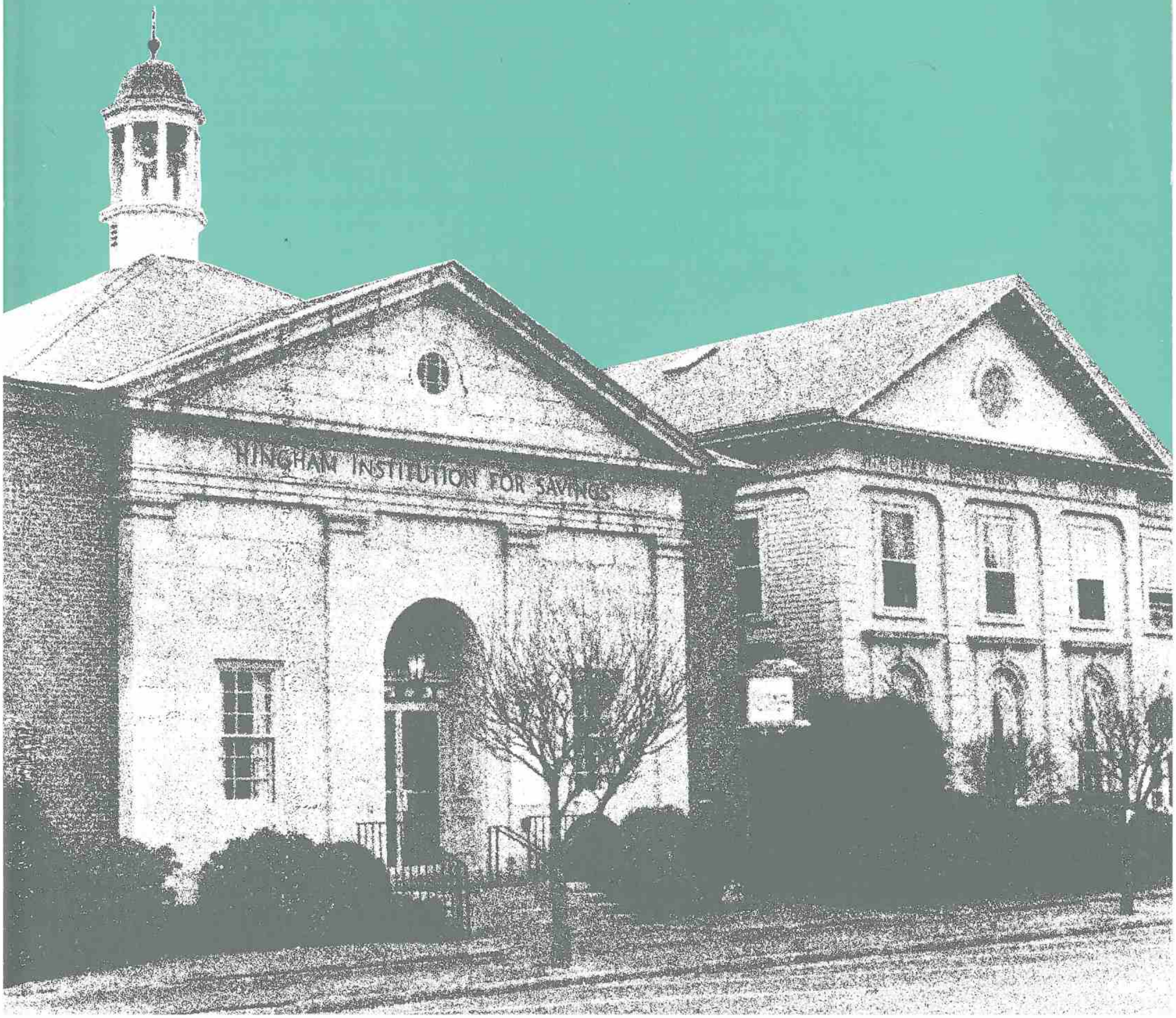
Hingham Institution for Savings

1990 ANNUAL REPORT



FIRST UNIVERSALIST SOCIETY

On Nov. 1, 1823, a group of Universalists from Scituate met at the home of Capt. Charles Cushing and formally organized the First Universalist Society of Hingham. Their first meeting house was erected on North Street in 1829. Though the Church persisted for almost 100 years, "the Universalist denomination did not find in Hingham a very productive field for its growth." It ceased its identity in 1925 when the church was disbanded and the building sold to a fraternal order which remodeled it into a meeting hall. Its steeple and bell removed, the structure still stands on North Street.

To the left are several buildings of the 1830s; an old Lincoln homestead, a shoe factory and dwellings.

HINGHAM METHODIST CHURCH

From 1807 to 1828, Hingham was in the Scituate or the Weymouth Circuits of the Methodist Episcopal Church. It became a separate entity when the Rev. Stephen Puffer gave funds for the erection of a meeting house which was dedicated July 3, 1828. Mr. Puffer built the edifice at his own expense, then sold the pews to cover costs of construction and furnishings. The amount was $1,820. The church at that time stood on North Street facing west at Gould's Bridge. Extensive alterations were made in 1845 and in 1867 when the building was moved back 30 feet, raised, a vestry built and a new front and spire added at an outlay of $4,000. In 1882, a lot at the corner of North and Thaxter Streets was purchased and the church building moved there. This location is the one shown in the painting.

In 1883, with the aid of a gift of money from Mrs. Puffer, widow of the clergyman who financed the original church building, the parsonage, seen in this painting, was built to the rear of the church.

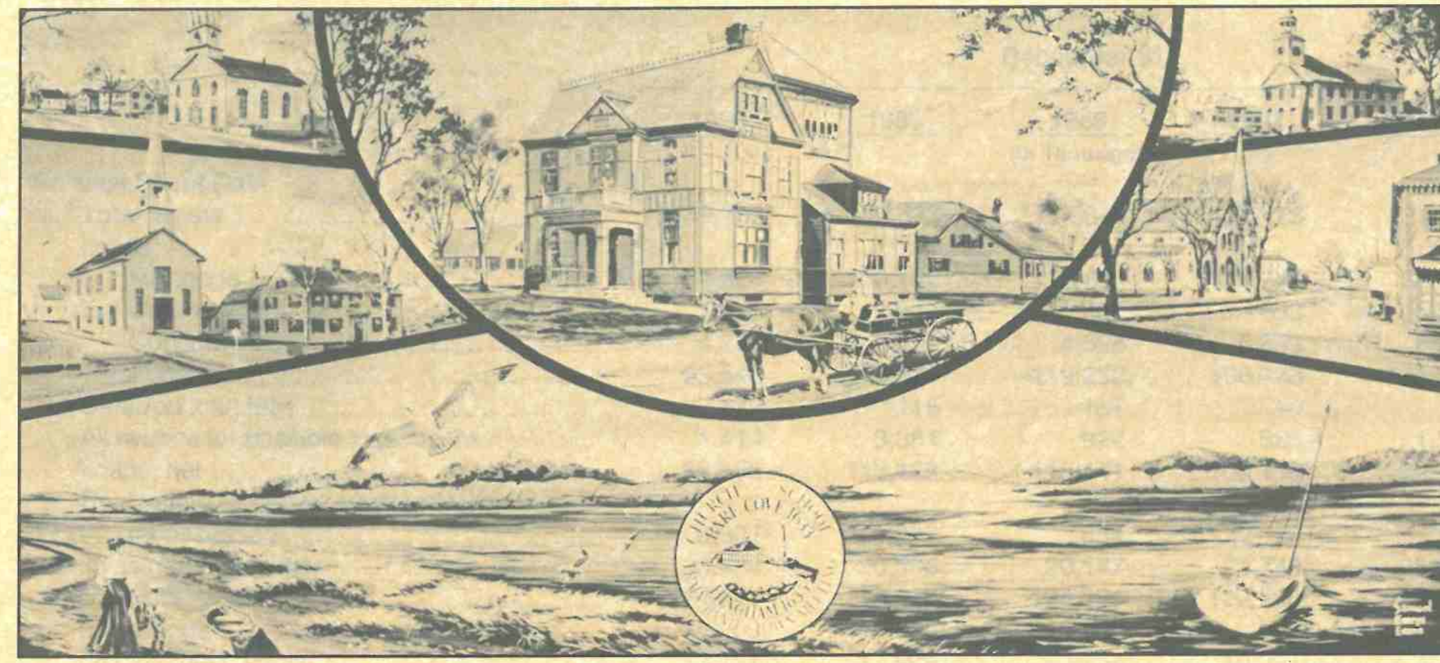
The dwelling on the right was a Thaxter residence, probably built in the late 1700s, while the corner of the building to the left was that of the Gould family, whose real estate holdings hereabouts were commemorated in the name of Gould's Bridge which formerly crossed the Town Brook at this point. The Gould house still stands but the Thaxter House is gone.

HINGHAM PUBLIC LIBRARY

This Hingham Public Library building was first opened April 5, 1880. And from that date until 1967, when it was demolished, it served the community well. The building pictured here was erected on the same site of a "beautiful and commodious edifice conveniently furnished for the purposes of a Library" which had been built in 1869 through the generosity of Albert Fearing on the present Memorial Park at Hingham Center. Fire on Jan. 3, 1879 leveled the Fearing library building and its books and records went up in flames. In all, Mr. Fearing had given more than $41,000 for the building and its contents. Hingham's "First Social Library" came into being in 1771, and its "Second Social Library" two years later. Both were merged into the Hingham Public Library, the former in 1869 and the latter in 1891.

BARE COVE

This is Hingham Harbor at low tide with its uniquituous seagulls, its seaweed and its mudflats which inspired the first settlers to name their new homeland Bare Cove. Twice in 24 hours these mudflats may be seen. This is a view from the bandstand at the bathing beach looking toward Massachusetts Bay with Sarah and Ragged Islands looming large. In the far right background is Hull at the mouth of the Weir River and to the right of the beached catboat in the foreground, is World's End.



SECOND PARISH CHURCH

On March 24, 1746, after seemingly unending four years of frustration, antagonism and delays, 65 residents of South Hingham had their prayers answered for a church of their own, when by order of the General Court of Massachusetts a separate parish was set off from the First Parish. Officially, the new group became the Third Parish in Hingham, for the Second Parish had been organized in Cohasset, then a part of Hingham. When Cohasset became a separate town in 1770, the Third Parish became the Second Parish in Hingham.

Their church building was ready for them, for it had been raised by a group of residents in June 1742 on land owned by Theophilus Cushing. Apparently it was believed that the presence of a church building, ready for use, might induce the townspeople and the Court to sanction the creation of a separate parish. Since they were paying taxes to support one church, many Hinghamites at the time were opposed to paying more taxes to maintain another one, for the support of churches in those days was by taxes on real property.

NORTH STREET

This view of North Street shows a corner, right, of the South Shore Railroad station which was opened Jan. 1, 1849 when operations were started from Braintree, where connections were with the Old Colony Railroad, to Cohasset where connections were with the Duxbury and Cohasset Railroad (1871). In 1852, the South Shore line was leased to the Old Colony Railroad and in 1876 was consolidated with it. Prior to the advent of the railroad, a stage passed from Boston to Hingham three times a week.

To the left in this painting is St. Paul's Roman Catholic Church which was erected at the corner of Fearing Road and opened for worship in 1872. Catholics in Hingham made little progress for 20 years in getting a church of their own and it was not until the Rev. Hugh P. Smyth, of Weymouth, took the initiative and bought a site for one in 1871, that the need for a local edifice was filled.

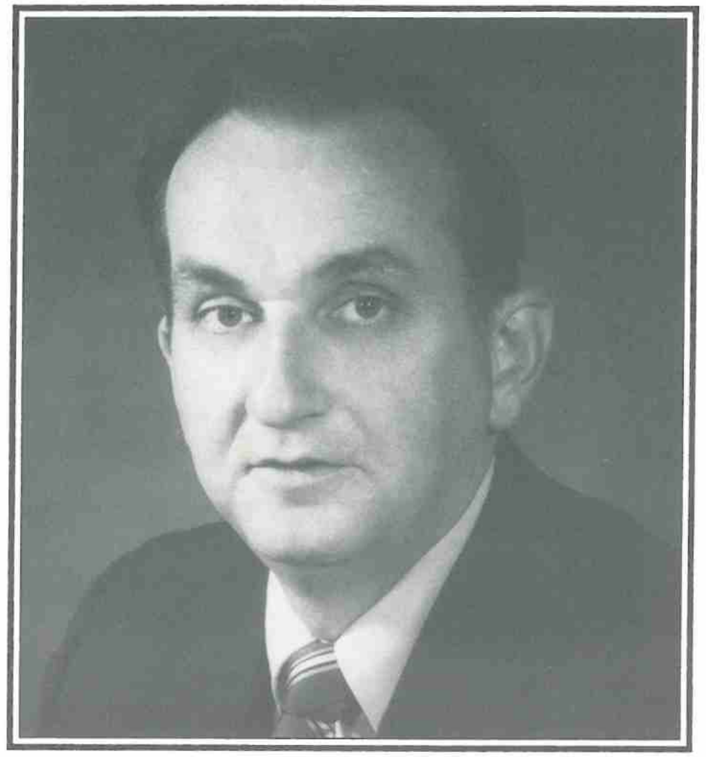
Selected Consolidated Financial Data

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,				
	1990	1989	1988	1987	1986
			(In Thousands)		
Balance Sheet Data:					
Total assets	$149,262	150,633	157,040	134,418	131,804
Loans:					
Mortgage	90,224	110,132	113,667	100,341	88,362
Commercial	1,045	947	987	693	5,767
Consumer	4,277	5,555	4,598	5,689	6,209
Total Loans	95,546	116,634	119,252	106,723	100,338
Deferred loan fees	179	115	187	—	—
Allowance for possible loan losses	1,414	3,381	924	525	1,008
Loans, net	93,953	113,138	118,141	106,198	99,330
Real estate owned or substantively repossessed	9,637	1,093	634	—	—
Investment securities	33,434	20,506	20,147	21,748	25,252
Deposits	119,211	116,345	124,221	122,788	120,850
Borrowings	15,000	15,000	10,000	—	—
Stockholders' equity	13,751	17,999	20,764	10,291	9,349

	Years Ended December 31,				
	1990	1989	1988	1987	1986
			(In Thousands)		
Operating Data:					
Interest and dividend income	$ 13,212	13,018	13,618	12,528	12,266
Interest expense	9,928	9,455	8,935	8,228	8,123
Net interest income	3,284	3,563	4,683	4,300	4,143
Provision for possible loan losses	2,770	3,500	621	1,038	723
Non-interest income	346	388	339	737	1,497
Non-interest expense	5,279	3,302	2,603	2,677	2,390
Income (loss) before income taxes	(4,419)	(2,851)	1,798	1,322	2,527
Income tax expense (benefit)	(607)	(512)	965	407	1,132
Net income (loss)	$ (3,812)	(2,339)	833	915	1,395
Loss per share	$ (3.05)	(1.87)			
Financial ratios:					
Return (loss) on average assets	(2.50)%	(1.58)%	0.58%	0.69%	1.14%
Return (loss) on average equity	(22.14)	(11.60)	7.23	9.46	15.99
Average equity to average assets	11.31	13.61	8.07	7.26	7.16
Interest rate spread	2.04	1.77	3.08	3.16	3.31
Net yield on average earning assets	2.34	2.52	3.43	3.39	3.57

President's Message



Paul E. Bulman, President, C.E.O.

Dear Stockholder,

The banking industry has experienced a very high level of negative publicity for the past decade. Some of the highlights have included events such as: the interest rate crisis of 1981 & 1982, the problems related to the large money - center banks in 1982 & 1983 that surfaced as a result of loans to developing countries, the Savings & Loan debacle which initially began in 1987, and finally, the current stress on the entire banking industry. In the New England area this situation has risen to serious proportions and is to date unprecedented. Banking in and around this area is now front-page, prime-time material. Had it not been for The Gulf War, even more space would have been devoted to the weaknesses in the present banking system. There has been nothing similar since the Depression, and unfortunately there is no immediate quick-fix strategy that will solve this problem.

Here at Hingham Institution for Savings, we must admit that media treatment has not, in general, been inaccurate or unfair. While we have sometimes complained that press accounts of events relating specifically to Hingham Institution for Savings have been "sensationalized", the fact remains that banking is now a legitimate major story and we must be prepared to deal with the consequences. It would be a serious mistake for us to be perceived by our customers to be "stone-walling" or pretending that the industry is not in a period of turmoil and profound change. On the other hand, there are positive things we can and are doing which include: preserving our overall credibility, reassuring our depositors about the safety of their funds, educating all concerned about aspects of banking that are poorly understood and linking the interests of this Bank to the interests of the local economy and consumers at large.

For some banks surviving alone will be enough of a reward, but it would be shortsighted to survive and not take advantage of the favorable environment with which to grasp opportunities to make major gains in franchise attractiveness and profitability. We are attempting to do just that with a neighboring bank (Cohasset Savings Bank) and we will continue to pursue opportunities that represent sound franchise expansion and enhanced shareholder value.

For the year ended December 31, 1990, Hingham Institution for Savings recorded a loss of $3,812,000 or $3.05 per share, as compared to a loss of $2,339,000 or $1.87 per share in 1989. The loss resulted from management's decision to increase the allowance for possible loan losses through provisions that totaled $2,770,000 for the year, and additional write-downs totaling $1,402,000 which relate to properties held as real estate owned or substantively repossessed. These additions are directly attributed to declining collateral values and the slowdown in the local real estate market.

Nonaccrual loans decreased from $16,468,000 reported as of December 31, 1989 to $5,263,000 as of December 31, 1990. Real estate owned or substantively repossessed increased from $1,093,000 reported as of December 31, 1989 to $9,637,000 reported as of December 31, 1990. It includes $7,135,000 in residential homes, $2,152,000 in land development, $460,000 in residential condominiums, $320,000 in commercial real estate, less an allowance for possible losses of $430,000. All of these properties are being actively marketed.

In 1990, a lawsuit against the Bank by its former president was dismissed by the court without liability to the Bank. Litigation involving certain borrowers continues. The process is long, tedious and costly. We are hopeful that it will all be concluded during 1991.

Finally, I am pleased to announce the nomination of three new directors who will be succeeding directors that have retired or are pursuing other interests. Mr. James Consentino of Weymouth, Mr. Robert Gaughen Jr. of Cohasset and Mr. Thomas Youngworth of Hingham. All of these men have substantial banking and business backgrounds which I trust will undoubtedly prove beneficial to our Bank.

The year 1989 was a time of adjustment for New England banking. After experiencing remarkable prosperity, the regional economy faltered, placing stress on many sectors, especially banks. The year 1990 was the year most banks recorded the inevitable, serious losses in an effort to return to profitability. All of us here at Hingham Institution for Savings are optimistic about our future. I thank you for your continued support and please be assured that we will continue to work diligently to resolve the problems that all of us associated with the banking industry currently face.

Sincerely,

Paul E. Bulman

Paul E. Bulman
President and Chief Executive Officer

Retail Banking

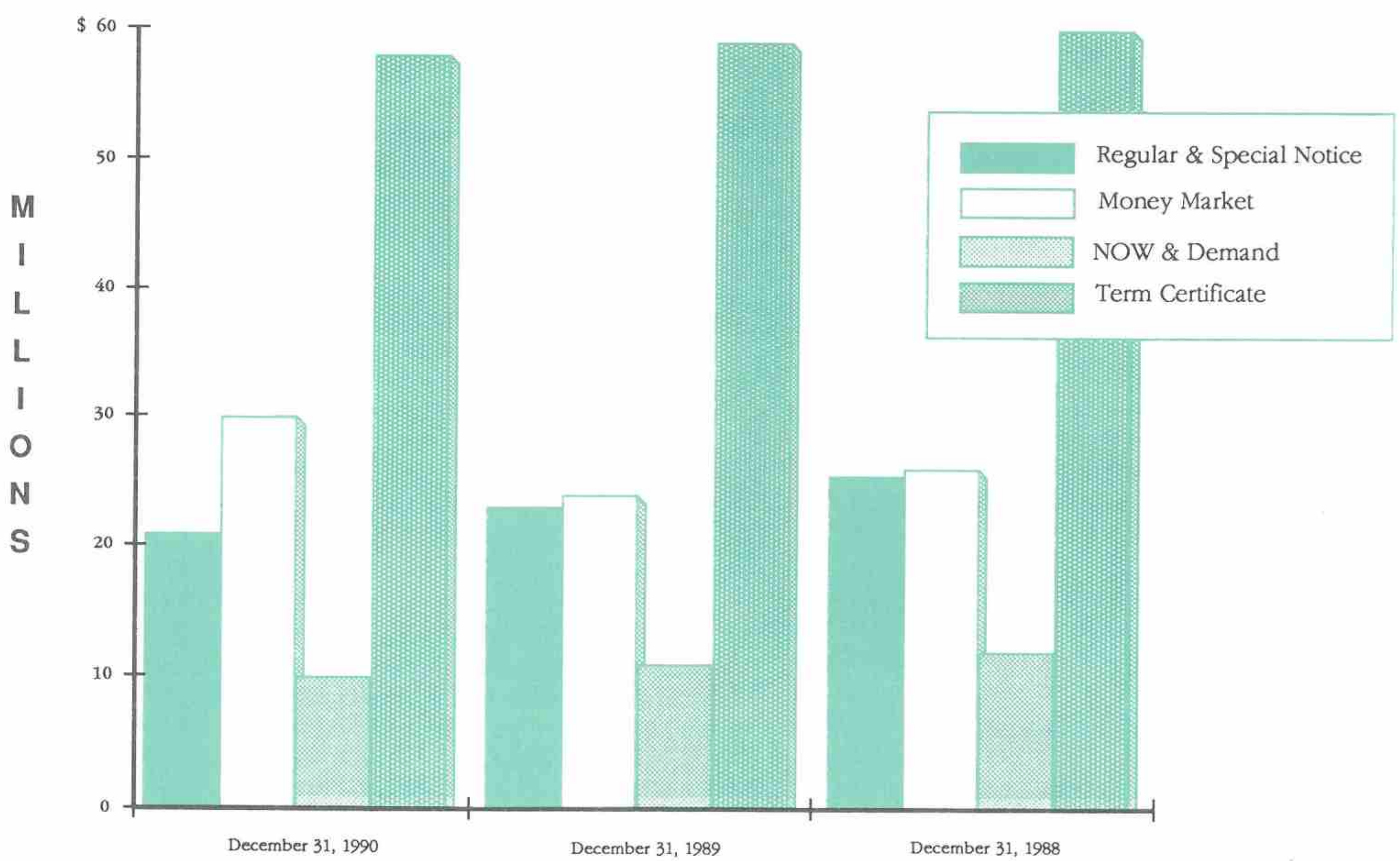
Attracting and maintaining customer deposits traditionally has been the "blood line" of Hingham Institution for Savings. These deposits are the Bank's primary source of funds to be used for lending and investment activities.

Hingham Institution for Savings operates in an extremely competitive market place. Economic conditions, competition and changes in interest rates can cause the general market for deposits to be extremely volatile. Our ongoing objective, in Retail Banking, is to attract and maintain deposits, in order to fund the Bank's assets. Management believes that by offering competitive rates, combined with friendly, efficient service, we will achieve our deposit objective in a cost effective way that contributes to increasing our net interest margin. Deposit instruments include regular savings accounts, step money market accounts, NOW accounts, demand deposit accounts, commercial checking, term certificates, club accounts and retirement accounts.

Increasing deposits during 1990 was a difficult objective to achieve as banks faced continued emphasis by the media, as a result of problem banks. Deposits as of December 31, 1990 were $119.2 million which represents an increase of $2.9 million over the previous year, or an increase of 2.5%. We are pleased we didn't experience an outflow of deposits as many of our peers encountered.

Last year we reported to you the introduction of our Step Money Market Account. We are pleased with the continued growth of these accounts which had balances as of December 31, 1990 of $30.3 million representing a $6.4 million or a 26.8% increase over the prior year.

A natural concern to all depositors, in a continually changing and volatile financial environment, is the security of their deposit funds. Deposits at Hingham Institution for Savings are insured in full through the Federal Deposit Insurance Corporation, and the Deposit Insurance Fund of Massachusetts. This insurance, combined with a strong capital position, should alleviate any customer concerns regarding the safety of their deposits in the Bank.



Lending Department

Hingham Institution for Savings originated $14.4 million in new loans in 1990, down from $16.3 million in 1989. The decrease in lending reflected a sluggish economy which in turn produced consumer uncertainty in the cost of housing. During the first half of 1990, mortgage loans were predominantly written with variable rates. However, a slight decline in mortgage rates at the end of the year produced an increase in fixed rate mortgage loans.

Although the sale of existing housing was slow throughout 1990, our loan originations were almost equal to that of the previous year (1989). We fully anticipate that this market will recover and provide a greater source of originations in 1991.

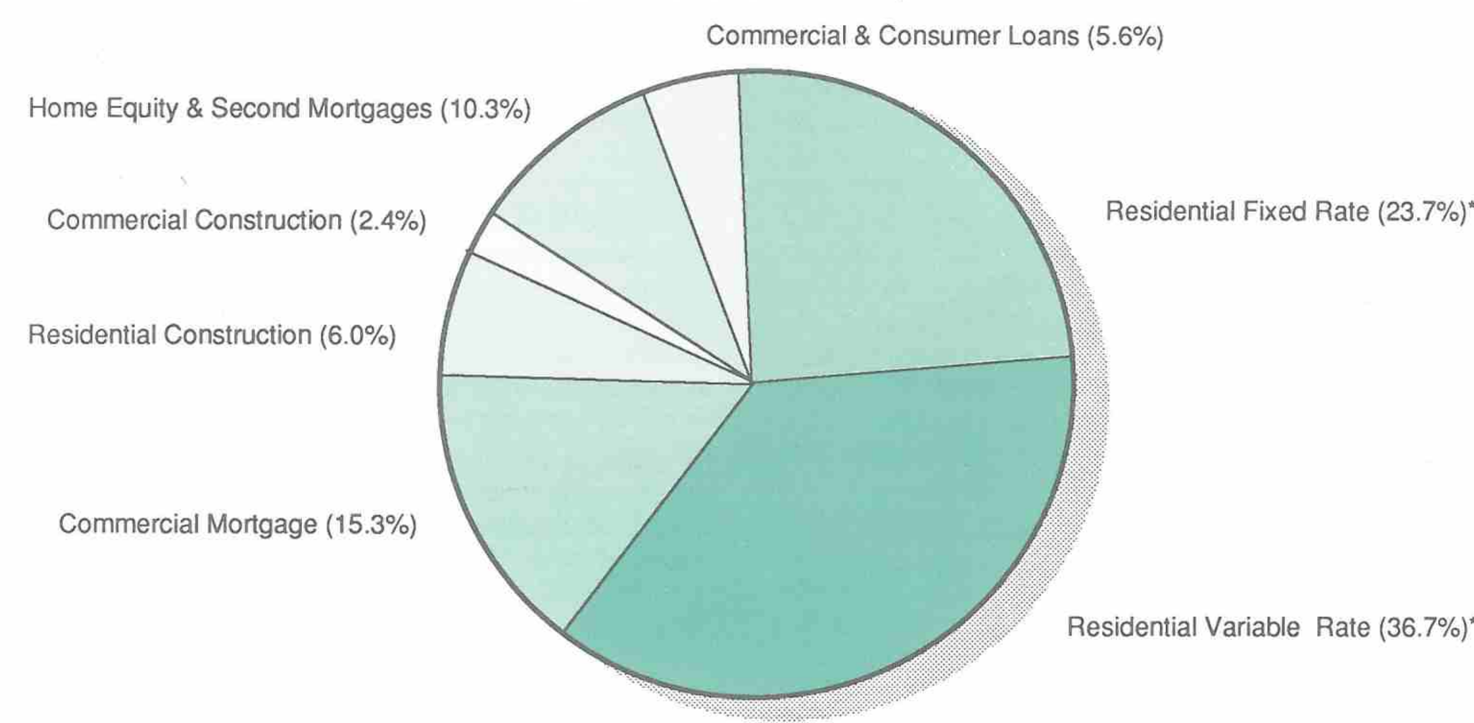
During the past year, the Bank has decreased its total loan portfolio by $19.2 million due to the foreclosure of loans and collateral substantively repossessed, charge offs of loans, the amortization of principal and payoff of loans, and the sale of loans in the secondary market. During this time, the Bank continued to originate variable rate residential mortgage loans for its portfolio. On December 31, 1990, variable rate loans totaled $35.1 million or 60.7% of the total residential mortgage loans. Commercial and consumer loans represented 5.6% of total loans at December 31, 1990.

During 1991 Hingham Institution for Savings intends to strengthen and expand its commitment to residential lending by emphasizing lending in the 1-4 family residential market. Issues related to affordable housing and the strength of the economy will influence the level of originations in the coming year. However, Hingham Institution for Savings expects to maintain its position as the leading residential lender in the Hingham area. The Bank's investment strategy will continue to be to promote the origination of loans with shorter terms or variable rates for its portfolio.

The Bank has continued its practice of selling its conventional fixed rate mortgage loans in the secondary market. Secondary market sales permit the Bank to continue to offer its customers fixed rate mortgage loans, while at the same time generating servicing fee income and avoiding interest rate risk.

The Bank anticipates that by both originating loans for the portfolio with shorter terms and variable rates and selling the conventional fixed rate mortgage loans we will considerably reduce our exposure to interest rate risk.

Total Loans at December 31, 1990



*As shown in above chart, residential loans totaled 60.4% of the total loan portfolio. Of these loans, 39.3% are fixed rate loans and 60.7% are variable rate loans.

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 interest-earnings assets (which primarily consist of loans and investment securities) and interest expense on interest-bearing liabilities (which consist of deposits and borrowings). The Bank's earnings are also affected by non-interest income, provision for possible loan losses, and non-interest expense. All aspects of the Bank's operations are significantly affected by the economy, competition and by policies of regulatory authorities.

The Bank's net loss for the year ended December 31, 1990 was $3,812,000 or $3.05 per share. In 1989 and 1988 the Bank had a net loss of $2,339,000 or $1.87 per share and net income of $833,000, respectively. In both 1990 and 1989, the Bank's results were affected significantly by the levels of the provisions for possible loan losses associated with non-performing real estate loans. During 1990, in addition to the provision for possible loan losses the Bank incurred significantly increased costs and writedowns of foreclosed properties as properties which secured loans were acquired and marketed.

Assets totaled $150.6 million on December 31, 1989, and $149.3 million on December 31, 1990; a decrease of 0.9%. During this period, stockholders' equity decreased from $18.0 million to $13.8 million.

Interest and Dividend Income. Total interest and dividend income increased by $194,000, or 1.5% in 1990 as compared to a decrease of $600,000, or 4.4% in 1989. The 1989 decrease is attributable to a decrease in average earning assets and an increase in non-accrual loans from $7,837,000 in 1988 to $16,468,000 in 1989. The 1990 increase was mainly attributable to an increase in average earning assets. The yields on average earning assets were as follows: 1988, 9.98%; 1989, 9.21%, and 1990, 9.41%.

Interest Expense. Increasing interest rates during 1988 and 1989 resulted in an increase in the average rates paid on deposits of 6.87% and 7.28%, respectively. The average rate paid on deposits for the year ending December 31, 1990 decreased to 7.19%. Deposits decreased by $7.9 million during 1989 and increased by $2.9 million during 1990.

The increase in interest expense of $473,000 for 1990 consisted of an increase $137,000 or 1.6% in interest on deposits, and an increase of $336,000 in interest on Federal Home Loan Bank advances due to increased average balances outstanding during the year, offset by a reduction in the weighted average rates paid.

Provision for Possible Loan Losses. The provision for possible loan losses was $2,770,000 for the year ending December 31, 1990; $3,500,000 for the year ending December 31, 1989, and $621,000 for the year ending December 31, 1988. The balance of the allowance for possible loan losses as of December 31, 1990 was $1,414,000 as compared to $3,381,000 in 1989. 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. Provisions for possible loan losses are charged to earnings as required. 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: $236,000 in 1988; $1,081,000 in 1989; $4,816,000 in 1990. Recoveries on loans previously charged off amounted to $14,000 in 1988, $38,000 in 1989, and $79,000 in 1990. Net charge-offs of $4,737,000 in 1990 reflect the realization of losses previously provided for at the time properties were foreclosed. The amount reflects the deterioration in the value of collateral securing the Bank's loans which occurred during the year.

Non-Interest Income. Total non-interest income increased by $49,000, or 14.5% in 1989, and decreased by $42,000 or 10.8% in 1990. The increase of $49,000 in 1989 is attributed in part to the elimination of the money market management fee in May 1989, offset by a decrease in losses on the sale or redemption of investment securities to $1,000 in 1989 compared to $62,000 in 1988. The decrease in 1990 is attributed in part to lower fees collected on deposit accounts and other fees collected.

Non-Interest Expense. Total non-interest expense as a percentage of average assets was 1.82% for 1988, 2.23% for 1989, and 3.47% for 1990. The substantial increase in 1990 is due primarily to the $1.8 million of costs associated with acquiring and maintaining real estate owned and substantively repossessed.

Total non-interest expense increased by $699,000 or 26.9% during 1989, and increased by $1,977,000 or 59.9% during 1990. Salaries and employee benefits increased by $129,000 or 9.7% during 1989 reflecting salary and employee benefit increases offset by a decrease in staff and salaries. The 1988 salaries expense reflected the reversal of certain accrued retirement benefits. During 1990 salaries and employee benefits increased by $61,000 or 4.2% due mostly to increased health and life insurance costs. Data processing expense decreased by $15,000, or 4.7% in

Management's Discussion & Analysis

1989 and increased by $37,000, or 12.1% in 1990, which is attributable to increased operating costs of the automated teller machines and increased computer service center fees. Occupancy and equipment costs increased in 1989 by $43,000, or 14.1% mainly attributable to the opening of the Bank's loan center in March 1989. The 1990 decrease of $14,000, or 4.0% is mainly attributable to decreased maintenance and depreciation of equipment.

Foreclosed properties expenses of $58,000 in 1989 escalated to $1,802,000 during 1990 in connection with the increase in real estate owned or substantively repossessed from $1,093,000 at December 31, 1989 to $9,637,000 at December 31, 1990. Expenses for real estate held for investment, net of rental income amounted to $88,000 in 1990 and is associated with the $2,951,000 of properties held and operated by the Bank for investment. Substantially all of the increase in properties held for investment during 1990 reflects the addition of a motel in Wrentham, Massachusetts. Legal expense increased in 1989 by $269,000 primarily as a result of litigation as discussed in Note 13 of Notes to the Consolidated Financial Statements. The 1990 legal expense remained essentially unchanged from the 1989 level. Deposit insurance costs decreased in 1989 by $3,000 resulting from a decrease in average deposits and an increase in the insurance rates established by the F.D.I.C. and increased $41,000 or 40.6% in 1990 due to increased average deposits and a further increase in the F.D.I.C. insurance rates. Other non-interest expense increased by $219,000, or 40.5%, and $21,000, or 2.8% in 1989 and 1990, respectively. The 1989 increase is mainly attributable to increased accounting and reporting fees associated with being a publicly held corporation. The increase in 1990 is mainly attributable to the settlement of a lawsuit for $60,000, offset by savings achieved during the year in meetings, travel, operating supplies, and insurance.

Effective Income Tax Rates. The following table sets forth the effective federal, state, and combined income tax rates on pre-tax accounting income of the Bank for the years indicated. See also Note 11 of Notes to the Consolidated Financial Statements.

Years Ended December 31:	Federal	Mass	Combined
1990	(13.8)%	0.1%	(13.7)%
1989	(16.6)	(1.4)	(18.0)
1988	42.0	11.7	53.7

The combined effective income tax benefit rate of (18.0)% in 1989 and (13.7)% in 1990 reflect income tax benefits of $512,000 in 1989 and $607,000 in 1990. Refunds of Federal income taxes paid of approximately $850,000 have been applied for.

At December 31, 1990, the Bank had book and tax net operating loss carryforwards of approximately $3.0 million which are available to offset future Federal taxable income through the year 2005.

LIQUIDITY AND CAPITAL RESOURCES

The Bank's principal sources of liquidity are increased customer deposits, amortization of principal and interest payments on loans and its ability to sell or pledge its loan and investment portfolios. As a member of the Federal Home Loan Bank of Boston (FHLBB) the Bank may borrow through advances. The Bank also has the ability to borrow, from the Federal Reserve Bank of Boston and the Mutual Savings Central Fund, Inc. for short-term needs by pledging certain assets. At December 31, 1990, the Bank had outstanding commitments to originate loans of $684,000, unused lines of credit of $3,090,000, unadvanced portions of construction loans of $1,092,000 and standby letters of credit of $66,000. The Bank believes it has adequate sources of liquidity to fund these commitments.

Deposit growth during 1990 was $2,866,000 or 2.5%. The new Step Money Market Account continued to grow and at December 31, 1990 the balance of $30.3 million represented a $6.4 million, or 26.8% increase over 1989.

Interest-bearing deposits in banks and short-term investments decreased by $4,778,000 during 1990. These funds were redeployed to intermediate term U.S. Treasury, agency and corporate obligations. The net reduction in total loans during the year amounted to $19,185,000. Of this amount $10,220,000 is accounted for by the net increase in real estate owned or substantively repossessed of $8,544,000 and the increase in real estate held for investment of $1,676,000. Substantially all of the remaining $8,965,000 was invested in intermediate term U.S. Treasury, agency and corporate obligations.

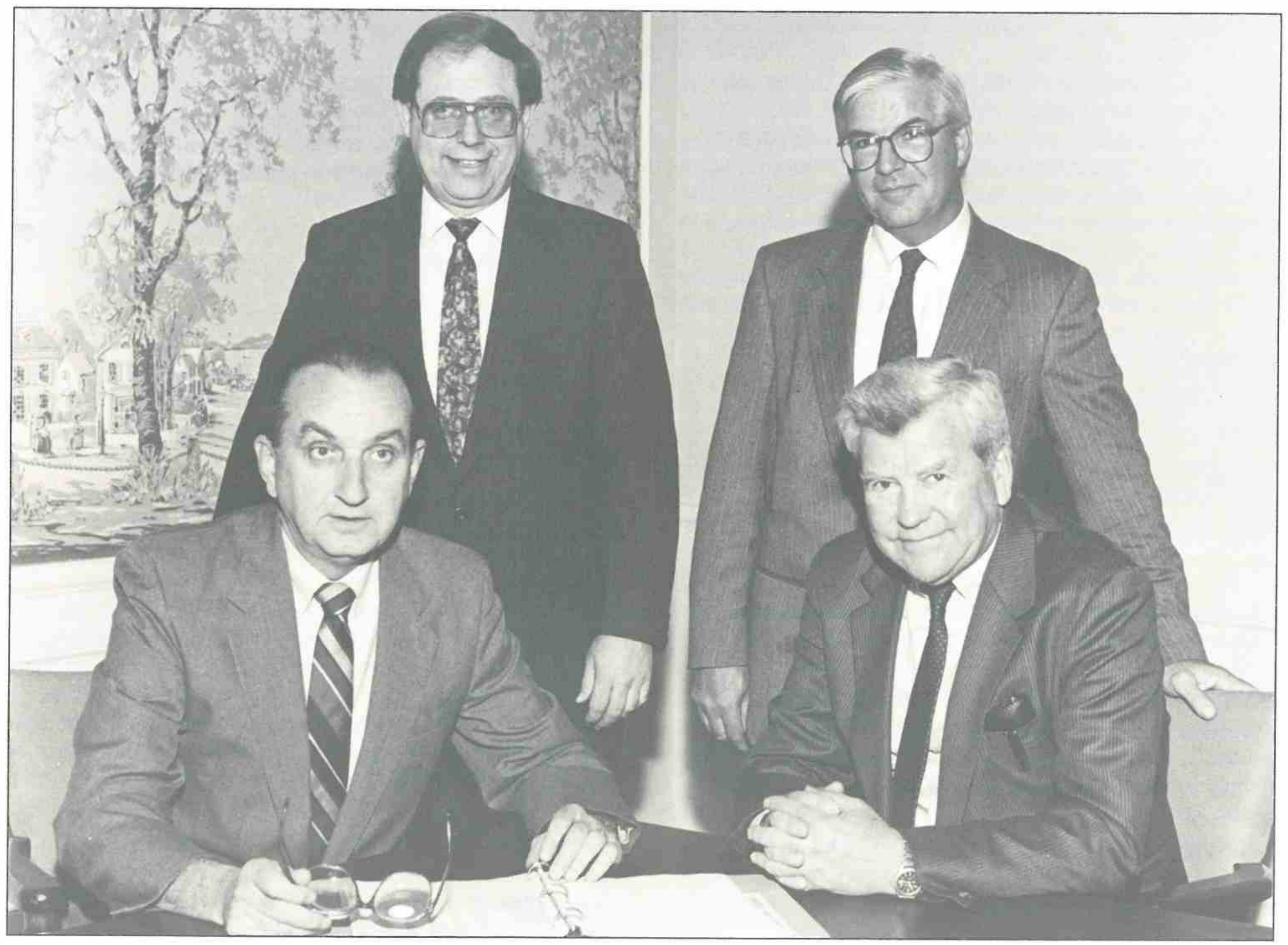
Massachusetts-chartered savings banks, that are insured by the F.D.I.C. are required to maintain minimum primary capital equal to 5.5% of total assets and total capital equal to 6.0% of total assets. The F.D.I.C. regulations are subject to change, and minimum capital requirements may be increased in the future. At December 31, 1990, the Bank's total capital of $13.8 million was equal to 9.21% of total assets and exceeded the Bank's minimum primary capital requirements. The Board of Directors reduced the dividend payable on common stock for the third quarter of

Management's Discussion & Analysis

1990 from $.08 per share to $.04 per share and suspended the dividend for the fourth quarter as a means of preserving the Bank's capital.

IMPACT OF INFLATION AND CHANGING PRICES

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



TOP MANAGEMENT AT HINGHAM INSTITUTION FOR SAVINGS

Standing: (left) Robert F. Cass, Vice President & Treasurer, (right) Michael Donahue, Vice President - Lending, Seated: (left) Paul E. Bulman, President & Chief Executive Officer, (right) Gerard W. Pyne, Marketing Manager & Chairman of the Board.

KPMG Peat Marwick

Independent Auditors' Report

The Board of Directors and Stockholders
Hingham Institution for Savings:

We have audited the accompanying consolidated balance sheets of Hingham Institution for Savings and subsidiaries as of December 31, 1990, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of Hingham Institution for Savings as of December 31, 1989, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 1989, were audited by other auditors whose report (dated January 19, 1990) on those statements included an explanatory paragraph that described the litigation discussed in note 13 to the financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 1990 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hingham Institution for Savings and subsidiaries as of December 31, 1990, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

Boston, Massachusetts
January 25, 1991

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 1990, 1989 and 1988

	Common stock	Additional paid-in capital	Retained earnings (In Thousands)	Net unrealized loss on marketable equity securities (note 3)	Total stock-holders' equity
Balance at December 31, 1987	$ —	—	10,361	(70)	10,291
Net income	—	—	833	—	833
Proceeds from sale of common stock, net (note 14)	1,250	8,371	—	—	9,621
Decrease in net unrealized loss on marketable equity securities	—	—	—	19	19
Balance at December 31, 1988	1,250	8,371	11,194	(51)	20,764
Net loss	—	—	(2,339)	—	(2,339)
Cash dividends paid ($.23 per share)	—	—	(287)	—	(287)
Increase in net unrealized loss on marketable securities	—	—	—	(139)	(139)
Balance at December 31, 1989	1,250	8,371	8,568	(190)	17,999
Net loss	—	—	(3,812)	—	(3,812)
Cash dividends paid ($.28 per share)	—	—	(350)	—	(350)
Increase in net unrealized loss on marketable equity securities	—	—	—	(86)	(86)
Balance at December 31, 1990	$ 1,250	8,371	4,406	(276)	13,751

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 1990, 1989 and 1988

	1990	1989 (In Thousands)	1988
Cash flows from operating activities:			
Net income (loss)	$ (3,812)	(2,339)	833
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for possible loan losses	2,770	3,500	621
Writedowns and provision for loss on real estate owned	1,402	—	—
Amortization of discount on investment securities, net of accretion	(10)	73	167
Deferred loan fees	64	(129)	(202)
Deferred income taxes	25	(53)	(158)
Depreciation	260	193	157
Loss on sale of investments, net	1	1	62
(Increase) decrease in income taxes receivable	(81)	(1,338)	745
(Increase) decrease in accrued interest receivable	10	(182)	(78)
(Increase) decrease in other assets	(75)	648	(405)
Increase (decrease) in mortgagors' escrow	(55)	65	(36)
Increase (decrease) in accrued interest payable and other liabilities	66	(234)	165
Net cash provided by operating activities	565	205	1,871
Cash flows from investing activities:			
(Increase) decrease in short-term investments, net	2,000	4,000	(4,500)
Proceeds from maturities of investment securities	8,315	6,712	3,783
Proceeds from sales of investment securities	12	8	9,462
Principal payments received on mortgage-backed securities	50	56	58
Purchase of loans	—	—	(9,500)
Purchase of investment securities	(21,382)	(13,348)	(10,637)
Proceeds from sale of loans	2,907	284	332
(Increase) decrease in loans, net	(21)	(1,700)	(4,137)
Additions to real estate owned	(522)	(79)	(6)
Proceeds from sales of real estate owned	2,278	1,373	315
Increase in FHLB stock	—	(149)	(230)
Additions to banking premises and equipment	(43)	(1,206)	(285)
Net cash used in investing activities	(6,406)	(4,049)	(15,345)

(Continued)

Consolidated Statements of Cash Flows

Years ended December 31, 1990, 1989 and 1988

	1990	1989 (In Thousands)	1988
Cash flows from financing activities:			
Increase (decrease) in deposits, net	2,866	(7,876)	1,433
Proceeds from Federal Home Loan Bank advances	—	15,000	10,000
Repayment of Federal Home Loan Bank advances	—	(10,000)	—
Proceeds from issuance of common stock	—	—	9,621
Cash dividends paid	(350)	(287)	—
Net cash provided by (used in) financing activities	2,516	(3,163)	21,054
Net increase (decrease) in cash and cash equivalents	(3,325)	(7,007)	7,580
Cash and cash equivalents:			
Beginning of year	6,886	13,893	6,313
End of year	$ 3,561	6,886	13,893
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 9,952	9,436	8,862
Income taxes	$ —	878	378
Supplemental disclosure of non-cash investing activities:			
Loans transferred to real estate owned or substantively repossessed	$ 11,702	1,753	943
Loans transferred to real estate held for investment (note 7)	$ 1,763	1,295	—
Loans charged-off, net	$ 4,737	1,043	222

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1990, 1989 and 1988

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Bank conform to generally accepted accounting principles and prevailing practices within the banking industry.

Certain amounts in the prior year's financial statements have been reclassified to conform with the current year's presentation.

Short-term Investments

Short-term investments generally mature within one year and are stated at cost, which approximates market value.

Investment Securities

Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts, which are calculated on a straight-line basis over the remaining life of the securities.

Mortgage-backed securities are stated at cost, reduced by principal payments.

Fixed income securities are carried at amortized cost based upon management's intention and ability to carry these securities until maturity. There were no securities held for sale or trading at December 31, 1990 or 1989.

Marketable equity securities are stated at the lower of aggregate cost or market value.

Gains and losses on disposition of investment securities are computed using the specific identification method.

Loans

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

Loan origination fees, net of direct loan origination costs, are deferred and are recognized as adjustments to loan income over the contractual life of the related loans using a method that approximates the level-yield method.

Allowance for Possible Loan Losses

The allowance for possible loan losses is maintained at a level which management considers adequate to provide for potential losses based upon an evaluation of risk in the loan portfolio. Such evaluation includes a review of overall portfolio size, quality, composition, and an assessment of existing economic conditions. While management uses available information in establishing the allowance for possible loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. Additions to the allowance are charged to earnings; realized losses, net of recoveries, are charged to the allowance. Management believes that the allowance for possible loan losses is adequate.

Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for possible loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments of information available to them at their examination date.

(Continued)

Real Estate Owned or Substantively Repossessed

Real estate owned or substantively repossessed includes those properties acquired through foreclosure or deed in lieu of foreclosure and properties considered to be repossessed in substance ("in substance foreclosure"). A property is considered to be an in substance foreclosure when there is indication that the borrower no longer has equity in the property collateralizing the loan and it is doubtful that the borrower's equity will be restored in the foreseeable future. Such loans are carried at the lower of fair value or the balance of the loan on the property at the date of acquisition. Costs relating to the development and improvement of property are capitalized, whereas those relating to holding the property are charged to expense. Losses realized subsequent to foreclosure are charged to operations as incurred or when it is determined that the investment in the property is greater than its estimated net realizable value.

Real Estate Held for Investment

Real estate held for investment is carried at the lower of cost or estimated net realizable value. Net realizable value is reviewed quarterly and, when necessary, provisions for loss are charged to income. Profit or loss from operations of real estate held for investment is included in the consolidated statements of operations as non-interest expense - real estate held for investment, net.

Banking Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets: from 25 to 65 years for buildings and 3 to 20 years for equipment.

Maintenance and repairs are charged to expense. Major improvements are capitalized and depreciated.

Income Taxes

Certain items of income and expense are recognized in different periods for financial statement and income tax purposes. Deferred taxes are provided in the financial statements for such timing differences.

Earnings (Loss) Per Share

Earnings (loss) per share is computed based on the weighted average number of shares outstanding during the year. Per share data for the year ended December 31, 1988 is not presented since the shares were issued on December 20, 1988.

Statements of Cash Flows

Cash and cash equivalents include amounts due from banks and interest bearing deposits.

(2) Cash and Due from Banks

The Bank is required to maintain cash reserve balances with the Federal Reserve Bank based upon a percentage of certain deposits. At December 31, 1990 and 1989, cash and due from banks included $193,000 and $312,000, respectively to satisfy such reserve requirements.

(Continued)

(3) Investment Securities

Investment securities at December 31 follow:

	1990			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
		(In Thousands)		
Bonds and obligations:				
U.S. Treasury	$ 5,970	93	—	6,063
U.S. Government agencies	9,000	102	—	9,102
Corporate	17,548	44	(251)	17,341
	32,518	239	(251)	32,506
Mortgage-backed securities	524	—	(46)	478
Total debt securities	33,042	239	(297)	32,984
Marketable equity securities	668			
Less net unrealized loss on marketable equity securities	(276)			
Marketable equity securities, net	392			392
Total investment securities	$ 33,434			33,376

	1989			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
		(In Thousands)		
Bonds and obligations:				
U.S. Treasury	$ 3,497	9	—	3,506
U.S. Government agencies	3,012	—	(2)	3,010
Corporate	12,932	19	(161)	12,790
	19,441	28	(163)	19,306
Mortgage-backed securities	574	—	(41)	533
Total debt securities	20,015	28	(204)	19,839
Marketable equity securities	681			
Less net unrealized loss on marketable equity securities	(190)			
Marketable equity securities, net	491			491
Total investment securities	$ 20,506			20,330

Net realized losses on marketable equity securities were $1,000, $1,000 and $2,000 for the years ended December 31, 1990, 1989 and 1988, respectively.

(Continued)

Notes to Consolidated Financial Statements

Net unrealized losses on marketable equity securities at December 31 consisted of the following:

	1990	1989
	(In Thousands)	
Gross unrealized gains	$ —	2
Gross unrealized losses	(276)	(192)
	$ (276)	(190)

The maturity distribution of bonds and obligations at December 31 follows:

	1990		1989	
	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In Thousands)			
Bonds and obligations:				
Within one year	$ 4,473	4,487	8,324	8,323
Over 1 year to 5 years	23,805	23,944	8,854	8,831
Over 5 years to 10 years	4,240	4,075	2,263	2,152
	$ 32,518	32,506	19,441	19,306

Investment securities with a book value of $500,000 were pledged to secure government deposits at December 31, 1990.

(Continued)

Notes to Consolidated Financial Statements

(4) Loans

Loans at December 31 follow:

	1990	1989
	(In Thousands)	
Mortgage loans:		
Residential	$ 57,733	64,950
Commercial	14,652	17,246
Residential construction	6,814	18,259
Commercial construction	2,312	3,528
Home equity	8,735	8,626
Second mortgages	1,070	1,207
	91,316	113,816
Less unadvanced funds	(1,092)	(3,684)
Mortgage loans, net	90,224	110,132
Commercial loans:		
Secured	1,017	870
Unsecured	28	77
Total commercial loans	1,045	947
Consumer loans:		
Personal installment	3,383	4,581
Education	758	825
Revolving credit	136	149
Total consumer loans	4,277	5,555
Total loans	95,546	116,634
Less:		
Allowance for possible loan losses (note 5)	(1,414)	(3,381)
Deferred loan fees, net	(179)	(115)
Loans, net	$ 93,953	113,138

Loans totaling $5,263,000 and $16,468,000 were on non-accrual at December 31, 1990 and 1989, respectively. Interest income not recognized on such loans amounted to $356,000 and $1,475,000 for the years ended December 31, 1990 and 1989, respectively. Prior to cessation of accrual, interest income recognized on such loans was $224,000 and $386,000 for the years ended December 31, 1990 and 1989, respectively.

Loans serviced for others amounted to $11,063,000 and $10,057,000 at December 31, 1990 and 1989, respectively.

The Bank's lending activities are conducted principally in communities on the South Shore of Massachusetts. The Bank grants single family residential loans, commercial real estate loans, commercial loans and a variety of consumer loans. In addition, the Bank grants loans for the construction of residential homes, commercial real estate properties, and for land development. Substantially all loans granted by the Bank are secured by real estate collateral. The ability

(Continued)

Notes to Consolidated Financial Statements

and willingness of residential mortgage and consumer loan borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the borrowers' geographic areas and real estate values. The ability and willingness of commercial real estate, construction loan and commercial borrowers to honor their repayment commitments is generally dependent on the health of the real estate market in the borrowers' geographic areas and the general economy. The Bank is limited by statute from lending to any one borrower amounts in excess of 20% of stockholders' equity. The Bank had no such lending relationships with borrowers at December 31, 1990.

In the ordinary course of business, the Bank has granted loans to its officers, directors and their affiliates. Activity in these loans for the years ended December 31 follows:

	1990	1989
	(In Thousands)	
Balance at beginning of year	$ 911	997
New loans	288	—
Repayments	(248)	(86)
Balance at end of year	$ 951	911

(5) Allowance for Possible Loan Losses

The analysis of the allowance for possible loan losses for the years ended December 31 follows:

	1990	1989	1988
		(In Thousands)	
Balance at beginning of year	$ 3,381	924	525
Provision for possible loan losses	2,770	3,500	621
	6,151	4,424	1,146
Loans charged-off	(4,816)	(1,081)	(236)
Recoveries on loans previously charged-off	79	38	14
Net loans charged-off	(4,737)	(1,043)	(222)
Balance at end of year	$ 1,414	3,381	924

(Continued)

Notes to Consolidated Financial Statements

(6) Real Estate Owned or Substantively Repossessed

Real estate owned or substantively repossessed at December 31 follows:

	1990	1989
	(In Thousands)	
Residential homes	$ 7,135	1,093
Land development	2,152	—
Residential condominiums	460	—
Commercial real estate	320	—
	10,067	1,093
Less allowance for possible losses	(430)	—
	$ 9,637	1,093

An analysis of real estate owned or substantively repossessed for the years ended December 31 follows:

	1990	1989
	(In Thousands)	
Balance at beginning of year	$ 1,093	634
Foreclosures and properties substantively repossessed	11,702	1,753
Improvements	522	79
Sales	(2,278)	(1,373)
Write-downs	(1,402)	—
Balance at end of year	$ 9,637	1,093

An analysis of foreclosed property expense for the years ended December 31 follows:

	1990	1989	1988
		(In Thousands)	
Write-downs during year	$ 1,402	—	—
Foreclosure costs and holding costs, net	400	58	—
	$ 1,802	58	—

Included in foreclosed property expense for the year ended December 31, 1990 is $70,000 representing the effect of below-market financing on loans granted by the Bank to finance certain sales of foreclosed properties.

(7) Real Estate Held for Investment

Real estate held for investment represents properties acquired by foreclosure or deed-in-lieu of foreclosure which are operated by the Bank for income-producing purposes. The properties held at December 31 are as follows:

	1990	1989
	(In Thousands)	
Residential condominiums	$ 1,637	1,295
Motel	1,400	—
	3,037	1,295
Less accumulated depreciation	(86)	(20)
	$ 2,951	1,275

(8) Banking Premises and Equipment

Banking premises and equipment at December 31 follows:

	1990	1989
	(In Thousands)	
Land	$ 473	473
Buildings	1,622	1,620
Equipment	1,057	1,025
	3,152	3,118
Less accumulated depreciation	(1,206)	(1,042)
	$ 1,946	2,076

(9) Deposits

Deposits at December 31 follows:

	1990	1989
	(In Thousands)	
Non-certificate accounts:		
Regular and special notice	$ 20,637	22,005
Money market deposits	30,264	23,912
NOW	7,385	8,001
Demand	2,712	3,046
Total non-certificate accounts	60,998	56,964
Term certificates:		
Less than $100,000	51,513	49,792
$100,000 and over	6,700	9,589
Total term certificates	58,213	59,381
Total deposits	$ 119,211	116,345

The maturity distribution of term certificates at December 31 follows:

	1990		1989	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars In Thousands)			
Within 1 year	$ 44,151	8.08%	$ 42,419	8.46%
Over 1 year to 2 years	9,419	8.51	8,237	8.46
Over 2 years to 3 years	4,643	8.49	7,589	8.59
Over 3 years	—	—	1,136	9.00
	$ 58,213	8.18%	$ 59,381	8.49%

(10) Federal Home Loan Bank Advances

A summary of advances from the Federal Home Loan Bank of Boston at December 31 follows:

		1990		1989	
Maturity Date	Type	Amount	Weighted Average Rate	Amount	Weighted Average Rate
		(Dollars In Thousands)			
February 15, 1994	Variable Rate	$ 7,000	8.63%	$ 7,000	9.86%
May 15, 1994	Variable Rate	5,000	8.86	5,000	9.66
September 15, 1994	Variable Rate	3,000	8.25	3,000	8.56
		$ 15,000	8.63%	$ 15,000	9.53%

All borrowings from the Federal Home Loan Bank of Boston are secured by all stock in the Federal Home Loan Bank of Boston and a blanket lien on "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.

(Continued)

(11) Income Taxes

The components of income tax expense (benefit) at December 31 follows:

	1990	1989 (In Thousands)	1988
Current:			
Federal	$ (632)	(387)	772
State	—	(72)	351
	(632)	(459)	1,123
Deferred:			
Federal	—	(53)	(126)
State	25	—	(32)
	25	(53)	(158)
	$ (607)	(512)	965

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The tax effects of these timing differences for the years ended December 31 are as follows:

	1990	1989 (In Thousands)	1988
Cash basis accounting for tax purposes	$ (79)	(78)	(70)
Deferred loan origination fees	8	25	(77)
Other	(3)	—	(11)
Non-recognition of net operating loss carryover	99	—	—
	$ 25	(53)	(158)

The effective income tax rates for the years ended December 31 differ from the Federal "expected" statutory income tax rate for the following reasons:

	1990	1989	1988
Federal "expected" statutory rate	(34.0)%	(34.0)%	34.0%
Increase (decrease) resulting from:			
Bad debt deduction	(16.5)	15.8	7.1
Dividends received deduction	(1.9)	(.2)	(.4)
State taxes, net of federal tax benefit	.1	(1.4)	11.7
Non-recognition of net operating loss carryover	38.6	—	—
Other, net	—	1.8	1.3
Effective income tax rate	(13.7)%	(18.0)%	53.7%

(Continued)

At December 31, 1990, the Bank had book and tax net operating loss carryforwards of approximately $3,008,000 which are available to offset future federal taxable income. Net operating loss carryforwards are subject to a fifteen-year carryforward and will expire by 2005. The benefits of net operating loss carryforwards are recognized when realized.

In December 1987, the Financial Accounting Standards Board ("FASB") issued a statement of accounting for income taxes which adopts a balance sheet approach in place of the income statement approach presently used. The statement requires that a liability be recognized for the amount of temporary differences anticipated to be included in taxable income in future years at income tax rates in effect at each reporting date. In 1989, the FASB postponed the effective date of the statement, and it will be effective for the Bank on January 1, 1992. The accounting method (i.e., restatement or cumulative effect) which the Bank will utilize to adopt the statement and the estimated effect on earnings and retained earnings have not been determined at this time.

(12) Financial Instruments with Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include unused lines of credit, unadvanced portions of construction loans, commitments to originate loans, and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets. The amounts of those instruments reflect the extent of the Bank's involvement in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to its financial instruments (for unused lines of credit, unadvanced portions of construction loans, loan commitments, and standby letters of credit) is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Financial instruments with off-balance sheet risk at December 31, 1990 follow:

Unused lines of credit	$ 3,090,000
Unadvanced portions of construction loans	1,092,000
Commitments to originate loans	684,000
Standby letters of credit	66,000

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

(13) Litigation

On April 11, 1990, a lawsuit against the Bank by its former president was dismissed by the court without liability to the Bank. The Bank's claims against its former president will continue to be vigorously pursued as the Bank contends that a substantial portion of the losses it has sustained result from the former president's alleged conduct. The Bank is pursuing

(Continued)

recovery of damages with its insurance carrier as such losses are believed to be covered under the Bank's insurance policy, subject to the deductible amount. 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 claim.

In connection with the alleged conduct of the Bank's former president, several individuals have threatened claims against the Bank. The Bank will vigorously defend itself against any and all such claims if or when they are filed.

The Bank is a defendant in four lawsuits relating to lender liability. Three of these lawsuits were brought by one borrower. The Bank obtained partial summary judgment in the first lawsuit. The Bank has moved to dismiss the other two lawsuits on the basis that they are duplicative of the first lawsuit. The Bank will continue to defend these lawsuits. The Bank contends that these actions are harassment and duplicative of the first complaint. The fourth lawsuit was brought by a separate borrower of the Bank. The borrower has alleged that the Bank committed various torts and breached its contract with respect to the borrower's application for funds. The Bank has answered by denying the claims and has counterclaimed against the borrower for breach of contract with respect to several outstanding promissory notes held by the Bank. The Bank will vigorously defend itself against the claims asserted by this borrower.

The outcome of and the ultimate liability of the Bank, if any, from these actions cannot be predicted at this time and, accordingly, the Bank has made no provision for these matters in its financial statements. The Bank believes that it has meritorious defenses to the claims and intends to pursue them through the appropriate legal process.

(14) Stockholders' Equity

The Bank is required under Federal Deposit Insurance Corporation ("FDIC") regulations to maintain certain capital requirements. At December 31, the Bank's capital requirements were as follows (unaudited):

	Required		Actual	
	Percentage	Amount	Percentage	Amount
	(Dollars in Thousands)			
Primary	5.50%	$ 8,287	10.06%	$ 15,165
Total	6.00	9,040	10.06	15,165
Risk Based:				
Tier 1	3.63	5,127	12.83	13,751
Total (tiers 1 and 2)	7.25	10,255	14.15	15,165

On December 20, 1988, the Bank converted 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 the amount of $11,013,000. In accordance with Massachusetts statute, the liquidation account is maintained for the benefit of eligible deposit 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 deposit account holders have reduced their qualifying deposits. Subsequent deposit account 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, 1990 amounted to approximately $3,127,000 (unaudited).

(Continued)

The Bank may not declare or pay cash dividends on its shares of common stock if the effects thereof would cause 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.

Retained earnings at December 31, 1990 includes approximately $2,603,000 of additions to the bad debt reserve for income tax purposes which may be subject to tax if not used to absorb loan losses or if the Bank's "qualifying" assets (primarily cash, U.S. Treasury securities and residential mortgage loans) fall below 60% of total assets. At December 31, 1990, qualifying assets were approximately 70% (unaudited) of total assets.

In connection with the conversion to stock form, the Bank adopted a stock option plan under which options may be granted to directors and officers and other employees as the Board may determine. A total of 125,000 shares of common stock are 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. Non-qualified stock options vest over a five year period. No option is exercisable until three years from the date of the completion of the conversion of the Bank to stock form (December 20, 1991).

Stock option activity for the years ended December 31 follows:

	1990	1989	1988
Options outstanding at beginning of year	53,600	—	—
Granted	54,600	53,600	—
Forfeited	(12,700)	—	—
Exercised	—	—	—
Options outstanding at end of year	95,500	53,600	—
Weighted average exercise price	$ 6.05	$ 8.50	—

(15) Pension and Employee Incentive Plans

The Bank provides pension benefits for substantially all of its eligible officers and employees through membership in a defined benefit plan of the Savings Banks Employees' Retirement Association ("SBERA"). Under the plan, retirement benefits are based on years of credited service, the highest average compensation (as defined), and the primary social security benefit. In addition, employees may make optional, voluntary contributions to the plan under several methods. These optional contributions provide retirement benefits to the employee in addition to those otherwise available under the Bank's plan. Annual contributions by the Bank to the plan are based on assessments from SBERA.

(Continued)

Notes to Consolidated Financial Statements

Pension expense under the plan for the years ended December 31, 1990, 1989 and 1988 follows:

	1990	1989	1988
		(In Thousands)	
Service cost - benefits earned during period	$ 96	69	56
Interest cost on projected benefit obligation	84	115	110
Actual return on plan assets	29	(163)	(157)
Net amortization and deferral	3	3	3
Amortization of net (gain) loss	(115)	65	51
Net periodic pension expense	$ 97	89	63

The funded status of the plan at October 31, the plans valuation date, follows:

	1990	1989
	(In Thousands)	
Actuarial present value of:		
Vested benefit obligations	$ 829	686
Non-vested benefit obligations	12	—
	$ 841	686
Actuarial present value of projected benefit obligation	$ 1,209	1,073
Plan assets at fair value	1,069	1,093
Plan assets in excess of (less than) projected benefit obligation	(140)	20
Unrecognized net gain	(38)	(116)
Unrecognized net obligation at inception	46	48
Accrued pension cost at end of year	$ (132)	(48)

For the plan years ended October 31, 1990 and 1989, actuarial assumptions include an assumed discount rate of 7.75% and 7.50%, respectively, and an expected long-term rate of return on plan assets of 7.50% and 7.75%, respectively and an assumed 6% rate of increase in compensation for both years.

The Bank had maintained an incentive plan whereby employees were eligible to receive a bonus based on their respective salaries and years of service dependent on the Bank's earnings. The incentive plan was terminated in 1990. Incentive plan expense for the years ended December 31, 1989 and 1988 amounted to $96,000 and $157,000, respectively.

(Continued)

Notes to Consolidated Financial Statements

(16) Quarterly Financial Data (unaudited)

Quarterly results of operations for the years ended December 31, 1990 and 1989 are as follows:

	1990				1989			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
	(In Thousands, Except Per Share Amounts)							
Interest income	$ 3,282	3,274	3,384	3,272	3,342	3,343	3,019	3,314
Interest expense	2,467	2,446	2,508	2,507	2,185	2,321	2,454	2,495
Net interest income	815	828	876	765	1,157	1,022	565	819
Provision for possible loan losses	1,100	100	680	890	64	40	3,000	396
Net interest income (expense) after provision for possible loan losses	(285)	728	196	(125)	1,093	982	(2,435)	423
Non-interest income	80	98	79	89	117	106	78	87
Non-interest expense	(1,036)	(1,086)	(1,290)	(1,867)	(824)	(836)	(773)	(869)
Income (loss) before income taxes	(1,241)	(260)	(1,015)	(1,903)	386	252	(3,130)	(359)
Income tax expense (benefit)	(498)	(25)	(96)	12	177	17	(742)	36
Net income (loss)	$ (743)	(235)	(919)	(1,915)	209	235	(2,388)	(395)
Earnings (loss) per share	$ (.59)	(.19)	(.74)	(1.53)	.17	.19	(1.91)	(.32)

The Bank's provision for possible loan losses of $3,000,000 in the third quarter of 1989 reflects the Bank's assessment of the values of underlying collateral for non-performing loans during the period. In the first quarter of 1990, the provision of $1,100,000 reflects the effects of a regulatory examination which was completed during the period. In the fourth quarter of 1990, the Bank reevaluated all non-performing loans and foreclosed properties in light of the continuing decline of real estate values. This evaluation resulted in an increased provision for possible loan losses and additional writedowns and provision for loss on foreclosed properties (included in non-interest expense).

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
Treasurer
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 Corporation
Retired

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

William M. Donovan, Jr.
Assistant Vice President

Edward P. Zec
Assistant Vice President

Deborah A. Bearde
Assistant Treasurer

Elizabeth A. Cossette
Assistant Treasurer

Helen Fuda
Assistant Treasurer

Rose Leibfarth
Assistant Treasurer

Donna J. Rogers-Parry
Assistant Treasurer

Sally A. Paulson
Assistant Treasurer

Lois F. Vanasse
Assistant Treasurer

J. Robert Crowley
Clerk of the 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 and Registrar
Mellon Securities Trust Co.
c/o Mellon Securities Transfer Services
111 Founders Plaza, Suite 1100
East Hartford, CT 06108

Stockholder Inquiries and Dividend Reinvestment
Mellon Securities Transfer Services
P.O. Box 444
Pittsburgh, PA 15230
1-800-288-9541

Independent Auditors
KPMG Peat Marwick
One Boston Place
Boston, MA 02108

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 31,1990 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

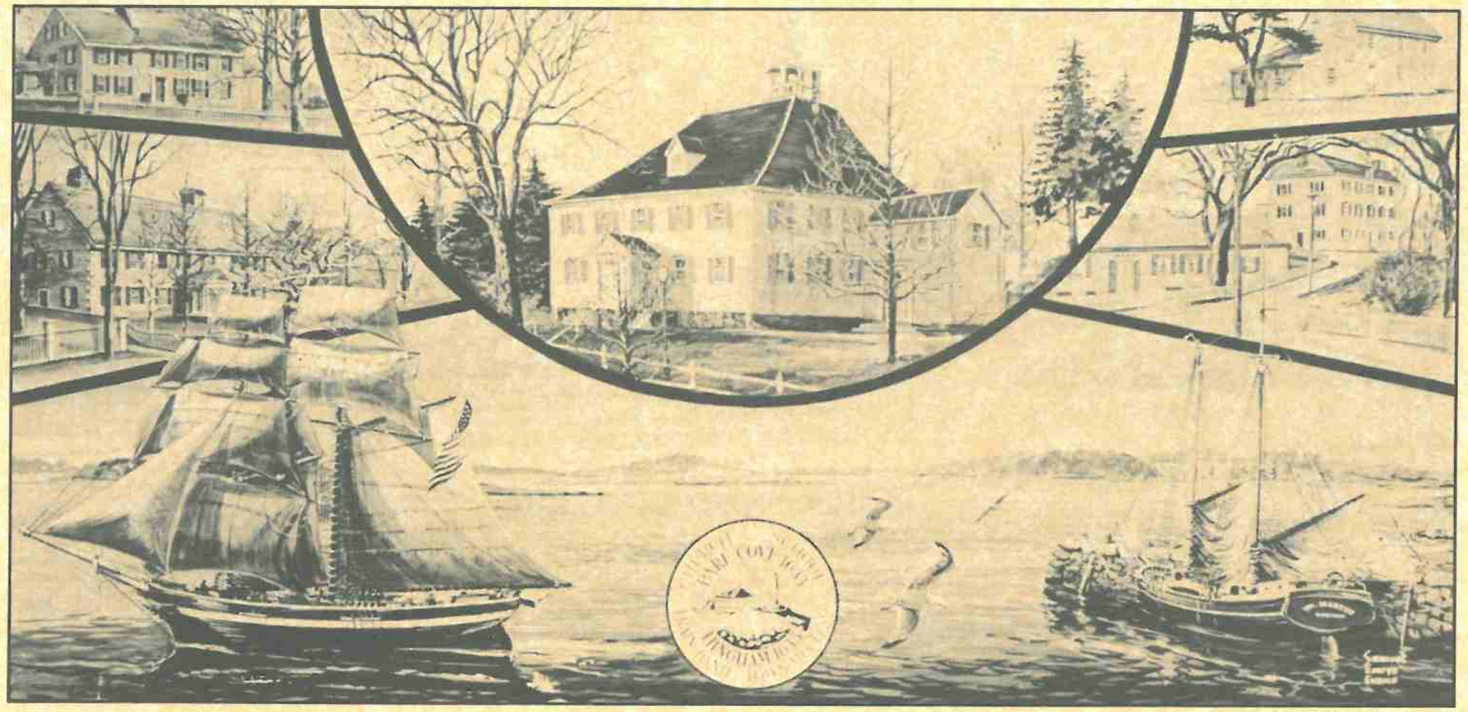
Hingham Institution for Savings common shares are listed and traded on the NASDAQ National Market System under the symbol HIFS.

As of December 31,1990 there were approximately 678 stockholders of record, holding 773,023 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 reported by NASDAQ.

	High	Low
1990		
First Quarter	$ 5 1/2	$ 3 3/4
Second Quarter	5 1/8	3 1/2
Third Quarter	4 1/4	2 3/8
Fourth Quarter	3 1/4	1 5/8
1989		
First Quarter	8 7/8	7 1/2
Second Quarter	8 1/4	6 5/8
Third Quarter	8	6 3/8
Fourth Quarter	6 3/4	4 3/8

The closing sale price of the Bank's common stock at December 31, 1990 was $2 1/8 per share.



THE OLD ORDINARY

Originally, a dwelling, later a tap room, the Old Ordinary on Lincoln Street, stands as a memento of Hingham's early days. Through the generosity of Dr. Wilmon Brewer, who presented it in 1922 as a memorial to his father, Francis W. Brewer, the Old Ordinary is the property of the Hingham Historical Society which maintains it as a museum. Most of Old Ordinary was built between 1680 and 1690 by Thomas Andrews Sr., as a residence. In 1702, the Selectmen of the Town gave Thomas Andrews Jr., who had inherited it, permission to sell "Strong waters on Broad Cove Lane (Lincoln Street) provided he sent h is customers home at reasonable hours with ability to keep their legs."

Capt. Francis Barker, master shipwright and military officer, who acquired the property in 1749, built the addition with the entrance on Lincoln Street (the Willard Room), the Lincoln Street hall, the tap room and the upstairs bedrooms. He lived here for 55 years.

THOMAS THAXTER HOUSE

For 212 years, this Colonial dwelling occupied the corner of North Street and Fearing Road. It was the home of Thomas Thaxter, first of the name in Hingham, who bought the house and land in 1652. Thaxters lived in it for five generations, the last being Major Samuel Thaxter, who was an army officer in the French and Indian Wars. When he removed to Bridgewater in 1771, the property was acquired by Elisha Leavitt. The dwelling with tapestried walls, decorated door panels and broad, tiled fireplaces was taken down in 1864 preparatory to the erection of St. Paul's Roman Catholic Church on the site in 1871.

The building to the right was the residence of Col. Nathan Rice, a prominent Federalist, Town leader, representative in the General Court, and aide to Gen. Benjamin Lincoln. The structure, built by Dr. Bela Lincoln, brother of Gen. Lincoln, subsequently was altered into the Union Hotel which eventually became the Cushing House. This hostelry was razed in 1949. The Hingham Post Office now occupies this corner.

OLD SHIP MEETING HOUSE

The Old Ship Meeting House, built in 1681, is not only the oldest wooden church structure in America, it is also the oldest church building in continuous use in this country. Its cost of £430 was raised by assessing the 140 families of Hingham, each according to its ability to pay. Architecturally, the Meeting House reflects the Elizabethan Gothic, in wood, of the builders' homeland. It is the only example left in America of this style.

Hingham Institution for Savings and Subsidiaries

The great curved frames like the knees of a ship that support the roof, were cut from oak trees growing on neighboring hillsides. They were adz hewn, with no two alike in dimension. It is likely that the familiar name "Old Ship" came from this unusual roof structure, which if inverted, would show some resemblance to the hull of a ship. This view shows the meeting house after the addition of side galleries in 1730 and 1755, which necessitated a larger over-all exterior.

The Old Ship is located on Main Street near the site of the first meeting house of the First Parish in Hingham "gathered" by the Rev. Peter Hobart when the Town was incorporated in 1635.

ACTIVE HINGHAM HARBOR

This is Hingham Harbor looking toward Boston, from a corner of Barnes Wharf off Summer Street, which was one of many serving local shipping interests. At left, is a coastwise lugger, which carried Hingham goods up and down the Atlantic. At the pier is a two-masted schooner, characteristic of the type of vessel built and launched in Hingham shipyards. For 45 years, Hingham was so important in maritime activity, that it was a Port of Entry to the United States with a Custom House. In 1831, more than 55,000 barrels of mackerel were landed on Hingham Wharves. In 1836, 22,000 barrels of salt were produced on its shores by evaporating seawater. The commercial importance of Hingham in the 19th century tied it closely to Boston and sailing vessels, such as these shown, made frequent trips with products of the sea and land as well as manufactured items from Hingham factories and mills.

THE FOLSOM HOUSE

The Folsom (Foulsham) house located at Hingham Centre, was taken down in 1875 "having become untenantable from age." The house was built (1652) and for a time occupied by John Folsom who settled in Hingham in 1638. Later, it became the property of the Sprague family, passing in unbroken succession for several generations. John Folsom married Lydia Gilman, sister of Mrs. Daniel Cushing, whose husband was a son of the original Matthew Cushing. When Folsom moved with his family to New Hampshire, Daniel Cushing bought his estate. The Central Fire Station is now on this property.

DERBY ACADEMY

"For the Teaching of the Youth of the North Parish and others" Derby School was founded Oct. 25, 1784 as the first co-educational school in the nation. It became Derby Academy in 1797. Sarah Derby who inherited considerable wealth from her second husband, established the school to "promote Head and Heart" with age limits of 9 years for girls and 12 years for boys except that "any male who is intended for admission to Harvard College may enter under 12 years of age." The Derby Academy building, on Main Street, shown here, was erected in 1818 almost on the site of the first school building, at a cost of $3,930.10. The exterior of it today remains virtually unchanged, but the interior has been altered many times. For many years, the Derby building was the only one of any size in Hingham, and it was used for lectures, meetings and social functions as well as Town Meetings. It is now owned by the Hingham Historical Society.

To the left at the base of the hill is the Hollis house, erected 1750 by Susanna Hersey. It is popularly known as the "Arcadian" house because it had sheltered Arcadians who had fled to escape persecution. In 1790, it was part of the Derby School legacy. The house was taken down in 1912 to make room for the Town Office Building which was completed the following year. It is now the Administration Building for the School Department of the Town.

At far right, behind the fence, is a corner of the Thomas Loring house, built in 1813.

TOWN SEAL

Hingham's official seal was adopted at March 1886 Town Meeting on the recommendation of a committee headed by John D. Long, former Governor of the Commonwealth, and a Hingham resident. Who drew the original illustration remains unknown in Town records. But William A. Dwiggins, noted typographic designer, also a Hingham resident, redrew the seal in 1942. In official language, the seal is that of a "view of the old meeting house, the ancient fort and the monument erected to the first settlers of Hingham," which make up the central motif. This is surrounded by two circles, one within the other. Between the circles are the words: "Church, School, Train-Band, Town Meeting" Beneath the inner circle, in chief, "Bare Cove 1633" and above the circle, in base, "Hingham 1635," when the Town was incorporated. Its incorporation resolution of the General Court is said to be among the shortest acts on record: "The name of Bare Cove shall be changed and hereafter to be called Hingham."

Hingham Institution
FOR Savings

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