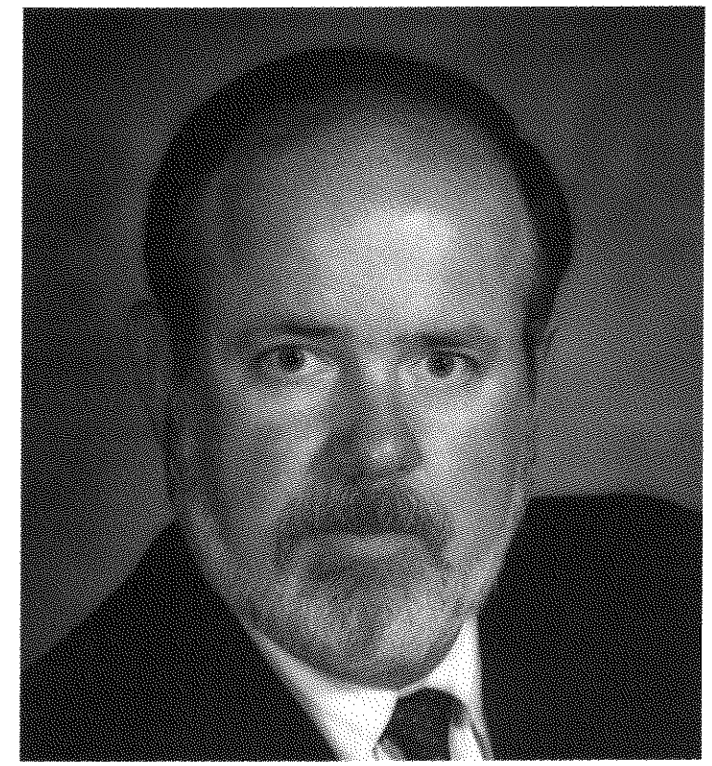
HINGHAM INSTITUTION FOR SAVINGS

ESTABLISHED 1834

1993 ANNUAL REPORT

Cover Photograph of Lincoln's Day Parade and Old Ship Church, Hingham Massachusetts
Photograph by: Phil Swanson

President's Message



Robert H. Gaughen, Jr., *President and C.E.O.*

The past year was the most tumultuous in the Bank's 160 years of operation. It commenced with conflict over issues of management competence and the future independence of the Bank. In April the shareholders voted overwhelmingly to endorse a change in management and to preserve our identity as an independent, locally controlled Bank. It gives me great pleasure to report the positive results which followed this change.

Since April the Directors have taken various steps to assure the Institution's competitive health. In the spring a new and experienced management team was assembled. The efforts of this team are beginning to produce significant results. Necessary steps have been taken to drastically reduce non-performing assets, increase lending, and improve the Bank's net interest margin. While we anticipate that these changes will produce continuing improvement, already numerous concrete achievements can be observed. In 1993 non-performing assets (NPA's) were reduced by 71%. These assets have constituted a drain on earnings, both as a result of their non-performing status as well as the costs associated with administering them. NPA's were reduced from $9.4 million to $2.7 million during 1993. This reduction of 71% compares favorably with the modest 19% reduction which occurred in the previous year.

Improved operating earnings depend not only on the taming of our problem assets but also on our ability to reinvigorate our lending function. The second half of 1993 saw a 177% increase in loan originations over the same period in 1992. In the fourth quarter of 1993, our loan portfolio experienced the largest quarterly increase since 1989.

Earnings for 1993, despite the unfortunate $1.5 million expense resulting primarily from prior management's opposition to the proxy contest, remained positive. In fact, earnings from core operations strengthened in the third and fourth quarters. The reduction in NPA's and increases in loan originations should assist in maintaining this trend.

Substantial progress has been made in strengthening the Bank's internal operations and restoring its presence in our local market. Despite these improvements, reduction of non-performing assets and expanded lending activities remain our most important priorities in 1994. We remain optimistic that progress in these areas will assist us in realizing our long-term profit goals.

Please be assured that the Board of Directors, Bank management, and staff remain committed to the development of a quality, service-oriented, independent community Bank.

Very truly yours,

Robert H. Gaughen, Jr.
President and Chief Executive Officer

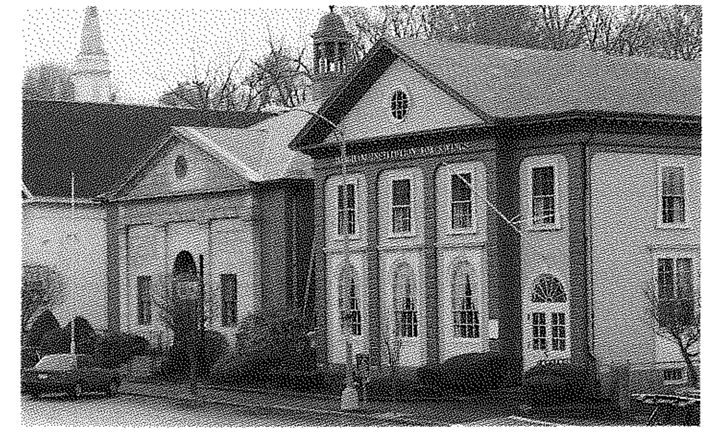
Selected Consolidated Financial Data

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,				
	1993	1992	1991	1990	1989
			(In Thousands)		
Balance Sheet Data:					
Total assets	$147,889	$149,460	$148,760	$149,262	$150,633
Investment securities	58,904	66,183	49,343	33,434	20,506
Loans:					
Mortgage	76,177	67,952	81,085	90,224	110,132
Commercial	695	920	1,047	1,045	947
Consumer	1,426	2,225	3,117	4,277	5,555
Total loans	78,298	71,097	85,249	95,546	116,634
Allowance for loan losses	1,191	1,501	1,628	1,414	3,381
Loans, net	76,936	69,465	83,440	93,953	113,138
Foreclosed real estate, net	2,384	2,938	4,772	9,637	1,093
Deposits	117,717	119,885	120,721	119,211	116,345
Federal Home Loan Bank advances	15,000	15,000	15,000	15,000	15,000
Stockholders' equity	14,074	13,712	11,988	13,751	17,999

	Years Ended December 31,				
	1993	1992	1991	1990	1989
			(In Thousands, Except Per Share Amounts)		
Operating Data:					
Total interest income	$ 9,232	$ 11,374	$ 12,631	$ 13,212	$ 13,018
Total interest expense	4,593	6,451	8,850	9,928	9,455
Net interest income	4,639	4,923	3,781	3,284	3,563
Provision for loan losses	63	390	1,690	2,770	3,500
Other income	1,484	1,624	785	346	388
Operating expenses	6,340	4,999	4,734	5,279	3,302
Income (loss) before income taxes	(280)	1,158	(1,858)	(4,419)	(2,851)
Income tax provision (benefit)	(469)	(398)	1	(607)	(512)
Net income (loss)	$ 189	$ 1,556	$ (1,859)	$ (3,812)	$ (2,339)
Net income (loss) per share.	$ .15	$ 1.24	$ (1.49)	$ (3.05)	$ (1.87)
Weighted average shares outstanding	1,268	1,251	1,250	1,250	1,250
Financial Ratios:					
Return (loss) on average assets	0.13%	1.02%	(1.23)%	(2.50)%	(1.58)%
Return (loss) on average equity	1.34	12.01	(13.74)	(22.14)	(11.60)
Average equity to average assets	9.52	8.52	8.92	11.31	13.61
Interest rate spread	3.06	3.21	2.69	2.04	1.77
Net yield on average earning assets	3.34	3.49	2.78	2.34	2.52
Cash dividends paid per share	—	—	—	$0.28	$0.23

Management's Discussion and Analysis



Main Office and Administration Building

MARKETPLACE

The Bank operates three offices located in Hingham, South Hingham, and Hull. The Bank has served as one of the leading local financial institutions for 160 years. The Bank's operating philosophy consists of offering quality service, attractive basic banking products, and superior convenience.

DEPOSIT ACTIVITY

Hingham Institution for Savings continues to offer a wide range of accounts including regular savings, club accounts, NOW accounts, commercial checking, certificates of deposit, and IRA's plus the added convenience of ATM's at all branch locations.

As a community Bank, we believe that our principal competitive advantage is the personal quality of the service we provide to our customers and to the long-term relationships established. The Bank's primary competition for deposits are the other banks in our market area and mutual funds. The Bank's ability to attract and retain deposits depends upon its satisfying depositors' requirements with respect to rate, liquidity, risk, and service. We continue to compete for our deposits by offering competitive rates, convenient branch locations, and the added convenience of automated teller machines.

Many consumers are rightfully concerned about the security of their investments in the volatile financial environment of the1990's. Deposits at Hingham Institution for Savings are insured in full through the Federal Deposit Insurance Corporation (the "FDIC") and Deposit Insurance Fund of Massachusetts. This insurance combined with our strong capital position should provide an advantage in allaying any customer concerns regarding the safety of their deposits.

Deposits as of December 31, 1993 were $117.7 million representing a decrease of $2,168,000 or 1.8% over December 31,1992. Declining market rates and consumers' willingness to accommodate greater risk resulted in a $4,397,000 or 11.8% decrease in term certificates during 1993. This decrease was partially offset by a $2,229,000 increase in non-certificate accounts during the course of the year.

South Hingham Branch Office

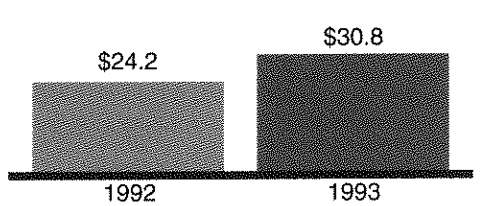
Hull Branch Office

LENDING ACTIVITY

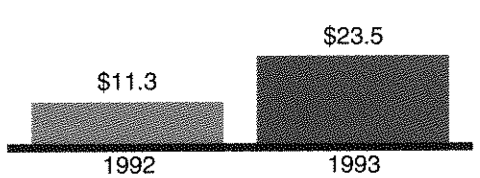
The Bank's lending activities consist primarily of the origination of first mortgages on residential or commercial real estate. The residential mortgages are made with both fixed and adjustable rates and are generally underwritten to conform to Federal National Mortgage Association and Federal Home Loan Mortgage Corporation guidelines. The adjustable rate mortgage loans have rates that are reset at either one-year or three-year intervals. The Bank has placed particular emphasis on encouraging 10-year and 15-year fixed rate and one and three-year adjustable rate loans. The commercial or multi-family mortgage loans are typically written with an initial rate fixed for three to five years and with a floating rate thereafter.

During 1993 loan originations totaled $30,787,000, an increase of 27.4% from the $24,166,000 originated in 1992. The actual impact of the reorganization of the lending effort by the new management team is most accurately reflected by a comparison of the second half of 1993 and the comparable period in 1992. In the second half of fiscal 1993, originations totaled $23,535,000, an increase of 109% over the $11,263,000 in originations for the second half of 1992.

TOTAL LOAN ORIGINATIONS
(In Millions)



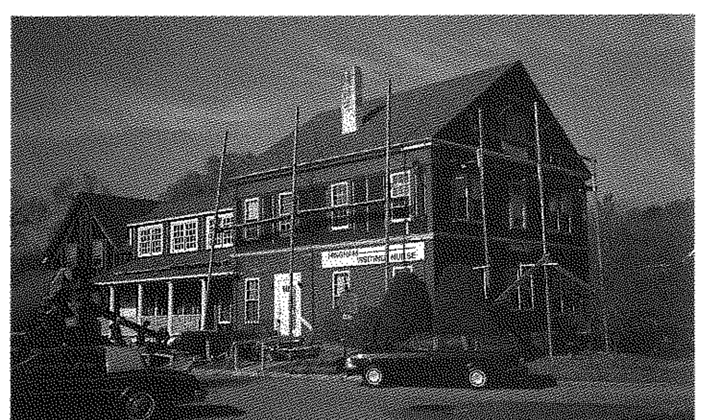
SECOND HALF LOAN ORIGINATIONS
(In Millions)



At December 31, 1993 the loan portfolio totaled $76,936,000 as compared to $69,465,000 at December 31, 1992. This 10.8% increase was achieved as a result of the new management group's intensified lending effort in the third and fourth quarters. This increase was achieved notwithstanding a significant increase in payoffs and increased competition from other lenders. Management intends to continue with such efforts and believes that the Bank's operating profitability is, in significant measure, related to its ability to increase its loan portfolio as a percentage of total assets.

The Bank's lending strategy will continue to provide residential loans at adjustable rates or shorter terms for the portfolio as well as multi-family or commercial property loans at short-term fixed or floating rates. Longer-term fixed rate loans are originated primarily for sale in the secondary market. It is anticipated that by originating loans with adjustable rates or shorter terms for the portfolio, while selling the longer-term fixed rate loans, we will reduce our exposure to interest rate risk.

Expansion of Congregation Sha'Aray Shalom, Hingham financed by Hingham Institution for Savings.

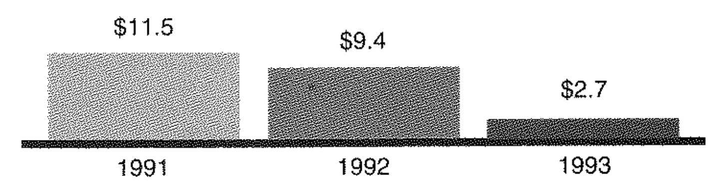


Renovation of Hingham Visiting Nurses Association financed by Hingham Institution for Savings.

ASSET QUALITY

During fiscal year 1993, dramatic progress was made in the improvement of general asset quality. As a result of aggressive efforts in the second half of 1993, non-performing assets, which consist of loans delinquent 90 days or more and real estate acquired through foreclosure or substantively foreclosed, were reduced to $2,670,000 at year end. This represents a 71.4% decrease from the $9,351,000 on December 31, 1992 and a 76.8% decrease from the $11,491,000 at December 31, 1991.

NON-PERFORMING ASSETS
(In Millions)



Management has implemented new and more stringent underwriting policies for all new originations, which call for greater senior management and Board of Directors' oversight.

It is anticipated that these new policies, combined with the intensified effort to resolve remaining problem assets, will result in continuing improvement in this critical area.

COMPARISON OF RESULTS FOR FISCAL YEARS 1993, 1992 and 1991

OVERVIEW

At the April 1993 Annual Meeting, the shareholders voted overwhelmingly to elect a new Board of Directors to oversee the implementation of a new management team. During the remainder of the year 1993, the new Board and Management Team drastically reduced the non-performing assets and increased local lending activities.

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), provisions for loan losses, other income, and operating expenses. 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, 1993 was $189,000 or $0.15 per share. In 1992 the Bank had net income of $1,556,000 or $1.24 per share, and in 1991 a net loss of $1,859,000 or $1.49 per share. For the year ended December 31, 1993, the Bank recognized a $472,000 income tax benefit primarily due to a reduction in the valuation allowance against net deferred tax assets as described in Note 10 of the Consolidated Financial Statements.

Assets totaled $147.9 million on December 31, 1993 and $149.5 million on December 31, 1992, a decrease of 1.1%. During this period, stockholders' equity increased to $14.1 million from $13.7 million, an increase of 2.6%.

Effective December 31,1993, the Bank adopted the provisions of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." The Statement establishes standards for all debt securities and for equity securities that have readily determinable fair values. As required under SFAS No. 115 prior year financial statements have not been restated.

SFAS No. 115 requires investments in debt securities that management has the positive intent and ability to hold to maturity be classified as "held to maturity" and reflected at amortized cost. Investments that are purchased and held principally for the purpose of selling them in the near term are classified as "trading securities"

Management's Discussion and Analysis

and reflected on the balance sheet at fair value, with unrealized gains and losses included in earnings. Investments not classified as either of the above are classified as "available for sale" and reflected on the balance sheet at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. The cumulative effect of the change in accounting principle at December 31, 1993 is to increase stockholders' equity by $52,000. There was no effect on net income for the year ended December 31, 1993 relating to the adoption of SFAS No. 115.

As of December 31, 1993 debt securities available for sale at fair value totaled $25,307,000, and securities held to maturity at amortized cost totaled $33,597,000 with a fair value of $33,520,000.

Interest and Dividend Income. Total interest and dividend income decreased by $2,142,000, or 18.8% in 1993 as compared to a decrease of $1,257,000, or 10.0% in 1992. The yield on average earning assets was as follows: 1993, 6.64%; 1992, 8.05%; and 1991, 9.28%. The 1993 decrease was mainly attributed to a decrease in the yield on the interest-earning assets. The 1992 decrease in interest income was attributed to a decrease in average yield on interest-earning assets partially offset by an increase in interest-earning assets. The decrease in the yield was partially offset by a decrease in non-accrual loans from $3,617,000 at December 31, 1992 to $286,000 at December 31, 1993.

Interest Expense. The decrease in interest expense of $1,858,000 for 1993 consisted of a decrease of $1,709,000 or 30.4% in interest on deposits, and a decrease of $149,000 or 18.1% in interest on Federal Home Loan Bank advances due primarily to reductions in the rates paid.

The decrease in 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 primarily to reductions in the rates paid.

The following table presents information regarding changes in interest and dividend income and interest expense of the Bank for the years indicated. For each category, information is provided with respect to changes attributable to (1) changes in rate (change in rate multiplied by old volume) and (2) changes in volume (change in volume multiplied by old rate.) The change attributable to both volume and rate is reported as mix.

	Years Ended December 31,							
	1993 Compared to 1992 Increase (Decrease) Due to				1992 Compared to 1991 Increase (Decrease) Due to			
	Volume	Rate	Mix	Total	Volume	Rate	Mix	Total
	(In Thousands)							
Interest and dividend income:								
Total loans	$(1,392)	$(451)	$ 79	$(1,764)	$(225)	$ (957)	$ 8	$(1,174)
Investment securities and Federal Home Loan Bank stock	809	(1,016)	(222)	(429)	678	(545)	(101)	32
Short-term investments and interest-bearing deposits	68	(9)	(8)	51	(53)	(85)	23	(115)
Total interest and dividend income	(515)	(1,476)	(151)	(2,142)	400	(1,587)	(70)	(1,257)
Interest expense:								
Deposits	(460)	(1,346)	97	(1,709)	(244)	(1,895)	46	(2,093)
FHLB advances	(1)	(148)	—	(149)	(17)	(293)	4	(306)
Total interest expense	(461)	(1,494)	97	(1,858)	(261)	(2,188)	50	(2,399)
Net interest income	$ (54)	$ 18	$(248)	$ (284)	$661	$ 601	$(120)	$1,142

Management's Discussion and Analysis

due primarily to reductions in the rates paid.

The general decline in market rates of interest as well as a decrease in higher rate certificates of deposit resulted in a decrease in the average rates paid on the Bank's deposits during the period. Costs were 3.46%, 4.75% and 6.49% for 1993, 1992 and 1991, respectively. Average deposit balances decreased by $5.3 million during 1993 due to the industry trend of deposits being transferred to mutual funds for higher rates and increased by $1.3 million during 1992 .

Provision for Loan Losses. The provision for loan losses was $63,000 for the year ended December 31, 1993, $390,000 for the year ended December 31, 1992 and $1,690,000 for the year ended December 31, 1991. The balance of the allowance for loan losses as of December 31, 1993 was $1,191,000 compared to $1,501,000 in 1992. The decrease in the loan loss provisions between December 31, 1993 and December 31, 1992 reflects a major decline in non-accrual loans from $3,617,000 on December 31, 1992 to $286,000 at December 31, 1993. Management reviews the loan portfolio quarterly and, subject to approval of the Board of Directors, adjusts the allowance for loan 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 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 charge-offs for the past three years have been as follows: $1,495,000 in 1991; $586,000 in 1992; and $411,000 in 1993. Recoveries on loans previously charged off amounted to $19,000 in 1991, $69,000 in 1992, and $38,000 in 1993. Net charge-offs of $373,000 in 1993 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.

Other Income. Total other income decreased to $1,484,000 from $1,624,000 when comparing 1993 to 1992 and amounted to $785,000 in 1991. The year 1992 was affected by two non-recurring transactions: a gain on sale of loans in the secondary market of $402,000, and a gain on sale of a branch building of $106,000. The year 1993 was also affected by a non-recurring transaction in the form of an insurance settlement of $515,000 relating to actions of a former president of the Bank. Gain on sales of investments amounted to $559,000, $751,000, and $457,000 for the years ended December 31, 1993, 1992, and 1991, respectively.

Operating Expenses. Operating expenses totaled $6,340,000 for 1993, compared to $4,999,000 for 1992 and $4,734,000 for 1991. During the year ended December 31, 1993, non-recurring expenses related to the proxy contest amounted to $1,508,000 or 23.8% of 1993 operating expenses. See Material Litigation for additional details on proxy litigation and settlement.

Salaries and employee benefits, the largest component of the Bank's total operating expenses, increased by $475,000 or 31.8% during 1993 mainly attributable to inclusion of $430,000 of pension costs of which $310,000 related to prior years and also reflecting general increases in lending staff. 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 real estate expense decreased by $717,000 or 48.5% in 1993 after having increased by $193,000 in 1992. The decrease for 1993 is attributed to a decrease in the provision for losses of $847,000 partially offset by increased foreclosure and holding costs, net of rental income of $100,000. The 1992 increase is attributed to an increase in the provision for losses of $368,000 offset by recoveries of $50,000 and reduced foreclosure and holding costs, net of rental income of $125,000. Foreclosed real estate decreased by $1,834,000 during 1992 to $2,938,000 at December 31, 1992 and $554,000 during 1993 to $2,384,000 at December 31, 1993.

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. During the first quarter of 1993, all properties held for investment were transferred to foreclosed real estate as management intended to and did sell these properties.

Expenses relating to real estate held for investment, net of rental income increased by $123,000 or 73.2% when comparing 1993 expenses of $291,000 to 1992 expenses of $168,000 and increased by $74,000 from 1991 to 1992.

All other operating expenses remained relatively constant, decreasing by $17,000 in 1993, and increasing by $7,000 in 1992.

Income Taxes. Effective January 1, 1992, the Bank adopted SFAS No 109 "Accounting for Income Taxes". There was no cumulative impact resulting from the adoption of this accounting method change as of January 1, 1992. Among other provisions, SFAS No. 109 allows a deferred tax asset to be recognized where based on available evidence, it is more likely than not that any deferred tax asset will ultimately be realized. In determining ultimate realization, future taxable income may be considered as a potential source of available evidence. Prior to 1992, anticipation of future income was generally prohibited.

During 1992, the Bank generated taxable income and anticipated that future income would be realized to allow the recognition of $400,000 of deferred tax benefits. In addition, at December 31, 1993, the Bank anticipates that additional future income will be realized. Based on this anticipated future income, an additional deferred tax benefit of $472,000 was recognized at December 31, 1993.

If economic conditions deteriorate whereby the anticipated future earnings do not materialize, the recognition of these income tax benefits will be reversed to the extent unrealized. Conversely, the Bank may recognize up to an additional $1.1 million of tax benefits if future earnings during the carryforward period exceed the amount anticipated by the Bank.

LIQUIDITY AND CAPITAL RESOURCES

The Bank's principal sources of liquidity are customer deposits, amortization and payoff of principal and interest payments on loans and mortgage-backed securities, and its ability to sell or pledge its loan and securities portfolios. As a member of the Federal Home Loan Bank of Boston (FHLB), 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, 1993, the Bank had outstanding commitments to originate loans of $7,420,000, unused lines of credit of $2,406,000, unadvanced portions of construction loans of $1,023,000, and standby letters of credit of $125,000. The Bank believes it has adequate sources of liquidity to fund these commitments.

Deposits as of December 31, 1993 were $117.7 million representing a decrease of $2,168,000 or 1.8% over December 31, 1992. During 1993 decreasing interest rates resulted in a reduction of $4,397,000 or 11.8% in term certificates partially offset by an increase in non-certificate accounts. The net decrease in investment securities during the year ended December 31, 1993 amounted to $7,279,000 combined with the reduction by $3,350,000 of real estate held for investment and foreclosed real estate, amounted to $10,629,000. These funds were redeployed primarily into loans as evidenced by an increase of $7,201,000 or 10.1% in gross loans.

Massachusetts-chartered savings banks that are insured by the FDIC are subject to certain capital requirements. At December 31, 1993, the requirements for all banks, except the most highly rated, include a Tier 1 leverage capital ratio that is at least 4.0% to 5.0%, a risk-based Tier 1 capital ratio of 4.0%, and a total risk-based capital ratio of 8.0%. In a Memorandum of Understanding entered into with the FDIC and the Massachusetts Commissioner of Banks, the regulatory authorities have required a minimum Tier I leverage capital ratio for the Bank of 6.0%. See "Regulatory Matters" below. At December 31, 1993, the Bank's Tier 1 leverage capital ratio, risk-based Tier 1 capital ratio, and total risk-based capital ratios were 9.56%, 19.50%, and 20.75% respectively.

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 generally 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's Board of Directors entered into a Memorandum of Understanding ("Memorandum") 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. Recently the Bank was examined by the FDIC, its primary regulator. Based on the preliminary results of this examination, the Bank's management believes that it is in substantial compliance with the terms of the Memorandum.

MATERIAL LITIGATION

In February 1993, Robert H. Gaughen, a shareholder and Director of the Bank, notified the Bank of his intention to nominate an independent slate of nominees for the Board of Directors. Subsequent to this notification, the Board of Directors by an 8 to 7 vote, initiated litigation against Mr. Gaughen and three other Directors and substantial shareholders, which litigation sought to prevent the solicitation of proxies in support of the independent slate of nominees. Mr. Gaughen then initiated suit against existing management of the Bank and the majority of the Board of Directors alleging breach of fiduciary responsibility and other irregularities with regard to prior management's conduct of the affairs of the Bank. After a hearing in the United States District Court of Massachusetts, the Bank's request for injunctive relief preventing Mr. Gaughen's solicitation of proxies was denied by United States District Court Judge Edward Harrington. Subsequent to prior management's failure to obtain such an order, the foregoing litigation was concluded by the exchange of mutual releases and the agreement to allow all shareholders to vote at the annual meeting.

Additionally, the Bank is a defendant in a civil action, Ralph Crossen v. Hingham Institution for Savings et. al., filed in Plymouth County Superior Court, based on the alleged tortious conduct of the Bank's former presidents, Wilfred H. Creighton and Paul E. Bulman. The Bank has denied these claims and will continue to aggressively assert its defenses.

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated balance sheet of Hingham Institution for Savings and subsidiaries as of December 31, 1993, 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 consolidated financial statements of Hingham Institution for Savings and subsidiaries for the years ended December 31, 1992 and 1991 were audited by other auditors whose report dated January 20, 1993 expressed an unqualified opinion on those 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 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, 1993, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 10 to the consolidated financial statements, the Bank adopted new methods of accounting for income taxes and foreclosed assets in 1992. Additionally, as discussed in Note 1 to the consolidated financial statements, the Bank has elected to adopt Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective December 31, 1993.

Wolf + Company, P.C.

Boston, Massachusetts
January 25, 1994

Consolidated Balance Sheets

December 31, 1993 and 1992

ASSETS

	1993	1992
	(In Thousands)	
Cash and due from banks (Note 2)	$ 3,272	$ 2,509
Interest-bearing deposits	1,617	941
Cash and cash equivalents	4,889	3,450
Investment securities, fair value $58,827,000 in 1993 and $66,494,000 in 1992 (Notes 3 and 9)	58,904	66,183
Loans, net of allowance for loan losses of $1,191,000 in 1993 and $1,501,000 in 1992 (Notes 4 and 9)	76,936	69,465
Foreclosed real estate, net (Note 5)	2,384	2,938
Real estate held for investment, net (Note 6)	—	2,796
Banking premises and equipment, net (Note 7)	1,549	1,620
Accrued interest receivable	902	996
Deferred income tax asset (Note 10)	872	400
Federal Home Loan Bank stock, at cost (Note 9)	994	1,000
Other assets	459	612
	$147,889	$149,460

LIABILITIES AND STOCKHOLDERS' EQUITY

	1993	1992
Deposits (Note 8)	$117,717	$119,885
Federal Home Loan Bank advances (Note 9)	15,000	15,000
Accrued interest payable	311	409
Mortgagors' escrow accounts	190	148
Other liabilities (Note 15)	597	306
Total liabilities	133,815	135,748
Commitments and contingencies (Notes 11 and 12)		
Stockholders' equity (Notes 13 and 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; 1,277,340 and 1,253,000 shares issued and outstanding	1,277	1,253
Additional paid-in capital	8,453	8,380
Undivided profits	4,292	4,103
	14,022	13,736
Net unrealized loss on marketable equity securities (Note 3)	—	(24)
Net unrealized gain on securities available for sale (Note 3)	52	—
Total stockholders' equity	14,074	13,712
	$147,889	$149,460

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Years Ended December 31, 1993, 1992 and 1991

	1993	1992	1991
	(In Thousands, Except Per Share Data)		
Interest and dividend income:			
Loans	$ 5,819	$ 7,583	$ 8,757
Investment securities	3,282	3,711	3,679
Interest-bearing deposits	131	80	195
Total interest and dividend income	9,232	11,374	12,631
Interest expense:			
Deposits (Note 8)	3,921	5,630	7,723
Federal Home Loan Bank advances	672	821	1,127
Total interest expense	4,593	6,451	8,850
Net interest income	4,639	4,923	3,781
Provision for loan losses (Note 4)	63	390	1,690
Net interest income, after provision for loan losses	4,576	4,533	2,091
Other income:			
Customer service fees	271	228	217
Gain on sales of investments, net	559	751	457
Gain on sale of branch building	—	106	—
Gain on sale of loans	—	402	—
Fidelity bond insurance settlement (Note 12)	515	—	—
Other	139	137	111
Total other income	1,484	1,624	785
Operating expenses:			
Expenses related to proxy contest (Note 12)	1,508	—	—
Salaries and employee benefits (Note 15)	1,968	1,493	1,512
Data processing	292	304	311
Occupancy and equipment (Note 7)	319	338	321
Foreclosed real estate, net (Note 5)	762	1,479	1,286
Real estate held for investment, net (Note 6)	291	168	94
Legal (Note 12)	133	98	107
Deposit insurance	330	286	261
Other	737	833	842
Total operating expenses	6,340	4,999	4,734
Income (loss) before income taxes	(280)	1,158	(1,858)
Income tax provision (benefit) (Note 10)	(469)	(398)	1
Net income (loss)	$ 189	$ 1,556	$(1,859)
Income (loss) per common share	$ .15	$ 1.24	$ (1.49)
Weighted average shares outstanding	1,268	1,251	1,250

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 1993, 1992 and 1991

	Common Stock	Additional Paid-in Capital	Undivided Profits	Net Unrealized Loss on Marketable Equity Securities (Note 3)	Net Unrealized Gain on Securities Available for Sale (Note 3)	Total Stockholders' Equity
			(In Thousands)			
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
Net income	—	—	189	—	—	189
Decrease in net unrealized loss on marketable equity securities	—	—	—	24	—	24
Stock options exercised	24	73	—	—	—	97
Change in method of accounting for investment securities (Note 1)	—	—	—	—	52	52
Balance at December 31, 1993	$1,277	$8,453	$4,292	$ —	$ 52	$14,074

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 1993, 1992 and 1991

	1993	1992	1991
		(In Thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 189	$ 1,556	$ (1,859)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan losses	63	390	1,690
Provision for loss on foreclosed real estate	391	1,238	870
Provision for loss and write-downs on real estate held for investment	371	15	—
Amortization of discount on investment securities, net of accretion	533	327	51
Amortization of deferred loan fees, net	(40)	18	2
Depreciation	139	309	304
Gain on sale of investments, net	(559)	(751)	(457)
Gain on sale of loans	—	(402)	—
Gain on sale of foreclosed real estate	(20)	(50)	—
Gain on sale of branch building	—	(106)	—
Decrease in income taxes receivable	—	—	850
Decrease in accrued interest receivable	94	397	149
Increase in deferred income tax asset	(472)	(400)	—
(Increase) decrease in other assets	153	(253)	80
Increase (decrease) in accrued interest payable and other liabilities	193	(170)	(130)
Net cash provided by operating activities	1,035	2,118	1,550
Cash flows from investing activities:			
Proceeds from maturities of investment securities	—	5,523	1,000
Proceeds from sales of investment securities	36,396	43,882	48,918
Principal payments received on mortgage-backed securities	20,946	7,997	231
Purchase of investment securities	(49,961)	(73,663)	(65,556)
Loan payments received (loans originated), net	(7,829)	(262)	8,860
Proceeds from sale of loans	447	14,029	277
Additions to foreclosed real estate, net of payments	10	(471)	(501)
Proceeds from sales of foreclosed real estate	2,487	1,477	3,861
Proceeds from sale of real estate held for investment	—	7	—
Additions to real estate held for investment	(14)	(10)	(16)
Decrease (increase) in Federal Home Loan Bank stock	6	—	(51)
Additions to banking premises and equipment	(55)	(8)	(25)
Proceeds from sale of branch building	—	173	—
Net cash provided by (used in) investing activities	2,433	(1,326)	(3,002)

(continued)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Concluded)

Years Ended December 31, 1993, 1992 and 1991

	1993	1992	1991
		(In Thousands)	
Cash flows from financing activities:			
Increase (decrease) in deposits, net	$(2,168)	$ (836)	$ 1,510
Increase (decrease) in mortgagors' escrow accounts	42	(18)	(119)
Proceeds from stock options exercised	97	12	—
Proceeds from Federal Home Loan Bank advances	—	12,000	8,000
Repayment of Federal Home Loan Bank advances	—	(12,000)	(8,000)
Net cash provided by (used in) financing activities	(2,029)	(842)	1,391
Net increase (decrease) in cash and cash equivalents	1,439	(50)	(61)
Cash and cash equivalents at beginning of year	3,450	3,500	3,561
Cash and cash equivalents at end of year	$ 4,889	$ 3,450	$ 3,500
Supplementary information:			
Interest paid on deposit accounts	$ 4,010	$ 5,784	$ 7,867
Interest paid on borrowed funds	683	842	1,152
Income taxes refunded	—	—	850
Loans transferred to foreclosed real estate	3,331	2,603	3,534
Foreclosed real estate transferred to real estate held for investment	—	—	376
Financed sales of foreclosed real estate	3,154	2,087	3,850
Financed sales of real estate held for investment	—	157	—
Foreclosed real estate transferred to loans	289	156	—
Real estate held for investment transferred to foreclosed real estate	2,426	—	—

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1993, 1992 and 1991

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Hingham Institution for Savings ("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.

Reclassification

Certain amounts have been reclassified in the 1992 and 1991 consolidated financial statements to conform to the 1993 presentation.

Cash and cash equivalents

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

Interest-bearing deposits

Interest-bearing deposits mature within ninety days and are carried at cost, which approximates fair value.

Accounting policy changes

Investment securities:

Effective December 31, 1993, the Bank adopted the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Statement establishes standards for all debt securities and for equity securities that have readily determinable fair values. As required under SFAS No. 115, prior year financial statements have not been restated.

SFAS No. 115 requires that investments in debt securities that management has the positive intent and ability to hold to maturity be classified as "held to maturity" and reflected at amortized cost. Investments that are purchased and held principally for the purpose of selling them in the near term are classified as "trading securities" and reflected on the balance sheet at fair value, with unrealized gains and losses included in earnings. Investments not classified as either of the above are classified as "available for sale" and reflected on the balance sheet at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. The cumulative effect of the change in accounting principle at December 31, 1993 is to increase stockholders' equity by $52,000. There was no effect on net income for the year ended December 31, 1993 relating to the adoption of SFAS No. 115.

Prior to December 31, 1993, marketable equity securities and securities held for sale were stated at the lower of aggregate cost or fair value. Net unrealized losses applicable to marketable equity securities were reflected as a charge to stockholders' equity while write-downs applicable to securities held for sale were reflected in operations, if applicable.

Purchase premiums and discounts are amortized to earnings by a method which approximates the interest method over the terms of the investments. Declines in the value of investments that are deemed to be other than temporary are reflected in earnings when identified. Gains and losses on disposition of investments are computed by the specific identification method.

Income taxes:

Effective January 1, 1992, the Bank adopted the provisions of SFAS No. 109, "Accounting for Income Taxes". As permitted under SFAS No. 109, prior year financial statements have not been restated.

Notes to Consolidated Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SFAS No. 109 requires that deferred tax assets and liabilities be reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes. Prior to 1992, the Bank reflected deferred tax assets and liabilities at the tax rate in effect at the time the deferred tax asset or liability originated. Under SFAS No. 109, the Bank's allowance for loan losses for tax purposes that arose before 1987 remains a permanent difference without recognition of a deferred tax liability. However, the loan loss allowance maintained for financial reporting purposes is now treated as a temporary difference with allowable recognition of a related deferred tax asset, if it is deemed realizable.

There was no cumulative impact of the change in accounting principle resulting from the adoption of this method.

For regulatory capital purposes, the recognition of deferred tax assets, when realization of such is dependent on an institution's future taxable income, is limited to the amount that can be realized within one year or 10% of core capital, whichever is less.

Loans

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in the eastern New England area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and construction and general economic sectors.

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

Interest on loans is recognized on a simple interest basis and is not accrued on loans which are ninety days or more past due or for which collection is not assured. Interest income previously accrued on such loans is reversed against current period earnings.

Net deferred loan fees are amortized as an adjustment of the related loan yields using the level-interest method.

Loans held for sale are valued at the lower of cost or fair value as determined on an aggregate basis. In determining fair value, consideration is given to commitments on hand from investors and prevailing market prices.

Allowance for loan losses

The allowance for loan losses is established through a provision for loan losses charged to operations and is maintained at a level considered adequate to provide for reasonably foreseeable loan losses.

The provision and the level of the allowance are evaluated on a regular basis by management and are based upon management's periodic review of the collectibility of the loans in light of historical experience, known and inherent risks in the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions.

The allowance is an estimate and ultimate losses may vary from current estimates and future additions to the allowance may be necessary. As adjustments become necessary, they are reported in the results of operations for the periods in which they become known. Loan losses are charged against the allowance when management believes the collectibility of the loan balance is unlikely.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreclosed real estate
Foreclosed real estate and in-substance foreclosures are held for sale and carried at the lower of cost or fair value less estimated costs to sell and an allowance for losses. Troubled loans are transferred to foreclosed real estate upon completion of formal foreclosure proceedings, and to in-substance foreclosure when it is determined that the borrower has little or no equity in the underlying collateral and that loan payments can be expected only from the sale or operation of the collateral.

Real estate properties acquired through foreclosure or classified as in-substance foreclosures are initially recorded at fair value at the date of foreclosure. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized.

Valuations are periodically performed by management, and an allowance for losses is established through a charge to operations if the carrying value of a property exceeds its fair value less estimated costs to sell.

Prior to December 31, 1992, foreclosed and in-substance foreclosed real estate was carried at the lower of cost or net realizable value. Declines in value subsequent to foreclosure classification were reflected as direct charges to operations and to the related properties without the utilization of a valuation allowance. The change in accounting method had no significant effect on the Bank's results of operations in 1992.

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, write-downs were charged to operations. At December 31, 1992, the Bank adopted a new accounting rule for foreclosed real estate and in-substance foreclosures.

Banking premises and equipment and real estate held for investment
Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

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

Retirement plan
The compensation cost of an employee's pension benefit is recognized on the net periodic pension cost method over the employee's approximate service period. The aggregate cost method is utilized for funding 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 the year.

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

Recent accounting pronouncement
In May 1993, the Financial Accounting Standards Board issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." The Statement requires that impaired loans be measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

The Statement is applicable to all creditors and to all loans, except large groups of smaller balance homogeneous loans that are collectively evaluated for impairment, loans that are measured at fair value or at the lower of cost or fair value, leases, and convertible or nonconvertible debentures and bonds and other debt securities.

The Statement applies to financial statements for fiscal years beginning after December 15, 1994. Earlier adoption is permissible. Management has not yet determined the financial statement impact of adopting the provisions of this statement.

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, 1993 and 1992, cash and due from banks included $322,000 and $257,000, respectively, to satisfy such reserve requirements.

3. INVESTMENT SECURITIES

Investment securities consist of the following and reflect the change in accounting principle as disclosed in Note 1 to the consolidated financial statements:

	December 31, 1993	December 31, 1992
	(In Thousands)	
Securities available for sale, at fair value	$ 25,307	$ —
Securities held to maturity, at amortized cost	33,597	—
Securities held for sale, at lower of cost or fair value	—	66,183
	$ 58,904	$ 66,183

INVESTMENT SECURITIES (continued)

The amortized cost and estimated fair value of investment securities with gross unrealized gains and losses, follows:

	December 31, 1993			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities Available for Sale				
U.S. Government and federal agency obligations	$ 19,362	$ 91	$ (41)	$ 19,412
Mortgage-backed - FHLMC	2,288	1	(12)	2,277
Mortgage-backed - FNMA	845	—	(2)	843
REMIC's	2,760	19	(4)	2,775
Total securities available for sale	$ 25,255	$ 111	$ (59)	$ 25,307
Securities Held to Maturity				
U.S. Government and federal agency obligations	$ 2,058	$ 2	$ (5)	$ 2,055
Mortgage-backed - FHLMC	17,544	64	(115)	17,493
Mortgage-backed - FNMA	13,995	55	(78)	13,972
Total securities held to maturity	$ 33,597	$ 121	$(198)	$ 33,520

	December 31, 1992			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities Held for Sale				
Debt securities:				
U.S. Government and federal agency obligations	$14,903	$278	$ (27)	$15,154
Mortgage-backed - FHLMC	23,767	278	(131)	23,914
Mortgage-backed - FNMA	22,492	100	(169)	22,423
Mortgage-backed - GNMA	4,636	9	(27)	4,618
Total debt securities	65,798	665	(354)	66,109
Marketable equity securities	409	—	(24)	385
		$665	$(378)	
Less net unrealized loss on marketable equity securities	(24)			—
Marketable equity securities, net	385			385
Total securities held for sale	$66,183			$66,494

INVESTMENT SECURITIES (concluded)

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 1993 is as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Bonds and obligations:				
Within 1 year	$ 2,017	$ 2,012	$ —	$ —
Over 1 year to 5 years	14,800	14,783	1,004	1,000
Over 5 years to 10 years	2,545	2,617	1,054	1,055
	19,362	19,412	2,058	2,055
Mortgage-backed securities:				
Over 1 year to 5 years	—	—	11,981	12,006
Over 5 years to 10 years	1,478	1,477	14,185	14,132
Over 10 years	4,415	4,418	5,373	5,327
	5,893	5,895	31,539	31,465
Total debt securities	$25,255	$25,307	$33,597	$33,520

At December 31, 1993, the Bank has pledged mortgage-backed securities with an amortized cost of $1,902,000 and a fair value of $1,957,000 as collateral against its Treasury, Tax and Loan account.

Proceeds from the sale of debt securities during 1993, 1992 and 1991 were $35,901,000, $43,882,000 and $48,787,000, respectively. Gross gains of $633,000, $770,000 and $640,000 were realized during 1993, 1992 and 1991, respectively. Gross losses of $161,000, $16,000 and $80,000 were realized during 1993, 1992 and 1991, 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 decline in value of a common stock which was considered other than temporary.

Notes to Consolidated Financial Statements

4. LOANS

A summary of the balances of loans follows:

	December 31, 1993	December 31, 1992
	(In Thousands)	
Mortgage loans:		
Residential	$49,275	$41,502
Commercial	20,004	16,867
Residential construction	2,974	3,395
Equity lines-of-credit	4,619	5,778
Second mortgages	328	683
	77,200	68,225
Less unadvanced loan funds	(1,023)	(273)
Total mortgage loans, net	76,177	67,952
Commercial loans:		
Secured	596	871
Unsecured	99	49
Total commercial loans	695	920
Consumer loans:		
Personal installment	892	1,453
Education	439	653
Revolving credit	95	119
Total consumer loans	1,426	2,225
Total loans	78,298	71,097
Less: Allowance for loan losses	(1,191)	(1,501)
Net deferred loan fees	(171)	(131)
Loans, net	$76,936	$69,465

At December 31, 1993, mortgage loans with a carrying value of $1,872,000 have been identified as held for sale.

Loans sold and serviced for others amounted to $10,896,000, $17,464,000 and $9,089,000 at December 31, 1993, 1992 and 1991, respectively. All loans serviced for others were sold without recourse provisions.

Non-accrual loans totaled $286,000 and $3,617,000 at December 31, 1993 and 1992, respectively. Interest not accrued on such loans amounted to $46,000 and $199,000 at December 31, 1993 and 1992, respectively.

Notes to Consolidated Financial Statements

LOANS (concluded)

Restructured loans totaled $2,862,000 and $5,234,000 at December 31, 1993 and 1992, respectively. Interest income that would have been recorded under the original terms of such loans and the interest income actually recognized for the years ended December 31, 1993, 1992 and 1991 are as follows:

	Years Ended December 31, 1993	1992	1991
		(In Thousands)	
Interest income that would have been recorded	$193	$222	$135
Interest income recognized	152	155	107
Interest income foregone	$ 41	$ 67	$ 28

The Bank is not committed to lend additional funds to borrowers whose loans have been modified in connection with troubled debt restructurings.

An analysis of the allowance for loan losses follows:

	Years Ended December 31, 1993	1992	1991
		(In Thousands)	
Balance at beginning of year	$1,501	$1,628	$1,414
Provision for loan losses	63	390	1,690
	1,564	2,018	3,104
Loans charged-off	(411)	(586)	(1,495)
Recoveries on loans previously charged-off	38	69	19
Balance at end of year	$1,191	$1,501	$1,628

5. FORECLOSED REAL ESTATE

Foreclosed real estate is comprised of the following:

	December 31, 1993	December 31, 1992
	(In Thousands)	
Residential homes	$1,244	$1,156
Land	226	941
Residential condominiums	117	340
Commercial real estate	848	1,035
	2,435	3,472
Less allowance for losses	(51)	(534)
	$2,384	$2,938

Notes to Consolidated Financial Statements

FORECLOSED REAL ESTATE (concluded)

At December 31, 1993 and 1992, foreclosed real estate included $1,093,000 and $1,102,000, respectively, of properties that were substantively repossessed.

An analysis of the allowance for losses is as follows:

	Years Ended December 31, 1993	1992	1991
	(In Thousands)		
Balance at beginning of year	$ 534	$ 104	$ 430
Provision for losses	391	1,238	870
Write-downs and losses	(874)	(808)	(1,196)
Balance at end of year	$ 51	$ 534	$ 104

An analysis of foreclosed real estate expense is as follows:

	Years Ended December 31, 1993	1992	1991
	(In Thousands)		
Provision for losses	$391	$1,238	$ 870
Recoveries, net	(20)	(50)	—
Foreclosure and holding costs, net of rental income	391	291	416
	$762	$1,479	$1,286

6. REAL ESTATE HELD FOR INVESTMENT

Real estate held for investment represents properties acquired by foreclosure or deed-in-lieu of foreclosure which were operated by the Bank for income-producing purposes. The properties held at December 31, 1992 were as follows:

Residential condominiums	$1,821
Motel	1,382
	3,203
Less accumulated depreciation	(407)
	$2,796

Depreciation expense for the years ended December 31, 1993, 1992 and 1991 amounted to $13,000, $163,000 and $158,000, respectively.

During 1993 all real estate held for investment was transferred to foreclosed real estate.

Notes to Consolidated Financial Statements

7. BANKING PREMISES AND EQUIPMENT

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

	December 31, 1993	1992	Estimated Useful Lives
	(In Thousands)		
Banking premises:			
Land	$ 428	$ 428	
Buildings	1,611	1,574	5 - 65 years
Equipment	1,037	1,037	5 - 25 years
	3,076	3,039	
Less accumulated depreciation	(1,527)	(1,419)	
	$1,549	$1,620	

Depreciation expense for the years ended December 31, 1993, 1992 and 1991 amounted to $126,000, $146,000 and $146,000, respectively.

8. DEPOSITS

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

	December 31, 1993	1992
	(In Thousands)	
Non-certificate accounts:		
Regular and special notice	$ 36,209	$ 32,632
Money market deposits	31,681	35,406
NOW	10,593	9,610
Demand	6,220	4,826
Total non-certificate accounts	84,703	82,474
Term certificates less than $100,000	27,286	32,834
Term certificates $100,000 or more	5,728	4,577
Total certificate accounts	33,014	37,411
Total deposits	$117,717	$119,885

DEPOSITS (concluded)

The maturity distribution of term certificates is as follows:

	December 31, 1993		December 31, 1992	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Within 1 year	$21,189	4.14%	$28,140	4.99%
Over 1 year to 2 years	5,486	4.84	5,150	5.87
Over 2 years to 3 years	5,872	4.82	4,121	5.07
Over 3 years to 5 years	467	5.17	—	—
	$33,014	4.39%	$37,411	5.12%

A summary of interest expense on deposits is as follows:

	Years Ended December 31,		
	1993	1992	1991
	(In Thousands)		
Regular and special notice	$1,062	$1,145	$1,217
Money market deposits	1,065	1,446	1,947
NOW	246	313	358
Term certificates	1,548	2,726	4,201
	$3,921	$5,630	$7,723

9. FEDERAL HOME LOAN BANK ADVANCES

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

		December 31,			
		1993		1992	
Maturity Date	Rate	Amount	Interest Rate	Amount	Interest Rate
		(Dollars in Thousands)			
September 20, 1994	Fixed	$ 3,000	6.66%	$ 3,000	6.66%
April 25, 1996	Variable	5,000	3.56	5,000	4.50
February 18, 1997	Variable	7,000	3.75	7,000	4.71
		$15,000	4.27%	$15,000	5.03%

All borrowings from the Federal Home Loan Bank of Boston are secured by stock in the Federal Home Loan Bank of Boston and a blanket lien on "qualified collateral" defined principally as 80% of the fair value of U.S. Government and federal agency obligations and 70% of the carrying values of residential mortgage loans.

10. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions, calculated using the liability method in 1993 and 1992 and the deferred method in 1991 (See Note 1), is as follows:

	Years Ended December 31,		
	1993	1992	1991
	(In Thousands)		
Current tax provision:			
Federal	$ —	$ —	$ —
State	3	2	1
	3	2	1
Deferred tax provision:			
Federal	—	507	—
State	—	—	—
	—	507	—
Change in valuation reserve realization assumptions	(472)	(907)	—
	$ (469)	$(398)	$ 1

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

	Years Ended December 31,		
	1993	1992	1991
Statutory rates	(34.0)%	34.0%	(34.0)%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	(62.9)	8.1	—
Bad debt deduction allowed for tax purposes	—	—	5.8
Investment write-down	—	—	1.8
Net operating loss for which no benefit is currently available	—	—	26.9
Change in valuation allowance	(82.8)	(78.3)	—
Other, net	12.2	1.8	(.5)
Effective tax rates	(167.5)%	(34.4)%	—%

INCOME TAXES (continued)

The components of the net deferred tax asset included in other assets are as follows:

	December 31, 1993	December 31, 1992
	(In Thousands)	
Deferred tax asset:		
Federal	$ 1,644	$ 1,614
State	559	528
	2,203	2,142
Valuation reserve on asset	(1,145)	(1,525)
	1,058	617
Deferred tax liability:		
Federal	(131)	(153)
State	(55)	(64)
	(186)	(217)
Net deferred tax asset	$ 872	$ 400

The tax effects of each type of income and expense item that give rise to deferred taxes are as follows:

	December 31, 1993	December 31, 1992
	(In Thousands)	
Loan loss reserve	$ 1,246	$ 1,531
Federal tax net operating loss carryforwards	549	323
Other tax carryforwards	56	38
Compensation expense	183	—
Interest payable	75	145
Depreciation	(182)	(182)
Other	90	70
	2,017	1,925
Valuation allowance	(1,145)	(1,525)
Net deferred tax asset	$ 872	$ 400

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

	Years Ended December 31, 1993	Years Ended December 31, 1992
	(In Thousands)	
Balance at beginning of year	$ 400	$ —
Deferred tax benefit	472	400
Balance at end of year	$ 872	$ 400

INCOME TAXES (concluded)

The change in the valuation reserve is as follows:

	Years Ended December 31, 1993	Years Ended December 31, 1992
	(In Thousands)	
Balance at beginning of year	$1,525	$ —
Adoption of SFAS No. 109 at January 1, 1992	—	2,432
Benefit created on current years' operations	92	—
Change in assumptions due to anticipation of future income	(472)	(907)
Balance at end of year	$1,145	$1,525

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 1993, additional operating losses were generated. 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 year ended December 31, 1991 are as follows:

	1991
	(In Thousands)
Cash basis of accounting for tax purposes	$(66)
Interest payable	(49)
Non-recognition of net operating loss carryover	122
Other	(7)
	$ —

At December 31, 1993, the Bank had a net operating loss carryforward of approximately $1,615,000 which is available to offset future federal taxable income. Net operating loss carryforwards are subject to a fifteen-year carryforward and will expire in varying amounts between 2005 and 2008.

11. COMMITMENTS AND CONTINGENCIES

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

Employment and special termination agreements

The Bank currently has no employment contract or special termination agreements with any officer or employee.

COMMITMENTS AND CONTINGENCIES (concluded)

Loan commitments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include unused lines-of-credit, 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 amount recognized in the consolidated balance sheets.

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

At December 31, 1993 and 1992, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	1993	1992
	(In Thousands)	
Unused lines-of-credit	$2,406	$2,881
Unadvanced portions of construction loans	1,023	273
Commitments to originate loans:		
Fixed interest rate	5,235	469
Variable interest rate	2,185	290
Standby letters of credit	125	21

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 creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. The commitments to originate loans, unadvanced portions of construction loans, and the majority of unused lines-of-credit are secured by real estate.

Standby letters-of-credit are conditional commitments issued by the Bank to guarantee the performance of 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.

12. LITIGATION

In February 1993, Robert H. Gaughen, a shareholder and Director of the Bank, notified the Bank of his intention to nominate an independent slate of nominees for the Board of Directors. Subsequent to this notification, the Board of Directors by an 8 to 7 vote, initiated litigation against Mr. Gaughen and three other Directors and substantial shareholders, which litigation sought to prevent the solicitation of proxies in support of the independent slate of nominees. Mr. Gaughen then initiated suit against existing management of the Bank and the majority of the Board of Directors alleging breach of fiduciary responsibility and other irregularities with regard to prior management's conduct of the affairs of the Bank. After a

LITIGATION (concluded)

hearing in the United States District Court of Massachusetts, the Bank's request for injunctive relief preventing Mr. Gaughen's solicitation of proxies was denied by United States District Court Judge Edward Harrington. Subsequent to prior management's failure to obtain such an order, the foregoing litigation was concluded by the exchange of mutual releases and the agreement to allow all shareholders to vote at the annual meeting.

Additionally, the Bank is a defendant in a civil action, Ralph Crossen v. Hingham Institution for Savings et. al., based on the alleged tortious conduct of the Bank's former presidents, Wilfred H. Creighton and Paul E. Bulman. The Bank has denied these claims and will continue to aggressively assert its defenses.

The Bank contends that a substantial amount of the cumulative loan losses it has sustained resulted from former president Wilfred H. Creighton'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 the 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 reflected in the Statement of Operations in 1993.

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.

13. STOCKHOLDERS' EQUITY

Minimum regulatory requirements

Federal banking regulators require that the Bank (on a consolidated basis) meet certain Tier 1 leverage capital and risk-based capital ratio requirements. Generally, all but the most financially sound institutions are required to maintain a minimum Tier 1 leverage capital ratio of not less than 4% and a risk-based capital ratio of not less than 8%. The Bank exceeded all minimum regulatory requirements at December 31, 1993 and 1992.

Tax reserve for loan losses

At December 31, 1993, the total reserve for loan losses for federal income tax purposes at the Bank's base year amounted to approximately $3,780,000. If any portion of the reserve is used for purposes other than to absorb the losses for which established, approximately 150% of the amount actually used (limited to the amount of the reserve) must be included in gross income for federal income tax purposes in the fiscal year in which used. As the Bank does not intend to use the reserves for purposes other than to absorb loan losses, a deferred income tax liability has not been provided. (See Note 1)

Liquidation Account

At the time of conversion from mutual to stock form, the Bank established a liquidation account for the benefit of eligible account holders. The liquidation account is reduced annually to the extent that eligible account holders reduce their qualifying deposit. In the event of a complete liquidation, eligible account holders will be entitled to receive a distribution from the liquidation account to the extent that funds are available. According to the Bank's transfer agent, the balance of the liquidation account at December 31, 1993 amounted to $1,676,000 (unaudited).

14. STOCK OPTION PLAN

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 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 granted during 1993 are immediately exercisable and options granted prior to 1993 vest over a five-year period.

Stock option activity is as follows:

	Years Ended December 31,		
	1993	1992	1991
Shares under option:			
Outstanding at beginning of year	87,500	90,500	95,500
Granted	39,000	—	—
Forfeited	(39,080)	—	(5,000)
Exercised	(24,340)	(3,000)	—
Outstanding at end of year	63,080	87,500	90,500
Weighted average exercise price per share	$ 7.96	$ 6.23	$ 6.16
Exercisable at end of year	56,088	41,880	26,780

Options outstanding consist of the following:

Option price	December 31, 1993	December 31, 1992
$8.875	39,000	—
8.500	13,200	43,400
4.000	10,880	44,100
	63,080	87,500

15. PENSION PLAN

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. The optional contributions provide retirement benefits to the employee in addition to those otherwise available under the Bank's plan. Annual contributions by the Bank are based on assessments from SBERA.

PENSION PLAN (concluded)

Net periodic pension cost for the years ended December 31, 1993, 1992 and 1991 follows:

	1993	1992 (In Thousands)	1991
Service cost - benefits earned during year	$118	$114	$105
Interest cost on projected benefits	100	88	94
Actual return on plan assets	(185)	(95)	(219)
Net amortization and deferral	3	3	3
Amortization of net loss	86	20	134
Net periodic pension cost	$122	$130	$117

Pension expense shown in the accompanying financial statements for the year ended December 31, 1993 amounted to $445,000. This amount included $310,000 of unrecognized pension costs applicable to previous years.

According to SBERA, a reconciliation of the funded status of the plan is as follows:

	October 31, 1993	October 31, 1992
	(In Thousands)	
Plan assets at fair value	$1,219	$1,285
Actuarial present value of projected benefit obligation	1,205	1,422
Plan assets greater (less) than projected benefit obligation	14	(137)
Unamortized net obligation since adoption of SFAS No. 87	37	40
Unrecognized net gain	(461)	(206)
Pension liability	$ (410)	$ (303)

The accumulated benefit obligation (substantially all vested) at October 31, 1993 amounted to $804,000, which was less than the fair value of plan assets at that date.

For the plan years ended October 31, 1993, 1992 and 1991, actuarial assumptions include an assumed discount rate on benefit obligations of 7.00%, 7.00% and 6.75%, respectively, and an expected long-term rate of return on plan assets of 7.00%, 6.75% and 7.75%, respectively. An annual salary increase of 6.00% was utilized for all years.

16. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to $242,000 at December 31, 1993 and $1,023,000 at December 31, 1992. During the year ended December 31, 1993, total principal additions were $26,000. Principal reductions due to changes in officers and directors during 1993 amounted to $777,000, and reductions due to principal repayment amounted to $30,000.

Notes to Consolidated Financial Statements

17. REGULATORY MATTERS

In March of 1992, the Bank entered into a Memorandum of Understanding ("Memorandum") with the FDIC and the Massachusetts Commissioner of Banks. The Memorandum prohibits the Bank from paying dividends without prior approval and requires a minimum Tier 1 leverage capital ratio of 6.0%. The Memorandum also 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, its primary regulator. Based on the preliminary results of this examination, the Bank's management believes that it is in substantial compliance with the terms of the Memorandum.

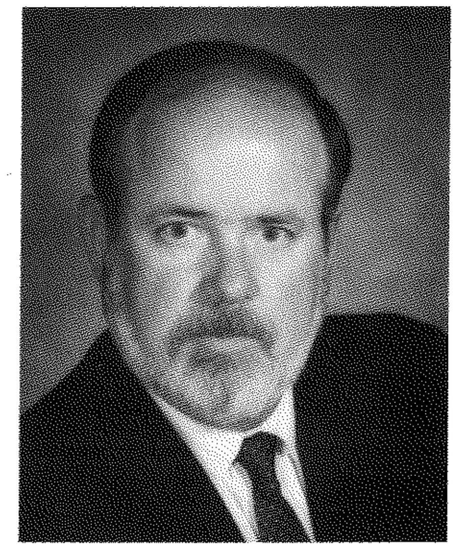
18. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 1993 and 1992 are as follows:

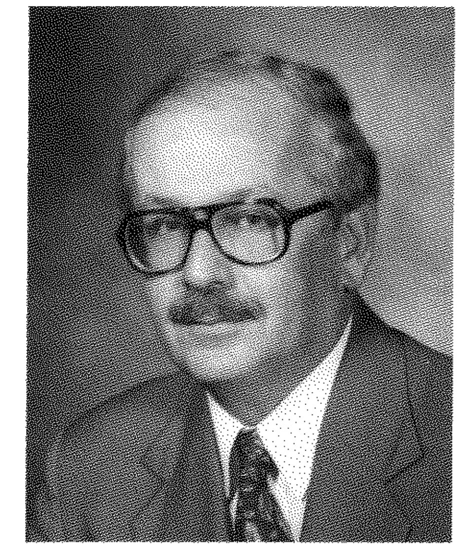
	Years Ended December 31,							
	1993				1992			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In Thousands, Except Per Share Data)							
Interest and dividend income	$ 2,433	$ 2,332	$ 2,230	$ 2,237	$ 2,963	$ 2,930	$ 2,806	$ 2,675
Interest expense	1,250	1,189	1,095	1,059	1,842	1,684	1,559	1,366
Net interest income	1,183	1,143	1,135	1,178	1,121	1,246	1,247	1,309
Provision for loan losses	—	63	—	—	—	50	—	340
Net interest income, after provision for loan losses	1,183	1,080	1,135	1,178	1,121	1,196	1,247	969
Other income	951	323	78	132	270	247	382	725
Operating expenses	1,303	2,719(1)	917	1,401	1,085	1,135	1,318	1,461
Income (loss) before income taxes	831	(1,316)	296	(91)	306	308	311	233
Income tax provision (benefit)	1	1	—	(471)	1	1	—	(400)
Net income (loss)	$ 830	$(1,317)	$ 296	$ 380	$ 305	$ 307	$ 311	$ 633
Income (loss) per common share	$ .66	$ (1.04)	$ .23	$ .30	$ .24	$ .25	$ .25	$ .50

(1) The increased level of operating expenses in the second quarter of 1993 is attributable to expenditures of $1,508,000 as a result of prior management's opposition to the proxy contest.

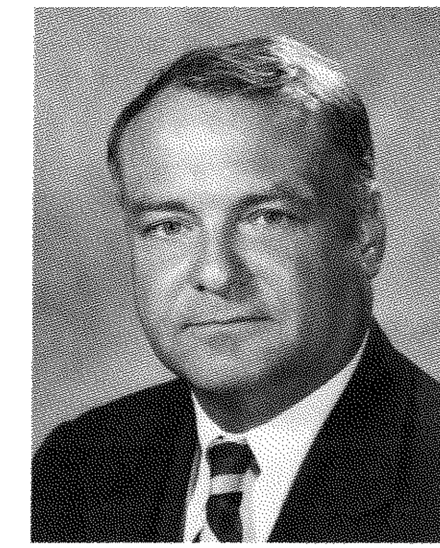
Senior Officers



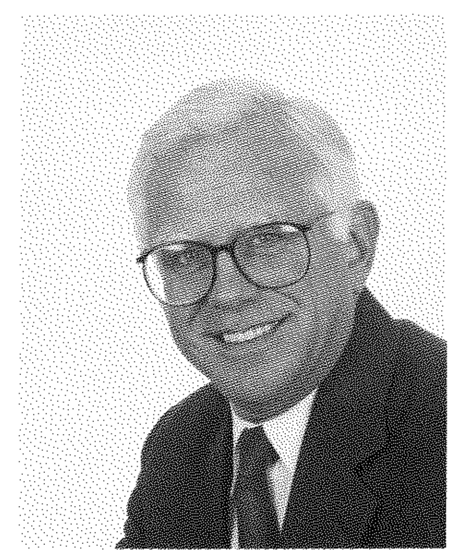
Robert H. Gaughen, Jr.
President and C.E.O.



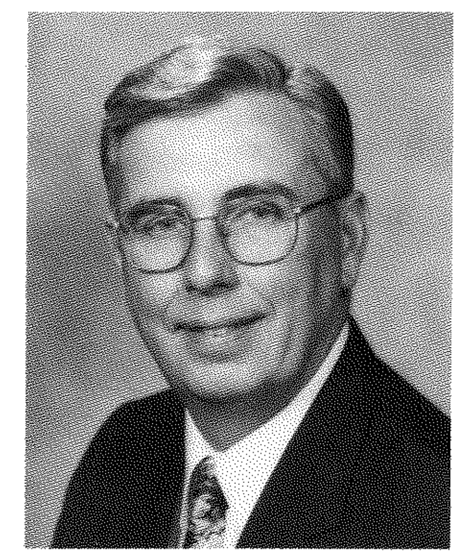
William M. Donovan, Jr.
Vice President-Administration



Peter R. Smollett
Vice President-Lending



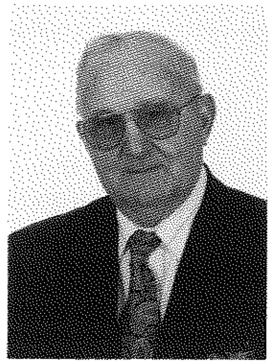
Edward P. Zec
Vice President-Branch Operations



James M. Doyle
Retail Lending Officer

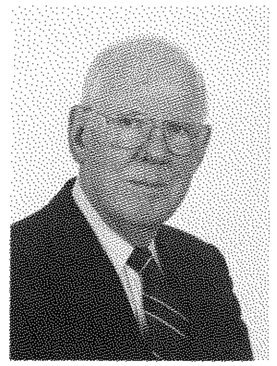
Robert F. Cass
Vice President and Treasurer

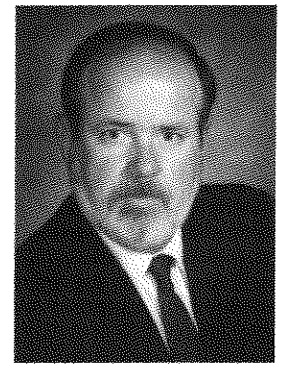
Directors


James V. Consentino

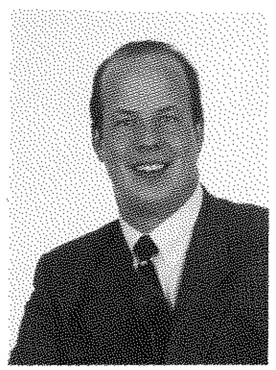

Marion J. Fahey


Ronald D. Falcione


Robert H. Gaughen, Esq.


Robert H. Gaughen, Jr., Esq.

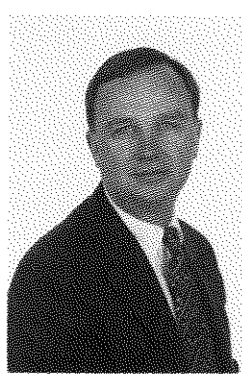

Julio R. Hernando*

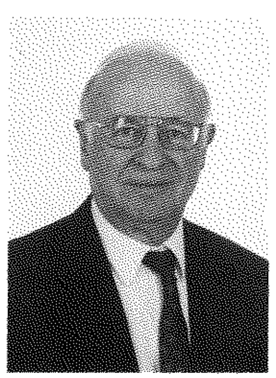

Robert A. Lane, Esq.

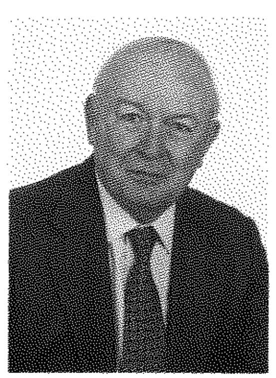

Warren B. Noble


Stacey M. Page

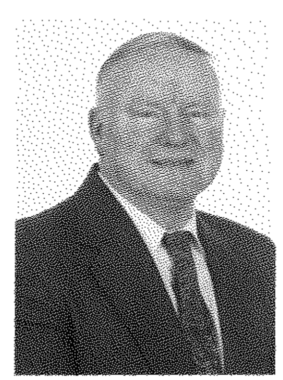

Edward L. Sparda


Donald E. Staszko


Donald M. Tardiff, M.D.


James R. White


Geoffrey C. Wilkinson, Sr.


Thomas H. Youngworth, Sr.

* Nominee

HINGHAM INSTITUTION FOR SAVINGS

Stockholder Information

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

Robert H. Gaughen, Jr.
President and Chief Executive Officer

Investor Inquiries
William M. Donovan, Jr.
Vice President - Administration

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
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1-800-288-9541

Independent Auditors
Wolf & Company, P.C.
One International Place
Boston, MA 02110

Special Counsel
Hale and Dorr
60 State Street
Boston, MA 02109

Form F-2
A copy of the Bank's Annual Report on Form F-2 for the fiscal year ended December 31, 1993 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, 1993 there were approximately 612 stockholders of record, holding 785,124 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
1993		
First Quarter	$11	$7 3/4
Second Quarter	10 1/2	8
Third Quarter	9 1/4	7 1/4
Fourth Quarter	9 3/4	8 1/2
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

The closing sale price of the Bank's common stock at December 31, 1993 was $9.75 per share.

HINGHAM INSTITUTION FOR SAVINGS

ESTABLISHED 1834

Hingham Institution for Savings
55 Main Street, Hingham, Massachusetts 02043
(617) 749-2200

JV