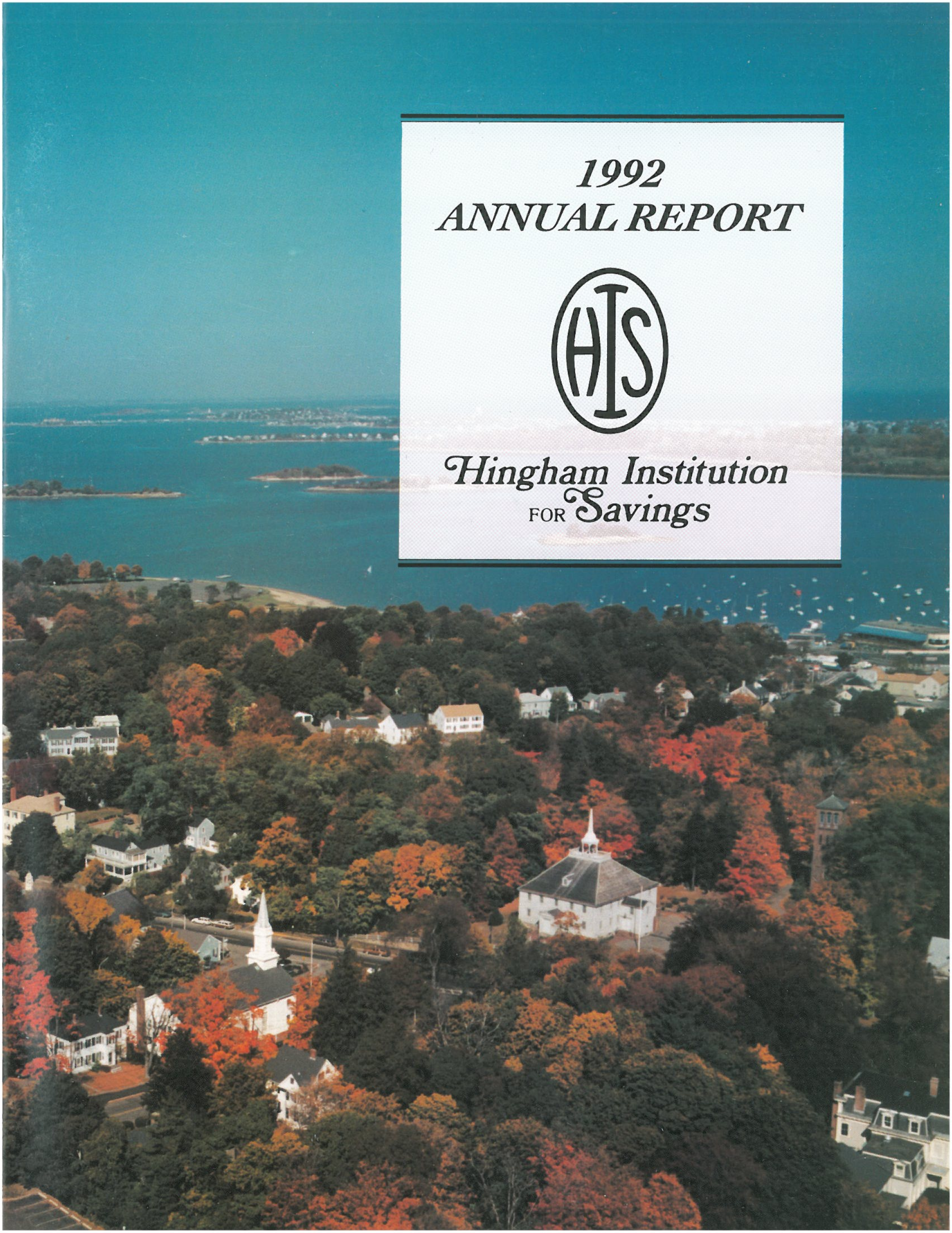
1992
ANNUAL REPORT

HIS

Hingham Institution
FOR Savings



Selected Consolidated Financial Data

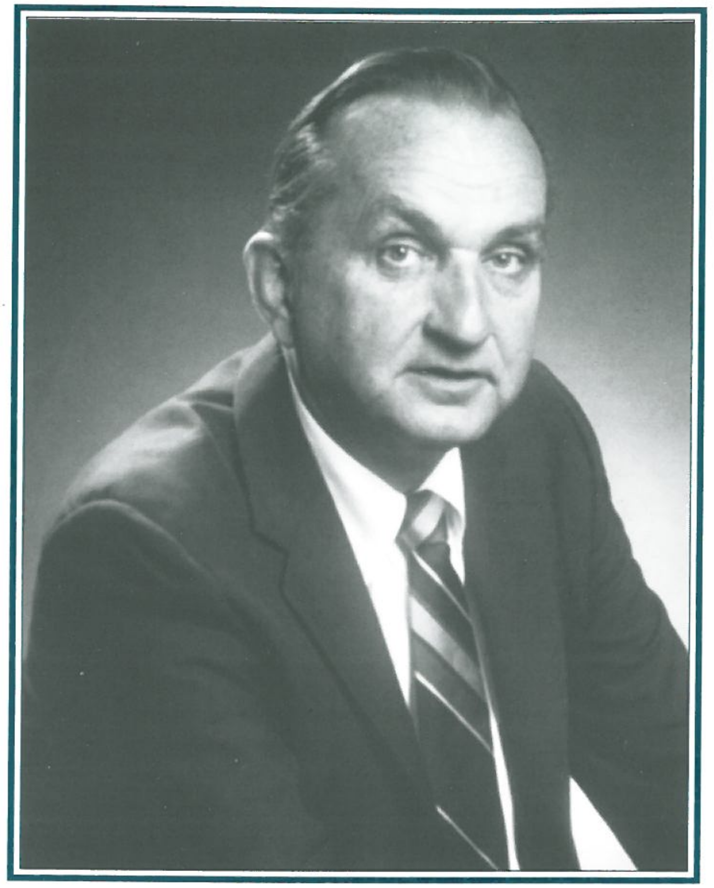
The following information does not purport to be complete and is qualified in its entirety by the more detailed information contained elsewhere herein.

	At December 31,				
	1992	1991	1990	1989	1988
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 149,460	148,760	149,262	150,633	157,040
Investment securities	66,183	49,343	33,434	20,506	20,147
Loans:					
Mortgage	67,952	81,085	90,224	110,132	113,667
Commercial	920	1,047	1,045	947	987
Consumer	2,225	3,117	4,277	5,555	4,598
Total loans	71,097	85,249	95,546	116,634	119,252
Allowance for possible loan losses	1,501	1,628	1,414	3,381	924
Loans, net	69,465	83,440	93,953	113,138	118,141
Real estate owned or substantively repossessed	2,938	4,772	9,637	1,093	634
Deposits	119,885	120,721	119,211	116,345	124,221
Federal Home Loan Bank advances	15,000	15,000	15,000	15,000	10,000
Stockholders' equity	13,712	11,988	13,751	17,999	20,764

	Years Ended December 31,				
	1992	1991	1990	1989	1988
		(In Thousands, Except Per Share Amounts)			
Operating Data:					
Total interest income	$ 11,374	$ 12,631	13,212	13,018	13,618
Total interest expense	6,451	8,850	9,928	9,455	8,935
Net interest income	4,923	3,781	3,284	3,563	4,683
Provision for possible loan losses	390	1,690	2,770	3,500	621
Non-interest income	1,624	785	346	388	339
Non-interest expense	4,999	4,734	5,279	3,302	2,603
Income (loss) before income taxes	1,158	(1,858)	(4,419)	(2,851)	1,798
Income tax expense (benefit)	(398)	1	(607)	(512)	965
Net income (loss)	$ 1,556	$ (1,859)	(3,812)	(2,339)	833
Net income (loss) per share	$ 1.24	$ (1.49)	(3.05)	(1.87)	
Weighted average shares outstanding	1,251	1,250	1,250	1,250	
Financial Ratios:					
Return (loss) on average assets	1.02%	(1.23)%	(2.50)%	(1.58)%	0.58%
Return (loss) on average equity	12.01	(13.74)	(22.14)	(11.60)	7.23
Average equity to average assets	8.52	8.92	11.31	13.61	8.07
Interest rate spread	3.40	2.86	2.04	1.77	3.08
Net yield on average earning assets	3.49	2.78	2.34	2.52	3.43
Cash dividends paid per share	—	—	$0.28	$0.23	—

Cover photograph by William F. Johnston, Aerial and Architectural Photography
17 Bayside Road, Quincy, MA 02171

President's Message



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

Dear Stockholder,

This year represented a transitional period for your Bank. For the year ended December 31, 1992, net income was $1,556,000 or $1.24 per share, in contrast to a $1,859,000 loss ($1.49 per share) in 1991; and a $3,812,000 loss ($3.05 per share) in 1990. This trend is indicative of management's continued commitment to reduce non-performing assets, cut expenses where appropriate and to contain interest expense.

During the year we requested and received from both State and Federal regulatory agencies permission to close our Hanover Branch. This small office had been occupied by the Bank for over fifteen years, however, it was never able to exceed six million dollars in deposits and could not support the expenses associated with its continued operation. The branch was sold before its official closing and the Bank recorded a gain of $106,000 on the sale of this property. Notwithstanding the above the Bank's deposit base remains consistent in the $120 million range.

Real Estate Owned or Substantively Repossessed decreased from $4,876,000 at December 31, 1991 to $3,472,000 at December 31, 1992. This reduction of $1,404,000 or 28.8% is significant by any standard. Real Estate held for investment, which represents properties leased and managed by the Bank until they can be sold, likewise decreased from $3,128,000 at December 31, 1991 to $2,796,000 at December 31, 1992 a reduction of $332,000 or 10.6%.

Non-Accrual loans increased by $26,000 or less than 1.0% from $3,591,000 at December 31, 1991 to $3,617,000 at December 31, 1992. Most significantly, from an operating point of view the need to replenish our loan loss reserve through provisions for the year 1992 totaled $390,000 or $1,300,000 (76.9%) less than the $1,690,000 in provisions that were required for the year 1991. This was accomplished in spite of the continued lagging Massachusetts economic recovery.

As you know, we are operating under a Memorandum of Understanding with both State and Federal regulatory agencies that became effective on March 23, 1992. The FDIC has just concluded an examination of the Bank and although we have not received their examination report at this time an exit interview with the Board of Directors conducted by both agencies found the Bank to be in substantial compliance with the Memorandum of Understanding and in fact the Board was complimented by both agencies for the substantial progress made between examinations.

One discouraging fact for the year was the continued deterioration in value of Massachusetts properties including Bank-owned properties. In order to divest ourselves of $3,564,000 in foreclosed properties, the Bank took additional write downs that totaled $758,000. This write down was almost totally offset by the recognition of net gains from the sale of investments that had appreciated by $751,000. Although gains can not be considered recurring items neither can the losses that the gains were used to offset. Our allowance for possible losses on Real Estate Owned or Substantively Repossessed totaled $534,000 or 15.4% of the total outstanding.

The Bank is required by FDIC regulation to maintain certain capital requirements. At December 31, 1992, the Bank's actual capital requirements are as follows:

	Required		Actual	
	Percentage	Amount	Percentage	Amount
	(Dollars in Thousands)			
Leveraged Capital				
Tier 1 or Core Capital	6.00%	$9,026	9.12%	$13,712
Risk Based:				
Tier 1:	3.625	2,724	18.25	13,712
Total: (Tiers 1 & 2)	7.25	5,448	19.50	14,651

Finally, I regret to inform you that the Bank strongly believes that there is a group of individuals that seek control of your Bank. As we are a capital institution operating in a capitalistic society, we realize that, within certain confines, anyone can purchase the stock of your Bank. In this instance, however, I and a majority of your Board of Directors firmly believe that this group of individuals has violated numerous laws enacted by both State and Federal agencies to protect the interests of all stockholders, both large and small. We also believe that these individuals have violated your Bank's Charter.

In response to this belief, the Bank filed a complaint with the Federal Court in Boston which I anticipate will be resolved by our annual meeting date. This lawsuit seeks to declare the activities of these individuals as concerted action and impose all applicable penalties for their failure to notify the Bank and you of their joint activity. One of these individuals, Robert H. Gaughen, will be mailing you information concerning the election of his own hand-picked nominees to your Board. We will keep you updated on the Bank's progress in its litigation against Mr. Gaughen and the other individuals.

I thank you for your continued support through these difficult times and I urge you to vote your stock in what you believe to be your best interest. Please be assured that the staff of this Bank remains committed to representing the best interest of all of you and we look forward to reporting another very prosperous year in 1993.

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. To attract and retain deposits the Bank will continue to offer a broad range of deposit instruments with competitive rates. The Bank must compete in an extremely competitive market place. Economic conditions, competition and decreasing interest rates can cause the general market for deposits to be extremely volatile. Deposits as of December 31, 1992 were $119.9 million representing a minimal decrease of $836,000 or 0.7% over December 31, 1991. During 1992, interest rates continued their downward spiral resulting in our depositor's continuing to shift from term certificates to non-certificate accounts, a trend which started during 1991. During 1992 term certificates decreased by $13.8 million or 26.9% while non-certificate accounts increased by $12.9 million or 18.6% compared to the prior year. The trend is even more evident when comparing the prior two years. During 1992 and 1991 term certificates decreased by $20.8 million or 35.7% while non-certificate accounts increased by $21.5 or 35.2%. In our industry, many depositors traditionally loyal to certificate of deposits have made new decisions about where to invest their money helping to drive the stock market to new highs and spurring a phenomenal increase in mutual fund assets. According to a Treasury Department spokesman more U.S. Savings Bonds have been sold in the last year than at any time since 1945.

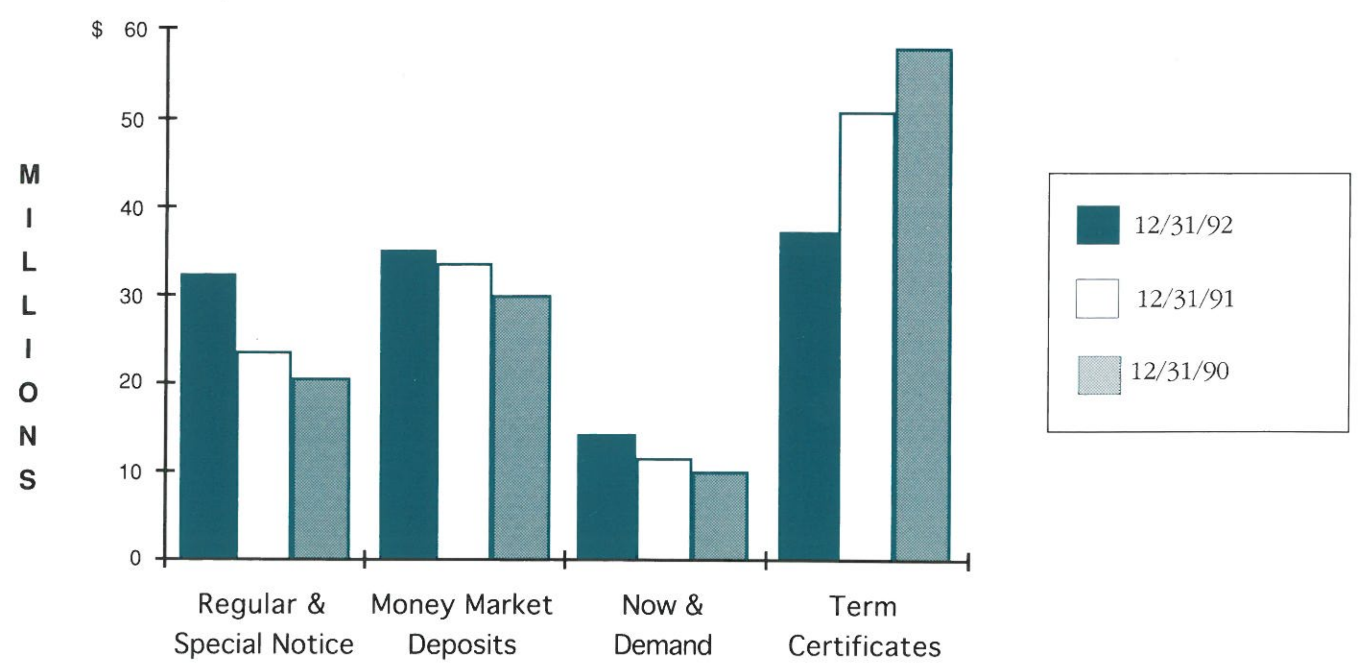
In prior years, getting a solid return on a certificate of deposit was both simple and safe, not providing much motivation for depositors to look elsewhere. We believe our depositors aren't moving into riskier investments just because interest rates are low at the moment. Rather our depositors are choosing the safety and soundness of our non-certificate accounts with the expectation that this period of low interest rates will pass.

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. The Bank offers a wide range of deposit accounts including, regular savings accounts, NOW accounts, demand deposit accounts, commercial checking, term certificates, club accounts and retirement accounts plus the convenience of Automated Teller Machines at all our offices.

On June 30, 1992 the bank closed it's Hanover branch which maintained only 4.3% of the Bank's total deposits. The deposit base of this branch had remained flat for the last three years after declining 16% from 1986 to 1989. The lack of growth of deposits was mainly attributable to the increased commercial development along route 53, in the vicinity of Hanover Mall, making access to this branch increasingly difficult.

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.

As we grow and cautiously anticipate an economic recovery we will continue to foster close ties with our customers and the communities we serve while striving to enhance the value for our stockholders. In the current economic environment the Bank must, and will, face the challenge of working harder to achieve these goals.



Lending Department

During 1992, Hingham Institution for Savings originated $22.4 million in loans compared to $17.3 million in 1991. A significant portion of this increase is attributable to the refinancing of existing loans, primarily secured by single family, owner occupied properties. Many of these re-writes were interest motivated - enabling the respective borrowers to obtain significantly reduced interest rates resulting from the overall economic downturn.

Although the sales of existing housing continued to be slow throughout the year, our new loan originations increased slightly over 1991. We anticipate the economy, and the housing market recovery, will yield a greater amount of new home loan originations in 1993.

Variable rate mortgage loans bear interest rates which are periodically adjusted to reflect market conditions. During 1992 the bank continued to originate these variable residential mortgage loans. On December 31, 1992, residential variable rate loans totaled $28.2 million, or 39.6% of the total loan portfolio. On December 31, 1992, residential fixed rate mortgage loans totaled $13.3 million, or 18.8% of the total loan portfolio.

Commercial real estate mortgage loans totaled $16.8 million, or 23.6% of the total loan portfolio at December 31, 1992. The Bank, within the spirit of the Community Reinvestment Act, is also committed to providing commercial mortgages within its market area and regulatory guidelines.

Commercial and consumer loans decreased by 24.5% during 1992. Management attributes the decline to three significant areas - the subsidized, below market interest rates offered by automobile manufacturers through the dealers, the elimination of tax deductions available on consumer loans, and the economy.

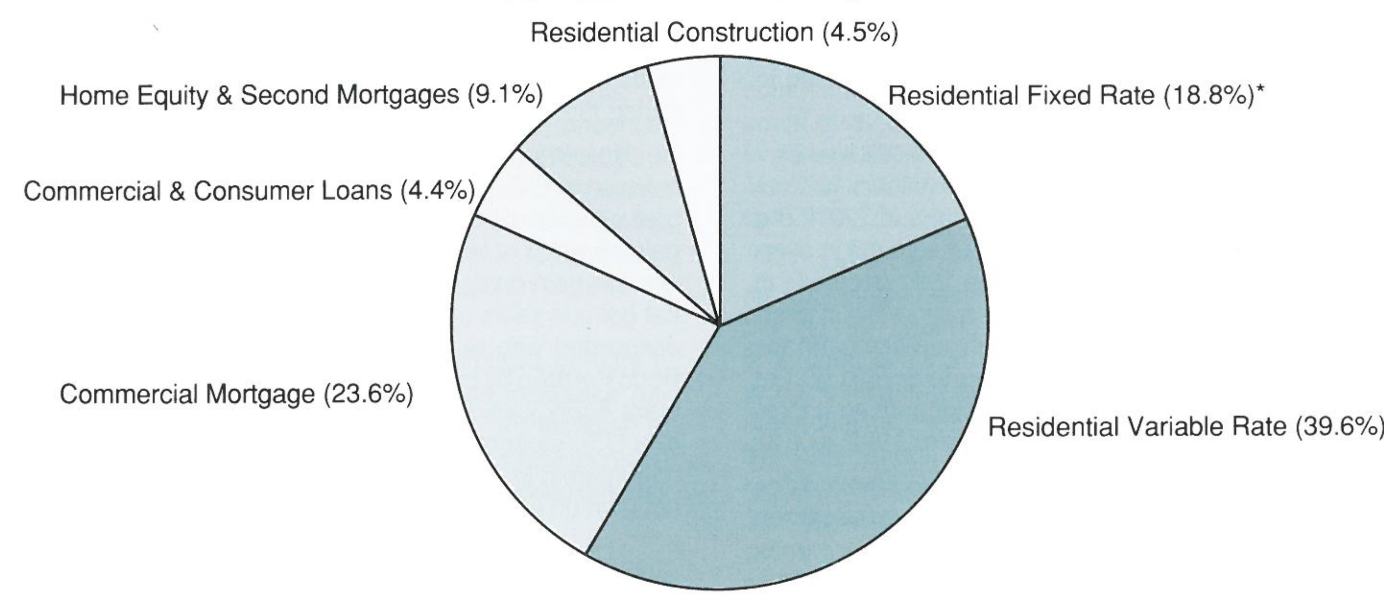
During 1993, the Bank intends to strengthen and expand its lending in the 1-4 family residential market. Issues related to affordable housing, and the strength of the economy will significantly influence the level of originations in the coming year. However, we expect to maintain our position as a leading residential lender in the Hingham area.

The Bank's lending strategy will continue to provide loans with varied terms, at variable rates for the portfolio. Hingham Institution for Savings can point proudly to a community banking tradition, continuing to focus on the importance of addressing the credit needs of the communities that we serve.

The Bank has continued its practice of selling conventional fixed rate loans in the secondary market. Approximately $13.3 million of our fixed rate loans were sold in the secondary market in 1992. Secondary market sales permit the Bank to continue to offer its customers fixed rate loans, while at the same time generating service fee income and avoiding interest rate risk.

Its projected by originating loans for the portfolio with shorter terms and variable rates, while selling the conventional fixed rate loans, we will considerably reduce our exposure to interest rate risk.

Total Loans at December 31, 1992



*As shown in above chart, residential loans totaled 58.4% of the total loan portfolio. Of these loans, 32.1% are fixed rate loans and 67.9% are variable rate loans.

Management's Discussion & Analysis

The operating results of the Bank depend on its net interest income (which is the difference between interest and dividend income on interest-earning assets, that primarily consist of loans and securities, and interest expense on interest-bearing liabilities, which consist of deposits and borrowings), non-interest income, provisions for possible loan losses, and non-interest expense. All aspects of the Bank's operations are significantly affected by external factors such as the economy, competition and by regulatory policies.

The Bank's net income for the year ended December 31, 1992 was $1,556,000 or $1.24 per share. In 1990 and 1991 the Bank had net losses of $3,812,000 or $3.05 per share and $1,859,000, or $1.49 per share respectively. The return to profitability in 1992 was reflective of lower interest rates paid on deposits and Federal Home Bank advances, a reduced provision for possible loan losses, and increased gains on the sales of assets. Since 1988, the Bank's results have been affected significantly by increased provisions for possible loan losses associated with non-performing real estate loans. In addition to the provision for possible loan losses, the Bank incurred an increase in costs and write-downs associated with foreclosed properties. At December 31, 1992 the Bank recognized a $400,000 income tax benefit through a reduction in the valuation allowance to the deferred income tax asset as outlined in footnote 11 of the Consolidated Financial Statements. This was partially offset by a charge to earnings of $200,000 when the Bank adopted a new method of accounting for foreclosed assets as outlined in Footnote 1.

Assets totaled $149.5 million on December 31, 1992, and $148.8 million on December 31, 1991; an increase of 0.5%. During this period, stockholders' equity increased to $13.7 million from $12.0 million.

Interest and Dividend Income. Total interest and dividend income decreased by $1,257,000, or 10.0% in 1992 as compared to a decrease of $581,000, or 4.4% in 1991. The 1992 decrease was mainly attributed to a decrease in average yield on interest-earning assets. The 1991 decrease in interest income was mainly attributed to a decrease in average earning assets offset by a decrease in non-accrual loans from $5,263,000 at December 31, 1990 to $3,591,000 at December 31, 1991. The yield on average earning assets was as follows: 1990, 9.41%; 1991, 9.28%; and 1992, 8.05%.

Interest Expense. The general decline in market rates of interest resulted in a decrease in the average rates paid on the Bank's deposits over the period. The Bank's cost of funds were 4.55%, 6.31%, and 7.19% for 1992, 1991 and 1990, respectively. Average deposit balances increased by $1.3 million during 1992 and $3.0 million during 1991.

The decrease in the interest expense of $2,399,000 for 1992 consisted of a decrease of $2,093,000 or 27.1% in interest on deposits, and a decrease of $306,000 or 27.2% in interest on Federal Home Loan Bank advances due to reductions in the weighted average rates paid.

Provision for Possible Loan Losses. The provision for possible loan losses was $390,000 for the year ended December 31, 1992; $1,690,000 for the year ended December 31, 1991, and $2,770,000 for the year ended December 31, 1990. The balance of the allowance for possible loan loses as of December 31, 1992 was $1,501,000 compared to $1,628,000 in 1991. The decrease in the loan loss provisions between December 31, 1992 and December 31, 1991 reflects a levelling off of non-performing loans. The 1991 provision was affected by a continuing deterioration of the regional real estate market and the increased financial difficulties among certain of the Bank's most significant borrowers. Management reviews the loan portfolio quarterly and, subject to approval of the Board of Directors, adjusts allowances for possible losses to an adequate level based on the composition of the loan portfolio, economic conditions, and potential charge-offs based on management's assessment of risk. 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: $4,816,000 in 1990; $1,495,000 in 1991; $586,000 in 1992. Recoveries on loans previously charged off amounted to $79,000 in 1990, $19,000 in 1991, and $69,000 in 1992. Net charge-offs of $517,000 in 1992 reflect the realization, at the time properties were foreclosed, of losses previously provided for. 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 in 1992 by $839,000 primarily attributable to the net gain on sales of investment securities of $751,000, and net gain on sales of loans in the secondary market of $402,000 and the gain on sale of a branch building of $106,000. The net gain on sales of investments mainly resulted from sales associated with restructuring the risk profile of the Bank's Bond Portfolio by reducing long-term fixed-rate U.S. Government Agency securities and increasing holdings of variable rate U.S. Government Agency Securities. The increase of non-interest income of $439,000 in 1991 is attributed to the net gain on sales of Investment securities of $457,000.

At September 30, 1992, the Bank designated a substantial portion of its investment portfolio as "Held for Sale" which are reported at the lower of aggregate amortized cost or market value. At December 31, 1992, the Bank revised this

Management's Discussion & Analysis

designation to include its total portfolio of securities, including mortgaged-backed securities. The reclassification was made to provide management with flexibility in the event it is necessary to sell securities prior to their maturity in response to changes in interest rates, liquidity needs, income tax strategies or any unanticipated changes in the economy. The Bank's reclassification decision had no effect on the Bank's earnings. As of December 31, 1992 debt securities held for sale totaled $65,798,000 with a market value of $66,109,000.

Non-Interest Expense. Total non-interest expense as a percentage of average assets was 3.29% for 1992, 3.12% for 1991, and 3.47% for 1990. Total non-interest expense increased by $265,000 or 5.6% during 1992, and decreased by $545,000 or 10.3% during 1991.

Salaries and employee benefits remained relatively constant during 1992 and 1991 due to a new policy of officer and employee contributions toward health insurance premiums.

Foreclosed properties expense increased by $193,000 or 15.0% in 1992 after having decreased by $516,000 in 1991. The increase for 1992 is attributed to an increase in the provision for possible loan losses of $368,000 offset by recoveries of $50,000 and reduced foreclosure and holding costs, net of $125,000. The decrease for 1991 is attributed to a reduction in real estate owned or substantively repossessed from $9,637,000 at December 3,1 1990 to $4,772,000 at December 31, 1991. During 1992 and 1991 properties valued at $6,137,000 and improvement costs of $972,000 were added to this problem asset category. During the same period $11,275,000 of sales were completed, write-downs of $1,897,000 were incurred and $376,000 was rented and transferred to real estate held for investment. Expenses for real estate held for investment, net of rental income, amounted to $168,000 in 1992 and is associated with the $2,796,000 of properties held and operated by the Bank. Deposit insurance costs increased by $25,000 or 9.6% in 1992 after having increased by $119,000 or 83.8% in 1991 due to increased insurance rates established by the FDIC and an increase in average deposits.

The FDIC has notified the Bank that effective January 1, 1993, under the new "Risk-related Deposit Insurance Assessment", its Deposit Insurance Premium will increase to $.29 per $100.00 from $.23 per $100.00. This rate increase will increase the Bank's deposit premium approximately $70,000 during 1993.

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	State	Combined
1992	(34.6)%	0.2%	(34.4)%
1991	—	0.1	0.1
1990	(13.8)	0.1	(13.7)

The combined effective income tax benefit rate of (13.7)% in 1990 reflects an income tax benefit of $607,000. Refunds of Federal income taxes of approximately $850,000 were received in 1991. Effective January 1, 1992, the Bank adopted a new accounting method for Income Taxes. There was no cumulative impact of accounting change resulting from the adoption of this method as of January 1, 1992.

At December 31, 1992, the Bank had a tax net operating loss carryforward of approximately $950,000 which is available to offset future Federal taxable income through the years 2005 and 2006.

LIQUIDITY AND CAPITAL RESOURCES

The Bank's principal sources of liquidity are customer deposits, amortization and payoffs of principal and interest payments on loans, and its ability to sell or pledge its loan and securities 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, 1992, the Bank had outstanding commitments to originate loans of $759,000, unused lines of credit of $2,881,000, unadvanced portions of construction loans of $273,000, and standby letters of credit of $21,000. The Bank believes it has adequate sources of liquidity to fund these commitments.

Deposits as of December 31, 1992 were $119.9 million representing a decrease of $836,000 or 0.7% over December 31, 1991. During 1992 decreasing interest rates resulted in a reduction of $13.8 million or 26.9% in term certificates with an offsetting increase in non-certificate accounts. The net reduction in total loans during the year ended December 31, 1992 amounted to $14,152,000, of which $13,627,000 represents loans sold combined with the reduction of $1,404,000 in real estate owned or substantively repossessed, amounted to $15,556,000. These funds were redeployed primarily into intermediate Term U.S. Government Agency obligations and Mortgage-backed securities.

Management's Discussion & Analysis

Massachusetts-chartered savings banks, that are insured by the Federal Deposit Insurance Corporation are subject to certain capital requirements. At December 31, 1992, the Bank's Tier 1 leverage capital ratio was equal to 9.12%, exceeding the 4.00% to 5.00% minimum capital requirement. In a Memorandum of Understanding entered into with the FDIC and the Massachusetts Commissioner of Banks, the regulatory authorities have required a minimum Tier 1 leverage capital ratio for the Bank of 6.00%. See "Regulatory Matters" below. Risk based tier 1 capital of 18.25% exceeded the minimum requirement of 3.625%. Risk based total tier 1 and 2 capital equaled 19.50% which exceeded the required percentage of 7.25%.

IMPACT ON 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.

REGULATORY MATTERS

In March of 1992, the Bank entered into a Memorandum of Understanding with the FDIC and the Massachusetts Commissioner of Banks. The Memorandum sets forth plans for reducing classified assets, improving the earnings of the Bank, and revises the Bank's Funds Management Policy to address liquidity needs as well as monitoring interest rate sensitivity. Lending, investment and budget policies have been incorporated into a comprehensive business plan, which has been submitted to the FDIC and the Commissioner of Banks. In addition, specific goals have been established under this memorandum for reducing the ratio of non-performing loans to total loans. The Bank was recently examined by the FDIC and was found to be in substantial compliance with the Memorandum of Understanding.

MATERIAL LITIGATION

On March 5, 1993, the Bank instituted litigation in the United States District Court of Boston, Massachusetts against four directors of the Bank and the son of one of those directors. That action is captioned Hingham Institution for Savings v. Gaughen, et al., Civil Action No. 93-10497H. The director defendants are Robert H. Gaughen, Robert H. Gaughen, Jr., James Consentino and Thomas Youngworth. The complaint alleges that defendants have violated, and continue to violate both federal and state banking and securities laws in connection with efforts to acquire control of the Bank. The complaint further alleges that those violations include the concealment of defendants' concerted activity as a "group" in the purchase, ownership and voting of Bank common stock and their concealment of the purpose of their purchases of Bank common stock to acquire control of the Bank. The complaint also alleges defendants' violation of the provision in the Bank's charter prohibiting through December 20, 1993 the ownership of in excess of 10% of the outstanding common stock by any individual or group. In its complaint, the Bank seeks injunctive relief, a declaration of its rights, money damages and certain other remedies.

Independent Auditors' Report

KPMG Peat Marwick

We have audited the accompanying consolidated balance sheets of Hingham Institution for Savings and subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1992. 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 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 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, 1992 and 1991, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1992 in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 11 to the consolidated financial statements, the Bank adopted new methods of accounting for income taxes and foreclosed assets in 1992.

KPMG Peat Marwick

Boston, Massachusetts
January 20, 1993

Consolidated Balance Sheets

December 31, 1992 and 1991

Assets

	1992	1991
	(In Thousands)	
Cash and due from banks (note 2)	$ 2,509	2,463
Interest-bearing deposits in banks	941	1,037
Total cash and cash equivalents	3,450	3,500
Securities held for sale - market value of $66,494,000 (notes 3 and 10)	66,183	—
Investment securities - market value of $51,015.00 (notes 3 and 10)	—	49,343
Loans, net of allowance for possible loan losses of $1,501,000 in 1992 and $1,628,000 in 1991 (notes 4, 5, 10 and 12)	69,465	83,440
Real estate owned or substantively repossessed (note 6)	2,938	4,772
Real estate held for investment (note 7)	2,796	3,128
Accrued interest receivable	996	1,393
Deferred income tax asset (note 11)	400	—
Federal Home Loan Bank stock, at cost (note 10)	1,000	1,000
Banking premises and equipment, net (note 8)	1,620	1,825
Other assets	612	359
	$149,460	148,760

Liabilities and Stockholders' Equity

	1992	1991
Deposits (note 9)	$119,885	120,721
Federal Home Loan Bank advances (note 10)	15,000	15,000
Accrued interest payable	409	585
Mortgagors' escrow	148	166
Other liabilities	306	300
Total liabilities	135,748	136,772
Commitments and contingencies (notes 12 and 13)		
Stockholders' equity (note 14):		
Preferred stock, $1.00 par value, 2,500,000 shares authorized; none issued	—	—
Common stock, $1.00 par value, 5,000,000 shares authorized; 1,253,000 and 1,250,000 shares issued and outstanding	1,253	1,250
Additional paid-in capital	8,380	8,371
Retained earnings (substantially restricted)	4,103	2,547
	13,736	12,168
Net unrealized loss on marketable equity securities (note 3)	(24)	(180)
Total stockholders' equity	13,712	11,988
	$149,460	148,760

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Years ended December 31, 1992, 1991 and 1990

	1992	1991	1990
	(In Thousands, Except Per Share Data)		
Interest and dividend income:			
Loans	$ 7,583	8,757	10,458
Investment securities	3,711	3,679	2,335
Interest bearing deposits	80	195	419
Total interest income	11,374	12,631	13,212
Interest expense:			
Deposits (note 9)	5,630	7,723	8,583
Federal Home Loan Bank advances	821	1,127	1,345
Total interest expense	6,451	8,850	9,928
Net interest income	4,923	3,781	3,284
Provision for possible loan losses (note 5)	390	1,690	2,770
Net interest income after provision for possible loan losses	4,533	2,091	514
Non-interest income:			
Fees on deposit accounts	228	217	226
Gain (loss) on sales of investments, net (note 3)	751	457	(1)
Gain on sale of branch building	106	—	—
Gain on sale of loans	402	—	—
Other	137	111	121
Total non-interest income	1,624	785	346
Non-interest expense:			
Salaries and employee benefits (note 15)	1,493	1,512	1,515
Data processing	304	311	344
Occupancy and equipment	338	321	335
Foreclosed properties, net (note 6)	1,479	1,286	1,802
Real estate held for investment, net	168	94	88
Legal (note 13)	98	107	272
Deposit insurance	286	261	142
Other	833	842	781
Total non-interest expense	4,999	4,734	5,279
Income (loss) before income tax expense (benefit)	1,158	(1,858)	(4,419)
Income tax expense (benefit) (note 11)	(398)	1	(607)
Net income (loss)	$ 1,556	(1,859)	(3,812)
Income (loss) per share	$ 1.24	(1.49)	(3.05)
Weighted average shares outstanding	1,251	1,250	1,250

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 1992, 1991 and 1990

	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, 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
Net loss	—	—	(1,859)	—	(1,859)
Decrease in net unrealized loss on marketable equity securities	—	—	—	96	96
Balance at December 31, 1991	1,250	8,371	2,547	(180)	11,988
Net income	—	—	1,556	—	1,556
Decrease in net unrealized loss on marketable equity securities	—	—	—	156	156
Stock options exercised	3	9	—	—	12
Balance at December 31, 1992	$ 1,253	8,380	4,103	(24)	13,712

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 1992, 1991 and 1990

	1992	1991 (In Thousands)	1990
Cash flows from operating activities:			
Net income (loss)	$ 1,556	(1,859)	(3,812)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for possible loan losses	390	1,690	2,770
Provision for loss and write-downs on real estate owned and real estate held for investment	1,238	870	1,402
Amortization of discount on investment securities, net of accretion	327	51	(10)
Increase (decrease) deferred loan fees, net	18	2	64
Deferred income taxes	—	—	25
Depreciation	309	304	260
Loss (gain) on sale of investments, net	(751)	(457)	1
Gain on sale of branch building	(106)	—	—
(Increase) decrease in income taxes receivable	—	850	(81)
(Increase) decrease in accrued interest receivable	397	149	10
(Increase) decrease in other assets	(253)	80	(75)
Increase (decrease) in mortgagors' escrow	(18)	(119)	(55)
Increase (decrease) in accrued interest payable and other liabilities	(170)	(130)	66
(Increase) decrease in deferred income tax asset	(400)	—	—
Net cash provided by operating activities	2,537	1,431	565
Cash flows from investing activities:			
Decrease in short-term investments, net	—	—	2,000
Proceeds from maturities of investment securities	5,523	1,000	8,315
Proceeds from sales of investment securities	43,882	48,918	12
Principal payments received on mortgage-backed securities	7,997	231	50
Purchase of investment securities	(73,663)	(65,556)	(21,382)
Proceeds from sale of loans	14,029	277	2,907
Gain on sale of loans	(402)	—	—
(Increase) decrease in loans, net	(262)	8,860	(21)
Additions to real estate owned	(471)	(501)	(522)
Proceeds from sales of real estate owned	1,477	3,861	2,278
Loss (gain) on sale of real estate owned	(50)	—	—
Write down of real estate held for investment	15	—	—
Proceeds from sale of real estate held for investment	7	—	—
Additions to real estate held for investment	(10)	(16)	—
Increase in FHLB stock	—	(51)	—
Additions to banking premises and equipment	(8)	(25)	(43)
Proceeds from sale of branch building	173	—	—
Net cash used in investing activities	(1,763)	(3,002)	(6,406)

(Continued)

Consolidated Statements of Cash Flows

Years ended December 31, 1992, 1991 and 1990

	1992	1991 (In Thousands)	1990
Cash flows from financing activities:			
Increase (decrease) in deposits, net	$ (836)	1,510	2,866
Proceeds from stock options exercised	12	—	—
Proceeds from Federal Home Loan Bank advances	12,000	8,000	—
Repayment of Federal Home Loan Bank advances	(12,000)	(8,000)	—
Cash dividends paid	—	—	(350)
Net cash provided by (used in) financing activities	(824)	1,510	2,516
Net decrease in cash and cash equivalents	(50)	(61)	(3,325)
Cash and cash equivalents:			
Beginning of year	3,500	3,561	6,886
End of year	$ 3,450	3,500	3,561
Supplemental cash flow information:			
Cash paid (received) during the year for:			
Interest	$ 6,626	9,019	9,952
Income taxes	—	(850)	(551)
Supplemental disclosure of non-cash investing activities:			
Loans transferred to real estate owned or substantively repossessed	2,603	3,534	11,702
Loans transferred to real estate held for investment	—	—	1,763
Loans charged-off, net of recoveries	517	1,476	4,737
Real estate owned or substantively repossessed transferred to real estate held for investment	—	376	—
Financed sales of real estate owned or substantively repossessed	2,087	3,850	—
Financed sales of real estate held for investment	157	—	—
Real estate owned or substantively repossessed transferred to loans	156	—	—

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1992, 1991 and 1990

(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.

In preparing these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheets, and income and expense for the periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change in the near-term relate to the determination of the allowance for possible loan losses and valuation of other real estate owned or substantively repossessed.

The Bank's loans are secured by real estate in the troubled economy of Massachusetts. In addition, real estate owned or substantively repossessed is located in that same market. Accordingly, the ultimate collectibility of a substantial portion of the Bank's loan portfolio and the recovery of real estate owned or substantively repossessed properties are susceptible to changing conditions in this market.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks generally mature daily and are stated at cost, which approximates market value.

Investment Securities and Securities Held for Sale

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, adjusted for amortization of premiums, which are calculated on a level-yield basis over the estimated average life of the securities, and are reduced by principal payments.

Debt 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 at December 31, 1991. There were no securities held for trading at December 31, 1992 or 1991.

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.

Securities held for sale are securities, including mortgage-backed securities, which the Bank may sell in the foreseeable future, and are stated at the lower of the aggregate amortized cost or market. Net unrealized losses, if any, are charged to operations.

Loans

Interest is not accrued on loans past-due more than 90 days 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 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 risks 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 operations; 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.

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 operations. During the year ended December 31, 1990, losses realized subsequent to foreclosure were charged to operations as incurred or when it was determined that the investment in the property was greater than its estimated net fair value.

At December 31, 1990, an allowance for possible losses was established. This allowance is maintained for real estate owned or substantively repossessed properties which management believes to be adequate to provide for potential losses. Additions to the allowance are charged to operations; realized losses, net of recoveries, are charged to the allowance.

Through December 31, 1991, foreclosed properties were reviewed to determine whether the carrying value was in excess of net realizable value. In situations where carrying value was greater than net realizable value, provisions were charged to operations. At December 31, 1992, the Bank adopted a new accounting rule for foreclosed real estate and in-substance foreclosures.

Under the new accounting rule, in periods following foreclosure and classification of a loan as an in-substance foreclosure, foreclosed real estate and in-substance foreclosures are carried at the lower of cost or fair value minus costs to sell on an individual property basis. Adoption of this new accounting rule resulted in a charge to operations of $200,000 on the Bank's financial statements. In periods of declining real estate values, however, this new accounting rule will result in additional losses.

Real Estate Held for Investment

Real estate held for investment is carried at the lower of depreciated cost or estimated net fair value. Net fair value is reviewed quarterly and, when necessary, provisions for loss are charged to operations. 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.

Through December 31, 1991, real estate held for investment were reviewed to determine whether the carrying value was in excess of net realizable value. In situations where carrying value was greater than net realizable value, provisions were charged to operations. At December 31, 1992, the Bank adopted a new accounting rule for real estate held for investment.

Under the new accounting rule, in periods following foreclosure and classification as real estate held for investment, the properties are carried at the lower of cost or fair value minus costs to sell on an individual property basis. Adoption of this

Notes to Consolidated Financial Statements

new accounting rule had no material effect on the Bank's financial statements. In periods of declining real estate values, however, this new accounting rule will result in additional losses.

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

Effective January 1, 1992, the Bank recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. The Bank's deferred tax asset is reviewed quarterly and adjustments to such asset are recognized as deferred income tax expense or benefit based on management's judgments relating to the realizability of such asset. The adoption of this method for the year ending December 31, 1992 resulted in no cumulative effect of an accounting change.

Prior to January 1, 1992, the Bank recognized income taxes under the deferred method. Under this method, annual income tax expense is matched with pretax accounting income by providing deferred taxes at current tax rates for timing differences between income reported for accounting purposes and that reported for tax purposes. Prior to January 1, 1992, deferred tax expense or benefit was provided on transactions which were reported for accounting purposes in periods different than for tax purposes.

Income (loss) Per Share

Income (loss) per share is computed based on the weighted average number of common and common equivalent shares outstanding during each year.

Stock options, when dilutive, are included as common stock equivalents using the treasury stock method.

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, 1992 and 1991, cash and due from banks included $257,000 and $295,000, respectively to satisfy such reserve requirements.

Notes to Consolidated Financial Statements

(3) Securities Held for Sale and Investment Securities

Securities Held for Sale at December 31, 1992 follow:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
		(In Thousands)		
Bonds and obligations:				
U.S. Government agencies	$ 14,903	278	(27)	15,154
Mortgage-backed securities:				
FHLMC	23,767	278	(131)	23,914
FNMA	22,492	100	(169)	22,423
GNMA	4,636	9	(27)	4,618
	50,895	387	(327)	50,955
Total debt securities	65,798	665	(354)	66,109
Marketable equity securities	409			
Less net unrealized loss on marketable equity securities	(24)			
Marketable equity securities, net	385			385
Total investment securities	$ 66,183			66,494

Investment securities at December 31, 1991 follow:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
		(In Thousands)		
Bonds and obligations:				
U.S. Treasury	$ 5,044	215	—	5,259
U.S. Government agencies	17,051	912	—	17,963
Corporate	2,502	1	(6)	2,497
	24,597	1,128	(6)	25,719
Mortgage-backed securities:				
FHLMC	14,552	389	—	14,941
FNMA	9,700	151	—	9,851
GNMA	239	10	—	249
	24,491	550	—	25,041
Total debt securities	49,088	1,678	(6)	50,760
Marketable equity securities	435			
Less net unrealized loss on marketable equity securities	(180)			
Marketable equity securities, net	255			255
Total investment securities	$ 49,343			51,015

Notes to Consolidated Financial Statements

Realized gains on debt securities were $770,000 and $640,000 and realized losses on debt securities were $16,000 and $80,000 for the years ended December 31, 1992 and 1991 respectively. Proceeds from sales of debt securities were $43,882,000 and $48,787,000 for the years ended December 31, 1992 and 1991 respectively. No debt securities were sold during the year ended December 31, 1990.

Net realized losses on marketable equity securities were $3,000, $103,000 and $1,000 for the years ended December 31, 1992, 1991 and 1990, respectively. Included in the realized losses for the year ended December 31, 1991 is a write-down of $100,000 in the carrying value of marketable equity securities reflecting the depreciation in value of a common stock which was considered other than temporary.

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

	1992	1991
	(In Thousands)	
Gross unrealized gains	$ —	—
Gross unrealized losses	(24)	(180)
	$ (24)	(180)

The maturity distribution of debt securities at December 31 follows:

	1992		1991	
	Amortized Cost	Market Value	Amortized Cost	Market Value
		(In Thousands)		
Bonds and obligations:				
Within one year	$ —	—	3,488	3,560
Over 1 year to 5 years	8,023	8,287	13,520	14,189
Over 5 years to 10 years	6,880	6,867	7,589	7,970
	14,903	15,154	24,597	25,719
Mortgage-backed securities:				
Over 1 year to 5 years	8,133	8,171	5,042	5,205
Over 5 years to 10 years	9,665	9,722	4,669	4,805
Over 10 years	33,097	33,062	14,780	15,031
	50,895	50,955	24,491	25,041
Total debt securities	$65,798	66,109	49,088	50,760

Mortgage-backed securities are shown at final contractual maturity but are expected to have shorter lives.

Notes to Consolidated Financial Statements

(4) Loans

Loans at December 31 follow:

	1992	1991
	(In Thousands)	
Mortgage loans:		
Residential	$ 41,502	54,746
Commercial	16,867	15,032
Residential construction	3,395	4,018
Home equity	5,778	7,134
Second mortgages	683	899
	68,225	81,829
Less unadvanced funds	(273)	(744)
Total mortgage loans, net	67,952	81,085
Commercial loans:		
Secured	871	1,004
Unsecured	49	43
Total commercial loans	920	1,047
Consumer loans:		
Personal installment	1,453	2,270
Education	653	725
Revolving credit	119	122
Total consumer loans	2,225	3,117
Total loans	71,097	85,249
Less:		
Allowance for possible loan losses (note 5)	(1,501)	(1,628)
Deferred loan origiation fees, net	(131)	(181)
Loans, net	69,465	83,440

Loans totaling $3,617,000 and $3,591,000 were on non-accrual at December 31, 1992 and 1991, respectively. Interest income not recognized on such loans amounted to $199,000 and $192,000 for the years ended December 31, 1992 and 1991, respectively. Prior to and during the period of cessation of accrual, interest income recognized on such loans was $256,000 and $145,000 for the years ended December 31, 1992 and 1991, respectively.

Restructured loans totaled $5,234,000 and $1,990,000 at December 31, 1992 and 1991 respectively. The modified terms resulted in approximately $67,000 and $28,000 reduction in interest income for the years ended December 31, 1992 and 1991 respectively.

Loans serviced for others amounted to $17,464,000 and $9,089,000 at December 31, 1992 and 1991, 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 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

Notes to Consolidated Financial Statements

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, 1992.

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:

	1992	1991
	(In Thousands)	
Balance at beginning of year	$ 947	951
New loans	607	276
Repayments	(531)	(280)
Balance at end of year	$1,023	947

(5) Allowance for Possible Loan Losses

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

	1992	1991	1990
		(In Thousands)	
Balance at beginning of year	$ 1,628	1,414	3,381
Provision for possible loan losses	390	1,690	2,770
Loans charged-off	(586)	(1,495)	(4,816)
Recoveries on loans previously charged-off	69	19	79
Balance at end of year	$ 1,501	1,628	1,414

(6) Real Estate Owned or Substantively Repossessed

Real estate owned or substantively repossessed at December 31 follows:

	1992	1991
	(In Thousands)	
Residential homes	$ 1,156	956
Land	941	2,360
Residential condominiums	340	708
Commercial real estate	1,035	852
	3,472	4,876
Less allowance for possible losses	(534)	(104)
	$ 2,938	4,772

At December 31, 1992 and 1991, real estate owned included $1,102,000 and $1,808,000 respectively, of properties that were substantively repossessed.

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

	1992	1991
	(In Thousands)	
Balance at beginning of year	$ 104	430
Provision for possible losses	1,238	870
Write-downs:		
Real estate owned	(808)	(1,139)
Real estate held for investment	—	(57)
Balance at end of year	$ 534	104

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

	1992	1991
	(In Thousands)	
Balance at beginning of year	$ 4,876	10,067
Foreclosures and properties substantively repossessed	2,603	3,534
Improvements	471	501
Sales	(3,564)	(7,711)
Write-downs, net	(758)	(1,139)
Transferred to real estate held for investment	—	(376)
Transferred to loans	(156)	—
Balance at end of year	$ 3,472	4,876

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

	1992	1991	1990
		(In Thousands)	
Provision for possible losses	$ 1,238	870	430
Write-downs (recoveries), net	(50)	–	972
Foreclosure and holding costs, net	291	416	400
	$ 1,479	1,286	1,802

(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:

	1992	1991
	(In Thousands)	
Residential condominiums	$ 1,821	2,000
Motel	1,382	1,372
	3,203	3,372
Less accumulated depreciation	(407)	(244)
	$ 2,796	3,128

(8) Banking Premises and Equipment

Banking premises and equipment at December 31 follows:

	1992	1991
	(In Thousands)	
Land	$ 428	473
Buildings	1,574	1,622
Equipment	1,037	1,074
	3,039	3,169
Less accumulated depreciation	(1,419)	(1,344)
	$ 1,620	1,825

(9) Deposits

Deposits at December 31 follows:

	1992	1991
	(In Thousands)	
Non-certificate accounts:		
Regular and special notice	$ 32,632	23,905
Money market deposits	35,406	33,846
NOW	9,610	7,554
Demand	4,826	4,240
Total non-certificate accounts	82,474	69,545
Term certificates:		
Less than $100,000	32,834	47,023
$100,000 and over	4,577	4,153
Total term certificates	37,411	51,176
Total deposits	$ 119,885	120,721
Weighted average interest rate at December 31	4.55%	6.31%

The maturity distribution of term certificates at December 31 follows:

	1992		1991	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
	(Dollars In Thousands)			
Within 1 year	$ 28,140	4.99%	$ 42,216	6.50%
Over 1 year to 2 years	5,150	5.87	6,244	8.07
Over 2 years to 3 years	4,121	5.07	2,716	6.76
	$ 37,411	5.12%	$ 51,176	6.71%

A summary of interest expense on deposits for the years ended December 31 follows:

	1992	1991	1990
	(In Thousands)		
Regular and special notice	$ 1,145	1,217	1,211
Money market deposits	1,446	1,947	2,162
NOW	313	358	367
Term certificates	2,726	4,201	4,843
	$ 5,630	7,723	8,583

(10) Federal Home Loan Bank Advances

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

		1992		1991	
Maturity Date	Type	Amount	Interest Rate	Amount	Interest Rate
		(Dollars In Thousands)			
February 15, 1994	Variable Rate	$ —	—	$ 7,000	6.73%
May 15, 1994	Variable Rate	—	—	5,000	6.56
September 20, 1994	Fixed Rate	3,000	6.66%	3,000	6.66
April 25, 1996	Variable Rate	5,000	4.50	—	—
February 18, 1997	Variable Rate	7,000	4.71	—	—
		$ 15,000	5.03%	$ 15,000	6.66%

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 value of U.S. Government and federal agency obligations and 70% of the carrying values of residential mortgage loans.

(11) Income Taxes

Effective January 1, 1992, the Bank recognizes income taxes under the asset and liability method established in Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes". Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. The Bank deferred tax asset is reviewed quarterly and adjustments to such asset are recognized as deferred income tax expense or benefit based on management's judgements relating to the realizability of such asset. There was no cumulative impact of accounting change resulting from the adoption of this method as of January 1, 1992.

Prior to January 1, 1992, the Bank recognized income taxes under the deferred method. Under this method, annual income tax expense is matched with pretax accounting income by providing deferred taxes at current tax rates for timing differences between income reported for accounting purposes and that reported for tax purposes. Prior to January 1, 1992, deferred tax expense or benefit was provided on transactions which were reported for accounting purposes in periods different than for tax purposes.

Income taxes for the years ended December 31, follow:

	1992	1991	1990
Current			
Federal	$ —	—	(632)
State	2	1	—
	2	1	(632)
Deferred			
Federal	(400)	—	—
State	—	—	25
	(400)	—	25
	$ (398)	1	(607)

The significant components of deferred income tax benefit for the year ended December 31, 1992 follow:

Deferred federal tax expense	$ 507
Decrease in valuation allowance	(907)
	$ (400)

A reconciliation between the amount of total tax expense (benefit) and expected tax expense (benefit), computed by applying the Federal income tax rate of 34% to income (loss) before income taxes follows:

	1992	1991	1990
Computed expected tax expense (benefit) at statutory rate	$ 394	(632)	(1,502)
Bad debt deduction	—	108	(729)
Dividends received deduction	—	(4)	(84)
Investment write down	—	33	—
State income tax before valuation allowance	94	—	—
Net operating loss for which no benefit is currently available	—	500	1,706
Change in valuation allowance	(907)	—	—
Other	21	(4)	2
	$ (398)	1	(607)

The deferred tax assets and gross deferred tax liabilities at December 31 follows:

	1992	1991
Deferred tax assets		
Loan loss reserve	$ 1,287	1,924
Alternative minimum tax credit carryforward	38	38
Deferred loan fees	58	80
Dividends payable	145	210
Real estate owned or substantively repossessed valuation	244	62
Federal tax net operating loss carryforwards	323	325
Other	47	50
Gross deferred assets	2,142	2,689
Valuation allowance	(1,525)	(2,432)
Net deferred tax assets before deferred tax liabilities	617	257
Deferred liabilities		
Accrued interest receivable	33	53
Depreciation	182	200
Other	2	4
Gross deferred liabilities	217	257
Net deferred tax asset	$ 400	—

Management believes that existing net deductible temporary differences which give rise to the net deferred tax asset will reverse during periods in which the Bank generates net taxable income. For the year ending December 31, 1992, the Bank generated no taxable income due to deferred deductions recognized in 1992. In addition, gross deductible temporary differences are expected to reverse in periods during which offsetting gross taxable temporary differences are expected to reverse. It should be noted, however, that factors beyond management's control, such as the general state of the economy and real estate values, can affect future levels of taxable income and that no assurance can be given that sufficient taxable income will be generated to fully absorb gross deductible temporary differences.

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

	1992	1991	1990
Cash basis accounting for tax purposes	$ —	(66)	(79)
Deferred loan origination fees	22	1	8
Dividends payable	65	(49)	—
Bad debt deduction	637		
Real estate owned or substantively repossessed valuation	(182)	—	—
Accrued interest receivable	(20)	—	—
Depreciation	(18)	—	—
Other	3	(8)	(3)
Non-recognition of net operating loss carryover	—	122	99
	$ 507	—	25

A December 31, 1992 the Bank had a tax net operating loss carryforward of approximately $950,000 which is available to offset future federal taxable income. Net operating loss carryforwards are subject to a fifteen-year carryforward and will expire from 2005-2006.

(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, commitments to originate loans, 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, follow:

	1992	1991
Unused lines of credit	$ 2,881,000	2,714,000
Unadvanced portions of construction loans	273,000	744,000
Commitments to originate loans:		
Fixed interest rates	469,000	167,000
Variable interest rates	290,000	963,000
Standby letters of credit	21,000	34,000

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 loans 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 amount of the cumulative loan losses it has sustained result from the former president's alleged conduct. In February, 1993 the Bank reached a settlement agreement with its insurance carrier in the amount of $515,000 to compensate the Bank for its losses suffered by its former president's conduct. The settlement allows the Bank to maintain its lawsuit against its former president without competition from the insurance carrier to recover the amount paid under the claim. This recovery is not reflected in these Consolidated Financial Statements.

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 currently a defendant in two lawsuits relating to lender liability. One of these lawsuits was brought by a borrower who has subsequently initiated two additional suits. The Bank has obtained partial summary judgment in the initial suit. The additional lawsuits were dismissed in March 1991 on the basis that they were duplicative of the borrower's original complaint. The Bank has recently amended its counterclaim against this borrower to reach and apply proceeds of mortgages payable to him. The second 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 denied these claims and counterclaimed against the borrower for breach of contract. In August 1991, the judge non-suited the borrower. The Bank will continue to vigorously assert its counterclaims.

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.

On March 5, 1993, the Bank instituted litigation in the United States District Court in Boston, Massachusetts against four directors of the Bank and the son of one of those directors. That action is captioned Hingham Institution for Savings v. Gaughen, et al., Civil Action No. 93-10497H. The director defendants are Robert H. Gaughen, Robert H. Gaughen, Jr., James Consentino and Thomas Youngworth. The complaint alleges that defendants have violated, and continue to violate, both federal and state banking and securities laws in connection with efforts to acquire control of the Bank. The complaint further alleges that those violations include the concealment of defendants' concerted activity as a "group" in the purchase, ownership and voting of Bank common stock and their concealment of the purpose of their purchases of Bank common stock to acquire control of the Bank. The complaint also alleges defendants' violation of the provision in the Bank's charter prohibiting through December 20, 1993 the ownership of in excess of 10% of the outstanding common stock by an individual or group. In its complaint, the Bank seeks injunctive relief, a declaration of its rights, money damages and certain other remedies.

(14) Stockholders' Equity

At the time of the Bank's conversion to stock form, the Bank established a liquidation account for the benefit of eligible deposit account holders. According to the Bank's transfer agent, the balance of the liquidation account at December 31, 1992 was approximately $2,062,000 (unaudited).

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, 1992 includes approximately $1,167,000 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, 1992, qualifying assets were in excess of 70% (unaudited) of total assets.

Under the Bank's stock option plan, options may be granted to officers, other employees and certain directors as the Stock Option Committee of 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.

Stock option activity for the years ended December 31 follows:

	1992	1991	1990
Options outstanding at beginning of year	90,500	95,500	53,600
Granted	—	—	54,600
Forfeited	—	(5,000)	(12,700)
Exercised	(3,000)	—	—
Options outstanding at end of year	87,500	90,500	95,500
Weighted average exercise price per share	$ 6.23	$ 6.16	$ 6.05
Options currently exercisable	41,880	26,780	8,680

(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.

Pension expense under the plan for the years ended December 31, 1992, 1991 and 1990 follows:

	1992	1991 (In Thousands)	1990
Service cost - benefits earned during period	$ 114	105	96
Interest cost on projected benefit obligation	88	94	84
Actual return on plan assets	(95)	(219)	29
Net amortization and deferral	3	3	3
Amortization of net (gain) loss	20	134	(115)
Net pension expense	$ 130	117	97

Notes to Consolidated Financial Statements

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

	1992	1991
	(In Thousands)	
Actuarial present value of:		
Vested benefit obligations	$ 894	746
Non-vested benefit obligations	5	15
	$ 899	761
Actuarial present value of projected benefit obligation	$ 1,422	1,305
Plan assets at fair value, invested primarily in equity and debt securities	1,285	1,105
Plan assets less than projected benefit obligation	(137)	(200)
Unrecognized net gain	(206)	(23)
Unrecognized net obligation at inception	40	42
Accrued pension cost at end of year	$ (303)	(181)

For the plan years ended October 31, 1992, 1991, and 1990 actuarial assumptions include an assumed discount rate of 7.00% and 6.75%, respectively, and an expected long-term rate of return on plan assets of 6.75% and 7.75%, respectively, and an assumed 6.00% rate of increase in compensation for both years.

A new accounting rule which must be adopted by the Bank on January 1, 1993 changes the method of accounting for post-retirement benefits other than pensions from the pay-as-you-go method to the method of accruing over the employees' service periods. The effect of adopting this new accounting rule can be charged to expense immediately or spread over no more than 20 years. Management believes the effect of adopting this new accounting rule will not be material to the Bank's financial statements.

Effective January 1, 1994, a new accounting standard requires accrual for post-employment benefits during either the employees' service periods or at the time a liability is incurred. Post-employment benefits include salary continuation, supplemental employment benefits, severance benefits, disability-related benefits, health care benefits, life insurance, and the like. It is not known what effect, if any, adoption of this standard will have on the Bank's financial statements.

(16) Regulatory Matters

In March of 1992, the Bank entered into a Memorandum of Understanding with the FDIC and the Massachusetts Commissioner of Banks. The Memorandum sets forth plans for reducing classified assets, improving the earnings of the Bank, and revises the Bank's Funds Management Policy to address liquidity needs as well as monitoring interest rate sensitivity. Lending, investment and budget policies will be incorporated into a comprehensive business plan, which has been submitted to the FDIC and the Commissioner of Banks. In addition, specific goals have been established under this memorandum for reducing the ratio of non-performing loans to total loans. The Bank was recently examined by the FDIC and was found to be in substantial compliance with the Memorandum of Understanding.

Notes to Consolidated Financial Statements

(17) Quarterly Financial Data (unaudited)

Quarterly results of operations for the years ended December 31, 1992 and 1991 are as follows:

	1992				1991			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
	(In Thousands, Except Per Share Amounts)							
Interest income	$ 2,963	2,930	2,806	2,675	3,178	3,178	3,181	3,094
Interest expense	1,842	1,684	1,559	1,366	2,328	2,310	2,214	1,998
Net interest income	1,121	1,246	1,247	1,309	850	868	967	1,096
Provision for possible loan losses	—	50	—	340	100	500	160	930
Net interest income after provision for possible loan losses	1,121	1,196	1,247	969	750	368	807	166
Non-interest income	270	247	382	725	83	157	272	273
Non-interest expense	(1,085)	(1,135)	(1,318)	(1,461)	(1,043)	(1,278)	(1,026)	(1,387)
Income (loss) before income taxes	306	308	311	233	(210)	(753)	53	(948)
Income tax expense(benefit)	1	1	—	(400)	—	1	—	—
Net income (loss)	$ 305	307	311	633	(210)	(754)	53	(948)
Earnings (loss) per share	$ .24	.25	.25	.50	(.17)	(.60)	.04	(.76)

In the fourth quarter of 1992 and 1991, the Bank reevaluated all non-performing loans and foreclosed properties in light of the continuing decline of real estate values. These evaluations 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

James V. Consentino
Retired, Founder
J. V. Consentino
Plastering & Construction Co.

J. Robert Crowley
Clerk of the Bank
Hingham Institution for Savings

Marion J. Fahey
Retired; Former
Superintendent of
Boston Public Schools

John J. Flatley
President
John J. Flatley Company

Robert H. Gaughen
Attorney
of Counsel to the law firm of
Gaughen, Gaughen & Gaughen

Robert H. Gaughen, Jr.
Attorney
Gaughen, Gaughen & Gaughen

Richard B. Lane
Partner, Lane, Lane & Kelly

John R. Lombardo
Consultant;
Process Systems
International, Inc.

Vito A. Nardo
President
BLT Spirits, Inc.

Warren B. Noble
Treasurer
Noble's Camera Shop

Stacey M. Page
President
Hingham Jewelers, Inc.

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

David L. Wightman
Vice President
W. R. Grace & Co.
Alewife Boston Ltd.
Alewife Land Corporation

Thomas H. Youngworth, Sr.
President and C.E.O.
Bay State Metal Products, Inc.
Hi-Tech Filter Corp.
of America

Officers and Managers

Gerard W. Pyne
Chairman

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

Robert F. Cass
Vice President and Treasurer

Martin R. Daley
Vice President Commercial
Lending

Michael Donahue
Vice President Retail Lending

Edward P. Zec
Vice President Branch
Administration

William M. Donovan, Jr.
Assistant Vice President

Deborah A. Bearde
Assistant Treasurer

Elizabeth A. Cossette
Assistant Treasurer

Helen Fuda
Assistant Treasurer

Rose Leibfarth
Assistant Treasurer

Sally A. Paulson
Assistant Treasurer

Lois F. Vanasse
Assistant Treasurer

Christine R. Walsh
Assistant Treasurer

J. Robert Crowley
Clerk of the Bank

Stockholder 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 31,1992 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

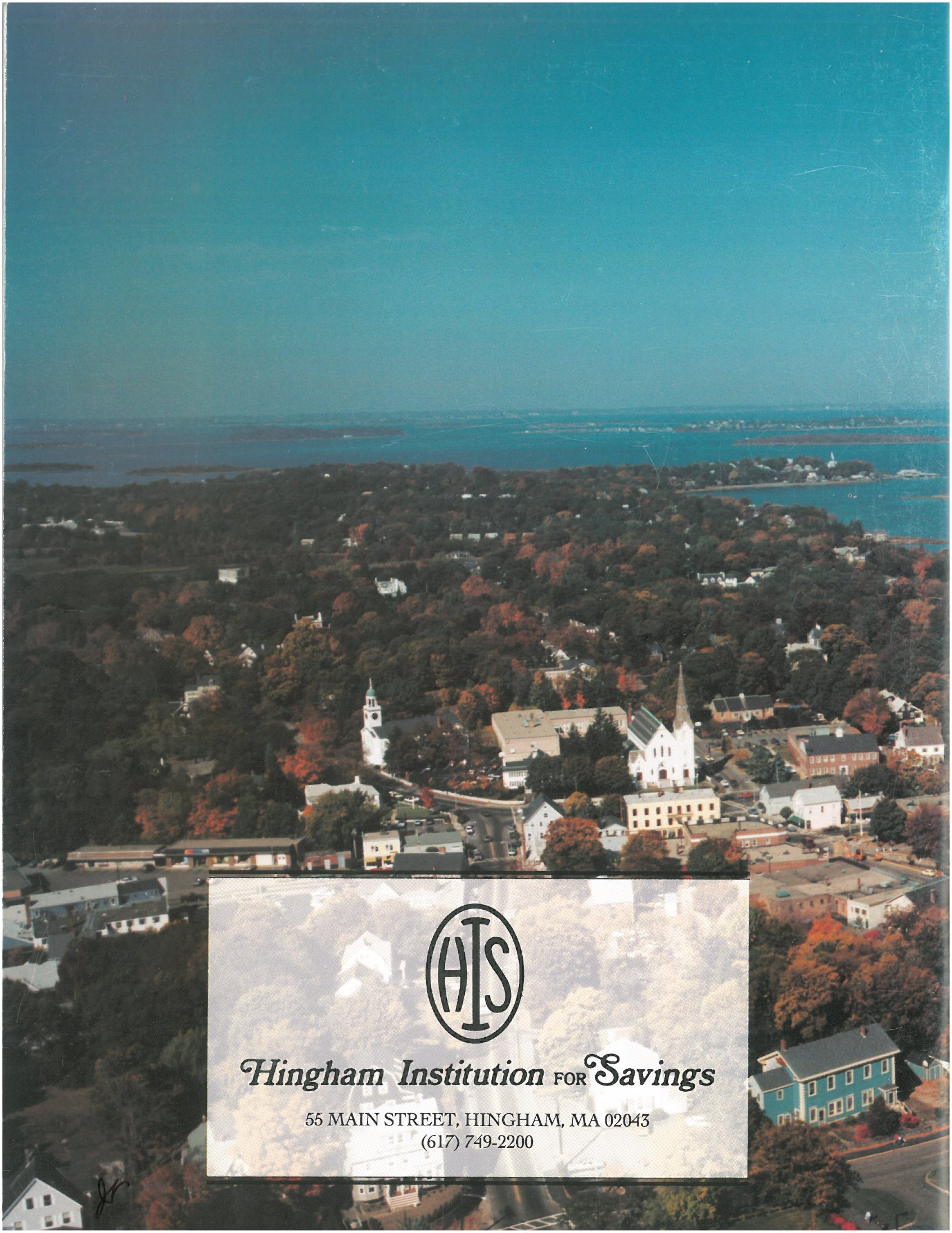
Hingham Institution for Savings common shares are listed and traded on the NASDAQ National Market System under the symbol HIFS.

As of December 31,1992 there were approximately 632 stockholders of record, holding 799,523 outstanding shares of common stock. These shares do 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
1992		
First Quarter	$ 6 3/4	$ 3 1/2
Second Quarter	7 3/4	5 1/4
Third Quarter	7 1/2	6 1/4
Fourth Quarter	9	6 1/4
1991		
First Quarter	$ 3	$ 1 3/4
Second Quarter	5 3/4	3 1/4
Third Quarter	4 5/8	3
Fourth Quarter	3 3/4	2 3/4

The closing sale price of the Bank's common stock at December 31, 1992 was $8 per share.



HIS

Hingham Institution for Savings

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