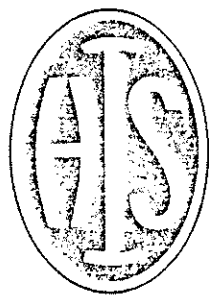
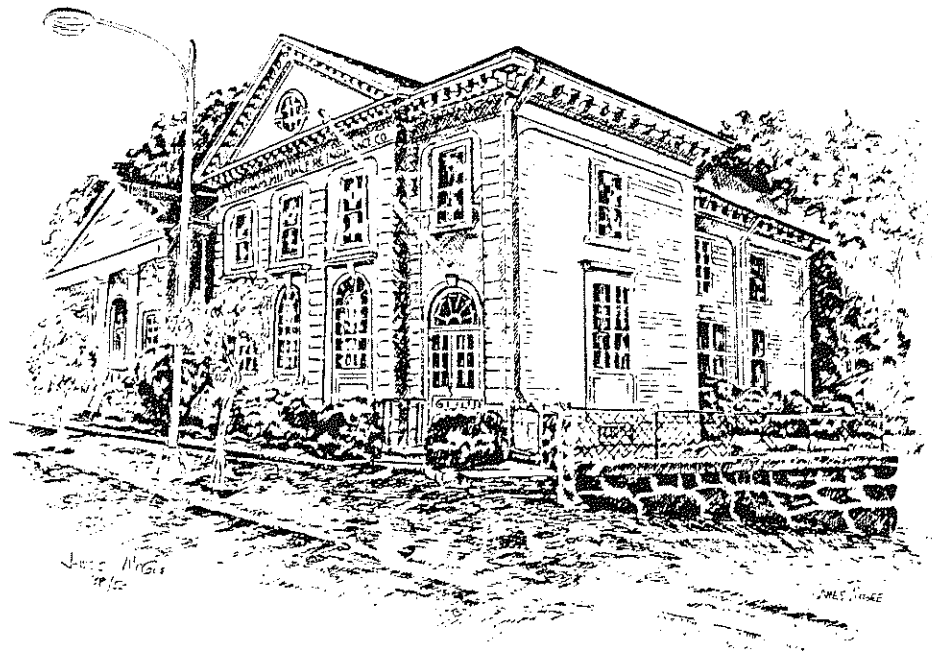


1988 Annual Report

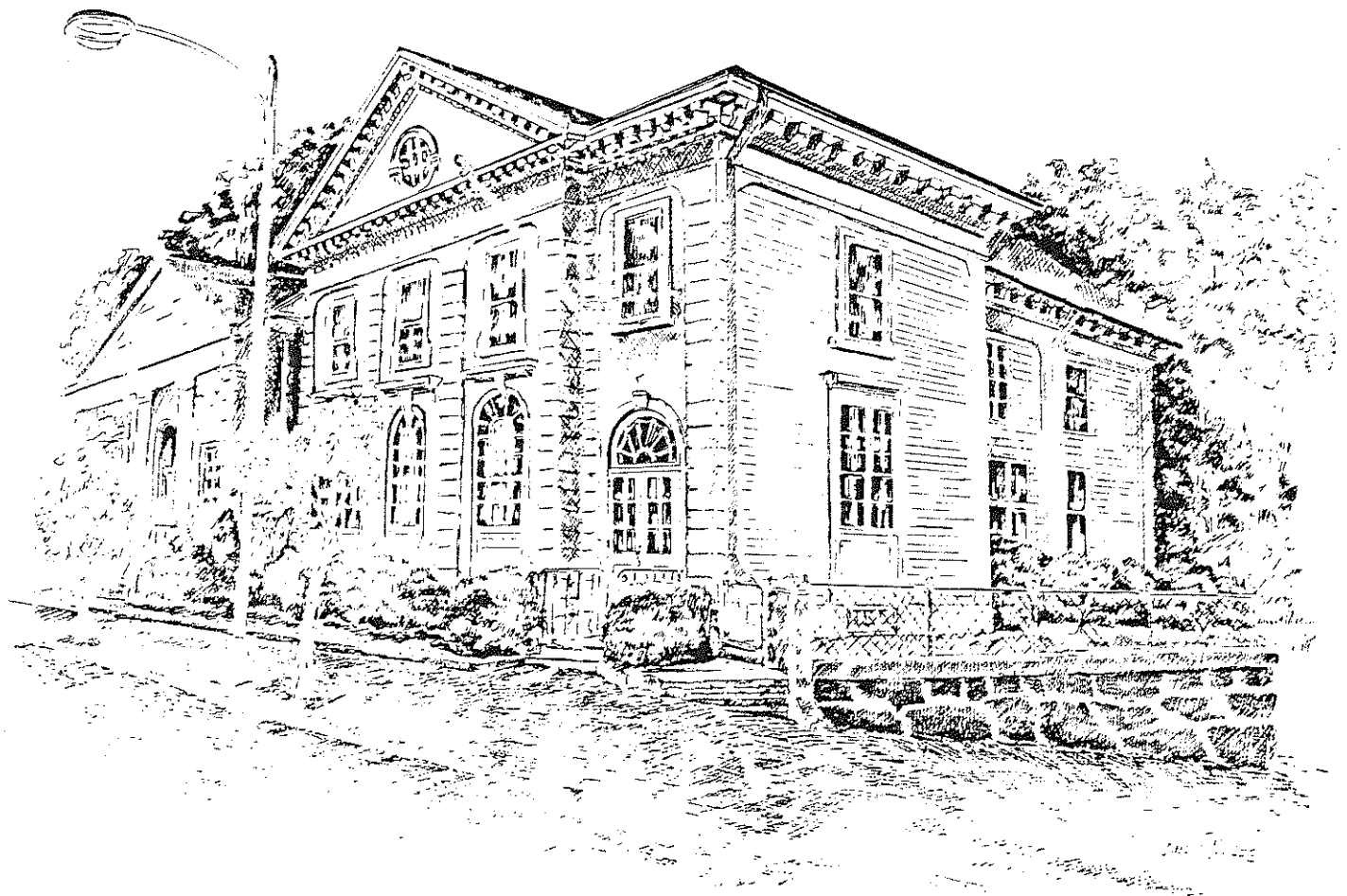
Hingham Institution
FOR *Savings*



Hingham
INCORPORATED
1834
Institution
FOR *Savings*



55 MAIN STREET, HINGHAM, MA 02043 • (617) 749-2200





President's Message

Dear Stockholder:

This is the first annual report of the Hingham Institution for Savings to its stockholders. It is an exciting moment since it symbolizes a significant change at the Bank. Hingham Institution for Savings, which operated as a mutual savings bank since 1834, completed its conversion to stock form on December 20, 1988. The conversion provided \$9.6 million in new capital and strengthened our capability to build aggressively for the future.

During 1988, with capital adequacy assured as a result of conversion, the Bank completed a number of goals and objectives which were previously set for the year. Automation was upgraded with the purchase of new equipment and the conversion to a different data processing service bureau. The system is state of the art and includes deposit, loan and accounting functions. The system not only increases our capacity, reporting and statistical capabilities, but it also provides new and more efficient services to our customers.

In addition, the Bank purchased and installed five new automatic teller machines. Four were installed in our existing banking locations, and the fifth after obtaining regulatory approval, was installed as our first free standing unit located at 350 Lincoln Street, Route 3A, Hingham, Massachusetts. We have since joined the Cirrus, Yankee 24 and CashStream networks, so that our H.I.S. 24 Card Customers would have access to A.T.M. machines located throughout New England and the United States.

Further, the bank finalized the purchase of the

Hingham Mutual Fire Insurance building next door to the Main Office, at 49 Main Street. We are currently renovating the interior and will be relocating our entire loan department to this first floor location. As we enter year 1989, Hingham Institution for Savings is committed to affording to the community we serve new and aggressively priced retail banking products, because that is our niche, that is our business plan and that is the community we have the expertise to serve.

Although the beginning of 1989 was clouded by less than encouraging news, involving a senior member of our management team who was discharged for cause in February, we are confident that our solid financial position will allow us to weather any resulting conditions, should they materialize. Meanwhile, we have the people, the resources, and the commitment to provide professional, courteous service to our community. We will continue to work hard to strengthen our position as the leading retail financial institution in our marketplace. With a strong and dedicated team in place, and your continued support, we have every reason to be optimistic about the year ahead and this company's future.

Sincerely,

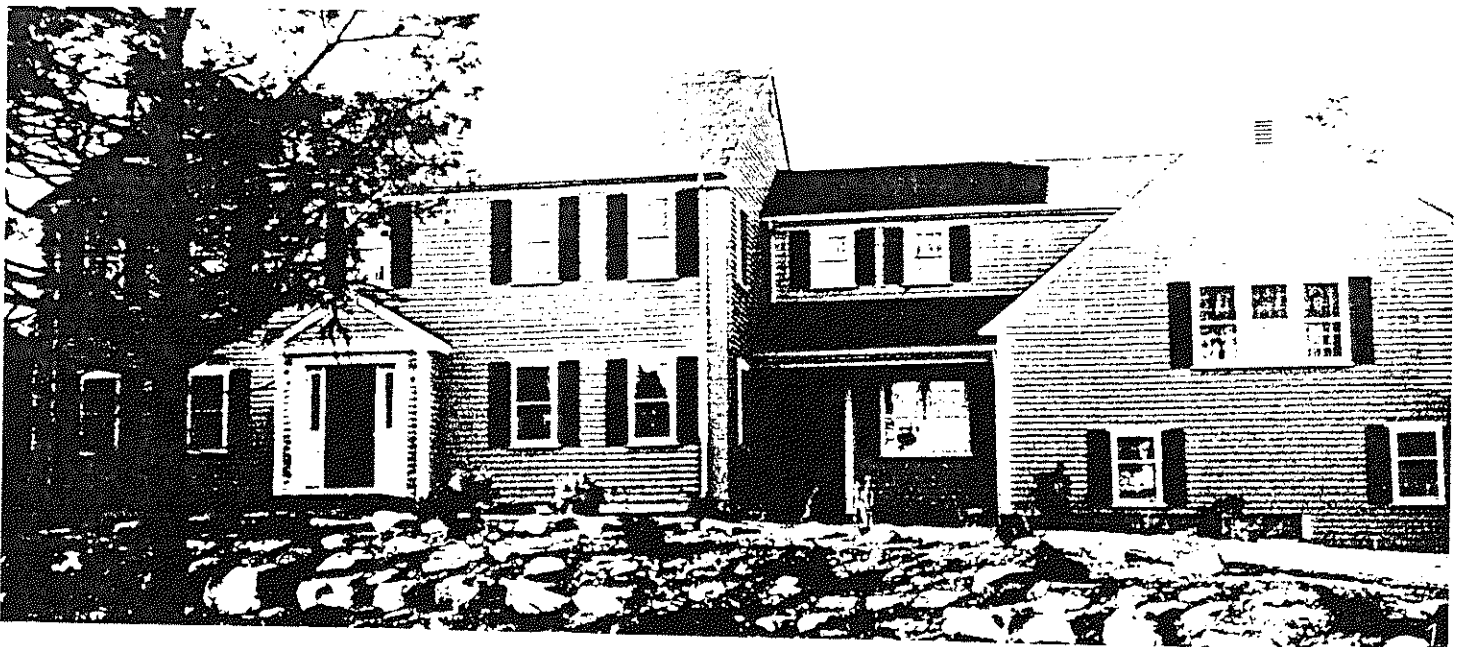
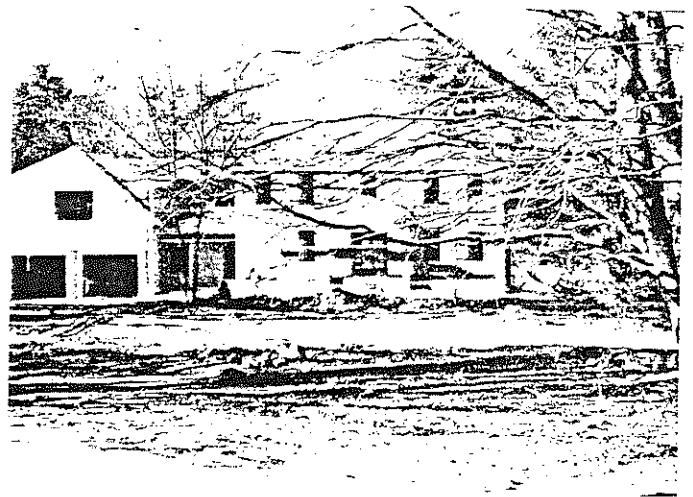
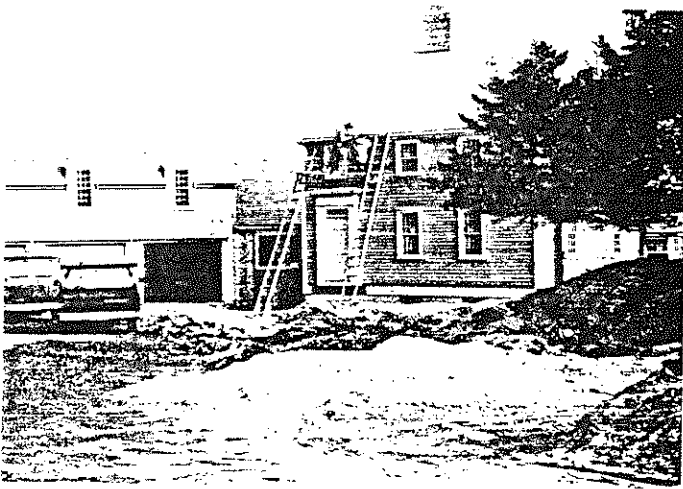
Paul E. Bulman
President and Chief Executive Officer

The Hingham Institution for Savings (H.I.S.) granted its first real estate loan on February 28, 1835. It was a loan in the amount of \$400 and had a fixed interest rate of six percent (6%). That loan launched our commitment to home ownership and was the cornerstone of our growth and success over the past 155 years. New construction of single family homes within our designated community signals a renewed spirit and affords the Bank the opportunity to establish new relationships with the growing number of individuals that have been attracted to the area.

Our success in mortgage lending is attributed to

our personal, prompt, and professional service, our always competitively priced products, and our commitment to provide a variety of mortgage loan programs. The Bank originates both fixed and adjustable rate loans which are designed to meet the needs of our customers. Historically, long-term fixed rate loans were predominant, but more recently consumers have shown a preference for the adjustable rate loan products. Of the total single family residential loans originated during the year 1988, 65% provided for periodic rate adjustments.

The Bank originates all fixed rate loans in conformance with the standards and limitations estab-

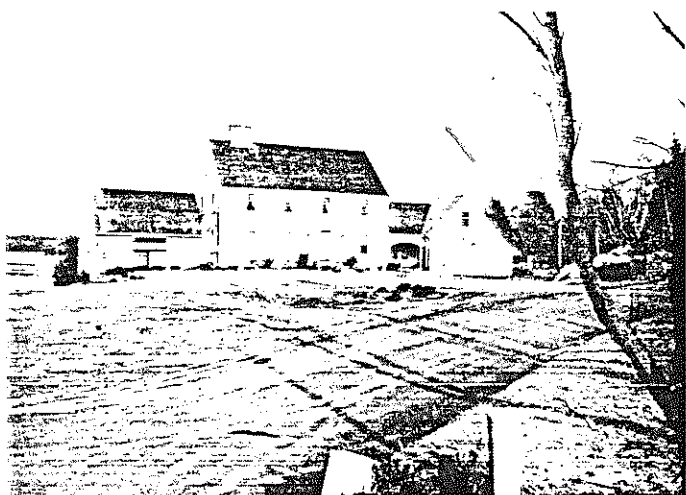




lished by the Federal Home Loan Mortgage Corporation (F.H.L.M.C.) which enables the Bank to participate in the secondary market if and when appropriate. Hingham Institution for Savings remains committed to providing home ownership opportunities to our community. The Bank recognizes its obligation to provide prompt, professional services and intends to concentrate its lending programs on the origination of residential real estate loans.

Another of the Bank's lending activities is the Home Equity Loan Program. This program was designed to afford the opportunity to consumers to

access the equity that has built up over the years in their homes, for any worthwhile purpose. One of the goals of the H.I.S. Home Equity Loan Program is to develop within the consumer loan group a product that provides for an adjustment to the interest rate and which affords the opportunity to homeowners to advantage themselves because of recent changes to the United States tax code. At December 31, 1988 there were 210 equity loans outstanding with committed credit lines of approximately \$11.0 million while drawn and outstanding balances totaled approximately \$7.0 million.

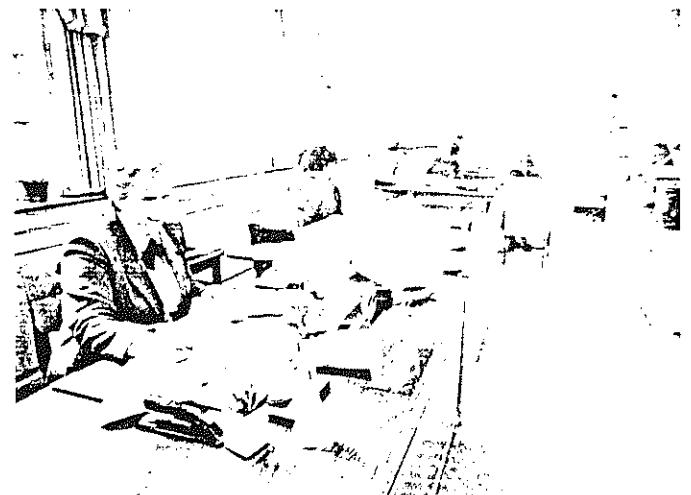
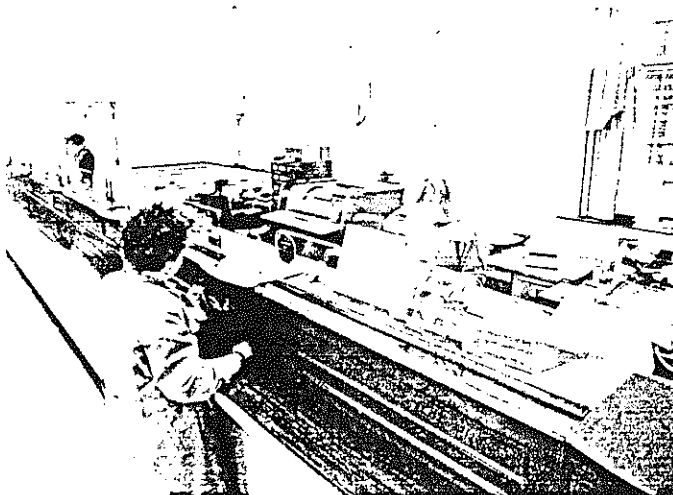


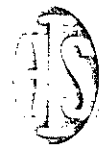


Progress and enhancement in retail banking services has been a point of emphasis for the Bank. Among our accomplishments in 1988 was the transfer of the Bank's data processing to a more sophisticated data processing service bureau. This new on-line system enables Bank personnel to more efficiently access customer records, thereby expediting our customers request for information and/or transactions. The flexibility of the new data processing system has also enabled the Bank to install state-of-the-art teller equipment at each of its offices. In

addition, we have joined the Cirrus, Yankee 24 and CashStream networks, so that our customers would have access to a nationwide A.T.M. network. In the future, the new service bureau will allow the Bank to further enhance its services because of its capacity to accommodate a variety of new products.

The Bank is committed to providing convenience to its customers and considers it to be one of the most important elements in successful retail banking operations. The Bank provides convenience through its branch offices where customers can have all of



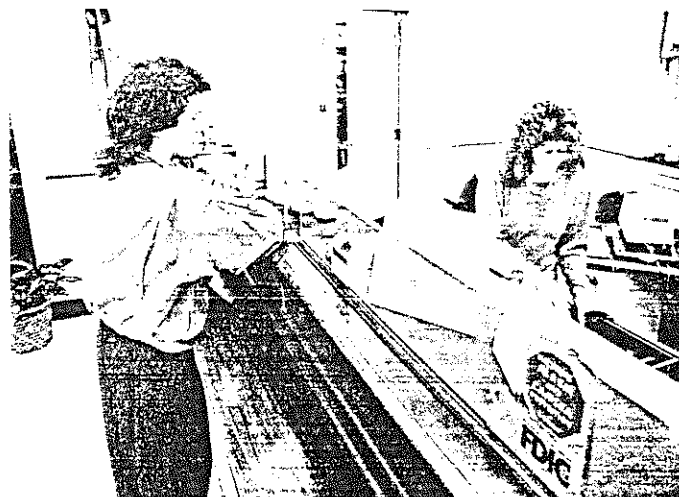


their banking needs met at a single location. H.I.S. has built a large, and growing customer base by meeting these needs with courteous and professional staff services.

We attract deposits by offering a broad range of deposit instruments, all at competitive rates and all designed to meet the individual needs of our customers. Deposit instruments include Savings, both Regular and Notice, Money Market, both Checking and Certificate, NOW Accounts, Demand Deposit, Term Certificates and Club accounts. Other services such

as access to 24-hour banking through our A.T.M. network and Safe Deposit services are also provided.

Deposit growth was lower and more controlled during the year 1988 as compared to the previous year's high because the Bank lacked the capital to properly support the rapid growth experienced during the year 1987. The conversion to stock ownership has provided the Bank with the capital resources to allow significant growth in all of our deposit programs. We now have in place the people required to manage that growth prudently and in the best interest of both our depositors and stockholders.





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GENERAL

On December 20, 1988, the Bank completed its conversion from a mutual savings bank to a stock savings bank with the sale of 1,250,000 shares of common stock at an initial offering price of \$8.50 per share. The conversion raised \$9.6 million in net proceeds for the Bank, and at December 31, 1988, the Bank's total capital amounted to \$20.8 million, or 13.2% of total assets.

The operating results of the Bank depend primarily on its net interest income, which is the difference between interest and dividend income on earning assets, primarily loans and investment securities and interest expense on interest-bearing liabilities, which consist of deposits and borrowings. The Bank's net income also is affected by the level of its other income, including gains and losses on the sale of investment securities and other assets and loan origination and other fees, and its operating expenses. All aspects of the Bank's operations are significantly affected by economics and competitive conditions and by policies of regulatory authorities. The Bank has consistently maintained positive net interest income and positive net income.

Net interest income was \$4.1 million in 1986, and \$4.3 million in 1987. For the year ended December 31, 1988, net interest income grew by 8.9% to \$4.7 million. Assets totaled \$131.8 million at December 31, 1986 and \$157.0 million at December 31, 1988, an increase of 19.1%. During this same period, equity increased from \$9.3 million to \$20.8 million. These operating results, and growth in assets and equity have been achieved in part as a result of the Bank's decision to use the advance program of the Federal Home Loan Bank of Boston (FHLBB) as a means of obtaining funding for investment in residential mortgage loans, and the conversion of the Bank from mutual to stock form on December 20, 1988.

Interest and Dividend Income. The increase in earning assets has resulted in an increase in the total interest and dividend income of \$1.1 million, or 8.7% as compared to \$262,000, or 2.1% for the previous year. Declining interest rates during the past two years have resulted in a reduction in the yield on average earning assets. The yields on average earning assets were as follows: 1986, 10.57%; 1987, 9.88%; and, 1988, 9.98%.

The Bank has pursued an aggressive policy of investing in residential mortgage loans which has

contributed to its ability to increase the level of earnings from its loan portfolio. It has increased the mortgage loan portfolio from \$88.4 million as of December 31, 1986 to \$100.3 million as of December 31, 1987, and to \$113.7 million as of December 31, 1988. The Bank intends to provide a biweekly mortgage product early in 1989 as part of its strategy to continue to build its residential mortgage loan portfolio.

Interest Expense. Declining interest rates during 1986 and 1987 resulted in a decrease in the average rate paid on deposits, 7.26% and 6.72% respectively. The average rate paid on deposits for the year ended December 31, 1988 increased to 6.90%. Deposits increased by \$19.3 million during 1986, by \$1.9 million during 1987 and \$1.4 million during 1988. Depositor's funds totaling \$2,120,000 were withdrawn in the last quarter of 1988 for the purchase of the Bank's stock. The increase in interest expense of \$105,000 for the year ended December 31, 1987 was due to the \$1.9 million increase in deposits. The increase in interest expense of \$707,000 for the year ended December 31, 1988 was due to the \$1.4 million increase in deposits, the increased average rate paid on deposits over the previous year, and \$390,000 in interest paid on advances from the FHLBB.

Provisions for Possible Loan Losses. The provision for possible loan losses was \$621,000 for the year ended December 31, 1988; \$1,038,000 for the year ended December 31, 1987; and, \$723,000 for the year ended December 31, 1986. The balance of the allowance for possible loan losses as of December 31, 1988 was \$924,000. The provision for loan losses is reviewed by management to maintain the allowance for possible loan losses at an adequate level based on the composition of the loan portfolio, economic conditions and potential charge-offs. The provision for possible loan losses is charged to earnings monthly. Loan balances are charged to the allowance when collection of the principal is considered to be unlikely.

Actual loan losses for the past three years have been as follows: for the year ended December 31, 1986, gross loan losses amounted to \$10,000; in 1987 \$1,523,000; and in 1988 \$236,000. Recoveries on loans previously charged off amounted to \$8,000 in 1986, \$2,000 in 1987, and \$14,000 in 1988.

Other Income. Total other income increased by \$313,000 or 26.4% in 1986, and decreased by \$760,000 or 50.8% in 1987, and by \$398,000 or 54.0% in 1988. The increase in total other income in



Independent Auditors' Report

We have audited the accompanying balance sheets of Hingham Institution for Savings as of December 31, 1988 and 1987, and the related statements of income and changes in stockholders' equity for each of the years in the three-year period ended December 31, 1988. We have also audited the statement of cash flows for the year ended December 31, 1988 and the statements of changes in financial position for the years ended December 31, 1987 and 1986. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hingham Institution for Savings as of December 31, 1988 and 1987, the results of its operations for each of the years in the three-year period ended December 31, 1988, the cash flows for the year ended December 31, 1988 and the changes in financial position for the years ended December 31, 1987 and 1986 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Bank adopted the provisions of Financial Accounting Standards Board's Statement No. 91 for lending transactions initiated and commitments granted on or after January 1, 1988. The Bank has also adopted the provisions of Financial Accounting Standards Board's Statement No. 95 by presenting a statement of cash flows for the year ended December 31, 1988.

Wolf & Company of Massachusetts, P.C.

Boston, Massachusetts
March 3, 1989

Balance Sheets



ASSETS

	December 31,	
	1988	1987
	(In thousands)	
Cash and due from banks	\$ 3,733	\$ 3,088
Federal funds sold	10,160	3,225
Total cash and cash equivalents	13,893	6,313
Other short-term investments (Note 2)	6,000	1,500
Investment securities—market value \$14,565,000 and \$17,178,000 (Note 3)	14,947	17,593
Loans, net (Note 4)	118,141	106,198
Banking premises and equipment, net (Note 5)	1,043	915
Real estate by foreclosure	634	—
Accrued interest receivable	1,370	1,292
Other assets	1,012	607
	<u>\$157,040</u>	<u>\$134,418</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits (Note 6)	\$124,221	\$122,788
Advance from Federal Home Loan Bank (Note 7)	10,000	—
Mortgagors' escrow payments	275	311
Accrued taxes and expenses (Note 8)	893	297
Accrued interest payable	759	686
Other liabilities	128	45
Total liabilities	<u>136,276</u>	<u>124,127</u>
Commitments and contingencies (Notes 9 and 10)		
Stockholders' equity (Note 10):		
Preferred stock, \$1.00 par value, 2,500,000 shares authorized; none issued	—	—
Common stock, \$1.00 par value, 5,000,000 shares authorized; 1,250,000 shares issued and outstanding	1,250	—
Additional paid-in capital	8,371	—
Undivided profits	<u>11,194</u>	<u>10,361</u>
	20,815	10,361
Net unrealized loss on marketable equity securities (Note 3)	(51)	(70)
Total stockholders' equity	<u>20,764</u>	<u>10,291</u>
	<u>\$157,040</u>	<u>\$134,418</u>

See accompanying notes to financial statements.



Statements of Income

	Years Ended December 31,		
	1988	1987	1986
(In thousands)			
Interest and dividend income:			
Interest on loans	\$11,680	\$10,651	\$10,265
Interest and dividend income on investment securities and mortgage-backed investments	1,430	1,626	1,455
Interest on short-term investments	508	251	546
Total interest and dividend income	13,618	12,528	12,266
Interest expense:			
Interest on deposits	8,545	8,228	8,123
Interest on Federal Home Loan Bank advance	390	—	—
Total interest expense	8,935	8,228	8,123
Net interest income	4,683	4,300	4,143
Provision for possible loan losses (Note 4)	621	1,038	723
Net interest income, after provision for possible loan losses	4,062	3,262	3,420
Other income:			
Loan origination and other loan fees	33	349	680
Fees on deposit accounts	228	232	240
Gain (loss) on sales of investment securities, net	(62)	29	(48)
Gain on sales of mortgage loans, net	—	—	99
Mutual Savings Central Fund, Inc. dividends (Note 11)	—	—	423
Miscellaneous	140	127	103
Total other income	339	737	1,497
Operating expenses:			
Salaries and employee benefits (Note 12)	1,325	1,461	1,396
Equipment expenses (Note 5)	206	173	158
Occupancy expenses (Note 5)	100	110	101
Data processing expenses	322	212	169
Other general and administrative expenses	650	585	566
Repossession expenses	—	136	—
Total operating expenses	2,603	2,677	2,390
Income before income taxes	1,798	1,322	2,527
Provision for income taxes (Note 8)	965	407	1,132
Net income	\$ 833	\$ 915	\$ 1,395

See accompanying notes to financial statements.

Statement of Changes in Stockholders' Equity



	<u>Common Stock</u>	<u>Addi- tional Paid-in Capital</u>	<u>Undivided Profits</u> (In thousands)	<u>Net Unrealized Loss on Market- able Equity Securities</u>	<u>Total</u>
Balance at December 31, 1985	\$ —	\$ —	\$ 8,051	\$ (45)	\$ 8,006
Net income	—	—	1,395	—	1,395
Increase in net unrealized loss on marketable equity securities	—	—	—	(52)	(52)
Balance at December 31, 1986	—	—	9,446	(97)	9,349
Net income	—	—	915	—	915
Decrease in net unrealized loss on marketable equity securities (Note 3)	—	—	—	27	27
Balance at December 31, 1987	—	—	10,361	(70)	10,291
Net income	—	—	833	—	833
Proceeds from the sale of common stock, net (Note 10)	1,250	8,371	—	—	9,621
Decrease in net unrealized loss on marketable equity securities (Note 3)	—	—	—	19	19
Balance at December 31, 1988	<u>\$1,250</u>	<u>\$8,371</u>	<u>\$11,194</u>	<u>\$ (51)</u>	<u>\$20,764</u>

See accompanying notes to financial statements.



Statement of Cash Flows

Year Ended December 31,

1988
(In thousands)

Cash flows from operating activities:	
Net income	\$ 833
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for possible loan losses	621
Amortization of investment securities, net of accretion.....	167
Amortization of deferred loan fees	(202)
Deferred tax benefit	(158)
Depreciation expense	157
Realized gain (loss) on sale of securities, net	62
Increase in accrued interest receivable	(78)
Increase in other assets	(405)
Increase in accrued income taxes payable	745
Increase in accrued interest payable	73
Increase in accrued expenses	9
Increase in other liabilities	83
Net cash provided by operating activities.....	<u>1,907</u>
Cash flows from investing activities:	
Proceeds from maturities of other short-term investments	4,500
Purchase of other short-term investments	(9,000)
Proceeds from sales of investment securities	13,245
Purchase of investment securities	(10,867)
Principal payments received on mortgage-backed investments	58
Principal payments received on loans	32,855
Proceeds from sale of student loans	332
Loans originated	(36,049)
Purchase of loans	(9,500)
Increase in real estate by foreclosure, net	(634)
Purchase of banking premises and equipment	(285)
Net cash used in investing activities.....	<u>(15,345)</u>
Cash flows from financing activities:	
Net decrease in deposits, excluding certificate accounts	(6,380)
Proceeds from issuance of certificates of deposit	34,101
Payments for maturing certificates of deposit	(26,288)
Proceeds from issuance of advance from Federal Home Loan Bank ..	10,000
Net increase (decrease) in mortgagors' escrow accounts	(36)
Proceeds from issuance of common stock	9,621
Net cash provided from financing activities	<u>21,018</u>
Net decrease in cash and cash equivalents	7,580
Cash and cash equivalents at beginning of year	6,313
Cash and cash equivalents at end of year	<u>\$13,893</u>

See accompanying notes to financial statements.

Statements of Changes in Financial Position



	Years Ended December 31,	
	1987	1986
	(In thousands)	
Financial resources provided by:		
Operations:		
Net income	\$ 915	\$ 1,395
Non-cash charges (credits) — provisions for depreciation, loan losses and deferred income taxes, and investment accretion, net of amortization	1,519	1,180
Financial resources provided by operations	2,434	2,575
Increase (decrease) in deposits:		
Demand	(681)	1,507
NOW	2,366	506
Regular and special notice	3,223	3,272
Money market deposits	(5,258)	1,570
Term certificates	2,288	12,482
Financial resources provided by deposits	1,938	19,337
Other activities — changes in non-earning assets and liabilities:		
Cash and due from banks	(605)	(895)
Real estate by foreclosure	1,627	(280)
Other, net	(695)	(836)
Financial resources provided by (applied to) other activities	327	(2,011)
Increase in financial resources invested in earning assets	\$4,699	\$19,901
Increase (decrease) in earning assets:		
Federal funds sold	\$2,116	\$ (4,741)
Other short-term investments	500	(1,499)
Investment securities	(5,823)	9,453
Loans, net	7,906	16,688
Increase in earning assets	\$4,699	\$19,901

See accompanying notes to financial statements.



Notes to Financial Statements

Years Ended December 31, 1988, 1987 and 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Hingham Institution for Savings (the "Bank") is a state-chartered savings bank whose deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") and the Mutual Savings Central Fund, Inc., a corporation formed by the Massachusetts legislature.

Accounting policy changes

The Bank adopted the provisions of the Financial Accounting Standard Board's Statement No. 91, "Accounting for Nonrefundable Fees and Cost Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases", to lending transactions initiated and commitments granted on or after January 1, 1988. Accordingly, loan origination and commitment fees and certain direct loan origination costs, as defined, are deferred and the net amount is amortized as an adjustment of the related yield on loans. The Bank will be generally amortizing these amounts over the contractual life of the related loans. In prior years, the Bank generally recognized loan origination and commitment fees as income in the period the loan or commitment was granted. The effect of the accounting change in 1988 was to decrease net income by \$187,000.

The Bank has also adopted the provisions of Financial Accounting Standards Board Statement No. 95 "Statement of Cash Flows", which requires companies to include a statement of cash flows rather than a statement of changes in financial position when issuing a complete set of financial statements for fiscal years ending after July 15, 1988. The statement of cash flows presents the receipts and disbursements of cash and cash equivalents according to operating, investing and financing activities. Cash and cash equivalents include cash and due from banks and federal funds sold on a daily basis. In accordance with the provisions of Statement No. 95, prior year financial statements have not been restated.

Also see "Retirement plan" below regarding change in accounting policy.

Other short-term investments

These investments generally mature within one year and are carried at cost, which approximates market value.

Investment securities

Investment securities other than marketable equity securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Marketable equity securities are stated at the lower of aggregate cost or market, as further described in Note 3. Gains and losses on disposition of investment securities are computed by the specific identification method.

Mortgage-backed investments are stated at amortized cost, reduced by principal payments. Unearned discount and premiums are recognized in income over the estimated terms of the investments by the straight-line method, the results of which do not differ materially from the interest method.

Loans

Loans, as reported, have been reduced by unadvanced loan funds, deferred loan fees, net and the allowance for possible loan losses.

Interest on loans is not accrued for loans past due 90 days or more or when, in the opinion of management, the collectibility of the principal or interest becomes doubtful.

The adequacy of the allowance for possible loan losses is evaluated on a regular basis by management. Factors considered in evaluating the adequacy of the allowance include previous loss experience, current economic conditions and their effect on borrowers and the performance of individual loans in relation to contract terms. The provision for possible loan losses charged to operating expense is based upon management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb possible losses. Loan losses are charged against the allowance when management believes the collectibility of the principal is unlikely.

Notes to Financial Statements (Continued)



Real estate by foreclosure

Real estate by foreclosure is stated at cost which approximates net realizable value.

Banking premises and equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

It is general practice to charge the cost of maintenance and repairs to earnings when incurred; major expenditures for betterments are capitalized and depreciated.

Retirement plan

In 1988, the Bank adopted the principles of Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions", which requires use of the "net periodic pension cost" method for financial reporting purposes. This method recognizes the compensation cost of an employee's pension benefit over the employee's approximate service period. Prior to 1988, the Bank used the "aggregate cost method" for financial reporting purposes and continues to use that method for funding purposes.

Income Taxes

The Bank files state and federal income tax returns on an October 31 year end.

Provisions for deferred income taxes are made as a result of timing differences between financial and income tax methods of accounting.

In previous years, investment tax credits were accounted for on the flow-through method in the year realized for federal income taxes. Subsequently, such credits have been substantially eliminated through changes in the tax law.

Earnings per share

Per share data is not presented for each of the years in the three-year period ended December 31, 1988, since shares were not issued until December 20, 1988. Accordingly, any such presentation would not be meaningful.

2. OTHER SHORT-TERM INVESTMENTS

Other short-term investments consist of the following:

	December 31,	
	1988	1987
	(In thousands)	
Term federal funds.....	\$1,000	\$ —
Interest-bearing deposits.....	5,000	1,500
	<u>\$6,000</u>	<u>\$1,500</u>



Notes to Financial Statements (Continued)

3. INVESTMENT SECURITIES

The carrying value and approximate market value of investment securities follows:

	<u>December 31, 1988</u>		<u>December 31, 1987</u>	
	<u>Carrying Value</u>	<u>Market Value</u>	<u>Carrying Value</u>	<u>Market Value</u>
(In thousands)				
U.S. Government obligations	\$ 1,502	\$ 1,473	\$ —	\$ —
Federal agency obligations	4,065	3,997	4,555	4,546
Public service obligations	750	608	1,546	1,377
Banking and finance obligations	6,186	6,124	7,099	6,992
Other bonds and obligations	552	547	2,780	2,742
Total bonds and obligations	<u>13,055</u>	<u>12,749</u>	<u>15,980</u>	<u>15,657</u>
Mortgage-backed investments	<u>630</u>	<u>554</u>	<u>688</u>	<u>596</u>
Marketable equity securities	513	462	425	355
Less valuation allowance for marketable equity securities..	(51)	—	(70)	—
Marketable equity securities, net	<u>462</u>	<u>462</u>	<u>355</u>	<u>355</u>
Federal Home Loan Bank stock	<u>800</u>	<u>800</u>	<u>570</u>	<u>570</u>
Total marketable and other equity securities	<u>1,262</u>	<u>1,262</u>	<u>925</u>	<u>925</u>
Total investment securities	<u>\$14,947</u>	<u>\$14,565</u>	<u>\$17,593</u>	<u>\$17,178</u>

Securities with carrying values of \$501,000 were pledged to secure the treasury tax and loan account and \$332,000 for other purposes at December 31, 1988.

At December 31, 1988 and 1987, there were no unrealized gains on marketable equity securities.

A schedule of the maturity distribution of investment bonds and obligations follows:

	<u>December 31, 1988</u>		<u>December 31, 1987</u>	
	<u>Carrying Value</u>	<u>Percent to Total</u>	<u>Carrying Value</u>	<u>Percent to Total</u>
(In thousands)				
Within one year	\$ 6,715*	51.4%	\$ 5,943	37.2%
Over 1 year to 5 years	5,590	42.8	8,190*	51.2
Over 5 years to 10 years	750	5.8	1,050	6.6
Over 10 years to 20 years	—	—	797	5.0
	<u>\$13,055</u>	<u>100.0%</u>	<u>\$15,980</u>	<u>100.0%</u>

* Includes a security with a carrying value of \$1,001,000 and \$1,006,000 at December 31, 1988 and 1987, respectively, for which the maturity is extendable to April 1, 1999.

Notes to Financial Statements (Continued)



4. LOANS, NET

A summary of the balances of loans follows:

	December 31,	
	1988	1987
	(In thousands)	
Mortgage loans:		
Residential.....	\$ 62,593	\$ 56,183
Commercial	18,117	25,223
Residential construction	24,867	13,247
Commercial construction	5,449	5,301
Home equity	7,049	4,700
Second mortgages	1,292	1,503
	<u>119,367</u>	<u>106,157</u>
Less unadvanced loan funds	(5,700)	(5,816)
Mortgage loans, net	<u>113,667</u>	<u>100,341</u>
Commercial loans:		
Secured	<u>430</u>	<u>693</u>
Consumer loans:		
Personal installment	3,480	3,747
Education	955	1,112
Passbook and stock secured	3	20
Revolving credit	<u>717</u>	<u>810</u>
Total consumer loans	<u>5,155</u>	<u>5,689</u>
Total loans	119,252	106,723
Less:		
Deferred loan fees, net	(187)	—
Allowance for possible loan losses	<u>(924)</u>	<u>(525)</u>
Loans, net	<u>\$118,141</u>	<u>\$106,198</u>

Included in the above net carrying values are non-accrual loans amounting to \$7,837,000 and \$1,218,000 at December 31, 1988 and 1987, respectively. As of December 31, 1988, the non-accrual loans included \$3,136,000 of one-to-four family residential real estate loans and \$4,701,000 of condominium and other commercial real estate loans. Specific allowances of \$500,123 have been allocated to these loans at December 31, 1988. The remainder of the allowance is unallocated.

At December 31, 1988 and 1987, the amounts unadvanced under home equity lines of credit amounted to \$4,128,000 and \$2,872,000, respectively.



Notes to Financial Statements (Continued)

LOANS, NET — (Continued)

An analysis of the allowance for possible loan losses follows:

	Years Ended December 31,		
	1988	1987	1986
	(In thousands)		
Balance at beginning of year	\$ 525	\$1,008	\$ 287
Provision for possible loan losses	621	1,038	723
Recoveries	14	2	8
	1,160	2,048	1,018
Loans charged off	(236)	(1,523)	(10)
Balance at end of year	<u>\$ 924</u>	<u>\$ 525</u>	<u>\$1,008</u>

5. BANKING PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of banking premises and equipment and their estimated useful lives follows:

	December 31,	
	1988	1987
	(In thousands)	
Banking premises:		
Land	\$ 173	\$ 173
Buildings	840	840
Equipment	904	737
	1,917	1,750
Less accumulated depreciation	(874)	(835)
	<u>\$1,043</u>	<u>\$ 915</u>

Depreciation expense for the years ended December 31, 1988, 1987 and 1986 amounted to \$157,000, \$137,000 and \$127,000, respectively.



6. DEPOSITS

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

	December 31,	
	1988	1987
	(In thousands)	
Demand	\$ 4,751	\$ 3,318
NOW	7,174	8,187
Regular and special notice	25,861	26,661
Money market deposits	26,096	32,096
Total non-certificate accounts	63,882	70,262
Term certificates:		
Term certificates of less than \$100,000	52,880	45,867
Term certificates of \$100,000 and over	7,459	6,659
Total term certificates	60,339	52,526
Total deposits	<u>\$124,221</u>	<u>\$122,788</u>

A summary of term certificates, by maturity, as of December 31, 1988, is as follows:

	Amount	Weighted
	(In thousands)	Average
		Rate
Within 1 year	\$44,205	8.69%
Over 1 year to 2 years	7,499	7.68
Over 2 years to 3 years	5,697	8.28
Over 3 years	2,938	8.55
	<u>\$60,339</u>	8.54%

Interest paid on deposit accounts for the year ended December 31, 1988 amounted to \$8,543,000.

7. ADVANCE FROM FEDERAL HOME LOAN BANK

The advance from the Federal Home Loan Bank of Boston on December 31, 1988 consists of \$10,000,000 at an interest rate of 8.25% due January 13, 1989. The advance requires interest to be payable monthly, with principal due upon maturity, and is secured by the Federal Home Loan Bank

stock and mortgage loans on real estate, in an amount equal to at least 200% at the outstanding advances. Interest expense applicable to the advance amounted to \$390,000 for the year ended December 31, 1988. Interest paid on borrowed funds amounted to \$319,000 for the year ended December 31, 1988.



Notes to Financial Statements (Continued)

8. INCOME TAXES

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

	Years Ended December 31,		
	1988	1987	1986
	(In thousands)		
Current tax provision:			
Federal	\$ 772	\$276	\$ 777
State	351	112	252
	<u>1,123</u>	<u>388</u>	<u>1,029</u>
Deferred tax provision (benefit):			
Federal	(126)	14	81
State	(32)	5	22
	<u>(158)</u>	<u>19</u>	<u>103</u>
	<u>\$ 965</u>	<u>\$407</u>	<u>\$1,132</u>

The deferred income tax provision (benefit) is a result of certain income and expense items being accounted for in different time periods for financial reporting purposes than for income tax purposes. The tax effects of these differences are as follows:

	Years Ended December 31,		
	1988	1987	1986
	(In thousands)		
Deferred loan origination fees	\$ (77)	\$ —	\$ —
Cash basis accounting for tax purposes	(70)	34	51
Other	(11)	(15)	52
	<u>\$(158)</u>	<u>\$19</u>	<u>\$103</u>

Federal and state income taxes paid during the year ended December 31, 1988 amounted to \$378,000.

As of December 31, 1988 and 1987 the balance sheets include deferred income taxes payable of \$28,000 and \$186,000, respectively.

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

	Years Ended December 31,		
	1988	1987	1986
	(In thousands)		
Statutory rates	34.0%	40.0%	46.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	11.7	5.4	5.9
Bad debt deduction	7.1	(15.8)	(6.2)
Other, net9	1.2	(.9)
Effective tax rates	<u>53.7%</u>	<u>30.8%</u>	<u>44.8%</u>



9. COMMITMENTS

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

Employment agreements

The Bank has entered into Executive Employment Agreements with the Bank's President and Chief Executive Officer, Mr. Bulman, and two other senior officers, providing a specified minimum annual compensation and the continuation of benefits currently received. The period of the agreements with Mr. Bulman is for three years commencing on February 15, 1989 and with the other two officers for one year commencing on December 20, 1988. All agreements provide for an automatic extension of one year on each anniversary date and termination for cause, as defined. The Bank has also entered into Special Termination Agreements with the three officers, which provide for certain lump-sum severance payments within a three-year period following a "change of control" as defined in the agreements.

Employment agreement - litigation

The Bank has had an Executive Employment and Insurance Agreement with its former President and Chief Executive Officer ("the Executive") since January 1, 1985 and as subsequently amended, providing minimum annual compensation, participation in bonus awards or other incentive compensation plans. The Agreement also provided an executive retirement benefit in excess of the retirement benefit provided by the Savings Banks Employees Retirement Association. However, on February 2, 1989, the Board of Directors of the Bank removed "for cause" the Executive pursuant to the Bank's By-Laws. According to the Agreement, if at any time the employment of the Executive is terminated by the Bank "for cause", he shall not be entitled to payment of benefits provided in the Agreement after such date of termination. On February 3, 1989, the Bank filed a civil suit in Plymouth Superior Court against the Executive for injunctive relief and damages. As of March 2, 1989, the Executive had not filed an answer to the Bank's complaint. According to the Bank's special counsel, based upon the facts currently available, the Bank would have strong grounds to mount a successful defense if any such claim were to be filed. Management would vigorously defend the Bank against any such claim.

As a result of a special study in connection with the civil action for damages and relief filed by the Bank on February 3, 1989, the following accounting adjustments have been applied to these financial statements:

	(In thousands)
Reversal of retirement benefits accrual for the Executive	\$254
Reversal of accrued interest on additional non-performing loans	(65)
Additional provision for possible loan losses	(214)
Related tax effect of adjustments	(75)
Net decrease in fourth quarter operations	<u>\$(100)</u>

Firm commitments to grant loans amounted to approximately \$1,689,000 at December 31, 1988.

Prior to December 31, 1988, the Bank entered into an agreement to purchase land and a building located in Hingham. Subsequent to December 31, 1988, the land and building were purchased at a cost of \$950,000.

10. STOCKHOLDERS' EQUITY

As a federally insured savings institution, the Bank is subject to regulation by the Federal Deposit Insurance Corporation ("FDIC"). The capital maintenance requirements of the FDIC call for a minimum of 5.5% in primary capital and a maximum of .5% in secondary capital, or a total regulatory capital of 6%, in terms of adjusted total assets. At December 31, 1988, the Bank's total regulatory capital exceeded these requirements.

At October 31, 1988, the date of filing of income tax returns, the total reserve for loan losses for federal income tax purposes amounted to approximately \$3,781,000. If this amount, or any portion thereof, is used for purposes other than to absorb the losses for which established, an amount up to approximately one and one half times the amount actually used must be included in gross income for federal income tax purposes in the fiscal year in which used. As the Bank does not intend to use the reserves for purposes other than to absorb loan losses, deferred taxes have not been provided on these amounts.



Notes to Financial Statements (Continued)

On December 20, 1988, the Bank completed conversion from a Massachusetts chartered saving bank in mutual form to a Massachusetts chartered savings bank in stock form by sale of 1,250,000 shares of common stock at \$8.50 a share. The net proceeds received were \$9,621,000 after deducting conversion costs of \$1,004,000.

At the time of conversion, the Bank established a liquidation account in an amount of \$11,013,000. In accordance with Massachusetts statute, the liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts in the Bank after the conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation. In the event of complete liquidation, eligible account holders will be entitled to receive a distribution in an amount equal to their current adjusted liquidation account balances to the extent that funds are available.

The Bank may not declare or pay cash dividends on its shares of common stock if the effects thereof would cause the stockholders' equity to be reduced below applicable capital maintenance requirements or below the balance of the liquidation account, or if such declaration and payments would otherwise violate regulatory requirements.

On September 1, 1988, the Board of Trustees adopted a stock option plan under which options may be granted to directors and such officers and other employees as the Board may determine. The Plan is subject to the approval of the stockholders. Shares of common stock up to 125,000 may be reserved for issuance pursuant to options granted under the plan. Both "incentive options" and "non-qualified options" may be granted under the plan. All options granted under the plan will have 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 is granted and will have a maximum option term of 10 years. As of December 31, 1988, 53,600 stock options had been granted by the Board of Directors subject to stockholder approval. None of the options granted are presently exercisable or have been exercised.

11. MUTUAL SAVINGS CENTRAL FUND, INC. DIVIDENDS

In recent years, most banks whose deposits were previously insured only by the Mutual Savings Central Fund, Inc. obtained FDIC insurance. This has resulted in excess amounts being accumulated in the Fund because the Fund's insurance covers only deposits in excess of FDIC insurance limitations for FDIC insured banks. As a result, liquidation dividends amounting to \$423,000 were received in 1986.

12. PENSION AND EMPLOYEE INCENTIVE PLANS

Pension plan

The Bank provides basic and supplemental benefits for eligible employees through the Savings Banks Employees Retirement Association ("SBERA") Pension Plan. Each employee reaching the age of 21 and having completed at least 1,000 hours of service per twelve-month period in three consecutive twelve-month periods beginning with such employee's date of employment automatically becomes a participant in the retirement plan. All participants are fully vested at the time of enrollment.

Pension expense, under the plan, for the year ended December 31, 1988, consisted of the following:

	(In thousands)
Service cost	\$ 56
Interest cost	110
Return on plan assets	(157)
Net amortization and deferral	3
Amortization of net gain	<u>51</u>
Net cost	<u>\$ 63</u>

The effect of the change in the method of accounting in 1988 resulted in a reduction of pension expense by \$25,000, and an increase in net income by approximately \$13,000.

Total pension expense for the years ended December 31, 1987 and 1986 amounted to \$99,000 and \$106,000, respectively.



According to the SBERA's actuary, the funded status of the plan at October 31, 1988 (latest available) is as follows:

(In thousands)

Plan assets at fair value	\$1,336
Actuarial present value of projected benefit obligation (substantially vested)	<u>1,477</u>
Excess of projected benefit obligation over plan assets	(141)
Unrecognized net loss	115
Unrecognized net obligation at inception of FASB 87	<u>51</u>
Deferred pension cost	<u>\$ 25</u>

Actuarial assumptions include an assumed discount rate on benefit obligations of 7.25%, an expected long-term rate of return on plan assets of 8.25% and salary increases of 6%.

Employee incentive plan

The Bank maintains an incentive plan whereby employees are eligible to receive a bonus based on their respective salaries and years of service dependent on the Bank's earnings. Total expense under the incentive plan for the years ended December 31, 1988, 1987 and 1986 amounted to \$157,000, \$168,000 and \$156,000, respectively.

13. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to its officers and Directors and their affiliates. The total amount of such loans amounted to \$912,000 at December 31, 1988 and \$1,873,000 at December 31, 1987. During the year ended December 31, 1988, total principal additions were \$562,000 and total principal payments were \$1,523,000.



Notes to Financial Statements (Concluded)

14. QUARTERLY DATA (UNAUDITED)

Summaries of operating results on a quarterly basis for the years ended December 31, 1988 and 1987 are as follows:

Years Ended December 31,	1988				1987			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
	(In thousands)							
Interest and dividend income	\$3,708	\$3,474	\$3,270	\$3,166	\$3,252	\$3,155	\$3,055	\$3,066
Interest expense	2,382	2,316	2,110	2,127	2,088	2,074	2,039	2,027
Net interest income	1,326	1,158	1,160	1,039	1,164	1,081	1,016	1,039
Provision for possible loan losses (1)	338	162	87	34	230	30	28	750
Net interest income, after provision for possible loan losses	988	996	1,073	1,005	934	1,051	988	289
Other income	55	109	83	92	170	162	198	207
Operating expenses	(496)	(710)	(784)	(613)	(628)	(692)	(690)	(667)
Income (loss) before income taxes	547	395	372	484	476	521	496	(171)
Provision (benefit) for income taxes (2)	404	177	167	217	146	160	153	(52)
Net income (loss)	<u>\$ 143</u>	<u>\$ 218</u>	<u>\$ 205</u>	<u>\$ 267</u>	<u>\$ 330</u>	<u>\$ 361</u>	<u>\$ 343</u>	<u>\$(119)</u>

Notes:

- (1) The significant provisions for possible loan losses in 1987 are attributable to a group of commercial loans made to a marine dealership which were charged off in full in 1988. Significant provisions in 1988 were made for a commercial real estate loan in connection with a business condominium, and the results of a special loan study; see Note 9, Employment agreement-litigation.
- (2) The higher effective rate of income taxes provided in 1988 is attributable to provisions for possible loan losses which are, in part, not deductible for income tax purposes and additional current tax expense due to the required conversion to the accrual method for tax purposes.

Board of Directors



Paul E. Bulman
President and C.E.O.
Hingham Institution for
Savings

Robert F. Cass
Vice President and Treasurer
Hingham Institution for
Savings

J. Robert Crowley
Marketing Manager
Hingham Institution for
Savings

Jon S. Davis
Partner
Driscoll & Davis
Directorship in
Cape Cod Melody
Tent, Inc.

Richard B. Lane
Partner
Lane, Lane & Kelly

John R. Lombardo
President & Owner of
High Vacuum
Equipment Corp.

Vito A. Nardo
President
BLT Spirits, Inc.

Warren B. Noble
President
Noble's Camera Shop

Gerard W. Pyne
Chairman
Hingham Institution for
Savings
Certified Public Accountant

Russell G. Sears
President and C.E.O.
Developmental Expeditions, Inc.

Herbert E. Soini
Senior Mechanical Engineer
Thermo Electron Corp.

Helen Summers
Former member of the Town
of Hingham Advisory Committee,
Retired

David L. Wightman
Vice President
Alewife Land Corp.

OFFICERS AND MANAGERS

Gerard W. Pyne
Chairman

Paul E. Bulman
President and C.E.O.

Robert F. Cass
Vice President and Treasurer

Michael Donahue
Vice President/Lending

Irma M. James
Assistant Vice President

David L. Delano
Assistant Vice President

Helen Fuda
Assistant Treasurer

Edward Zec
Assistant Treasurer

J. Robert Crowley
Clerk of Bank



Stockholder's Information

Hingham Institution for Savings
55 Main Street
Hingham, MA 02043
617-749-2200

Paul E. Bulman
**President and Chief
Executive Officer**

Robert F. Cass
Vice President and Treasurer

Transfer Agent
The Connecticut Bank & Trust Co.
One Constitution Plaza X04B
Hartford Connecticut 06115
1-800-523-2097 Out-of-State
1-800-255-6510 Connecticut Only

**Independent Certified Public
Accountants**
Wolf & Company of Massachusetts, P.C.
One International Place
Boston, MA 02110

General Counsel
Bingham, Dana & Gould
150 Federal Street
Boston, MA 02110

Form F-2

A copy of the Bank's Annual Report on Form F-2 for the fiscal year ended December 31, 1988, as filed with the Federal Deposit Insurance Corporation, may be obtained without charge, by any stockholder of the Bank upon written request addressed to the Investor Relations Department.

STOCK DATA

Hingham Institution for Savings shares are listed and traded on the NASDAQ National Market System under the symbol HIFS.

The following table sets forth the high and low bid price for the Bank's common stock since December 20, 1988, the date of conversion, as reported by NASDAQ.

1988	Common Stock	
	High	Low
4th Quarter (since Dec. 20, 1988).....	\$8.50	\$8.50

Additional stock information at March 8, 1989:

Closing sale price:	\$8.50
Number of shares outstanding:	1,250,000
Approximate number of shareholders:.....	650

