Hingham Institution for Savings

1989 ANNUAL REPORT

"RAINBOW ROOF" HOUSE

One of the best known historic structures in Hingham is the Jabez Wilder, or "Rainbow Roof" house on Main Street just south of Tower Brook. Jabez Wilder was a son of the first Edward Wilder, ancestor of all who have that name in Hingham and environs. In his 1728 will, Jabez bequeathed to his son, Jabez, the "New Dwelling House on the side of the highway at South Hingham." Ships' carpenters built the house, with its unusual curved roof construction, in the latter part of the 17th century.

EDWARD WILDER HOUSE

The Wilder homestead, still standing on Main Street south of High Street, was a typical Cape Cod style cottage when the first part of it was constructed in 1650. But Edward Wilder's family of 16 girls and 5 boys necessitated its enlargement several times. Edward was a descendant of the first Edward Wilder who was among the earliest settlers in Hingham and who was granted 10 acres in "a place as convenient as discovered." This was also the birthplace of Joshua Wilder, the clockmaker.

The Wilder house was the scene of the romance in the novel "The Nameless Nobleman" by Jane Austen, who told of the confinement of a French nobleman, Francis Le Baron, during the colonial wars, and who was cared for by Molly Wilder whom he later married.

WILDER MEMORIAL

When Martin Wilder, a "carriage-smith" by profession, one of 21 brothers and sisters, died in 1854, his will provided for a number of legacies, among them, one giving to "the shareholders of the Third or Social Library, situated in the South Parish, my library and the bookcases in which said books are deposited." His will provided also for an evening school, for a charitable fund, and a fund for "purchasing coal and wood for the comfort of the poor and destitute." However, trustees of the estate finding it impractical to carry out all the provisions of the Wilder will, sought relief in the courts. The result was a decree in 1878 to permit the trustees to erect Wilder Memorial, the building pictured here. It was dedicated in 1879 to educational purposes, providing books and papers, and lectures on literary, scientific and historical subjects for the "instruction and improvement of the inhabitants of that part of Hingham designated as the South Parish."

HINGHAM HARBOR

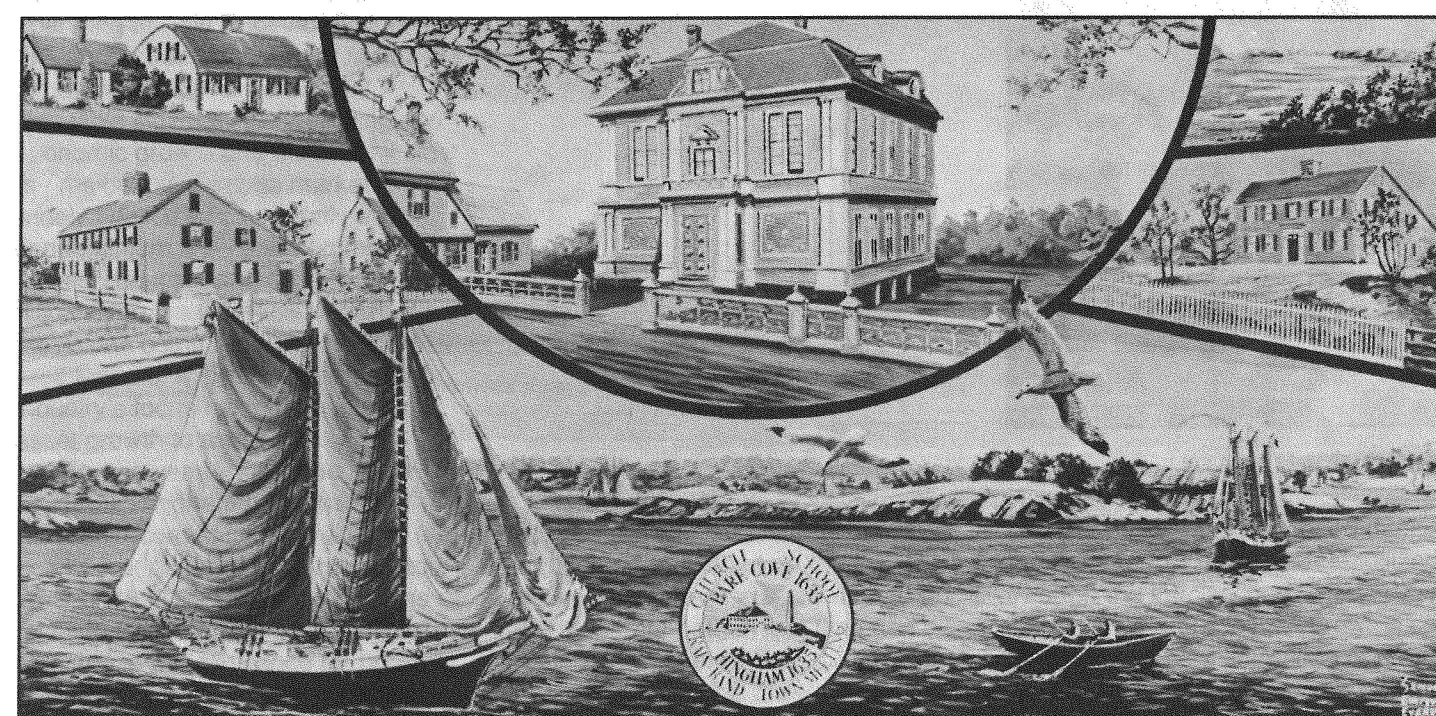
This painting was made from a location on Crow Point looking in the direction of the mainland, with Ragged Island and a tip of Sarah Island in the center.

THE HOME MEADOWS

The Home Meadows is viewed here to the north-east of Winter Street. Shown is a meandering stream which in prehistoric times was the Weir River. The glacial era changed the course of the river by piling stones and gravel to form an esker along East Street. As a consequence, the river flows into the sea east of East Street. A trickle of water continues to seep into the Home Meadows which is flooded in part by salt water tides twice daily. The Home Meadows embraces an area of 22 acres of which five are water and the rest upland. Salt hay, grown on the Home Meadows, was a muchly desired animal food in an earlier Hingham.

"SIGN OF THE ANCHOR" TAVERN

The "Sign of the Anchor" tavern stood on a rise at the corner of South Street and Lafayette Avenue. The original tavern was a provincial structure erected prior to 1697 as a dwelling for Caleb Bates. It was replaced by the building pictured here in 1767 and continued in use as a tavern until 1798 when its business sign was removed. One of the Lincolns had acquired it and remodeled it into a residence. The building was taken down in 1947. Lafayette Avenue commemorates the visit to the tavern of the Marquis de Lafayette when he had occasion to spend the night there in 1778 during the American Revolution.



HINGHAM'S FORTS

Although "great troupes of well proportioned people" which Capt. John Smith described on his visit to these parts in 1614 had been greatly decimated by a mysterious plague, Hingham was comparatively free of Indian ravages. Yet, vigilance was felt necessary. So, three forts were built against possible Indian outbreaks. One of these, the one pictured on the Town seal, still remains in a corner of Hingham Cemetery. Despite these forts, Indian raids did occur in Hingham and a number of houses were burned and several residents were victims of savage attacks. In 1655, a deed was negotiated with Chief Wompatuck with property claims dating back to the beginning of the world. In the center of the old fort in the cemetery, an excavated hollow surrounded by a mound of earth, a granite shaft was erected in 1839 to commemorate the first settlers of Hingham.

President's Message

Dear Stockholder:

The year 1989 has been a most challenging and troubling year for the vast majority of financial institutions operating in New England. Following an unprecedented period of robust expansion, 1989 witnessed the inevitable slowdown in New England economic growth and hardest hit was the region's real estate market. The widely publicized oversupply of condominium units and commercial development lending contributed significantly to the increase in loan loss provisions being reported routinely by area lenders. It is now clear that the industry's focus has changed from asset growth to asset quality.

For the year ended December 31, 1989, Hingham Institution for Savings recorded a loss of $2,339,000 or $1.87 per share, as compared to a profit of $833,000 in 1988. The loss resulted from management's decision to increase the allowance for possible loan losses through provisions that totaled $3,500,000 for the year. The provision was arrived at after an extensive review of all loans for the purpose of identifying those which have deteriorated in quality and represents management's best estimate of the potential collectibility.

Non accrual loans increased from $7,837,000 reported as of December 31, 1988 to $16,468,000 as of December 31, 1989. They include $10,536,000 in single family construction and residential mortgages, $2,963,000 in condominium loans, $2,255,000 in commercial real estate loans and $714,000 in installment loans. The foreclosure process is long and tedious but well underway and we expect that with appropriate reserves now in place, a significant reduction in non accrual loans will be realized during the first half of the year.

Litigation involving a senior member of our management removed for cause in February of 1989, and certain borrowers continues. I know that you are well aware of the cost of litigation and its effect on the profits of any company and certainly its had an effect on ours both in lost time and resources. However like you, I too have invested in the future of this bank and I expect that investment to prosper. I can assure you that our non-earning assets can be dealt with, but because we are a local community bank we will not prosper until our image and reputation are restored. Therefore, as your Chief Executive Officer, it is my intent to pursue this matter and to seek recovery to the fullest extent of the law.

Finally, on a more positive note, 1989 had its accomplishments. We relocated our loan department to a first floor location as we told you we would; and it compliments our retail banking efforts very nicely. All of our branch offices were refurbished and are now clean and pleasant environments in which to conduct business. Deposit outflows experienced during the first quarter have been stabilized through the introduction of new deposit instruments and are now growing once again. Large concentrations of credit were significantly reduced. Problem assets were divested of, or collateral values were enhanced. Two new directors with impressive credentials in banking and real estate development operations were elected to our Board of Directors and despite the loss, our capital to asset ratio of 11.95% remains very strong.

The many existing strengths of the bank and the measures taken to build on them give reason to be optimistic however because of a deteriorating real estate market and the general downturn in the New England economy we must approach the year 1990 fully aware of the existing market climate. With your continued support we will continue to work hard to accomplish the tasks ahead.

Sincerely,

Paul E. Bulman

Paul E. Bulman
President and Chief Executive Officer

Retail Banking

Continued progress in retail banking remains a priority at Hingham Institution for Savings. The introduction of the Step Money Market Account during the second quarter of 1989 was developed to afford our customers an interest rate that was commensurate to the balance maintained. This account incorporates four interest rates. Each day the account balance qualifies for one of these rates and earns accordingly. Interest continues to be compounded continuously, and paid monthly.

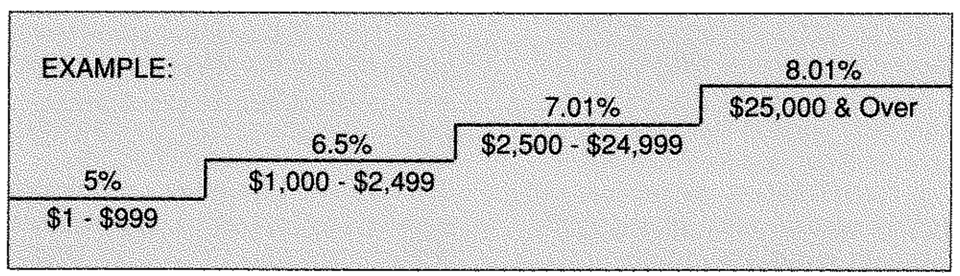
The Step Money Market Account has no management fee, and six third party transactions per statement period are permitted. No more than three of these transactions can be effectuated by check. However, there are no restrictions on the size and frequency of withdrawals by mail, messenger, or in person to another account of the depositor or by check to the depositor. The effect of initiating this new product was a growth in these accounts from $19 million in May to $24 million in December, an increase of $5 million.

You may also access this account with our Hingham 24 Automatic Teller Card, throughout the United States. Applications are available at all offices.

To attract and retain customers, the Bank will continue to offer a broad range of deposit instruments with competitive rates. Deposit instruments include Regular Savings and Special Notice Savings, Money Market both checking and certificate, Now accounts, Demand Deposit, Term Certificates, and Club accounts.

A general concern to all depositors in a changing and volatile financial environment is the security of their deposit funds. At H.I.S. deposits are insured in full with the first $100,000 insured by Federal Deposit Insurance Corporation and the balance by the Deposit Insurance Fund of Massachusetts.

All of our branch offices were completely refurbished during the year and now provide automatic tellers, drive-in banking and night deposit services. H.I.S. is committed to providing convenience to its customers through the one stop banking concept. Adequate facilities and appropriate personnel that allows our customers to conduct all of their banking business at a single location is now complete. Pictured below is our largest branch office located at 37 Whiting Street, Hingham, MA.



Loan Department

The Hingham Institution for Savings (H.I.S.) remains committed to providing home ownership opportunities within its designated lending area and intends to concentrate its mortgage programs on the origination of residential real estate loans. Our goal is to provide personal, professional, and prompt service designed to meet the individual needs of our customers and the Bank welcomes the opportunity to establish new relationships within our community.

The Bank's competitively priced products include a variety of both fixed and adjustable rate mortgage loan programs. H.I.S. originates all fixed rate loans in conformance with the guidelines and requirements established by the Federal Home Loan Mortgage Corporation (F.H.L.M.C.) which enables the Bank to participate in the secondary market when appropriate.

Of the new mortgage loans written by the H.I.S. in 1989, 87% were originated within the Bank's designated lending area. The Bank's primary focus has been on the origination of residential mortgage loans. The Bank's construction loan portfolio, therefore, has decreased from $30,316,000 reported as of December 31, 1988 to $21,787,000 at December 31, 1989.

A new mortgage product, the bi-weekly fixed rate mortgage, was offered to the Bank's customers during the latter part of 1989. Bi-weekly payments reduce the principal balance sooner, saving thousands of dollars in interest and years off the term of the mortgage. Twenty-six bi-weekly payments during the calendar year (equal to 13 monthly payments) result in substantial savings to the customer.

Although the real estate market, has been hard hit by the regions economic slowdown which resulted in a sharp decline in property values within some lending areas, the Bank's primary lending area has shown no significant decrease in property values. Modest depreciation in value was evidenced in the Towns of Hingham, Cohasset, Scituate and Norwell and the real estate market remains fairly active.

The Bank's home equity loan program, which was designed to afford the opportunity to consumers to access the equity that has built up in their homes over the years, provides a line of credit to home-owners at reasonable rates which may be used at any time, for any worthwhile purpose.

In the consumer loan area, the Bank offered a special Washington's Birthday promotional auto loan rate and an additional discount incentive of 1/2% with $1,000 or more on deposit and pre-authorized payments. In February of 1989, the Bank wrote automobile loans in excess of $400,000. This promotion will be an annual automobile program targeted towards the February new car sales.

Our educational loan program (Stafford Guaranteed Loan) is a continuing service to our community. H.I.S. participation in the secondary market (Nellie Mae) enables the Bank to fulfill its commitment to providing educational opportunities to our community by assisting applicants with the financial aid process.

Selected Financial Data

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

	December 31,				
	1989	1988	1987	1986	1985
			(In thousands)		
Balance Sheet Data:					
Total assets	$150,633	$157,040	$134,418	$131,804	$111,341
Loans:					
Mortgage	110,132	113,667	100,341	88,362	73,491
Commercial	947	987	693	5,767	3,488
Consumer	5,555	4,598	5,689	6,209	6,673
Total Loans	116,634	119,252	106,723	100,338	83,652
Deferred loan fees	115	187	—	—	—
Allowance for possible loan losses	3,381	924	525	1,008	287
Loans, net	113,138	118,141	106,198	99,330	83,365
Investments	23,455	20,947	22,318	25,822	22,888
Deposits	116,345	124,221	122,788	120,850	101,513
Borrowings	15,000	10,000	—	—	—
Stockholders' equity	17,999	20,764	10,291	9,349	8,006

	Years Ended December 31,				
	1989	1988	1987	1986	1985
			(Dollars in thousands)		
Operating Data:					
Interest and dividend income	$ 13,018	$ 13,618	$ 12,528	$ 12,266	$11,170
Interest expense	9,455	8,935	8,228	8,123	7,621
Net interest income	3,563	4,683	4,300	4,143	3,549
Provision for possible loan losses	3,500	621	1,038	723	107
Gain (loss) on sales of securities, net	(1)	(62)	29	(48)	(111)
Other income	389	401	708	1,545	1,295
Operating expenses	3,302	2,603	2,677	2,390	2,012
Income (loss) before income taxes	(2,851)	1,798	1,322	2,527	2,614
Provision (benefit) for income taxes	(512)	965	407	1,132	1,012
Net income (loss)	$ (2,339)	$ 833	$ 915	$ 1,395	$ 1,602
Loss per share	$ (1.87)				
Financial ratios:					
Return (loss) on average assets	(1.58)%	0.58%	0.69%	1.14%	1.54%
Return (loss) on average equity	(11.60)	7.23	9.46	15.99	22.54
Equity to assets	13.61	8.07	7.26	7.16	6.82
Interest rate spread	1.77	3.08	3.16	3.31	3.22
Net yield on average earning assets	2.52	3.43	3.39	3.57	3.55

Management's Discussion & Analysis

The operating results of the Bank depend primarily on its net interest income, which is the difference between interest and dividend income on earnings 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 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.

Net interest income was $4.3 million in 1987, and $4.7 million in 1988. For the year ended December 31, 1989, net interest income decreased by 23.9% to $3.6 million. Assets totaled $157.0 million on December 31, 1988, and $150.6 million on December 31, 1989; a decrease of 4.1%. During this period, equity decreased from $20.8 million to $18.0 million.

Interest and Dividend Income. The decrease in earning assets has resulted in a decrease in the total interest and dividend income of $600,000, or 4.4% as compared to an increase of $1.1 million, or 8.7% for the previous year. The yields on average earning assets were as follows: 1987, 9.88%; 1988, 9.98%; and, 1989, 9.21%.

Interest Expense. Increasing interest rates during 1987 and 1988 resulted in an increase in the average rate paid on deposits, 6.72% and 6.90% respectively. The average rate paid on deposits for the year ended December 31, 1989 increased to 7.28%. Deposits increased by $1.9 million during 1987, by $1.4 million during 1988 and decreased by $7.9 million during 1989.

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. The increase in interest expense of $520,000 for 1989 consisted of a decrease of $99,000 or 1.16% in interest on deposits, and an increase of $619,000 in interest paid to the Federal Home Loan Bank of Boston for increased average advances outstanding during the year.

Provisions for Possible Loan Losses. The provision for possible loan losses was $3,500,000 for the year ended December 31, 1989; $621,000 for the year ended December 31, 1988, and, $1,038,000 for the year ended December 31, 1987. The balance of the allowance for possible loan losses as of December 31, 1989 was $3,381,000. 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, 1987, gross loans charged off amounted to $1,523,000; in 1988, $236,000; and in 1989, $1,081,000. Recoveries on loans previously charged off amounted to $2,000 in 1987, $14,000 in 1988, and $38,000 in 1989.

Other Income. Total other income decreased by $760,000 or 50.8% in 1987, and by $398,000, or 54.0% in 1988, and increased by $49,000 or 14.5% in 1989.

The decrease in total other income in 1988 is attributed in part to the implementation of Financial Accounting Standard Board's Statement No. 91 ("FASB 91"). FASB 91 has the effect of deferring net loan fees that would have otherwise been immediately reflected as income. The effect of FASB 91 on the Bank's other income resulted in a decrease of $110,000. Losses totaling $62,000 in 1988 versus gains of $29,000 in 1987 from the sale of investment securities also contributed to the decrease in total other income for the year ended December 31, 1988.

The increase of $49,000 in total other income in 1989 is attributed in part to the increase in miscellaneous fees and non-recurring interest.

Operating Expenses. The Bank's total operating expenses as a percentage of average assets are 2.01% for 1987, 1.82% for 1988, and 2.23% for 1989.

Total operating expenses increased by $287,000 or 12.01% during 1987, decreased by $74,000 or 2.76% during 1988 and increased by $699,000 or 26.85% during 1989. Salaries and employee benefits, the largest component of the Bank's total operating expenses, increased by $65,000 or 4.66% during 1987 reflecting general increases in staff and salaries since 1986. Salaries and employee benefits decreased by $136,000 or 9.31% during 1988 due in part to the reversal of the retirement benefits accrued for the former Chief Executive Officer in the amount of $254,000 (see Financial Statement Note 10), and increased by $129,000 or 9.74% during 1989. Occupancy expense increased by $9,000 or 8.91% during 1987 and decreased by $10,000 or 9.09% during 1988; the increase in 1989 of $31,000 or 31.00% is mainly attributable to the opening of the new loan center at 49 Main Street, Hingham in March 1989.

Management's Discussion & Analysis

Data Processing expenses increased by $110,000 in 1988, or 51.89% which represents the additional cost incurred in changing computer service centers during the year: The decrease in cost of $15,000 or 4.66% is attributed to a decrease in computer service center costs in 1989, and an increase in operating expense of our Automated Teller Machines installed in late 1988. Legal expenses increased in 1989 by $269,000 as a result of litigation as summarized in Note 10 to the Financial Statements. Other General and administrative expenses in 1988 decreased by $68,000 or 9.54% and increased by $273,000 or 42.33% in 1989. The 1989 increase is mainly attributable to increased director, accounting and reporting fees associated with being a publicly held corporation.

Effective Tax Rates. The following table sets forth the effective federal, state, and combined tax rates on pre-tax accounting income of the Bank for the periods indicated. See also note 9 to the Financial Statements.

Years Ended Dec. 31:	Federal	Mass	Combined
1987	25.4%	5.4%	30.8%
1988	42.0	11.7	53.7
1989	(16.6)	(1.4)	(18.0)

Liquidity and capital resources

The Bank's principal sources of liquidity are customer deposits, amortization of principal, interest payments on loans and its ability to sell or pledge its investment portfolio. As a member of the FHLBB the Bank may borrow through FHLBB advances. The Bank also has the ability to borrow from the Central Fund for short-term needs by pledging certain assets. At December 31, 1989, the Bank had outstanding loan commitments in the amount of $4.1 million and the Bank believes it has adequate sources of liquidity to fund these commitments.

Massachusetts-chartered savings banks, that are insured by the F.D.I.C. are subject to minimum capital maintenance requirements. At December 31, 1989, the Bank's total capital of $18.0 million was equal to 11.95% of total assets and exceeded minimum capital requirements.

Impact on inflation and changing prices

The impact of inflation is reflected in the increased cost of the Bank's operations. Unlike most industrial companies, the primary assets and liabilities of the Bank are monetary. As a result, interest rates have a more significant impact on the Bank's performance than do the general levels of inflation. Interest rates do not necessarily move in the same direction, or in the same magnitude as the price of goods and services.

Top management team, left to right: Robert F. Cass, Vice-President and Treasurer, Paul E. Bulman, President and Chief Executive Officer and Michael Donahue, Vice-President/Lending.

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

Independent Auditors' Report

We have audited the accompanying balance sheets of Hingham Institution for Savings as of December 31, 1989 and 1988, and the related statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1989. 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, 1989 and 1988, the results of its operations and cash flows for each of the years in the three-year period ended December 31, 1989 in conformity with generally accepted accounting principles.

As discussed in Note 10 to the financial statements, the Bank is a party to various legal actions. Those actions pertain to alleged violation of banking law and various lender allegations. The ultimate liability resulting from those matters cannot presently be determined. Accordingly, no provision for any liability that may result on adjudication has been made in the accompanying financial statements.

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.

Wolf & Company of Massachusetts, P.C.

Boston, Massachusetts
January 19, 1990, except for Note 10,
as to which the date is March 8, 1990

Balance Sheets

ASSETS

	December 31, 1989	December 31, 1988
	(In thousands)	
Cash and due from banks	$ 3,150	$ 3,733
Federal funds sold	3,736	10,160
Total cash and cash equivalents	6,886	13,893
Other short-term investments (Note 2)	2,000	6,000
Investment securities—market value $21,279,000 and $14,565,000 (Note 3)	21,455	14,947
Loans, net (Notes 4 and 10)	113,138	118,141
Banking premises and equipment, net (Note 5)	2,076	1,043
Other real estate owned (Note 6)	2,368	634
Accrued interest receivable	1,552	1,370
Prepaid income taxes	794	—
Other assets	364	1,012
	$150,633	$157,040

LIABILITIES AND STOCKHOLDERS' EQUITY

	1989	1988
Deposits (Note 7)	$116,345	$124,221
Advance from Federal Home Loan Bank (Note 8)	15,000	10,000
Mortgagors' escrow payments	340	275
Accrued taxes and expenses (Note 9)	101	893
Accrued interest payable	778	759
Other liabilities	70	128
Total liabilities	132,634	136,276
Commitments and contingencies (Notes 10 and 11)		
Stockholders' equity (Note 11):		
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	1,250
Additional paid-in capital	8,371	8,371
Undivided profits	8,568	11,194
	18,189	20,815
Net unrealized loss on marketable equity securities (Note 3)	(190)	(51)
Total stockholders' equity	17,999	20,764
	$150,633	$157,040

See accompanying notes to financial statements.

Statements Of Operations

	Years Ended December 31, 1989	1988	1987
	(In thousands, except per share data)		
Interest and dividend income:			
Interest and fees on loans	$11,134	$11,680	$10,651
Interest and dividend income on investment securities	1,234	1,430	1,626
Interest on short-term investments and federal funds sold	650	508	251
Total interest and dividend income	13,018	13,618	12,528
Interest expense:			
Interest on deposits	8,446	8,545	8,228
Interest on Federal Home Loan Bank advances (Note 8)	1,009	390	—
Total interest expense	9,455	8,935	8,228
Net interest income	3,563	4,683	4,300
Provision for possible loan losses (Note 4)	3,500	621	1,038
Net interest income, after provision for possible loan losses	63	4,062	3,262
Other income:			
Loan origination and other loan fees	11	33	349
Fees on deposit accounts	245	272	237
Gain (loss) on sales of investment securities, net	(1)	(62)	29
Miscellaneous	133	96	122
Total other income	388	339	737
Operating expenses:			
Salaries and employee benefits (Note 12)	1,454	1,325	1,461
Equipment expenses (Note 5)	218	206	173
Occupancy expenses (Note 5)	131	100	110
Data processing expenses	307	322	212
Legal expenses (Note 10)	274	5	8
Other general and administrative expenses	918	645	713
Total operating expenses	3,302	2,603	2,677
Income (loss) before income taxes	(2,851)	1,798	1,322
Provision (benefit) for income taxes (Note 9)	(512)	965	407
Net income (loss)	$(2,339)	$ 833	$ 915
Loss per share (Note 1)	$ (1.87)	$ —	$ —

See accompanying notes to financial statements.

Statement Of Changes In Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Undivided Profits	Net Unrealized Loss on Marketable Equity Securities	Total
			(In thousands)		
Balance at December 31, 1986	$ —	$ —	$ 9,446	$ (97)	$ 9,349
Net income	—	—	915	—	915
Decrease in net unrealized loss on marketable equity securities	—	—	—	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 11)	1,250	8,371	—	—	9,621
Decrease in net unrealized loss on marketable equity securities (Note 3)	—	—	—	19	19
Balance at December 31, 1988	1,250	8,371	11,194	(51)	20,764
Net loss	—	—	(2,339)	—	(2,339)
Increase in net unrealized loss on marketable equity securities (Note 3)	—	—	—	(139)	(139)
Cash dividends declared ($.23 per share)	—	—	(287)	—	(287)
Balance at December 31, 1989	$1,250	$8,371	$8,568	$(190)	$17,999

See accompanying notes to financial statements.

Statements of Cash Flows

	Years Ended December 31, 1989	1988	1987
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ (2,339)	$ 833	$ 915
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for possible loan losses	3,500	621	1,038
Amortization of investment securities, net of accretion	73	167	324
Amortization of deferred loan fees	(129)	(202)	—
Deferred tax provision (benefit)	(53)	(158)	19
Depreciation expense	193	157	137
Realized (gain) loss on sale of securities, net	1	62	(29)
Increase in accrued interest receivable	(182)	(78)	(92)
(Increase)decrease in other assets	648	(405)	(232)
Increase (decrease) in accrued income taxes payable	(1,338)	745	(453)
Other, net	(234)	165	77
Net cash provided by operating activities	140	1,907	1,704
Cash flows from investing activities:			
Proceeds from maturities of other short-term investments	6,000	4,500	1,000
Purchase of other short-term investments	(2,000)	(9,000)	(1,500)
Proceeds from sales and/or maturities of investment securities	6,720	13,245	8,815
Purchase of investment securities	(13,348)	(10,637)	(3,025)
Purchase of Federal Home Loan Bank stock	(149)	(230)	—
Principal payments received on mortgage-backed investments	56	58	62
Decrease (increase) in loans, net	1,348	(3,194)	(9,076)
Proceeds from sale of loans	284	332	1,170
Purchase of loans	—	(9,500)	—
(Increase) decrease in real estate by foreclosure, net	(1,754)	(634)	1,627
Additions to banking premises and equipment	(1,206)	(285)	(25)
Net cash used in investing activities	(4,049)	(15,345)	(952)
Cash flows from financing activities:			
Net increase (decrease) in deposits	(7,876)	1,433	1,938
Proceeds from Federal Home Loan Bank Advances	15,000	10,000	—
Repayment of Federal Home Loan Bank Advance	(10,000)	—	—
Net increase (decrease) in mortgagors' escrow accounts	65	(36)	31
Proceeds from issuance of common stock	—	9,621	—
Cash dividends paid on common stock	(287)	—	—
Net cash (used) provided from financing activities	(3,098)	21,018	1,969
Net increase (decrease) in cash and cash equivalents	(7,007)	7,580	2,721
Cash and cash equivalents at beginning of year	13,893	6,313	3,592
Cash and cash equivalents at end of year	$ 6,886	$ 13,893	$6,313
Supplemental cash flow information:			
Interest paid on deposits	$ 8,366	$ 8,543	$8,218
Interest paid on borowed funds	$ 1,070	$ 319	—
Federal and state income taxes paid	$ 878	$ 378	$ 857

See accompanying notes to financial statements.

Notes to Financial Statements

Years Ended December 31, 1989, 1988 and 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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", for 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 generally amortizes 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 $110,000.

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

Reclassification

Certain amounts have been reclassified in the 1988 and 1987 financial statements to conform to the 1989 presentation.

Cash and Cash Equivalents

Cash and cash equivalents include amounts due from banks and federal funds sold on a daily basis.

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, net deferred loan fees, 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 operations 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.

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.

Other real estate owned

Other real estate owned , representing real estate acquired in the settlement of loans, is carried at the lower of cost or estimated net realizable value, less accumulated depreciation, where applicable, computed on the straight-line method over the estimated useful lives of the assets.

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.

Earnings per share

Per share data is not presented in these financial statements for the years ending December 31, 1988 and 1987, since shares were not issued until December 20, 1988. The dilutive effect of stock options granted is not material on earning per share in 1989.

2. OTHER SHORT-TERM INVESTMENTS

Other short-term investments consist of the following:

	December 31, 1989	December 31, 1988
	(In thousands)	
Term federal funds sold	$ —	$1,000
Interest-bearing deposits	2,000	5,000
	$2,000	$6,000

Notes to Financial Statements
(CONTINUED)

3. INVESTMENT SECURITIES

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

	December 31, 1989		December 31, 1988	
	Carrying Value	Market Value	Carrying Value	Market Value
	(In thousands)			
U.S. Government obligations	$ 3,497	$ 3,506	$ 1,502	$ 1,473
Federal agency obligations	3,012	3,010	4,065	3,997
Public service obligations	1,940	1,844	750	608
Banking and finance obligations	7,521	7,516	6,186	6,124
Other bonds and obligations	3,471	3,430	552	547
Total bonds and obligations	19,441	19,306	13,055	12,749
Mortgage-backed investments	574	533	630	554
Marketable equity securities	681	491	513	462
Less valuation allowance for marketable equity securities	(190)	—	(51)	—
Marketable equity securities, net	491	491	462	462
Federal Home Loan Bank stock	949	949	800	800
Total marketable and other equity securities	1,440	1,440	1,262	1,262
Total investment securities	$21,455	$21,279	$14,947	$14,565

Securities with carrying values of $500,000 and $501,000 were pledged to secure the treasury tax and loan account at December 31, 1989 and 1988, respectively. Securities pledged for other purposes at December 31, 1989 and 1988 are carried at $208,000 and $332,000, respectively. Also see Note 8.

At December 31, 1989 and 1988, there were no unrealized gains on marketable equity securities.

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

	December 31, 1989		December 31, 1988	
	Carrying Value	Percent to Total	Carrying Value	Percent to Total
	(In thousands)			
Within one year	$ 8,324	42.8%	$ 6,715	51.4%
Over 1 year to 5 years	8,854	45.6	5,590	42.8
Over 5 years to 10 years	2,263	11.6	750	5.8
	$19.441	100.0%	$13,055	100.0%

Notes to Financial Statements
(CONTINUED)

4. LOANS, NET

A summary of the balances of loans follows:

	December 31,	
	1989	1988
	(In thousands)	
Mortgage loans:		
Residential	$ 64,950	$ 62,593
Commercial	17,246	18,117
Residential construction	18,259	24,867
Commercial construction	3,528	5,449
Home equity	8,626	7,049
Second mortgages	1,207	1,292
	113,816	119,367
Less unadvanced loan funds	(3,684)	(5,700)
Mortgage loans, net	110,132	113,667
Commercial loans:		
Secured	870	906
Unsecured	77	81
Total commercial loans	947	987
Consumer loans:		
Personal installment	4,581	3,483
Education	825	955
Revolving credit	149	160
Total consumer loans	5,555	4,598
Total loans	116,634	119,252
Less:		
Deferred loan fees, net	(115)	(187)
Allowance for possible loan losses	(3,381)	(924)
Loans, net	$113,138	$118,141

Included in the above net carrying values are non-accrual loans amounting to $16,468,000 and $7,837,000 at December 31, 1989 and 1988, respectively. As of December 31, 1989, non-accrual loans included $10,536,000 of one-to-four family residential real estate loans, $5,218,000 of condominium and other commercial real estate loans, and $714,000 of consumer loans. As of December 31, 1988, 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. Interest unpaid on these loans amounts to $1,546,000 and $167,000 at December 31, 1989 and 1988, respectively, and has been excluded from income.

At December 31, 1989 and 1988, amounts unadvanced under home equity lines of credit amounted to $3,377,000 and $4,128,000, respectively.

Notes to Financial Statements
(CONTINUED)

3. INVESTMENT SECURITIES

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Notes to Financial Statements
(CONTINUED)

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Notes to Financial Statements
(CONTINUED)

LOANS, NET — (Continued)

An analysis of the allowance for possible loan losses follows:

	Years Ended December 31, 1989	1988	1987
	(In thousands)		
Balance at beginning of year	$ 924	$ 525	$1,008
Provision for possible loan losses	3,500	621	1,038
Recoveries	38	14	2
	4,462	1,160	2,048
Loans charged off	(1,081)	(236)	(1,523)
Balance at end of year	$3,381	$ 924	$ 525

5. BANKING PREMISES AND EQUIPMENT

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

	December 31, 1989	1988
	(In thousands)	
Banking premises:		
Land	$ 473	$ 173
Buildings	1,620	840
Equipment	1,025	904
	3,118	1,917
Less accumulated depreciation	(1,042)	(874)
	$2,076	$1,043

Depreciation expense for the years ended December 31, 1989, 1988 and 1987 amounted to $173,000, $157,000 and $137,000, respectively. Buildings are depreciated over the estimated useful lives of 5 to 50 years and equipment of 3 to 25 years.

6. OTHER REAL ESTATE OWNED

A summary of the cost and accumulated depreciation of other real estate owned is as follows:

	December 31, 1989	1988	Estimated Useful Lives
	(In thousands)		
Property held for future development or sale	$1,093	$634	
Property held for lease	1,295	—	30 years
Less accumulated depreciation	(20)	—	
	$2,368	$634	

Depreciation expense for the year ended December 31, 1989 amounted to $20,000.

The Bank leases seven residential condominums on an annual basis to unrelated parties. Rental income for the year ended December 31, 1989 amounted to $41,000.

Notes to Financial Statements
(CONTINUED)

7. DEPOSITS

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

	December 31, 1989	1988
	(In thousands)	
Demand	$ 3,046	$ 4,751
NOW	8,001	7,174
Regular and special notice	22,005	25,861
Money market deposits	23,912	26,096
Total non-certificate accounts	56,964	63,882
Term certificates:		
Term certificates of less than $100,000	49,792	52,880
Term certificates of $100,000 and over	9,589	7,459
Total term certificates	59,381	60,339
Total deposits	$116,345	$124,221

A summary of term certificates, by maturity, as of December 31, 1989 and 1988, is as follows:

	1989		1988	
(Dollars in thousands)	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Within 1 year	$42,419	8.46%	$44,205	8.69%
Over 1 year to 2 years	8,237	8.46	7,499	7.68
Over 2 years to 3 years	7,589	8.59	5,697	8.28
Over 3 years	1,136	9.00	2,938	8.55
	$59,381	8.49%	$60,339	8.54%

8. FEDERAL HOME LOAN BANK ADVANCES

A summary of borrowed funds consisting of advances from the Federal Home Loan Bank of Boston by maturity is as follows:

	December 31, 1989		December 31, 1988	
(Dollars in thousands)	Amount	Weighted Average Rate	Amount	Interest Rate
Due within 1 year	$ —	— %	$10,000	8.25%
Over 3 years to 5 years	15,000	9.53	—	—
	$15,000		$10,000	

Advances require interest to be paid monthly with principal due upon maturity. The interest rate on advances payable are variable and adjust annually.

Notes to Financial Statements
(CONTINUED)

FEDERAL HOME LOAN BANK ADVANCES - CONTINUED

Interest expense applicable to borrowed funds amounted to $1,009,000 and $390,000 for the years ended December 31, 1989 and 1988, respectively.

All borrowings from the Federal Home Loan Bank of Boston are secured under blanket lien by certain "qualified collateral" defined principally as 80% of the market values of U.S. Government and federal agency obligations and 70% of the carrying values of residential mortgages.

9. INCOME TAXES

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

	Years Ended December 31,		
	1989	1988 (In thousands)	1987
Current tax provision (benefit):			
Federal	$(387)	$ 772	$276
State	(72)	351	112
	(459)	1,123	388
Deferred tax provision (benefit):			
Federal	(53)	(126)	14
State	—	(32)	5
	(53)	(158)	19
	$(512)	$ 965	$407

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,		
	1989	1988 (In thousands)	1987
Deferred loan origination fees	$ 25	$ (77)	$ —
Cash basis accounting for tax purposes	(78)	(70)	34
Other	—	(11)	(15)
	$ (53)	$(158)	$ 19

As of December 31, 1989 and 1988, the balance sheets include deferred income taxes receivable of $25,000 and deferred income taxes payable of $28,000, respectively.

Notes to Financial Statements
(CONTINUED)

INCOME TAXES - CONTINUED

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,		
	1989	1988	1987
Statutory rates	(34.0)%	34.0%	40.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	(1.4)	11.7	5.4
Bad debt deduction	15.8	7.1	(15.8)
Other, net	1.6	.9	1.2
Effective tax rates	(18.0)%	53.7%	30.8%

10. 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 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 agreement 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.

Litigation

Special counsel for the Bank has indicated the following:

On February 3, 1989, the Bank filed a civil suit against Mr. Wilfred Creighton, former President and Chief Executive Officer of the Bank. In its complaint, the Bank alleged that "Creighton engaged in a continuing pattern and practice of fraud, negligence, criminal and civil violations of banking law and other breaches of his duties and obligations to the Bank, the losses from which cannot currently be calculated due to the hidden nature of the fraud." The Bank seeks an accounting from Mr. Creighton and to recover from him any damages that may result from his conduct.

Mr. Creighton has answered the Bank's complaint denying the charges and has asserted counterclaims alleging breach of employment contract, intentional and negligent infliction of emotional distress, defamation, violation of his civil rights, and the filing of a frivolous suit.

Mr. Creighton was a party to an Executive Employment and Insurance Agreement (the "Agreement") with the Bank. The Agreement, as amended, provided, in part, for Mr. Creighton's employment until the age of 65, unless he elected to retire earlier pursuant to the Agreement, and for certain early retirement benefits payable over a 15-year period if Mr. Creighton elected to retire at age 58 or 60. The Agreement further provided, in part, that "if at any time the employment of Mr. Creighton is terminated by the Bank for cause, he shall not be entitled to payment of benefits provided herein after such date of termination." Under the Agreement, "cause" is defined as "fraud, misappropriation of funds, material damage to the business of the Corporation, gross negligence, or commission of a felony."

Mr. Creighton's counterclaims are currently the subject of a Motion to Dismiss. No determination can be made at this time as to the extent to which the counterclaims will be successfully defeated. The Bank's claims against Mr. Creighton will be vigorously pursued through the discovery process. No determination can be made at this time as to the extent to which the Bank will recover damages if it is successful in pursuing its claims against Mr. Creighton.

On September 18, 1989, Joseph Crossen, a borrower of the Bank and a builder, filed a civil suit against the Bank. In his complaint, Joseph

Notes to Financial Statements

(CONTINUED)

Crossen alleges that the bank engaged in breach of contract, negligent and fraudulent misrepresentation, negligent supervision, negligent appraisal, negligence, unjust enrichment, equity, and negligent and intentional infliction of emotional distress. The Bank has answered denying the claims and has counterclaimed against Joseph Crossen asserting breach of contract with respect to several outstanding promissory notes held by the Bank. The Bank has also filed crossclaims against Mr. Creighton for indemnity and contribution. Joseph Crossen's first and second motions to amend his complaint were denied. The Bank was granted an attachment on March 8, 1990, in the amount of $570,000 on Joseph Crossen's property. The Bank will vigorously continue to defend this lawsuit.

On January 23, 1990, Ralph Crossen, a borrower of the Bank filed a civil suit against the Bank. In his complaint, Ralph Crossen alleges that the Bank, with respect to funds borrowed from the Bank by Ralph Crossen, committed fraud, breach of contract, breach of covenant of good faith and fair dealings, defamation, negligent supervision and unfair trade practices. The Bank has answered denying the claims and asserted breach of contract claims with respect to several outstanding promissory notes held by the Bank. The Bank will vigorously defend itself against the claims asserted by Ralph Crossen.

In connection with the conduct of Mr. Creighton, six other individuals may assert claims against the Bank at a further date. Management would vigorously defend against such claims if they were filed. No determination can be made at this time as to the success of any defense.

In the normal course of business, various other legal claims arise from time to time and, in the opinion of management, those claims will have no material effect on the Bank's financial statements.

A provision for any potential liability on the forgoing litigation has not been reflected in the financial statements.

Loan Commitments

Firm commitments to grant loans amounted to approximately $4,136,000 at December 31, 1989. Also see Note 4.

11. STOCKHOLDERS' EQUITY

At October 31, 1989, the date of filing of income tax returns, the total reserve for loan losses for federal income tax purposes amounted to approximately $3,787,000. 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.

On December 20, 1988, the Bank completed conversion from a Massachusetts chartered savings 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 is maintained for the benefit of eligible account holders who continue to maintain their accounts in the Bank after the conversion. The liquidation account is 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 account. 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. According to the Bank's transfer agent, the balance of the liquidation account at December 31, 1989 amounted to approximately $4,015,000.

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.

In connection with the conversion to stock form, the Bank adopted a stock option plan under which options may be granted to directors and such officers and other employees as the Board may determine. Shares of common stock up to 125,000 were 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 at an exercise price of $8.50. None of the options granted have been exercised or forfeited and there have been no additional options granted since the inception of the plan.

Notes to Financial Statements

(CONTINUED)

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 in any one twelve-month period 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 years ended December 31, 1989 and 1988, included the following components:

	1989	1988
	(In thousands)	
Service cost - benefits earned during year	$ 69	$ 56
Interest cost on projected benefits	115	110
Return on plan assets	(163)	(157)
Net amortization and deferral	3	3
Amortization of net loss	65	51
Net cost	$ 89	$ 63

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 year ended December 31, 1987 amounted to $99,000.

According to the SBERA's actuary, the funded status of the plan at October 31, 1989 is as follows:

	(In thousands)
Plan assets at fair value	$1,093
Actuarial present value of projected benefit obligation (substantially vested)	1,073
Excess of plan assets over projected benefit obligation	20
Unrecognized net gain	(116)
Unrecognized net obligation at inception of FASB 87	48
Accrued pension cost	$ (48)

The accumulated benefit obligation (all vested) at October 31, 1989 amounted to $686,000.

For the plan years ended October 31, 1989 and 1988, actuarial assumptions include an assumed discount rate on benefit obligations of 7.50% and 7.75%, respectively, and an expected long-term rate of return on plan assets of 7.75% and 8.25%, respectively. An annual salary increase of 6% was utilized for both years.

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, 1989, 1988 and 1987 amounted to $96,000, $157,000 and $168,000, respectively.

Notes to Financial Statements

(CONCLUDED)

13. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to its officers and Directors and their affiliates. Activity of these loans during 1989 is as follows:

	(In thousands)
Balance at beginning of year	$997
New loans granted	—
Repayment of principal	(86)
Balance at end of year	$911

14. QUARTERLY DATA (UNAUDITED)

Summaries of operating results on a quarterly basis for the years ended December 31, 1989 and 1988 are as follows:

	1989				1988			
Years Ended December 31,	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
	(In thousands except per share data)							
Interest and dividend income	$3,314	$ 3,019	$3,343	$3,342	$3,708	$3,474	$3,270	$3,166
Interest expense	2,495	2,454	2,321	2,185	2,382	2,316	2,110	2,127
Net interest income	819	565	1,022	1,157	1,326	1,158	1,160	1,039
Provision for possible loan losses (1)	396	3,000	40	64	338	162	87	34
Net interest income, after provision for possible loan losses	423	(2,435)	982	1,093	988	996	1,073	1,005
Other income (loss)	87	78	106	117	55	109	83	92
Operating expenses	(869)	(773)	(836)	(824)	(496)	(710)	(784)	(613)
Income (loss) before income taxes	(359)	(3,130)	252	386	547	395	372	484
Provision (benefit) for income taxes (2)	36	(742)	17	177	404	177	167	217
Net income (loss)	$ (395)	$(2,388)	$ 235	$ 209	$ 143	$ 218	$ 205	$ 267
Earnings (loss) per share	$ (.32)	$ (1.91)	$ .19	$ .17	—	—	—	—

Notes:

(1) Substantial provisions were recognized in the third quarter of 1989 due to deterioration in the real estate market and its effect on certain loans. 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.

(2) The higher effective rate of income taxes provided in the fourth quarter of 1988 is attributable to provisions for possible loan losses which are, in part, not deductible for income tax purposes. The effective tax rates applicable to the last three quarters of 1989 are lower than the statutory rate primarily due to the charge off of certain loans in 1989 that were provided for through operations in the previous year.

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
Clerk of the Bank
Hingham Institution for Savings

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

John J. Flatley
President
John J. Flatley Company

William Kelley
Former President and C.E.O. Bank of New England Hancock
Retired

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

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

Helen Fuda
Assistant Treasurer

Edward Zec
Assistant Treasurer

J. Robert Crowley
Clerk of Bank

Stockholders' 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
Mellon Securities Trust Co.
c/o Mellon Securities Transfer Services
111 Founders Plaza, Suite 1100
East Hartford, CT 06108
1-800-288-9541

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, 1989, 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

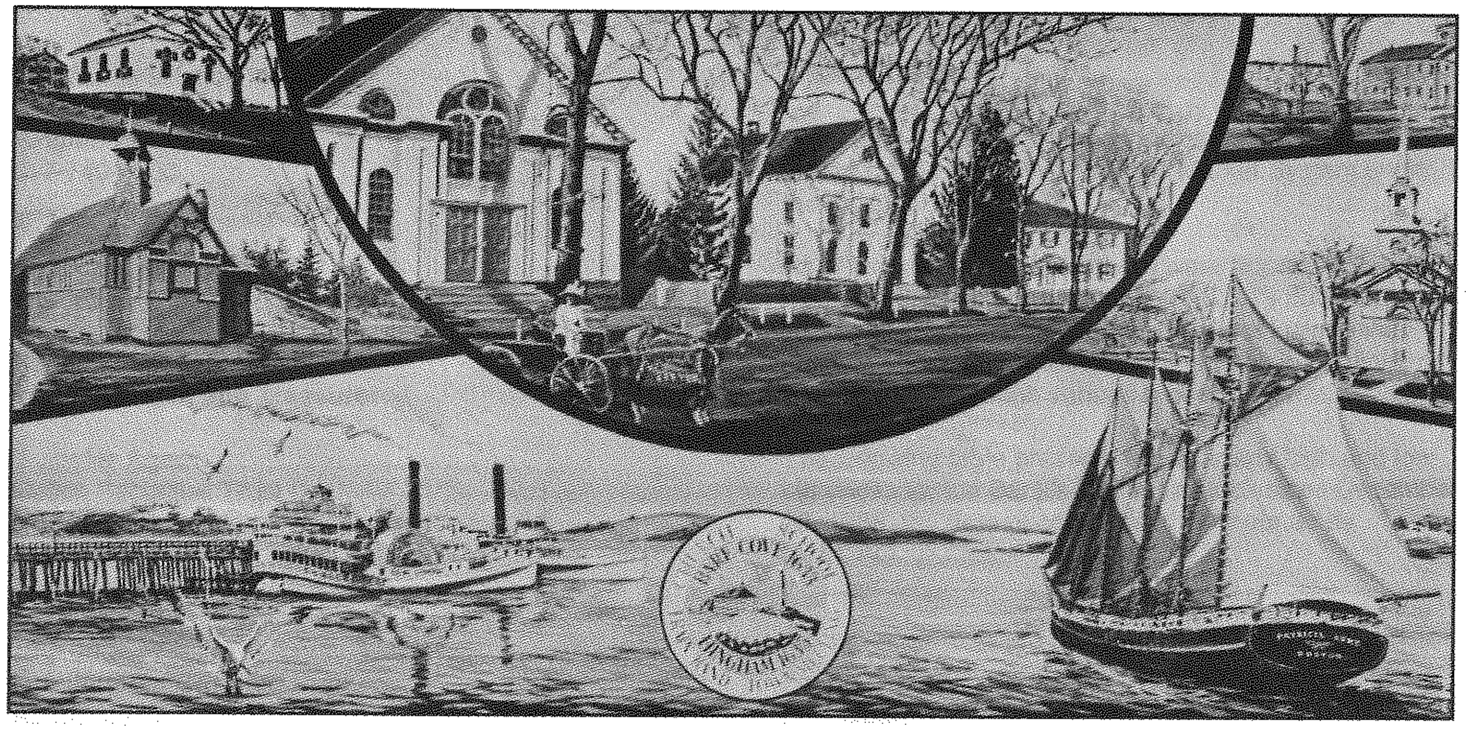
Hingham Institution for Savings shares are listed and traded on the NASDAQ National Market System under the symbol HIFS.

As of December 31, 1989 there were approximately 624 stockholders of record, holding 1,002,978 outstanding shares of Common Stock. This does not include the number of persons who hold their shares in nominee or "street" name through various brokerage firms.

The following table presents the quarterly high and low bid prices for the Bank's Common stock since December 20, 1988, the date of conversion, as reported by NASDAQ.

	High	Low
Fourth Quarter - 1988	8 1/2	8 1/2
First Quarter - 1989	8 7/8	7 1/2
Second Quarter - 1989	8 1/4	6 5/8
Third Quarter - 1989	8	6 3/8
Fourth Quarter - 1989	6 3/4	4 3/8

The closing sale price for the year was 4 1/2.



HINGHAM STEAMBOATS

To the Rev. Charles Brooks, minister at New North, goes credit for "starting the project of a steamboat between Boston and Hingham." That was in 1821. But not until 1831 did regular passenger service between Boston and Hingham become a reality, when the "Gen. Lincoln," the first of the name, was placed in operation by the Boston and Hingham Steam Boat Company. The "Gen. Lincoln," which had two engines and two boilers, and was wood-fired, made the trip to Boston in 1-1/2 hours. When Melville Gardens was created and the Downer Landing pier built in 1872, the Hingham, Hull and Downer Landing Steamboat Co. acquired the "Gov. Andrew" and the former "Nahant," built in Chelsea, which after refurbishing became the second "Gen. Lincoln." Both vessels shown in this picture were in service for a number of years.

Melville Gardens was named for Thomas Melvill, whose grandson, Herman Melville, the writer, added an "e" to the name. Thomas Melvill died in 1832, perhaps the last survivor of the Boston Tea Party. Mrs. Samuel Downer was a granddaughter of Thomas Melvill, whence came the name Mr. Downer adapted for his Downers Landing development.

This view shows Hingham Harbor from Downers Landing looking toward Boston with Ragged and Sarah Islands ahead of the four-masted schooner.

Hingham Institution for Savings

FIRST BAPTIST CHURCH

The First Baptist Church came into being March 9, 1828 when a congregation of 20 Hinghamites was publicly recognized as a branch of the Second Baptist Church of Boston. However, meetings for those of Baptist persuasion had been held in Hingham homes since 1818, and a Sunday School, the first in Town, had been held in the old school house on the hill in front of Derby Academy. In 1829, the corner of Main and Elm Streets was purchased for $500 and a meeting house erected on this site was dedicated Dec. 3, 1829. It cost $3,300. Because of local opposition to the Baptists, title to the property was taken in the names of individuals, who were not Baptists, and not until 1855 did the church get ownership. Alterations to the building were made in 1851 and 1886. This view shows the church after the changes.

To the rear is the largest of four "male" schools built 1829-30. Originally a one-story building the second floor was added in 1848.

CHURCH OF ST. JOHN THE EVANGELIST

Erected in 1883 on a lot on Main Street opposite Water Street at a cost of $3,000 this edifice served the parish until the summer of 1906 when it was moved across the street to the location of the present church building. There, in remodeled form, it continued as a church edifice until 1919 when it was taken down to make way for the present granite structure, erected in 1920, as a memorial to Ezra Ripley Thayer.

MAIN STREET

This is Main Street of a past era. At left is Loring Hall which was built in 1851 to answer the need for a "commodious and suitable building for lectures, picnics and social gatherings of all kinds." Ladies of Hingham raised $500 to buy the property and sufficient extra money to build a foundation. It was then that Col. Benjamin Loring of Boston, but a native of Hingham, offered to supply the funds necessary for the erection of a suitable "Lyceum Hall," Its cost of $4,435.57 was borne entirely by Col. Loring. The building was dedicated Oct. 14, 1852.

In the center is the building erected jointly in 1860 and occupied by the Hingham Mutual Fire Insurance Company on the second floor and the Hingham Institution for Savings on the first. It is still the home of the insurance company but the Hingham Institution for Savings moved its quarters to the brick and stone building which was erected in 1950 in the area between Loring Hall and the insurance building.

At the extreme right is the home of David Harding, a business leader of the community, who was secretary of the Hingham Mutual Fire Insurance Company and treasurer of the Hingham Institution for Savings and a founder of both enterprises.

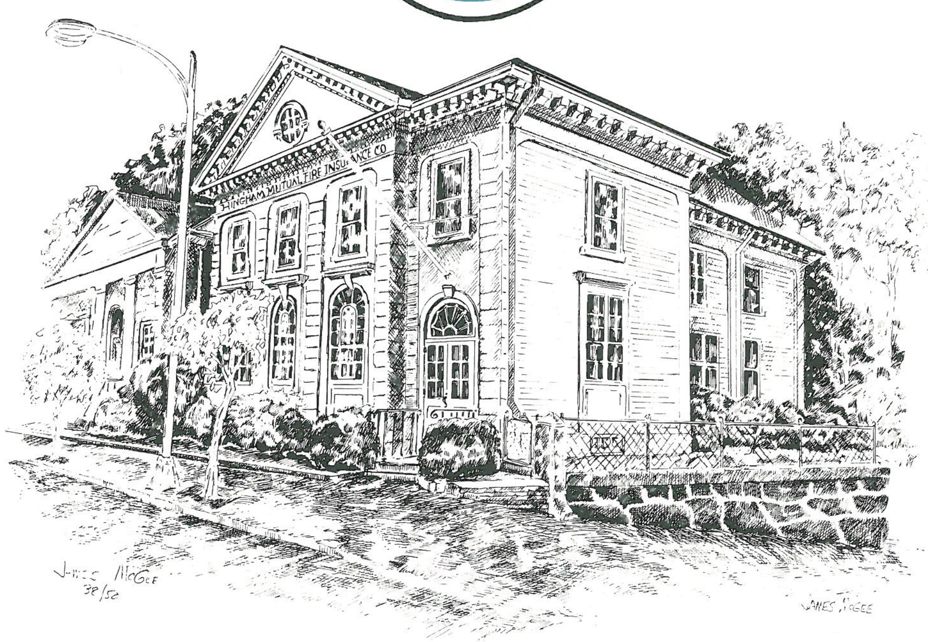
NEW NORTH MEETING HOUSE

The New North Meeting House on Lincoln street was completed Oct. 25, 1806, its design adapted from the work of that famous early New England architect, Charles Bulfinch. Its cost — $9,340— was met by the sale of 64 pew shares of 55 persons. Controversy over the Rev. Joseph Richardson as successor to the Rev. Dr. Henry Ware who resigned the pulpit of the North Meeting House (Old Ship) to become professor at Harvard, resulted in the establishment of the New North congregation March 16, 1806. Led by four deacons, 99 members withdrew their affiliation with the old North Meeting House to start the new church. By special acts of the Legislature, the Third Congregational Society and the New North Meeting House Corporation were formed in 1807 with Gen. Benjamin Lincoln, who had received Lord Cornwallis' sword at Yorktown, as president. New North is held in such high esteem, architecturally, that every detail of the structure is shown on complete drawings which are kept in the archives of the Smithsonian Institution in Washington.

To the left rear is the factory building erected 1866, where Burr, Brown, & Co. manufactured tassels, cords, fringe and braiding. The factory was taken down in 1935. St. Paul's Parochial School now occupies the site.

HINGHAM CONGREGATIONAL CHURCH

Rev. Ebenezer Foster Dyer, a Boston city missionary "upon invitation of the Norfolk Conference of Churches visited Hingham (1847) with a view to establishing Evangelical Congregational Preaching." That was the beginning of the Hingham Congregational Church which was organized, formally, Oct. 21, 1847. Religious services had been held in the Town Hall and in September 1847, Mr. Dyer was engaged as preacher. On the formal organization of the church he became its first minister. The edifice pictured here was dedicated Jan. 4, 1849.



Hingham Institution for Savings

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