HINGHAM
INSTITUTION
FOR SAVINGS

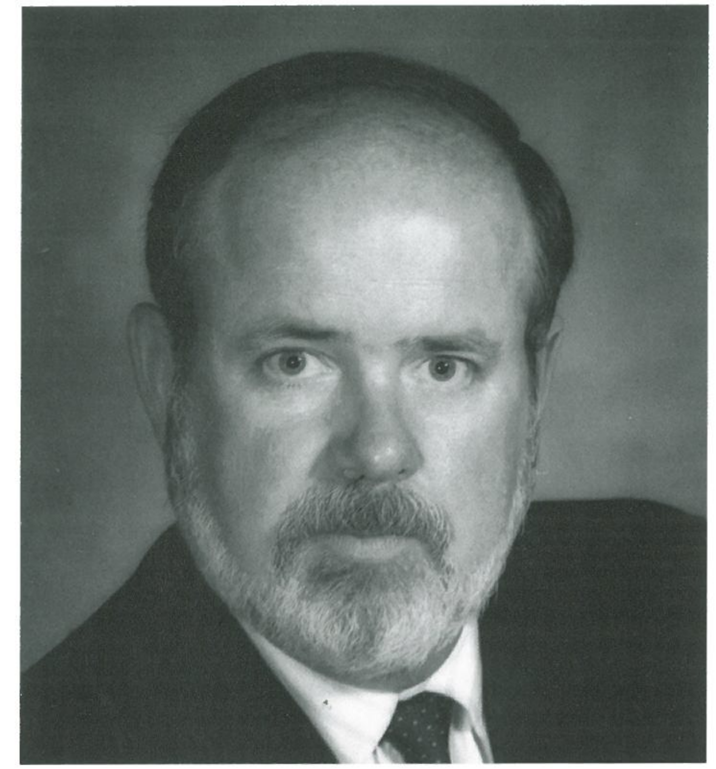
ESTABLISHED 1834

1994 ANNUAL REPORT

The home of Revolutionary War hero, General Benjamin Lincoln. General Lincoln and President Abraham Lincoln were both descendants of some of Hingham's earliest settlers.

Photograph by: Phil Swanson

President's Message



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

I am pleased to report on our operations for 1994. This past year represents the first year of full recovery from the difficulties of the early 90's.

In 1994 we earned more and lent more than at any other time in our 160 years of operation. We reestablished our quarterly cash dividend to shareholders and dramatically improved our asset quality. Our loan portfolio, total assets, net interest margin, capital ratios, and book value all increased. Our foreclosed property and total non-performing assets decreased. All of this was achieved in the face of the steepest increase in interest rates of any single year of the century.

Our net income for 1994 was $2,556,000 or $1.99 per share. Our book value on December 31, 1994 was $12.36, increased from $11.02 on December 31, 1993. The $1,000,000 or 21.6% increase in net interest income over that of 1993 is the most encouraging aspect of this strong earnings performance. This increase is evidence of continued strengthening of our core business. Our return on assets increased from 0.13% for 1993 to 1.70%, and our return on stockholders' equity increased from 1.34% for 1993 to 17.09% for 1994.

These financial results, highly commendable in themselves, are especially gratifying when one considers some of the conditions in which they were achieved. In 1994 the New England economy experienced a more modest recovery than the nation as a whole. Regional loan demand remained low, and skyrocketing interest rates tested the net interest margins of our industry. At Hingham, these challenges were met by our concerted efforts to increase our share of local loan originations and to control deposit costs.

In 1994, despite fierce competition from a host of banks and mortgage companies, we reclaimed our position as the leading lender in our home community. Our total loan originations for 1994 were $45,044,000, an increase of 46% over 1993 and 86% over 1992. These originations resulted in a net increase in our loan portfolio of 30% from previous year end. This increase provided us with consistent expansion of our net interest margin at a time when many banks were experiencing compression of the spread between the cost of liabilities and the yield on earning assets.

Also contributing to our strengthened earnings was a 65% reduction in non-performing assets. These assets declined from 1.81% of total assets on December 31, 1993 to .62% of total assets on December 31, 1994.

We commence our 161st year of operation in a greatly strengthened financial condition. Our capital ratios rank among the strongest in the industry. Our management group has been markedly strengthened. Our product lines have been reviewed and improved. While we have no illusions with regard to the challenges ahead, we remain confident of the future for independent community banks. In a world of financial giants, a place remains for the more nimble and focused community bank.

On behalf of the staff and Board of Directors, I wish to thank all of you for your continued support.

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,				
	1994	1993	1992	1991	1990
			(In Thousands)		
Balance Sheet Data:					
Total assets	$153,192	$147,889	$149,460	$148,760	$149,262
Investment securities	42,930	58,904	66,183	49,343	33,434
Loans:					
Mortgage	100,019	76,177	67,952	81,085	90,224
Commercial	959	695	920	1,047	1,045
Consumer	1,045	1,426	2,225	3,117	4,277
Allowance for loan losses	1,338	1,191	1,501	1,628	1,414
Foreclosed real estate, net	439	2,384	2,938	4,772	9,637
Deposits	116,684	117,717	119,885	120,721	119,211
Federal Home Loan Bank advances	19,000	15,000	15,000	15,000	15,000
Stockholders' equity	15,981	14,074	13,712	11,988	13,751

	Years Ended December 31,				
	1994	1993	1992	1991	1990
		(Dollars In Thousands, Except Per Share Amounts)			
Operating Data:					
Total interest and dividend income	$ 9,963	$ 9,232	$ 11,374	$ 12,631	$ 13,212
Total interest expense	4,324	4,593	6,451	8,850	9,928
Net interest income	5,639	4,639	4,923	3,781	3,284
Provision for loan losses	120	63	390	1,690	2,770
Other income	642	1,484	1,624	785	346
Operating expenses	3,860	6,340	4,999	4,734	5,279
Income (loss) before income taxes	2,301	(280)	1,158	(1,858)	(4,419)
Income tax provision (benefit)	(255)	(469)	(398)	1	(607)
Net income (loss)	$ 2,556	$ 189	$ 1,556	$ (1,859)	$ (3,812)
Net income (loss) per share.	$ 1.99	$ 0.15	$ 1.24	$ (1.49)	$ (3.05)
Weighted average shares outstanding	1,284	1,268	1,251	1,250	1,250
Financial Ratios:					
Return (loss) on average assets	1.70%	0.13%	1.02%	(1.23)%	(2.50)%
Return (loss) on average equity	17.09	1.34	12.01	(13.74)	(22.14)
Average equity to average assets	9.94	9.52	8.52	8.92	11.31
Interest rate spread	3.55	3.06	3.21	2.69	2.04
Net yield on average earning assets	3.92	3.34	3.49	2.78	2.34
Cash dividends declared per share	$ 0.17	—	—	—	$ 0.28
Dividend payout ratio	8.54%	—	—	—	N/A

HINGHAM INSTITUTION FOR SAVINGS
ESTABLISHED 1834

Highlights of 1994

Main Office and Administration Building

Student, Shannon Kelley, assisted by Rhea Kanke (center) and Laura Carlson (right) as part of "Savings Makes Cents" Program

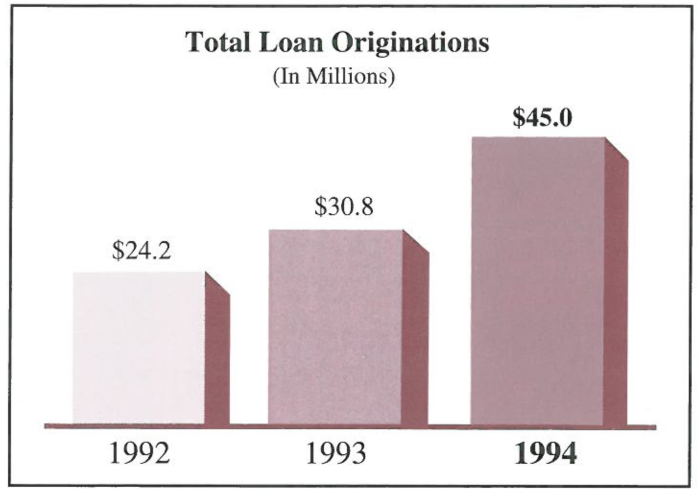
Marketplace

The Bank operates three offices located in Hingham, South Hingham, and Hull. It has served as a leading local financial institution for over 160 years. The Bank continues to enjoy a substantial share of the local market served by its retail branches. We attribute this to our commitment to a highly personal approach to customer service. During 1994, the Bank's market area experienced continued consolidation of financial institutions. Management believes this environment presents an opportunity to emphasize and promote the benefits of a locally controlled community bank. The Bank is closely involved in a variety of community-based activities and organizations. Its officers work with the local Merchants' Associations and Chambers of Commerce. They dedicate substantial time to such community projects as Habitat for Humanity construction, school-based banking programs, DARE programs, and other similar activities. The Bank's operating philosophy is based upon delivery of attractive banking products administered by a management and staff who are personally involved in and familiar with their community.

Deposit Activity

Attracting and retaining local deposits continues to be one of the foremost objectives at Hingham Institution for Savings. These deposits have traditionally been the foundation of the Bank's business and serve as the primary source of funds to be used for lending and investment

Bank volunteers assisting "Habitat for Humanity" construction (left to right) Debbie Pinkus, Steve Amico, and Bill Donovan activities. In 1994, the Bank reviewed and expanded its certificate of deposit offerings and promoted extremely competitive rates on these offerings. Additionally, the Bank refrained from increasing fees levied on NOW accounts and checking accounts. The combination of restraint on increases in transaction fees and competitive certificate rates positions the institution to sharply contrast itself with larger regional competitors. The Bank also undertook the renovation of customer service areas at all three of its retail locations. During 1994, rising interest rates resulted in shifts of deposits from non-certificate accounts to term certificates. This movement marked the reversal of a trend experienced since 1991.



South Hingham Branch Office

Hull Branch Office

Lending

The Bank's lending activities consist primarily of the origination of first mortgages on residential or commercial real estate. During 1994, loan originations totaled $45,044,000, an increase of 46% from $30,787,000 originated in 1993. This increase was achieved notwithstanding intense competition and generally low demand.

The Bank placed particular emphasis this past year on writing adjustable rate mortgage loans on single-family residences and real estate mortgage loans secured by commercial or multi-family properties with rates floating at a spread to prime. During the past year we reviewed the home equity loan product that had been traditionally

Expansion of Montessori School financed by Hingham Institution for Savings

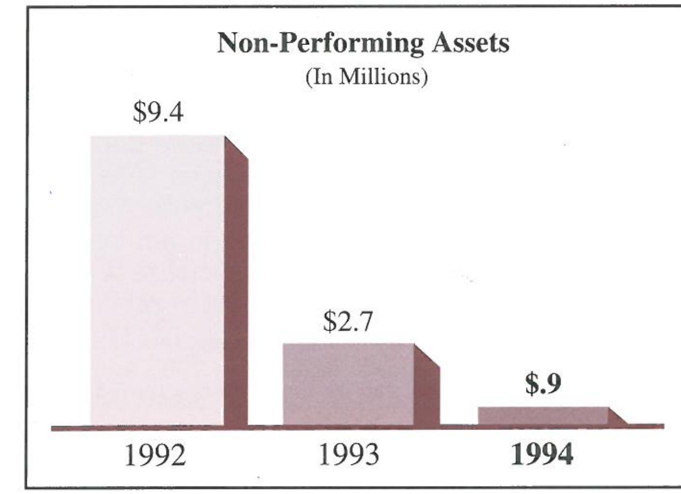
offered by the Bank. This product was redesigned, and the substantial advertising and promotion in the fourth quarter have begun to produce a strong volume of product. The Bank's lending strategy will continue to emphasize short-term or adjustable rate products that can be maintained in the portfolio.

Asset Quality

During fiscal year 1994, dramatic progress was again made in the improvement of general asset quality. Non-performing assets, which consist of loans delinquent 90 days or more and real estate acquired through foreclosure, were reduced to $944,000 at year end. This represents a 65% decrease from the $2.7 million on December 31, 1993.

Management has implemented new and more stringent underwriting policies for all new originations, which call for greater senior management and Board of Directors' oversight. We have also engaged an independent firm to review all substantial credits on a quarterly basis.

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.



Management's Discussion and Analysis

The following information should be read in conjunction with the Consolidated Financial Statements and Notes contained in this report.

COMPARISON OF THE YEARS 1994, 1993, and 1992

RESULTS OF OPERATIONS

For the year ended December 31, 1994, the Bank earned $2.6 million, or $1.99 per share, as compared to $189,000, or $0.15 per share, for the same period in 1993, and $1.6 million, or $1.24 per share, in 1992. This dramatic improvement in 1994 over 1993 of $2.4 million was achieved primarily by an increase in net interest income of $1.0 million combined with a decrease in operating expenses of $2.5 million. The decline in net income from 1992 to 1993 can be primarily attributed to $1.5 million in proxy related expenses recorded in 1993 and by a reduction of $700,000 in gains on sales of assets over the two periods offset by $515,000 in a litigation settlement received in 1993 and a reduction of $327,000 in the provision for loan losses over the two periods.

Net Interest Income

The Bank reported $5.6 million in net interest income for 1994 as compared to $4.6 million in 1993, and $4.9 million in 1992. Net yield on average earning assets is a fundamental measure of a Bank's earning power and is calculated by dividing net interest income by average earning assets. For 1994, the Bank's net yield on average earning assets was 3.92%, an increase of 58 basis points over the 1993 level, reflecting the positive impact of the rise in market interest rates during 1994 accompanied by changes in the mix of earning assets. For 1993, the Bank's net yield on average earning assets was 3.34%, a decrease of 15 basis points from the 1992 level, reflecting changes in the mix of earning assets offset by declining rates paid on deposits. Average loan volume represented 62% of total average earning assets in 1994 as compared to 50% in 1993 and 61% in 1992.

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 changes in rate (change in rate multiplied by old volume) and changes in volume (change in volume multiplied by old rate.) The change attributable to both volume and rate is allocated proportionately to the changes due to volume and rate.

	Years Ended December 31,					
	1994 Compared to 1993 Increase (Decrease) Due to			1993 Compared to 1992 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Total Loans	$1,491	$(127)	$1,364	$(1,333)	$ (431)	$(1,764)
Investment securities and Federal Home Loan Bank stock	(610)	—	(610)	711	(1,140)	(429)
Interest-bearing deposits	(57)	34	(23)	61	(10)	51
Total interest and dividend income	824	(93)	731	(561)	(1,581)	(2,142)
Interest expense:						
Deposits	26	(422)	(396)	(396)	(1,313)	(1,709)
FHLB advances	48	79	127	(1)	(148)	(149)
Total interest expense	74	(343)	(269)	(397)	(1,461)	(1,858)
Net interest income	$ 750	$ 250	$1,000	$ (164)	$ (120)	$ (284)

Management's Discussion and Analysis

The following table details changes in net interest income and net yield on average earning assets.

	Years Ended December 31,								
	1994			1993			1992		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 86,748	$7,011	8.08%	$ 67,791	$5,587	8.24%	$ 82,375	$7,231	8.78%
Commercial loans	634	60	9.46	591	55	9.31	1,009	81	8.03
Other loans	1,264	112	8.86	1,773	177	9.98	2,495	271	10.86
Total loans (1) (2)	88,646	7,183	8.10	70,155	5,819	8.29	85,879	7,583	8.83
Investment securities (3) (4)	52,467	2,672	5.09	64,443	3,282	5.09	52,911	3,711	7.01
Interest-bearing deposits	2,795	108	3.86	4,483	131	2.92	2,421	80	3.30
Total earning assets	143,908	9,963	6.92	139,081	9,232	6.64	141,211	11,374	8.05
Other assets	6,571			8,882			10,844		
Total assets	$150,479			$147,963			$152,055		
Liabilities and stockholders' equity:									
Deposits:									
NOW accounts (5)	$ 10,889	171	1.57	$ 10,234	246	2.40	$ 8,848	313	3.54
Money market deposits	28,744	795	2.77	35,262	1,066	3.02	34,899	1,446	4.14
Regular and Special Notice	35,814	929	2.59	34,577	1,061	3.07	29,088	1,145	3.94
Term certificates	36,757	1,630	4.43	33,220	1,548	4.66	45,568	2,726	5.98
Total deposits	112,204	3,525	3.14	113,293	3,921	3.46	118,403	5,630	4.75
Federal Home Loan Bank advances	16,032	799	4.98	15,000	672	4.48	15,017	821	5.47
Total interest-bearing liabilities	128,236	4,324	3.37	128,293	4,593	3.58	133,420	6,451	4.84
Demand deposits	6,540			5,171			5,348		
Other liabilities	748			418			333		
Stockholders' equity	14,955			14,081			12,954		
Total liabilities and stockholders' equity	$150,479			$147,963			$152,055		
Net interest income		$5,639			$4,639			$4,923	
Weighted average rate spread			3.55%			3.06%			3.21%
Net yield on average earning assets (6)			3.92%			3.34%			3.49%

(1) Gross of allowance for loan losses.
(2) Includes average non-accrual loans.
(3) Excludes the impact of the average unrealized gain (loss) on securities available for sale.
(4) Includes Federal Home Loan Bank stock.
(5) Includes mortgagors' escrow accounts.
(6) Net interest income divided by average total earning assets.

Interest income is derived from residential and commercial mortgages, home equity, commercial and installment loans, and the investment portfolio. The Bank earned an average yield of 6.92% on these assets in 1994, as compared to 6.64% in 1993 and 8.05% in 1992. For 1994, the Bank reported $10.0 million in interest income, an increase of $731,000 over 1993. Contributing to this increase in interest income was a $4.8 million rise in the level of average earning assets in 1994 over 1993. For 1993, the Bank reported $9.2 million in interest income, a decrease of $2.1 million from the $11.4 million for 1992, resulting primarily from a decrease in the yield on interest-earning assets.

Interest expense is incurred on certificates of deposit, NOW, savings and money market deposit accounts, and Federal Home Loan Bank ("FHLB") borrowings. The Bank paid an average of 3.14% on deposits in 1994 as compared to 3.46% for 1993 and 4.75% for 1992. Despite rising interest rates during 1994, the Bank managed to keep deposit costs below 1993 levels. However, the Bank's ability to maintain low deposit costs in the future will be impacted by market influences and competitive pressures. Interest expense on FHLB borrowings is more closely correlated to prevailing market rates. The average rate paid on these borrowings in 1994 was 4.98% as compared to 4.48% in 1993 and 5.47% in 1992, reflecting the fluctuation in market interest rates over these periods.

Provision for Loan Losses

The provision for loan losses is based on management's assessment of the adequacy of the allowance for loan losses. Management considers the size of the loan portfolio, the risks associated with certain loan types, and the underlying collateral values of individual loans as well as other factors. During 1994, the Bank originated more than $45.0 million in residential, commercial, and personal loans combined, increasing the loan portfolio to a total of $102.0 million. The provision for loan losses during this period was $120,000 as compared to $63,000 in 1993. This increase of $57,000, combined with $27,000 in recoveries net of charge-offs, increased the allowance for loan losses to $1.3 million, or 1.31% of total loans, at December 31, 1994. The provision for loan losses for 1992 was $390,000. The decrease in the provision in 1993 from 1992 reflects a major decline in non-accrual loans to $286,000 at December 31, 1993 from $3.6 million at December 31, 1992.

Other Income

Other income is comprised of net gains or losses on sales of investments, loans or other assets, customer service fees, and other miscellaneous items. For 1994, the Bank reported $642,000 in other income as compared to $1.5 million for 1993 and $1.6 million for 1992. The most significant component of other income in 1994 was $345,000 in fees earned on customer accounts. There was $271,000 in fees earned in 1993 and $228,000 in 1992. The rise in this income category reflects the revisions to the Bank's fee schedule which was updated in the fourth quarter of 1993.

In 1994 the Bank reported $232,000 in net losses on sales of securities classified as available for sale. The securities were earning below-market rates of interest and were sold to obtain liquidity to fund growth in the loan portfolio. There was $559,000 in net gains on sales of investments in 1993 and $751,000 in net gains in 1992. Further, the Bank sold $2.4 million in fixed rate mortgages and student loans during the first quarter of 1994 at a combined gain of $30,000. In 1993, there were no net gains on sale of loans and in 1992 net gains were $402,000 on sales of $14.0 million.

In 1994, the Bank received a $282,000 settlement relating to the actions of a former president of the Bank and an insurance settlement was received in 1993 in the amount of $515,000. There were no settlements received in 1992.

Operating Expenses

There were $3.9 million in operating expenses in 1994 as compared to $6.3 million in 1993, and $5.0 million in 1992. The decline of $2.5 million in 1994 from 1993 is primarily attributable to $1.5 million in expenses related to a proxy contest and the recognition of $310,000 in prior years' pension costs which were reported in 1993. After considering these two non-recurring items, operating expenses declined approximately $662,000, or 15%, over these two periods, as further discussed below. When comparing 1993 to 1992, operating expenses increased by $1.3 million. However, exclusive of the two non-recurring items in 1993, operating expenses decreased by $477,000.

Salaries and employee benefits were the largest component of operating expenses at $1.7 million for 1994, $2.0 million for 1993, and $1.5 million for 1992. Prior year pension expenses of $310,000 are included in this category for 1993. At December 31, 1994, there were 49 full-time equivalent employees as compared to 51 and 45 at year end 1993 and 1992, respectively.

Foreclosed and other real estate expenses, net, include write-downs in property values, professional fees such as legal and property management, utilities, as well as various sundry items which are necessary to the operation of the real estate. These expenses are offset by any gains upon sale. Expenses related to foreclosed and other real estate, net, declined steadily over each of the past three years with $265,000 reported in 1994, $1.1 million in 1993, and $1.6 million in 1992. These declines are attributable to comparable declines in the number and value of foreclosed real estate properties. There were $439,000 in properties held at December 31, 1994 as compared to $2.4 million and $2.9 million at December 31, 1993 and 1992, respectively.

Other operating expenses including data processing, occupancy and equipment, legal, deposit insurance, and other were $1.9 million combined for 1994 as compared to $1.8 million in 1993 and $1.9 million in 1992.

Income Taxes

Effective January 1, 1992, the Bank adopted Statement of Financial Accounting Standards Number 109 "Accounting for Income Taxes" ("SFAS No. 109"). 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 deferred tax assets will ultimately be realized.

During 1994, 1993, and 1992, the Bank generated taxable income and anticipated that future income would be realized to allow the recognition of tax benefits in the amounts of $300,000, $472,000, and $400,000 for the years 1994, 1993, and 1992, respectively. As it is anticipated that the Bank will generate future taxable income and it has recognized the majority of its available tax benefits, the Bank expects to record net tax expense throughout 1995.

COMPARISON OF THE YEARS 1994 AND 1993

BALANCE SHEET ANALYSIS

The Bank had total assets of $153.2 million at December 31, 1994, an increase of $5.3 million, or 4%, from the $147.9 million level at year end 1993.

Loans

At December 31, 1994, the Bank reported net loans of $100.4 million, or 66% of total assets. Comparably at December 31, 1993, net loans were $76.9 million, or 52% of total assets. This exceptional growth of $23.5 million, or 30%, was achieved through the origination of $45.0 million in mortgage and other loan products, a continuation of the lending effort initiated in mid-1993 by the new management team. Complementing the lending strategy was the implementation of a more stringent underwriting policy.

The Bank's lending strategy during 1994 has been to provide residential loans at adjustable rates and multi-family or commercial property loans at an initial fixed rate for up to five years with a floating rate thereafter. Residential mortgages are generally underwritten to conform to Federal National Mortgage Association or Federal Home Loan Mortgage Corporation guidelines.

The Bank's loan portfolio is reported net of the allowance for loan losses. At December 31, 1994 and 1993, the allowance had a balance of $1.3 million and $1.2 million, respectively. The allowance is maintained at a level to absorb possible losses. Loan losses are charged against the allowance when the collectibility of loan principal becomes unlikely. Recoveries are recorded as additional reserves when received. There were $105,000 in loans charged against the allowance and $132,000 in recoveries received in 1994. Comparably in 1993, $411,000 in loans were charged off, and $38,000 in recoveries were received.

Non-performing assets, which consist of non-accrual loans and real estate acquired through foreclosure or substantively repossessed totaled $944,000, or 0.62% of total assets, at December 31, 1994, as compared to $2.7 million, or 1.81% of total assets, at year end 1993. This decline of $1.7 million reflects the Bank's commitment to effectively manage its problem assets. At February 28, 1995, approximately $200,000 of foreclosed real estate owned properties were under purchase and sale agreements at selling prices approximating their carrying values. While it is anticipated that these properties will be sold during the first quarter of 1995, there remain certain conditions to closing related to the specific transactions which must be met.

The following table presents information regarding the Bank's non-performing assets:

At December 31,	1994	1993
	(In Thousands)	
Residential Mortgages (1)	$ 432	$ —
Construction Loans	—	286
Commercial Loans	48	—
Installment Loans	25	—
Total Non-accrual Loans	$ 505	$ 286
Foreclosed Real Estate, Net	439	2,384
Total Non-performing Assets	$ 944	$2,670
Loans past due 90 days or more and still accruing (2)	$ —	$ 958
Troubled Debt Restructurings	$1,107	$2,862

(1) Includes home equity loans.
(2) Includes a matured loan of $938,000 which is current with regard to interest payments.

Investments

The purpose of the Bank's investment portfolio is to supplement the Bank's lending activities by generating income, providing liquidity through the receipt of principal and interest payments, and use as collateral to obtain borrowed funds. At December 31, 1994, the portfolio was comprised of mortgage-backed issues, agency issues, and treasury obligations for a total of $42.9 million, or 28% of total assets, as compared to $58.9 million, or 40% of total assets, at year end 1993. Nearly all securities in the portfolio are issued or guaranteed by U.S. Government agencies or U.S. Government-sponsored agencies and, as such, carry a relatively low risk weighting under Federal Deposit Insurance Corporation ("FDIC") risk-based capital guidelines.

The mortgage-backed securities are subject to declines in principal balances due to principal repayments. These repayments tend to decrease as market interest rates rise and conversely increase when market interest rates fall as the individual underlying mortgages are refinanced at lower rates. There were $8.8 million in principal payments received during 1994 as compared to $20.9 million during 1993.

The portfolio consisted of $13.9 million in available-for-sale securities and $29.1 million in held-to-maturity securities at December 31, 1994. There were no securities classified as trading. Available-for-sale securities are carried at fair value with unrealized gains or losses reported as a separate component of stockholders' equity and held-to-maturity securities are carried at amortized cost. The unrealized loss on available-for-sale securities amounted to $525,000, net of tax effects, at December 31, 1994 as compared to a $52,000 unrealized gain at year end 1993, reflecting changes in market conditions.

Deposits

At December 31, 1994, the Bank held a total of $116.7 million in deposits, a decrease of $1.0 million from the $117.7 million in deposits at year end 1993. The Bank offers a wide range of products, competitively priced, accompanied by quality service.

Primary competition for deposits are the other banks in the Bank's market area and mutual funds. The Bank's ability to attract and retain deposits depends upon satisfaction of depositors' requirements with respect to rate, liquidity, risk, and service. The Bank offers competitive rates, convenient branch locations, and the added convenience of automated teller machines. Deposits are insured in full through the Federal Deposit Insurance Corporation and Deposit Insurance Fund of Massachusetts. This insurance, combined with the Bank's strong capital position, should provide an advantage in allaying any customer concerns regarding the safety of their deposits.

The interest rate environment in 1994 was quite turbulent with the Federal Reserve raising its lending rate six times for a total of 250 basis points over the course of the year. As a result, the Bank raised rates on several certificate of deposit products in an effort to attract new depositors as well as maintain existing accounts. The Bank's deposit mix reflects this change. Core deposits, comprised of savings, NOW, and money market accounts were $74.1 million at December 31, 1994 as compared to $84.7 million at year end 1993, a decrease of $10.6 million. Conversely, certificates of deposit were $42.6 million at December 31, 1994 as compared to $33.0 million at year end 1993, an increase of $9.6 million.

Borrowings

The Bank had $19.0 million in FHLB borrowings at December 31, 1994, as compared to $15.0 million at year end 1993. The borrowings are a combination of short and long term with both fixed and adjustable rates. The Bank

borrowed an additional $4.0 million in 1994 to fund growth in the loan portfolio and to effectively manage its interest rate sensitivity position.

Liquidity and Capital Resources

The Bank's primary sources of liquidity are deposit balances, available-for-sale securities, principal and interest payments on loans and investment securities, and FHLB advances. In 1994, increased loan demand combined with a slowdown in principal payments on loans and investments and a net decline in deposits affected the Bank's liquidity position. As a result, the Bank sold $10.4 million in available-for-sale securities and borrowed an additional $4.0 million from the FHLB to meet its cash flow requirements.

As a member of the Federal Home Loan Bank, the Bank is eligible to obtain both short and long-term credit advances. The Bank can borrow up to $2.6 million to meet short-term needs and up to approximately $79.6 million to meet long-term needs. Borrowing capacity is limited to the Bank's available qualified collateral which consists primarily of 1-4-family residential mortgages and certain investment securities. At December 31, 1994, the Bank had $19.0 million in advances with original maturities from three months to in excess of one year. There were no advances against the $2.6 million credit line at that date.

The Bank can also enter into repurchase agreement transactions should the need for additional liquidity arise. At December 31, 1994, the Bank had no repurchase agreements outstanding.

At December 31, 1994, the Bank had capital of $16.0 million, or 10.43% of total assets, as compared to $14.1 million, or 9.52%, at December 31, 1993. Massachusetts chartered savings banks that are insured by the FDIC are subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets (Risk-Based Capital Ratios) and average total assets (Leverage Ratio).

Since the establishment of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the FDIC has contemplated the treatment of unrealized gains and losses on available-for-sale securities for regulatory capital calculations. Effective January 27, 1995, the FDIC issued a final rule which allows member banks to exclude any unrealized gains and losses from the definition of Tier 1 Capital.

At December 31, 1994, Tier 1 capital as a percentage of risk-weighted assets was 18.84%, total capital as a percentage of risk-weighted assets was 20.09%, and the Bank's leverage ratio was 10.88%. These ratios exceeded regulatory capital requirements.

The Bank reinstated its quarterly cash dividend in the first quarter of 1994 at a rate of $0.04 per share. The Bank continued to pay this rate in the second and third quarters of 1994. In the fourth quarter, the Bank declared a $0.05 dividend, an increase of 25%, for a total of $0.17 in dividends declared per share for 1994. The dividends were declared upon receiving approval from the FDIC, as mandated in a Memorandum of Understanding between the Bank and the FDIC dated March of 1992.

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. In 1994, the Bank received its report of examination from the FDIC, its primary regulator. Based on the 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. Proxy related expenses totalling $1.5 million were reflected in the Bank's Statement of Income in 1993.

The Bank contends that a substantial amount of 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 allowed 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 Income in 1993. In February 1994, the Bank obtained four parcels of developed real estate from the former president as settlement of its lawsuit. The recovery of $282,000 is reflected in the Statement of Income in 1994.

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated balance sheets of Hingham Institution for Savings and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years 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 audits. The consolidated financial statements of Hingham Institution for Savings and subsidiaries for the year ended December 31, 1992 were audited by other auditors whose report dated January 20, 1993 expressed an unqualified opinion on those statements.

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, 1994 and 1993, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Wolf + Company, P. C.

Boston, Massachusetts
January 20, 1995

Consolidated Balance Sheets

December 31, 1994 and 1993

ASSETS

	1994	1993
	(In Thousands)	
Cash and due from banks (Note 2)	$ 3,897	$ 3,272
Interest-bearing deposits	11	1,617
Cash and cash equivalents	3,908	4,889
Securities available for sale (Notes 3 and 8)	13,866	25,307
Securities held to maturity (Notes 3 and 8)	29,064	33,597
Loans, net of allowance for loan losses of $1,338,000 in 1994 and $1,191,000 in 1993 (Notes 4 and 8)	100,398	76,936
Foreclosed real estate, net (Note 5)	439	2,384
Banking premises and equipment, net (Note 6)	1,699	1,549
Accrued interest receivable	835	902
Deferred income tax asset (Note 9)	1,557	872
Federal Home Loan Bank stock, at cost (Note 8)	994	994
Other assets	432	459
	$ 153,192	$ 147,889

LIABILITIES AND STOCKHOLDERS' EQUITY

	1994	1993
Deposits (Note 7)	$ 116,684	$117,717
Federal Home Loan Bank advances (Note 8)	19,000	15,000
Accrued interest payable	358	311
Mortgagors' escrow accounts	252	190
Other liabilities (Note 14)	917	597
Total liabilities	137,211	133,815
Commitments and contingencies (Notes 10 and 11)		
Stockholders' equity (Notes 12 and 13):		
Preferred stock, $1.00 par value, 2,500,000 shares authorized; none issued	—	—
Common stock, $1.00 par value, 5,000,000 shares authorized; 1,293,000 and 1,277,340 shares issued and outstanding	1,293	1,277
Additional paid-in capital	8,584	8,453
Undivided profits	6,629	4,292
	16,506	14,022
Net unrealized gain (loss) on securities available for sale, net of tax effect in 1994 (Note 3)	(525)	52
Total stockholders' equity	15,981	14,074
	$153,192	$147,889

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Years Ended December 31, 1994, 1993 and 1992

	1994	1993	1992
	(Dollars In Thousands, Except Per Share Data)		
Interest and dividend income:			
Loans	$ 7,183	$ 5,819	$ 7,583
Investment securities	2,672	3,282	3,711
Interest-bearing deposits	108	131	80
Total interest and dividend income	9,963	9,232	11,374
Interest expense:			
Deposits (Note 7)	3,525	3,921	5,630
Federal Home Loan Bank advances	799	672	821
Total interest expense	4,324	4,593	6,451
Net interest income	5,639	4,639	4,923
Provision for loan losses (Note 4)	120	63	390
Net interest income, after provision for loan losses	5,519	4,576	4,533
Other income:			
Customer service fees	345	271	228
Gain (loss) on sale of investments, net	(232)	559	751
Gain on sale of branch building	—	—	106
Gain on sale of loans	30	—	402
Litigation settlement (Note 11)	282	515	—
Other	217	139	137
Total other income	642	1,484	1,624
Operating expenses:			
Expenses related to proxy contest (Note 11)	—	1,508	—
Salaries and employee benefits (Note 14)	1,677	1,968	1,493
Data processing	288	292	304
Occupancy and equipment (Note 6)	280	319	338
Foreclosed and other real estate, net (Note 5)	265	1,053	1,647
Legal	143	133	98
Deposit insurance	309	330	286
Other	898	737	833
Total operating expenses	3,860	6,340	4,999
Income (loss) before income tax benefit	2,301	(280)	1,158
Income tax benefit (Note 9)	(255)	(469)	(398)
Net income	$ 2,556	$ 189	$ 1,556
Income per common share	$ 1.99	$ .15	$ 1.24
Weighted average shares outstanding	1,284	1,268	1,251

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 1994, 1993 and 1992

	Common Stock	Additional Paid-in Capital	Undivided Profits	Net Unrealized Loss on Marketable Equity Securities	Net Unrealized Gain (Loss) on Securities Available for Sale (Note 3)	Total Stockholders' Equity
				(In Thousands)		
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
Net income	—	—	2,556	—	—	2,556
Change in net unrealized gain (loss) on securities available for sale, net of tax effect of $385,000	—	—	—	—	(577)	(577)
Stock options exercised, including tax effect	16	131	—	—	—	147
Cash dividends declared ($.17 per share)	—	—	(219)	—	—	(219)
Balance at December 31, 1994	$1,293	$8,584	$6,629	$ —	$ (525)	$15,981

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 1994, 1993 and 1992

	1994	1993	1992
		(In Thousands)	
Cash flows from operating activities:			
Net income	$2,556	$ 189	$ 1,556
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	120	63	390
Provision for loss on foreclosed and other real estate	142	762	1,253
Amortization of premium on investment securities, net of accretion	514	533	327
Amortization of deferred loan fees, net	(54)	(40)	18
Depreciation	115	139	309
(Gain) loss on sale of investments, net	232	(559)	(751)
Gain on sale of loans	(30)	—	(402)
Gain on sale of foreclosed and other real estate	(63)	(20)	(50)
Gain on sale of branch building	—	—	(106)
Decrease in accrued interest receivable	67	94	397
Increase in deferred income tax asset	(300)	(472)	(400)
(Increase) decrease in other assets	(127)	153	(253)
Increase (decrease) in accrued interest payable and other liabilities	302	193	(170)
Net cash provided by operating activities	3,474	1,035	2,118
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	10,400	—	—
Purchase of securities available for sale	(2,036)	—	—
Purchase of securities held to maturity	(3,000)	—	—
Proceeds from maturities of securities available for sale	100	—	—
Proceeds from maturities of investment securities	—	—	5,523
Proceeds from sales of investment securities	—	36,396	43,882
Principal payments received on mortgage-backed securities	8,802	20,946	7,997
Purchase of investment securities	—	(49,961)	(73,663)
Loan payments received (loans originated), net	(25,295)	(7,829)	(262)
Proceeds from sale of loans	2,424	447	14,029
Additions to foreclosed and other real estate, net of payments	4	(4)	(481)
Proceeds from sales of foreclosed and other real estate	1,414	2,487	1,484
Decrease in Federal Home Loan Bank stock	—	6	—
Additions to banking premises and equipment	(265)	(55)	(8)
Proceeds from sale of branch building	—	—	173
Net cash provided by (used in) investing activities	(7,452)	2,433	(1,326)

(continued)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(Concluded)

Years Ended December 31, 1994, 1993 and 1992

	1994	1993 (In Thousands)	1992
Cash flows from financing activities:			
Decrease in deposits, net	$(1,033)	$(2,168)	$ (836)
Increase (decrease) in mortgagors' escrow accounts	62	42	(18)
Proceeds from stock options exercised	122	97	12
Cash dividends paid on common stock	(154)	—	—
Proceeds from Federal Home Loan Bank advances	7,000	—	12,000
Repayment of Federal Home Loan Bank advances	(3,000)	—	(12,000)
Net cash provided by (used in) financing activities	2,997	(2,029)	(842)
Net increase (decrease) in cash and cash equivalents	(981)	1,439	(50)
Cash and cash equivalents at beginning of year	4,889	3,450	3,500
Cash and cash equivalents at end of year	$ 3,908	$ 4,889	$ 3,450
Supplementary information:			
Interest paid on deposit accounts	$ 3,509	$ 4,010	$ 5,784
Interest paid on borrowed funds	768	683	842
Income taxes paid	51	—	—
Loans transferred to foreclosed real estate	913	3,331	2,603
Financed sales of foreclosed real estate	1,254	3,154	2,087
Financed sales of real estate held for investment	—	—	157
Foreclosed real estate transferred to loans	286	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, 1994, 1993 and 1992

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 1993 and 1992 consolidated financial statements to conform to the 1994 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 would be 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.

Purchased 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 southeastern Massachusetts 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. 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.

Banking premises and equipment

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

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

Retirement plan

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.

Earnings per share

Earnings 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Subsequent accounting change

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.

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.

SFAS No. 114 also limits the classification of loans as in-substance foreclosures to situations where the creditor actually receives physical possession of the debtor's assets.

The Statement applies to financial statements for fiscal years beginning after December 15, 1994, with earlier adoption permissible. Management has determined that the financial statement impact of adopting the provisions of SFAS No. 114 on January 1, 1995 will not be significant.

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, 1994 and 1993, cash and due from banks included $257,000 and $322,000, respectively, to satisfy such reserve requirements.

3. INVESTMENT SECURITIES

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

	December 31, 1994			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities Available for Sale				
U.S. Government and federal agency obligations	$ 8,582	$ —	$ (386)	$ 8,196
Mortgage-backed - FHLMC	1,773	—	(107)	1,666
Mortgage-backed - FNMA	2,527	—	(164)	2,363
REMIC's	1,894	—	(253)	1,641
Total securities available for sale	$ 14,776	$ —	$ (910)	$ 13,866
Securities Held to Maturity				
U.S. Government and federal agency obligations	$ 5,043	$ —	$ (341)	$ 4,702
Mortgage-backed - FHLMC	13,426	2	(868)	12,560
Mortgage-backed - FNMA	10,595	—	(641)	9,954
Total securities held to maturity	$ 29,064	$ 2	$(1,850)	$ 27,216

	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

INVESTMENT SECURITIES (concluded)

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 1994 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	$ 4,058	$ 3,952	$ —	$ —
Over 1 year to 5 years	3,002	2,825	1,003	917
Over 5 years to 10 years	1,522	1,419	3,040	2,844
Over 10 years	—	—	1,000	941
	8,582	8,196	5,043	4,702
Mortgage-backed securities:				
Over 1 year to 5 years	—	—	13,402	12,657
Over 5 years to 10 years	2,235	2,069	5,886	5,391
Over 10 years	3,959	3,601	4,733	4,466
	6,194	5,670	24,021	22,514
Total debt securities	$14,776	$13,866	$29,064	$27,216

At December 31, 1994, the Bank has pledged mortgage-backed securities with an amortized cost of $974,000 and a fair value of $975,000 as collateral against its Treasury, Tax and Loan account.

For the year ended December 31, 1994, proceeds from the sale of securities available for sale amounted to $10,400,000. Gross realized gains and gross realized losses on those sales amounted to $10,000 and $242,000, respectively.

Proceeds from the sale of debt securities for the years ended December 31,1993 and 1992 were $35,901,000 and $43,882,000, respectively. Gross gains of $633,000 and $770,000 and gross losses of $161,000 and $16,000 were realized during 1993 and 1992, respectively.

4. LOANS

A summary of the balances of loans follows:

	December 31,	
	1994	1993
	(In Thousands)	
Mortgage loans:		
Residential	$ 57,671	$49,275
Commercial	33,763	20,004
Construction	6,404	2,974
Equity lines-of-credit	3,687	4,619
Second mortgages	249	328
	101,774	77,200
Less unadvanced loan funds	(1,755)	(1,023)
Total mortgage loans, net	100,019	76,177
Commercial loans:		
Secured	888	596
Unsecured	71	99
Total commercial loans	959	695
Consumer loans:		
Personal installment	934	892
Education	30	439
Revolving credit	81	95
Total consumer loans	1,045	1,426
Total loans	102,023	78,298
Less: Allowance for loan losses	(1,338)	(1,191)
Net deferred interest and loan fees	(287)	(171)
Loans, net	$100,398	$76,936

At December 31, 1993, mortgage loans with a carrying value of $1,872,000 had been identified as held for sale and were sold during 1994. There were no loans held for sale at December 31, 1994.

Loans sold and serviced for others amounted to $10,087,000, $10,896,000 and $17,464,000 at December 31, 1994, 1993 and 1992, respectively. All loans serviced for others were sold without recourse provisions.

Non-accrual loans totaled $505,000 and $286,000 at December 31, 1994 and 1993, respectively. Interest not accrued on such loans amounted to $9,000 and $46,000 at December 31, 1994 and 1993, respectively.

LOANS (concluded)

Restructured loans totaled $1,107,000 and $2,862,000 at December 31, 1994 and 1993, 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, 1994, 1993 and 1992 are as follows:

	Years Ended December 31,		
	1994	1993	1992
		(In Thousands)	
Interest income that would have been recorded	$101	$193	$222
Interest income recognized	83	152	155
Interest income foregone	$ 18	$ 41	$ 67

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,		
	1994	1993	1992
		(In Thousands)	
Balance at beginning of year	$1,191	$1,501	$1,628
Provision for loan losses	120	63	390
	1,311	1,564	2,018
Loans charged-off	(105)	(411)	(586)
Recoveries on loans previously charged-off	132	38	69
Balance at end of year	$1,338	$1,191	$1,501

5. FORECLOSED REAL ESTATE

Foreclosed real estate is comprised of the following:

	December 31,	
	1994	1993
	(In Thousands)	
Residential homes	$147	$1,244
Land	190	226
Residential condominiums	—	117
Commercial real estate	179	848
	516	2,435
Less allowance for losses	(77)	(51)
	$439	$2,384

FORECLOSED REAL ESTATE (concluded)

At December 31, 1994 and 1993, foreclosed real estate included $187,000 and $1,093,000, respectively, of properties that were substantively repossessed.

An analysis of the allowance for losses is as follows:

	Years Ended December 31,		
	1994	1993	1992
		(In Thousands)	
Balance at beginning of year	$ 51	$ 534	$ 104
Provision for losses	142	391	1,238
Write-downs and losses, net	(116)	(874)	(808)
Balance at end of year	$ 77	$ 51	$ 534

An analysis of foreclosed and other real estate expense is as follows:

	Years Ended December 31,		
	1994	1993	1992
		(In Thousands)	
Provision for losses	$142	$ 391	$1,238
Recoveries, net	(63)	(20)	(50)
Foreclosure and holding costs, net of rental income	186	391	291
Real estate held for investment expenses	—	291	168
	$265	$1,053	$1,647

Real estate held for investment expenses relate to properties acquired by foreclosure or deed-in-lieu of foreclosure which were operated by the Bank for income-producing purposes and include depreciation expense for the years ended December 31, 1993 and 1992 amounting to $13,000 and $163,000, respectively. During 1993, all real estate held for investment was transferred to foreclosed real estate.

6. 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, 1994	December 31, 1993	Estimated Useful Lives
	(In Thousands)		
Banking premises:			
Land	$ 428	$ 428	
Buildings	1,673	1,611	1 - 65 years
Equipment	849	1,037	2 - 25 years
	2,950	3,076	
Less accumulated depreciation	(1,251)	(1,527)	
	$1,699	$1,549	

Depreciation expense for the years ended December 31, 1994, 1993 and 1992 amounted to $115,000, $126,000 and $146,000, respectively.

7. DEPOSITS

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

	December 31, 1994	December 31, 1993
	(In Thousands)	
Non-certificate accounts:		
Regular	$ 32,888	$ 36,209
Money market deposits	23,934	31,681
NOW	10,584	10,593
Demand	6,687	6,220
Total non-certificate accounts	74,093	84,703
Term certificates less than $100,000	34,679	27,286
Term certificates $100,000 or more	7,912	5,728
Total certificate accounts	42,591	33,014
Total deposits	$116,684	$117,717

DEPOSITS (concluded)

The maturity distribution of term certificates is as follows:

	December 31, 1994		December 31, 1993	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Within 1 year	$27,199	4.51%	$21,189	4.14%
Over 1 year to 2 years	9,220	5.11	5,486	4.84
Over 2 years to 3 years	1,693	4.99	5,872	4.82
Over 3 years to 5 years	4,479	5.72	467	5.17
	$42,591	4.78%	$33,014	4.39%

A summary of interest expense on deposits is as follows:

	Years Ended December 31, 1994	1993	1992
	(In Thousands)		
Regular and special notice	$ 929	$1,062	$1,145
Money market deposits	795	1,065	1,446
NOW	171	246	313
Term certificates	1,630	1,548	2,726
	$3,525	$3,921	$5,630

8. FEDERAL HOME LOAN BANK ADVANCES

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

		December 31, 1994		December 31, 1993	
Maturity Date	Rate	Amount	Interest Rate	Amount	Interest Rate
		(Dollars in Thousands)			
September 20, 1994	Fixed	$ —	—%	$ 3,000	6.66%
February 28, 1995	Fixed	2,000	6.17	—	—
February 1, 1996	Fixed	2,000	6.18	—	—
April 25, 1996	Variable	5,000	5.09	5,000	3.56
September 20, 1996	Fixed	3,000	6.53	—	—
February 18, 1997	Variable	7,000	4.25	7,000	3.75
		$19,000	5.24%	$15,000	4.27%

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 90% of the fair value of U.S. Government and federal agency obligations and 75% of the carrying values of residential mortgage loans.

The Bank also has an available line of credit with the Federal Home Loan Bank of Boston at an interest rate that adjusts daily. Borrowings under this line are limited to $2,605,000.

9. INCOME TAXES

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

	Years Ended December 31, 1994	1993 (In Thousands)	1992
Current tax provision:			
Federal	$ 18	$ —	$ —
State	27	3	2
	45	3	2
Deferred tax provision:			
Federal	452	—	507
State	139	—	—
	591	—	507
Change in valuation reserve realization assumptions	(891)	(472)	(907)
	$ (255)	$(469)	$(398)

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, 1994	1993	1992
Statutory rates	34.0%	(34.0)%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	.6	(62.9)	8.1
Change in valuation allowance	(46.5)	(82.8)	(78.3)
Other, net	.8	12.2	1.8
Effective tax rates	(11.1)%	(167.5)%	(34.4)%

INCOME TAXES (continued)

The components of the net deferred tax asset are as follows:

	December 31, 1994	1993
	(In Thousands)	
Deferred tax asset:		
Federal	$1,344	$ 1,644
State	485	559
	1,829	2,203
Valuation reserve on asset	(254)	(1,145)
	1,575	1,058
Deferred tax liability:		
Federal	(18)	(131)
State	—	(55)
	(18)	(186)
Net deferred tax asset	$1,557	$ 872

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

	December 31, 1994	1993
	(In Thousands)	
Loan loss reserve	$ 591	$ 1,246
Federal tax net operating loss carryforwards	382	549
Other tax carryforwards	105	56
Compensation expense	170	183
Net unrealized loss on securities available for sale	385	—
Other	178	(17)
	1,811	2,017
Valuation reserve	(254)	(1,145)
Net deferred tax asset	$1,557	$ 872

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

	Years Ended December 31, 1994	1993 (In Thousands)	1992
Balance at beginning of year	$ 872	$ 400	$ —
Deferred tax benefit	300	472	400
Net unrealized loss on securities available for sale	385	—	—
Balance at end of year	$1,557	$ 872	$ 400

INCOME TAXES (concluded)

A summary of the change in the valuation reserve applicable to the net deferred tax asset is as follows:

	Years Ended December 31,		
	1994	1993	1992
		(In Thousands)	
Balance at beginning of year	$1,145	$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	(891)	(472)	(907)
Balance at end of year	$ 254	$1,145	$1,525

At December 31, 1994, the Bank had a net operating loss carryforward of approximately $1,100,000 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.

10. COMMITMENTS AND CONTINGENCIES

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

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, 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 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.

COMMITMENTS AND CONTINGENCIES (concluded)

At December 31, 1994 and 1993, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	1994	1993
	(In Thousands)	
Unused lines-of-credit	$3,146	$2,406
Commitments to originate loans:		
Fixed interest rate	230	5,235
Variable interest rate	3,670	2,185
Standby letters of credit	125	125

Commitments to extend credit 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 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.

11. 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 shareholders to vote at the annual meeting.

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 allowed 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 Income in 1993. In February of 1994, the Bank obtained four parcels of developed real estate from the former president as settlement of its lawsuit. The recovery of $282,000 is reflected in the Statement of Income in 1994.

Various legal claims also arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Bank's consolidated financial position.

12. 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, 1994 and 1993. See Note 16 for additional regulatory matters.

Tax reserve for loan losses

At December 31, 1994, 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 of approximately $1,600,000 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, 1994 amounted to $1,390,000 (unaudited).

13. 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,		
	1994	1993	1992
Shares under option:			
Outstanding at beginning of year	63,080	87,500	90,500
Granted	—	39,000	—
Forfeited	(2,920)	(39,080)	—
Exercised	(15,660)	(24,340)	(3,000)
Outstanding at end of year	44,500	63,080	87,500
Weighted average exercise price per share	$ 8.27	$ 7.96	$ 6.23
Exercisable at end of year	41,500	56,088	41,880

Options outstanding consist of the following:

	December 31,	
Option price	1994	1993
$8.875	39,000	39,000
8.500	—	13,200
4.000	5,500	10,880
	44,500	63,080

14. PENSION PLAN

The Bank provides pension benefits for 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, 1994, 1993 and 1992 is as follows:

	1994	1993 (In Thousands)	1992
Service cost - benefits earned during year	$ 81	$118	$114
Interest cost on projected benefits	85	100	88
Actual return on plan assets	(71)	(185)	(95)
Net amortization and deferral	3	3	3
Amortization of net (gain) loss	(36)	86	20
Net periodic pension cost	$ 62	$122	$130

Pension expense shown in the accompanying financial statements for the years ended December 31, 1994 and 1993 amounted to $51,000 and $445,000, respectively. The 1993 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, 1994	October 31, 1993
	(In Thousands)	
Plan assets at fair value	$1,176	$1,219
Actuarial present value of projected benefit obligation	1,089	1,205
Plan assets greater than projected benefit obligation	87	14
Unamortized net obligation since adoption of SFAS No. 87	35	37
Unrecognized net gain	(593)	(461)
Pension liability	$ (471)	$ (410)

The accumulated benefit obligation (substantially all vested) at October 31, 1994 amounted to $885,000.

For the plan years ended October 31, 1994, 1993 and 1992, actuarial assumptions include an assumed discount rate on benefit obligations of 8.00%, 7.00% and 7.00%, respectively, and an expected long-term rate of return on plan assets of 7.00%, 7.00% and 6.75%, respectively. An annual salary increase of 6.00% was utilized for all years.

15. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to $150,000 at December 31, 1994 and $242,000 at December 31, 1993. During the year ended December 31, 1994, total principal additions were $1,000 as a result of existing home equity line advances. Principal repayment during 1994 amounted to $93,000. In 1993, the Bank established a policy whereby new loans cannot be granted to employees, officers or directors.

16. 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. In 1994, the Bank received its report of examination from the FDIC, its primary regulator. Based on the results of this examination, the Bank's management believes that it is in substantial compliance with the terms of the Memorandum.

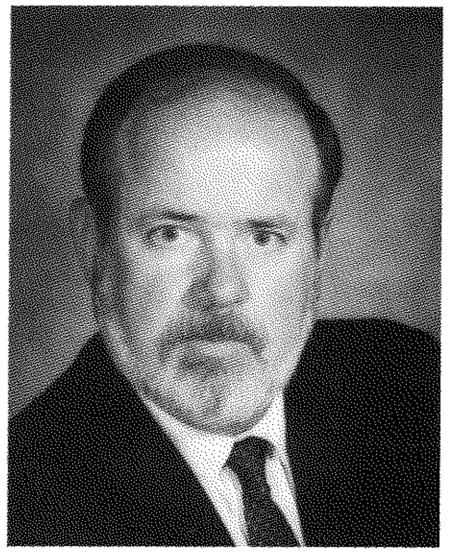
17. QUARTERLY FINANCIAL DATA (UNAUDITED)

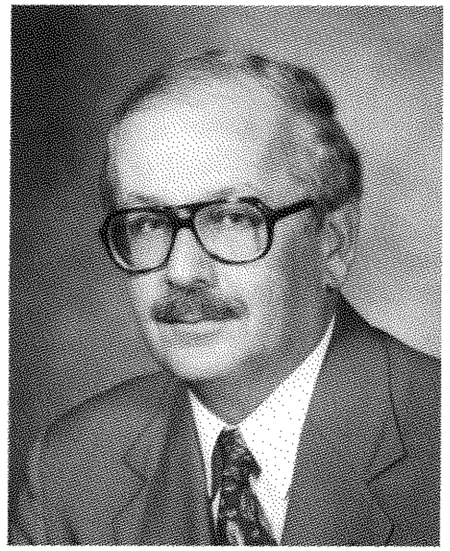
Quarterly results of operations for the years ended December 31, 1994 and 1993 are as follows:

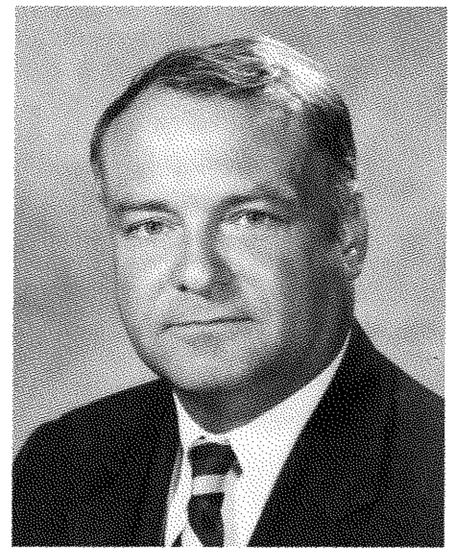
	Years Ended December 31, 1994				1993			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In Thousands, Except Per Share Data)							
Interest and dividend income	$2,696	$2,566	$2,442	$2,259	$ 2,237	$ 2,230	$ 2,332	$ 2,433
Interest expense	1,131	1,081	1,073	1,039	1,059	1,095	1,189	1,250
Net interest income	1,565	1,485	1,369	1,220	1,178	1,135	1,143	1,183
Provision for loan losses	30	10	50	30	—	—	63	—
Net interest income, after provision for loan losses	1,535	1,475	1,319	1,190	1,178	1,135	1,080	1,183
Other income	23	95	103	421	132	78	323	951
Operating expenses	931	968	953	1,008	1,401	917	2,719(1)	1,303
Income (loss) before income taxes	627	602	469	603	(91)	296	(1,316)	831
Income tax provision (benefit)	(29)	(46)	(90)	(90)	(471)	—	1	1
Net income (loss)	$ 656	$ 648	$ 559	$ 693	$ 380	$ 296	$(1,317)	$ 830
Income (loss) per common share	$ .51	$ .50	$ .44	$ .54	$ .30	$ .23	$ (1.04)	$ .66
Cash dividends declared per share	$ .05	$ .04	$ .04	$ .04	$ —	$ —	$ —	$ —

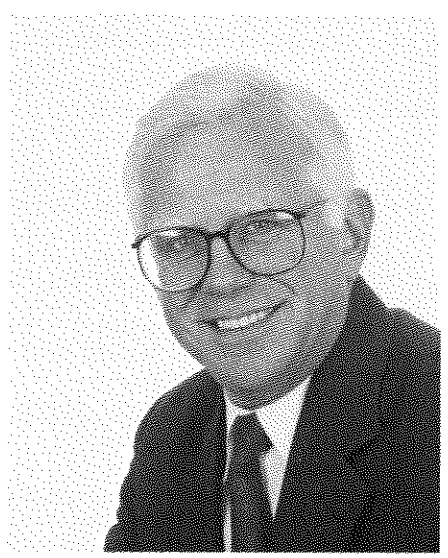
(1) The increased level of operating expenses in the second quarter of 1993 is attributable to expenditures of $1,508,000 as a result of prior management's opposition to the proxy contest. See Note 11.

Senior Officers

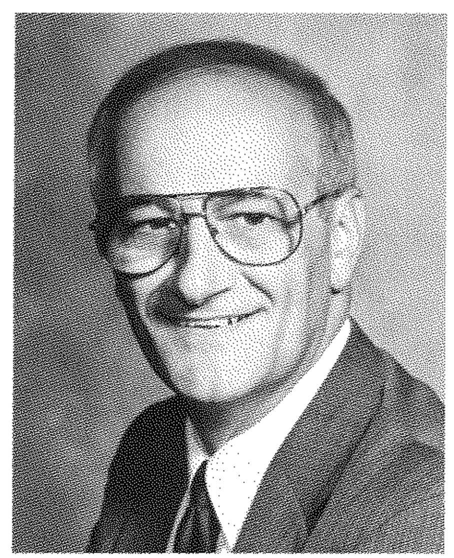

Robert H. Gaughen, Jr.
President and C.E.O.


William M. Donovan, Jr.
Vice President-Administration


Peter R. Smollett
Vice President-Lending

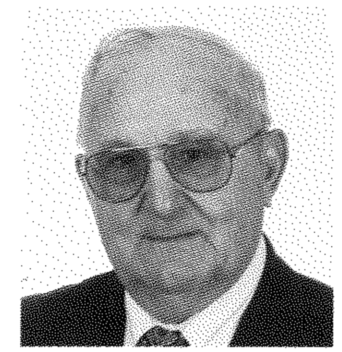

Edward P. Zec
Vice President-Branch Operations


Deborah J. Jackson
Vice President and Treasurer

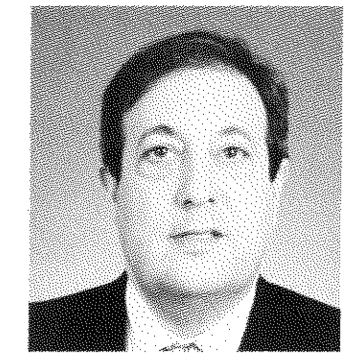

William G. Berardi
Retail Lending Officer

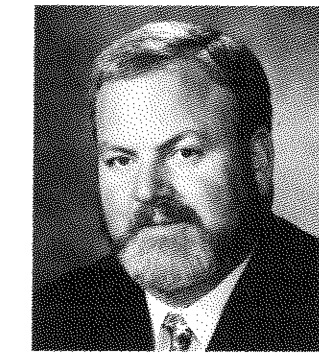
HINGHAM INSTITUTION FOR SAVINGS
ESTABLISHED 1834

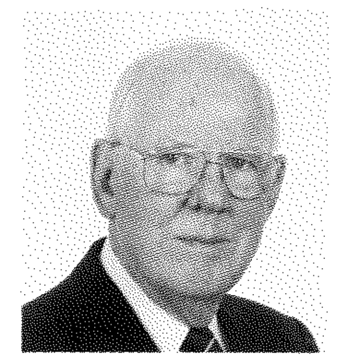
Directors

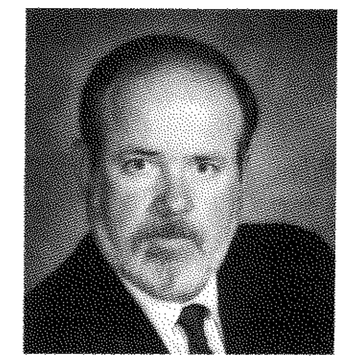

James V. Consentino


Marion J. Fahey


Ronald D. Falcione


Kevin W. Gaughen, Esq.


Robert H. Gaughen, Esq.


Robert H. Gaughen, Jr., Esq.

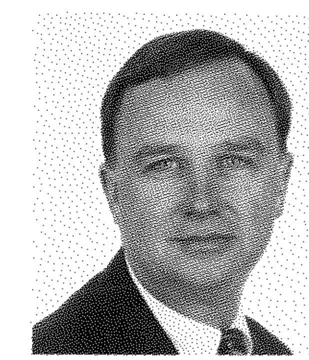

Julio R. Hernando


Robert A. Lane, Esq.

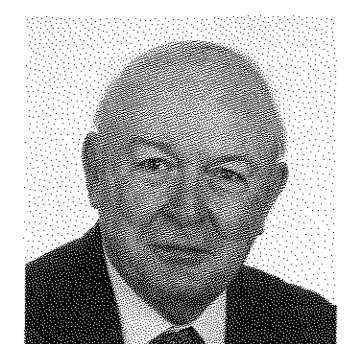

Warren B. Noble


Stacey M. Page

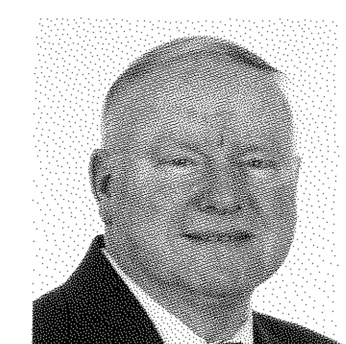

Edward L. Sparda


Donald E. Staszko


Donald M. Tardiff, M.D.


James R. White


Geoffrey C. Wilkinson, Sr.


Thomas H. Youngworth, Sr.

HINGHAM INSTITUTION FOR SAVINGS

Stockholder Information

Hingham Institution for Savings
55 Main Street
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(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
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c/o Mellon Securities Transfer Services
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East Hartford, CT 06108

Stockholder Inquiries and Dividend Reinvestment
Mellon Securities Transfer Services
P.O. Box 750
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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, 1994 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, 1994 there were approximately 595 stockholders of record, holding 789,983 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
1994		
First Quarter	$10 1/2	$ 9 1/4
Second Quarter	11 3/4	8 7/8
Third Quarter	12	10 1/2
Fourth Quarter	11 1/4	9
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

The closing sale price of the Bank's common stock at December 31, 1994 was $10.25 per share.

HINGHAM
INSTITUTION
FOR SAVINGS
ESTABLISHED 1834

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