no commitments related to short-term leases.

7. DEPOSITS

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

	December 31, 2021	December 31, 2022
	(In Thousands)	
Regular	$ 104,395	**$ 103,514**
Money market	784,501	**702,205**
NOW	7,106	**8,021**
Demand	389,148	**387,244**
Total non-certificate accounts	1,285,150	**1,200,984**
Term certificates of less than $250,000	851,619	**901,790**
Term certificates of $250,000 or more	256,096	**402,515**
Total certificate accounts	1,107,715	**1,304,305**
Total deposits	$ 2,392,865	**$ 2,505,289**

Included in certificate accounts in the table above are brokered certificates of deposits of $403.5 million and $471.7 million at December 31, 2021 and 2022, respectively.

The maturity distribution of term certificates is as follows:

	December 31,			
	2021		2022	
Maturing	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Within one year	$ 950,328	0.28 %	**$ 1,190,406**	**2.42 %**
Over 1 to 2 years	129,058	0.30	**94,282**	**2.19**
Over 2 to 3 years	14,599	1.54	**8,627**	**1.05**
Over 3 to 4 years	7,921	0.95	**6,898**	**0.97**
Over 4 to 5 years	5,809	0.57	**4,092**	**1.99**
	$ 1,107,715	0.30 %	**$ 1,304,305**	**2.39 %**

A summary of interest expense on deposits is as follows:

	Years Ended December 31, 2020	2021	2022
		(In Thousands)	
Regular	$ 4	$ 4	**$ 4**
Money market	4,044	2,396	**5,321**
NOW	—	—	**1**
Term certificates	12,138	4,468	**11,556**
Total interest expense on deposits	$ 16,186	$ 6,868	**$ 16,882**

8. BORROWED FUNDS

Federal Home Loan Bank Advances

A summary of advances from the FHLB follows:

	December 31,			
	2021		2022	
Maturing During the Year Ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
2022	$ 630,000	0.28 %	**$ —**	**— %**
2023 (1)	35,000	0.29	**1,276,000**	**4.23**
	$ 665,000	0.28 %	**$ 1,276,000**	**4.23 %**

(1) Includes $1.241 billion of FHLB advances with original maturity of one year or less at December 31, 2022.

At December 31, 2022, no advances can be called by the FHLB. All borrowings from the FHLB are secured by a blanket lien on "qualified collateral" defined principally as 72-82% of the carrying value of first mortgage loans on certain owner-occupied residential property, 77% of the carrying value of first mortgage loans on certain non-owner-occupied residential property, 76% of the carrying value of first mortgage loans on certain multifamily residential property and 65% of the carrying value of loans on certain commercial property. As of December 31, 2022, the Bank can borrow up to approximately $2.085 billion to meet its borrowing needs, based on the Bank's available qualified collateral.

Available Lines of Credit

The Bank has an available line of credit with the FHLB at an interest rate that adjusts daily. Borrowings under this line are limited to $4.6 million at December 31, 2022. No amounts were drawn on the line of credit as of December 31, 2021 or 2022. Additionally, the Bank has registered with the Federal Reserve Bank to access the discount window. The Bank may access this line by assigning assets as collateral. The Bank has pledged the bulk of its home equity portfolio to secure borrowings from the discount window and may increase availability by pledging additional assets. As of December 31, 2022, the Bank can borrow up to approximately $13.2 million to meet its borrowing needs, based on the Bank's available qualified collateral.

9. INCOME TAXES

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

	Years Ended December 31,		
	2020	2021	2022
	(In Thousands)		
Current tax provision:			
Federal	$ 12,988	$ 16,319	**$ 14,121**
State	5,921	7,593	**7,272**
	18,909	23,912	**21,393**
Deferred tax provision (benefit):			
Federal	623	1,491	**(4,020)**
State	(173)	(192)	**(577)**
	450	1,299	**(4,597)**
	$ 19,359	$ 25,211	**$ 16,796**

9. INCOME TAXES (continued)

The reasons for the differences between the statutory federal income tax and the actual income tax provision are summarized as follows:

	Years Ended December 31,		
	2020	2021	2022
		(In Thousands)	
Statutory provision, at 21%	$ 14,727	$ 19,461	**$ 11,406**
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	4,541	5,847	**5,245**
Bank-owned life insurance	(46)	(68)	**(70)**
Dividend received deduction	(34)	(34)	**(44)**
Other, net	171	5	**259**
Income tax provision	$ 19,359	$ 25,211	**$ 16,796**

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

	December 31,	
	2021	2022
	(In Thousands)	
Deferred tax assets:		
Federal	$ 4,768	**$ 5,616**
State	2,246	**2,604**
	7,014	**8,220**
Deferred tax liabilities:		
Federal	(6,848)	**(3,676)**
State	(702)	**(483)**
	(7,550)	**(4,159)**
Net deferred tax asset (liability)	$ (536)	**$ 4,061**

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

	December 31,	
	2021	2022
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 5,743	**$ 7,024**
Employee benefit plans	897	**919**
Capital loss carryover	—	**85**
Lease liability	245	**182**
Other	129	**10**
	7,014	**8,220**
Deferred tax liabilities:		
Fixed assets	(273)	**(208)**
Deferred fees on loans	(567)	**(638)**
Net unrealized gain on equity securities	(6,465)	**(3,127)**
Lease asset	(234)	**(171)**
Other	(11)	**(15)**
	(7,550)	**(4,159)**
Net deferred tax asset (liability)	$ (536)	**$ 4,061**

9. INCOME TAXES (concluded)

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

	Years Ended December 31,		
	2020	2021	2022
		(In Thousands)	
Balance at beginning of year	$ 1,213	$ 763	**$ (536)**
Deferred tax provision	(450)	(1,299)	**4,597**
Balance at end of year	$ 763	$ (536)	**$ 4,061**

At December 31, 2022, the Bank has a capital loss carryover of $405,000, which expires on December 31, 2027.

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

The Bank's income tax returns are subject to review and examination by federal and state taxing authorities. The Bank is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2019 through 2022. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2019 are open.

10. COMMITMENTS AND CONTINGENCIES

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

Legal claims

The Bank is involved, from time to time, as plaintiff or defendant in various legal actions arising in the normal course of business. As of December 31, 2022, the Bank was not involved in any material legal proceedings the outcome of which, if determined in a manner adverse to the Bank, would have a material adverse effect on the Bank's financial condition or results of operations.

Loan commitments

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

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

At December 31, 2021 and 2022, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31,	
	2021	2022
	(In Thousands)	
Unused lines of credit	$ 141,699	**$ 155,923**
Commitments to originate loans	231,085	**33,040**
Unadvanced funds on construction loans	108,716	**250,037**
Standby letters-of-credit	—	**100**
	$ 481,500	**$ 439,100**

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

10. COMMITMENTS AND CONTINGENCIES (concluded)

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

Employment agreements

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

One of these agreements provide for death benefits, which are accrued ratably over the employee's remaining service period. The Bank has purchased life insurance policies for this individual which provide a death benefit payable to the Bank when the executive dies. The death benefits on these policies exceed the death benefit liability to the executive as of December 31, 2022. For the years ended December 31, 2020, 2021 and 2022, expenses attributable to the accrued death benefit amounted to $83,000, $88,000 and $94,000, respectively.

Data processing commitments

The Bank has entered into contracts with various data processing vendors. The contracts range in terms from three years to seven years and call for monthly fixed payments along with variable charges based on activity and the number of accounts managed. At December 31, 2022, the contracts have estimated payments totaling $9.7 million until contract expiration in 2028.

11. STOCK OPTION PLAN

In 2014, the Bank's Board of Directors adopted the 2014 Nonstatutory Stock Option Plan (the "2014 Stock Option Plan"). The 2014 Stock Option Plan allows for the issuance of up to 100,000 shares of common stock (subject to adjustment in the event of stock splits, stock dividends or similar events) pursuant to non-statutory stock options. Options may not be granted at an exercise price that is less than 100% of the fair market value of the common stock on the date of grant. Under the terms of the 2014 Stock Option Plan, options may not be granted for a term in excess of 10 years and may vest immediately or over a period of time. As of December 31, 2022, there were 11,000 stock options available for future grants.

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

Stock option activity is as follows:

	2020		2021		2022	
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Shares under option:						
Outstanding at beginning of year	90,500	$ 87.34	88,350	$ 87.74	**83,850**	**$ 89.66**
Granted	—	—	—	—	**1,000**	**286.30**
Exercised	(2,150)	70.93	(4,500)	51.95	**(5,000)**	**63.12**
Outstanding at end of year	88,350	$ 87.74	83,850	$ 89.66	**79,850**	**$ 93.78**
Options exercisable at end of year	73,350	$ 78.34	81,850	$ 87.38	**78,850**	**$ 91.35**

As of December 31, 2022, the aggregate intrinsic value of options outstanding and options exercisable amounted to $14.5 million and $14.6 million, respectively.

11. STOCK OPTION PLAN (concluded)

Options outstanding consist of the following:

	December 31,			
	2021		2022	
	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life in Years
Option exercise price				
$ 57.92	3,000	< 1	—	—
70.93	56,850	2	**54,850**	**1**
105.34	1,000	3	**1,000**	**2**
126.17	14,000	4	**14,000**	**3**
138.30	5,000	5	**5,000**	**4**
182.95	2,000	7	**2,000**	**6**
191.50	2,000	8	**2,000**	**7**
286.30	—	—	**1,000**	**9**
Options outstanding	83,850	3	**79,850**	**2**
Options exercisable	81,850	3	**78,850**	**2**

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the year ended December 31, 2022:

Expected dividends	1.0%
Expected term	6.5 years
Expected volatility	24%
Risk-free interest rate	3.4%

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

There were no options granted during the year ended December 31, 2021. The weighted-average grant-date fair value of options granted during the year ended December 31, 2022 was $81.72. For the years ended December 31, 2020, 2021 and 2022, share-based compensation expense applicable to the plan amounted to $76,000, $39,000 and $22,000, respectively, and the recognized tax benefit related to this expense amounted to $21,000, $11,000 and $6,000, respectively. As of December 31, 2022, unrecognized share-based compensation expense related to non-vested options amounted to $67,000. This amount is expected to be recognized over a weighted average period of 1.3 years.

12. RELATED PARTY TRANSACTIONS

The Bank has a policy providing that loans (excluding passbook loans) will not be granted to Directors and Officers. During the years ended December 31, 2020, 2021 and 2022, legal fees were paid to a law firm owned by certain Directors of the Bank totaling $2.8 million, $3.7 million, and $3.9 million, respectively. Such fees related to the representation of the Bank in closing commercial and residential mortgage loans, foreclosure and collection actions and certain other routine litigation. Additionally, this law firm received the sum of $1.2 million, $1.9 million and $1.5 million in agency fees for title insurance due to them in connection with loan originations during the years ended December 31, 2020, 2021 and 2022, respectively. The Bank believes that the foregoing sums have been reasonable in relation to the services provided to the Bank. All of these services are provided pursuant to a written master agreement between the Bank and the law firm which was reviewed and approved by the independent Directors of the Board. All of the above described legal fees and title insurance fees paid to the law firm have been reimbursed to the Bank by its borrowers, with the exception of $465,000, $250,000 and $285,000 for the years ended December 31, 2020, 2021 and 2022, respectively. These unreimbursed fees are primarily associated with foreclosure and collection matters and the Bank generally collects these fees upon resolution of a troubled loan through foreclosure, litigation, or the loan returning to performing status.

13. EMPLOYEE BENEFIT PLANS

401(k) Plan

The Bank has a 401(k) plan whereby each employee, upon the date of employment, becomes a participant in the plan. Employees may contribute a percentage of their compensation subject to certain limits based on federal tax laws. The Bank contributes 3% of an employee's compensation, regardless of the employee's contribution, and makes a matching contribution of $0.50 for each dollar contributed by the employee up to a maximum matching contribution equal to 3% of the employee's yearly compensation. Matching contributions vest to the employee after two years, or at age 59½, if earlier. For the years ended December 31, 2020, 2021 and 2022, expenses attributable to the plan amounted to $455,000, $472,000 and $538,000, respectively.

14. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

Regulations require a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6% and a minimum leverage ratio of 4% for all banking organizations. Additionally, the Bank must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. Alternatively, the Bank qualifies for and may elect to use the Community Bank Leverage Ratio framework. The Bank has not made this election.

As of December 31, 2022, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. Management believes that as of December 31, 2021 and 2022, the Bank meets all capital adequacy requirements to which it is subject.

The Bank's actual capital amounts and ratios as of December 31, 2021 and 2022 are presented in the following tables.

	Actual		Minimum Capital Requirement*		Minimum To Be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amounts	Ratio	Amounts	Ratio	Amounts	Ratio
	(Dollars in Thousands)					
December 31, 2021						
Total Capital to Risk-Weighted Assets	$ 375,043	12.97 %	$ 303,722	10.50 %	$ 289,259	10.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	354,612	12.26	202,481	7.00	188,018	6.50
Tier 1 Capital to Risk-Weighted Assets	354,612	12.26	245,870	8.50	231,407	8.00
Tier 1 Capital to Average Assets	354,612	10.92	129,900	4.00	162,374	5.00
December 31, 2022						
Total Capital to Risk-Weighted Assets	**$ 410,955**	**12.51 %**	**$ 344,892**	**10.50 %**	**$ 328,469**	**10.00 %**
Common Equity Tier 1 Capital to Risk-Weighted Assets	**385,966**	**11.75**	**229,928**	**7.00**	**213,505**	**6.50**
Tier 1 Capital to Risk-Weighted Assets	**385,966**	**11.75**	**279,198**	**8.50**	**262,775**	**8.00**
Tier 1 Capital to Average Assets	**385,966**	**9.50**	**162,521**	**4.00**	**203,151**	**5.00**

* Minimum risk-based regulatory capital ratios and amounts at December 31, 2021 and 2022 include the applicable minimum risk-based capital ratios and capital conservation buffer of 2.5%.

15. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

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

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below. There are no liabilities measured at fair value on a recurring basis at December 31, 2021 and 2022.

	Level 1	Level 2	Level 3	Total Fair Value
		(In Thousands)		
December 31, 2021				
Equity securities	$ 82,326	$ 6,147	$ —	$ 88,473
December 31, 2022				
Equity securities	**$ 56,607**	**$ 6,589**	**$ —**	**$ 63,196**

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 U.S. GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets.

There are no assets or liabilities measured at fair value on a non-recurring basis at December 31, 2021 and 2022.

15. FAIR VALUES OF ASSETS AND LIABILITIES (concluded)

Summary of Fair Values of Financial Instruments

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

	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
	(In Thousands)			
December 31, 2021				
Financial assets:				
Cash and cash equivalents	$ 271,161	$ 271,161	$ —	$ —
Equity securities	88,473	82,326	6,147	—
Securities held to maturity	3,500	—	—	3,453
Federal Home Loan Bank stock	29,908	—	—	29,908
Loans, net	2,999,096	—	—	3,030,915
Accrued interest receivable	5,467	—	—	5,467
Financial liabilities:				
Deposits	$ 2,392,865	$ —	$ —	$ 2,393,112
Federal Home Loan Bank advances	665,000	—	664,216	—
Mortgagors' escrow accounts	9,183	—	—	9,183
Accrued interest payable	198	—	—	198
December 31, 2022				
Financial assets:				
Cash and cash equivalents	**$ 362,033**	**$ 362,033**	**$ —**	**$ —**
Equity securities	**63,196**	**57,133**	**6,063**	**—**
Securities held to maturity	**3,500**	**—**	**—**	**3,091**
Federal Home Loan Bank stock	**52,606**	**—**	**—**	**52,606**
Loans, net	**3,657,782**	**—**	**—**	**3,516,413**
Accrued interest receivable	**7,122**	**—**	**—**	**7,122**
Financial liabilities:				
Deposits	**$ 2,505,289**	**$ —**	**$ —**	**$ 2,496,459**
Federal Home Loan Bank advances	**1,276,000**	**—**	**1,275,517**	**—**
Mortgagors' escrow accounts	**12,323**	**—**	**—**	**12,323**
Accrued interest payable	**4,527**	**—**	**—**	**4,527**

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

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Bank's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness, as of December 31, 2022, of the Bank's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended. Management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving their objectives and management therefore applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Bank's disclosure controls and procedures as of December 31, 2022, the CEO and CFO concluded that, as of such date, the Bank's disclosure controls and procedures were effective at the reasonable assurance level.

Internal Control over Financial Reporting

Management's Annual Report on Internal Control over Financial Reporting

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

Management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2022, utilizing the framework established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). See "Management's Annual Report on Internal Control over Financial Reporting" in this Form-10-K.

The effectiveness of our internal control over financial reporting as of December 31, 2022, has been audited by Wolf & Company, P.C., an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

There were no significant changes in the Bank's internal control over financial reporting, as defined in Rules 13a-15(e) and 15d-15(e), during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

Item 9B. Other information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The response to this Item is incorporated herein by reference to the information which will be included in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 27, 2023.

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

Item 11. Executive Compensation.

The response to this Item is incorporated herein by reference to the information which will be included in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 27, 2023.

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

Except as provided below, the response to this Item is incorporated herein by reference to the information which will be included in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 27, 2023.

The following table provides information about the securities authorized for issuance under the Bank's equity compensation plans as of December 31, 2022 (Refer to Note 11 in the Notes to Consolidated Financial Statements):

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders: 1996 and 2014 Stock Option Plans	79,850	$93.78	11,000
Equity compensation plans not approved by security holders:	----	----	----
Total	79,850	$93.78	11,000

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

The response to this Item is incorporated herein by reference to the information which will be included in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 27, 2023.

Item 14. Principal Accountant Fees and Services.

The response to this item is incorporated by reference to the information which will be included in the Bank's Proxy Statement for the Annual Meeting of Stockholders to be held on April 27, 2023.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

(1) Exhibits:

Exhibit 3(i) and 3(ii). Articles of Incorporation and Bylaws
Amended and Restated Charter of Hingham Institution for Savings, which is incorporated by reference to the Bank's Form 10-K filed on March 3, 2020.

Amended By-Laws of Hingham Institution for Savings, which are incorporated by reference to the Bank's Form 10-K filed on March 3, 2021.

Exhibit 4.1 Description of Registrant's Securities – Filed herewith.

Exhibit 10. Material Contracts
Hingham Institution for Savings 2014 Nonstatutory Stock Option Plan, incorporated by reference to Appendix A of the Definitive Proxy Statement dated March 18, 2014.

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

Employment Agreement, dated April 24, 2014, by and between Hingham Institution for Savings and Patrick R. Gaughen, which is incorporated by reference to the Bank's Form 10-K filed on March 5, 2019.

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

Employment Agreement, dated as of April 29, 1999, by and between Hingham Institution Savings and Shawn T. Sullivan, which is incorporated by reference to the Bank's Form 10-K filed on March 5, 2019.

Exhibit 21.1 Subsidiaries of Hingham Institution for Savings – Filed herewith

Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Filed herewith.

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Filed herewith.

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

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

Item 16. Form 10-K Summary.

Not applicable.

SIGNATURES

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

HINGHAM INSTITUTION FOR SAVINGS

March 8, 2023

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

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

/s/ Robert H. Gaughen, Jr.	Chief Executive Officer and Director (Principal Executive Officer)	03/08/23 Date
/s/ Cristian A. Melej	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	03/08/23 Date
/s/ Patrick R. Gaughen	Director, President and Chief Operating Officer	03/08/23 Date
/s/ Jacqueline M. Youngworth	Clerk of the Board and Director	03/08/23 Date
/s/ Howard M. Berger	Director	03/08/23 Date
/s/ Michael J. Desmond	Director	03/08/23 Date
/s/ Ronald D. Falcione	Director	03/08/23 Date
/s/ Kevin W. Gaughen, Jr.	Director	03/08/23 Date
/s/ Kara Gaughen Smith	Director	03/08/23 Date
/s/ Julio R. Hernando	Director	03/08/23 Date
/s/ Brian T. Kenner	Director	03/08/23 Date
/s/ Robert A. Lane	Director	03/08/23 Date

/s/ Scott L. Moser	Director	03/08/23 Date
/s/ Stacey M. Page	Director	03/08/23 Date
/s/ Robert K. Sheridan	Director	03/08/23 Date
/s/ Geoffrey C. Wilkinson, Sr.	Director	03/08/23 Date

DESCRIPTION OF EQUITY SECURITIES REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT

Hingham Institution for Savings (the "Bank") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: common stock, par value $1.00 per share (the "Common Stock").

The following summary description sets forth some of the general terms and provisions of the Common Stock. Because this is a summary description, it does not contain all of the information that may be important to you. For a more detailed description, you should refer to the provisions of the Bank's Amended and Restated Charter ("Charter") and By-Laws, which are attached as exhibits to the Annual Report on Form 10-K to which this description is an exhibit.

General

Under the Charter, the Bank has authority, without further shareholder action, to issue of up to 5,000,000 shares of Common Stock. The Bank may amend its Charter from time to time to increase the number of authorized shares of Common Stock. Any such amendment would require the approval of the holders of not less than eighty percent (80%) of the total votes eligible to be cast. Our stock is listed on the NASDAQ under the symbol "HIFS."

Dividends

Subject to the preferential rights of any other class or series of stock, holders of shares of our Common Stock are entitled to receive dividends, if and when they are authorized and declared by our Board of Directors, out of assets that the Bank may legally use to pay dividends.

Voting Rights

Except as otherwise required by law and except as provided by the terms of any other class or series of stock, holders of Common Stock have the exclusive power to vote on all matters presented to our stockholders, including the election of directors. Holders of Common Stock are entitled to one vote per share. There is no cumulative voting in the election of directors, which means that a plurality of the votes cast at a meeting of stockholders at which a quorum is present is sufficient to elect a director.

Preemptive Rights

Holders of Common Stock do not have preemptive rights under Massachusetts law, the Charter or By-Laws.

Liquidation/Dissolution

In the event the Bank is liquidated, dissolved or the Bank's affairs are wound up, and subject to the preferential rights of any other class or series of stock, holders of shares of Common Stock are entitled to receive, in cash or in kind, in proportion to their holdings, the assets that the Bank may legally use to pay distributions after the Bank pays or makes adequate provision for all of its debts and liabilities.

LIST OF SUBSIDIARIES OF
HINGHAM INSTITUTION FOR SAVINGS

Subsidiaries of the Company	State or Other Jurisdiction of Incorporation
Hingham Unpledged Securities Corporation	Massachusetts
Hingham Pledged Securities Corporation	Massachusetts
Tamalpais Holdings I	Massachusetts
Hingham Institution for Savings Realty Trust	Massachusetts
HIFS DMV RE Holdings	District of Columbia

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

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2023

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

I, Cristian A. Melej, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 8, 2023

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

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

In connection with the Annual Report on Form 10-K of Hingham Institution for Savings (the "Bank") for the year ended December 31, 2022, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), the undersigned Robert H. Gaughen, Jr., Chief Executive Officer of the Bank, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/

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

Date: March 8, 2023

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

In connection with the Annual Report on Form 10-K of Hingham Institution for Savings (the "Bank") for the year ended December 31, 2022, as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), the undersigned Cristian A. Melej, Chief Financial Officer of the Bank, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: March 8, 2023