1998
ANNUAL REPORT

165 YEARS OF COMMUNITY BANKING

HINGHAM INSTITUTION FOR SAVINGS

As we move inexorably toward the excitement and hoopla of the millennium, it would serve us well to pause for a moment and reflect on how far Hingham Institution for Savings has come in 165 years. To the young, the time from 1834 until today is an eternity. For those of us who are, shall we say, more mature, it is not long at all, merely the span of two good lifetimes.

The bank had an auspicious, if modest, beginning on North Street. As a special service to our customers, the office was open on the last Saturday of the month between the hours of 10 a.m. and noon. Perhaps this smart business practice was instrumental in our steady growth. We'll never know.

What is indisputable, however, was the need for larger facilities, and so, in 1843, the bank was relocated to the corner of North and South Streets. We now had 700 customers.

Seventeen years later, we were on the move again, taking the accounts of our 2,300 customers to a wooden building opposite Derby Academy on Main Street, which we shared with Hingham Mutual Fire Insurance Company. Here we stayed for the next ninety years. In fact, we continue to house our administration and lending groups in this location.

In 1950, we moved to the handsome 55 Main Street office, which remains our main office today.

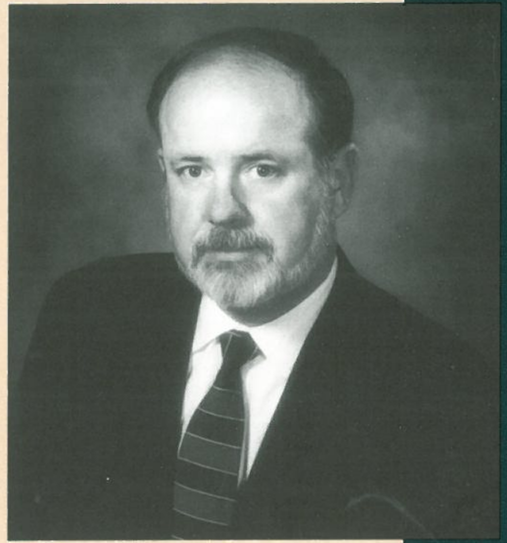
While the bank is very much a part of the Hingham community, we have extended our reach throughout the South Shore to embrace other local towns, the very latest being a new branch in South Weymouth.

The point of all this, of course, is that the bank is growing and prospering and serving more and more customers. And, while we pay homage to our past, we must look forward and anticipate what our approximately 23,000 customers' needs will be tomorrow.

With this in mind, we have recently established our website at www.hinghamsavings.com. This will be an invaluable source of information and will allow us to venture into the field of online banking.

At Hingham Institution for Savings, we are proud of our past, comfortable with the present, and fully confident that we will meet the challenges of the future with unparalleled success.

President's Letter



Dear Shareholder:

1998 was our 165th year of operation. It is exciting to witness the growth that reflects our enduring vitality. This report summarizes the continued and dramatic growth achieved this year in earnings, loans, deposits, product offerings, and branch locations.

The numerical and percentage increases in key financial measures also reflect the growth in our confidence – confidence that we are well positioned to continue to compete effectively.

Our net income for 1998 was $3,002,000. These are the highest earnings in our 165-year history. This is a 13% increase over 1997 earnings. Asset growth was also impressive. Total assets increased by 17% from $222,584,000 to $260,076,000. The loan portfolio expanded by a remarkable 18%, from $172,839,000 to $204,774,000. Deposits grew from $160,506,000 to $178,741,000, a very solid 11% increase. The growth in earnings continues to be primarily fueled by the growth in our total size. The banking relationships which we have established in recent years throughout our market area continue to strengthen. They have allowed us to grow, despite increased competition from larger institutions, with newly focused marketing efforts. These relationships helped to expand our total loan originations from $56 million in new loans in 1997 to $81 million in 1998. These loans were almost evenly divided between those secured by 1-4 family residential properties and those secured by multifamily and commercial property.

The continued expansion of our real estate loan portfolio also influenced our deposit growth. We witnessed significant increases in commercial checking and related deposit accounts as well as strong increases in other traditional core savings products.

The increased size, activity, and earnings of the bank enabled us to continue to expand both our services and our locations. In the fall, we purchased a branch location in the Town of Weymouth which will expand our geographic presence on the South Shore. In addition to benefiting the communities we serve, this growth continues to directly benefit our stockholders. Our return on equity increased to 13.18% in 1998. Despite tremendous turmoil in the stock market, especially in the shares of publicly traded banks, we were able to increase the dividends declared to stockholders by 23% over those of 1997. Additionally, book value per share increased from $10.93 to $12.05.

As we approach the millennium, we remain firmly committed to the strategies which have produced such solid progress. We intend to continue to strive for internally generated growth within our market area. We intend to utilize this growth to enhance our strength and profitability as an independent community bank. We are very appreciative of the support received from both our customers and stockholders. It is their support that has made such success possible.

Sincerely,

Robert H. Gaughen, Jr.
President and CEO

From modest beginnings

In 1834, at the end of our first day in business, we had opened fifty-seven savings accounts for a total of $2,430. It was a proud start. After all, the bank's very reason for existing was clearly outlined in a *Hingham Gazette* article which stated, "Parents, by making their children depositors, can teach them the advantages of savings habits and inculcate lessons of economy, which may be remembered throughout life."

From those early days when we offered only savings accounts, the bank has come a very long way. We now provide a full complement of services for individuals and businesses. These include Master Money® ATM/Debit Cards which are as simple to use as credit cards but work like a check. Our Commercial Sweep Account allows allocated funds in business customers' accounts to be moved each night into higher-earning accounts.

To better help our neighbors prepare for the future, we run a series of Individual Retirement Account seminars. At these popular meetings, we outline the basic IRA, Roth IRA, SEP IRA, and provide information about the tax implications of each.

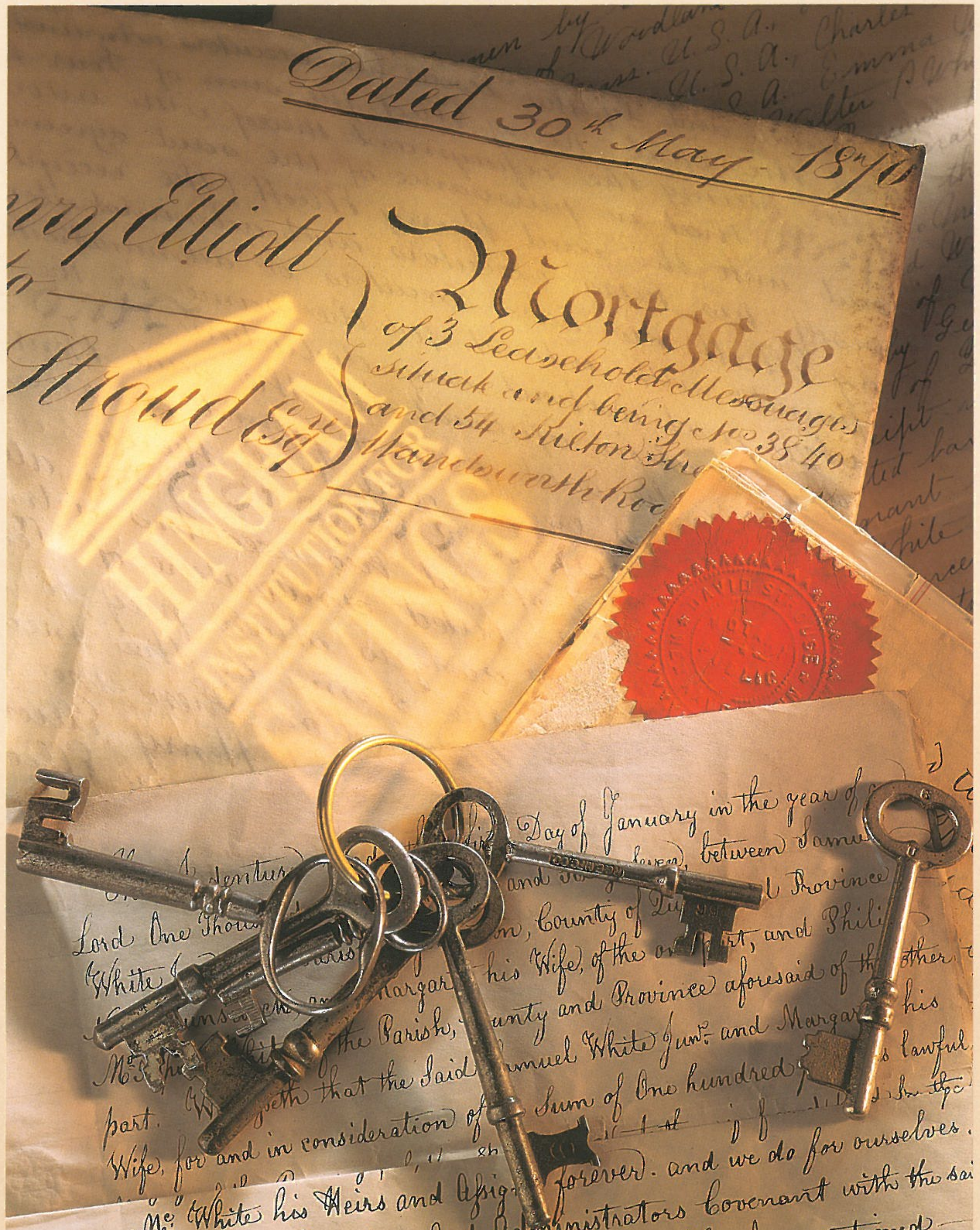
In addition to our presence on the internet, our introduction of 24-hour telephone banking is now complete, and this convenient service is being enjoyed by an increasing number of our customers. It allows them to transfer funds, access account information, and make loan payments without writing checks, all from their home or office.

Branching out into South Weymouth

The newest Hingham Institution for Savings branch opened in February 1999. Located in South Weymouth's Columbian Square, it is the bank's third new branch opened in recent years. In keeping with the increasing demand among consumers and businesses for greater banking services, our South Weymouth office will feature more convenient hours, two ATMs, one of which will be a drive-up, two drive-up lanes, and 24-hour telephone banking. The focus of this new branch will be the energetic development of additional deposit and loan business, especially in the local business community.

It is important to note that in this age of bank mega-mergers, we will continue our policy of total commitment to personal service throughout our local community. In addition to South Weymouth, we serve Hingham, South Hingham, Cohasset, Hull, and North Scituate. As we broaden our service area, we are now firmly established as a bank for the entire South Shore.

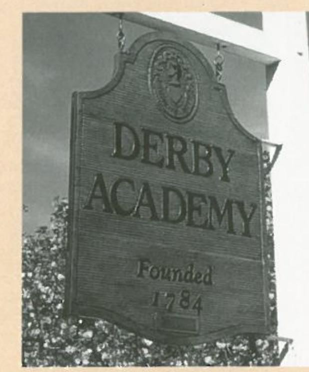
While Hingham Institution for Savings is growing, we are small in comparison to banks with a national and even international reach. However, our strength has always been the relationships we have with our customers. The values of friendship and trust have served us well over the past 165 years. We see no reason why they should be any less important today. This personal courtesy, combined with our increase in services and our embracing of the latest technology, will allow us to look to the future with renewed energy and optimism.

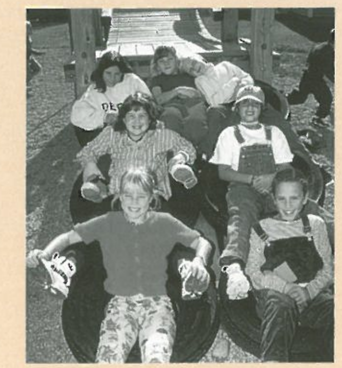


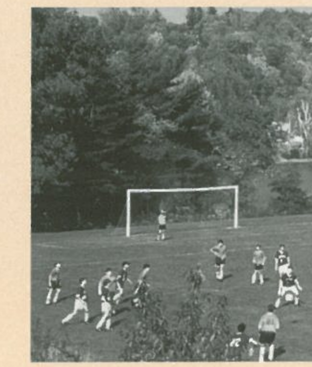
An education in community service

One outstanding example of Hingham Institution for Savings' solid relationship with our neighbors is the highly regarded independent school, Derby Academy. Founded in 1784, it is the oldest coeducational day school in New England. In 1934, the Academy acquired land in Hingham to construct a new campus, having outgrown its building on Main Street which dated from 1818. The bank came to the school's assistance by providing a mortgage for the sum of $47,000.

This tradition of working with Derby Academy continues today. Presently, the school has undertaken construction of a $6 million campus center. This will include a new theater, dining hall, and gymnasium. The bank financed $3 million of this project, as the school had raised approximately $3 million through pledged donations.







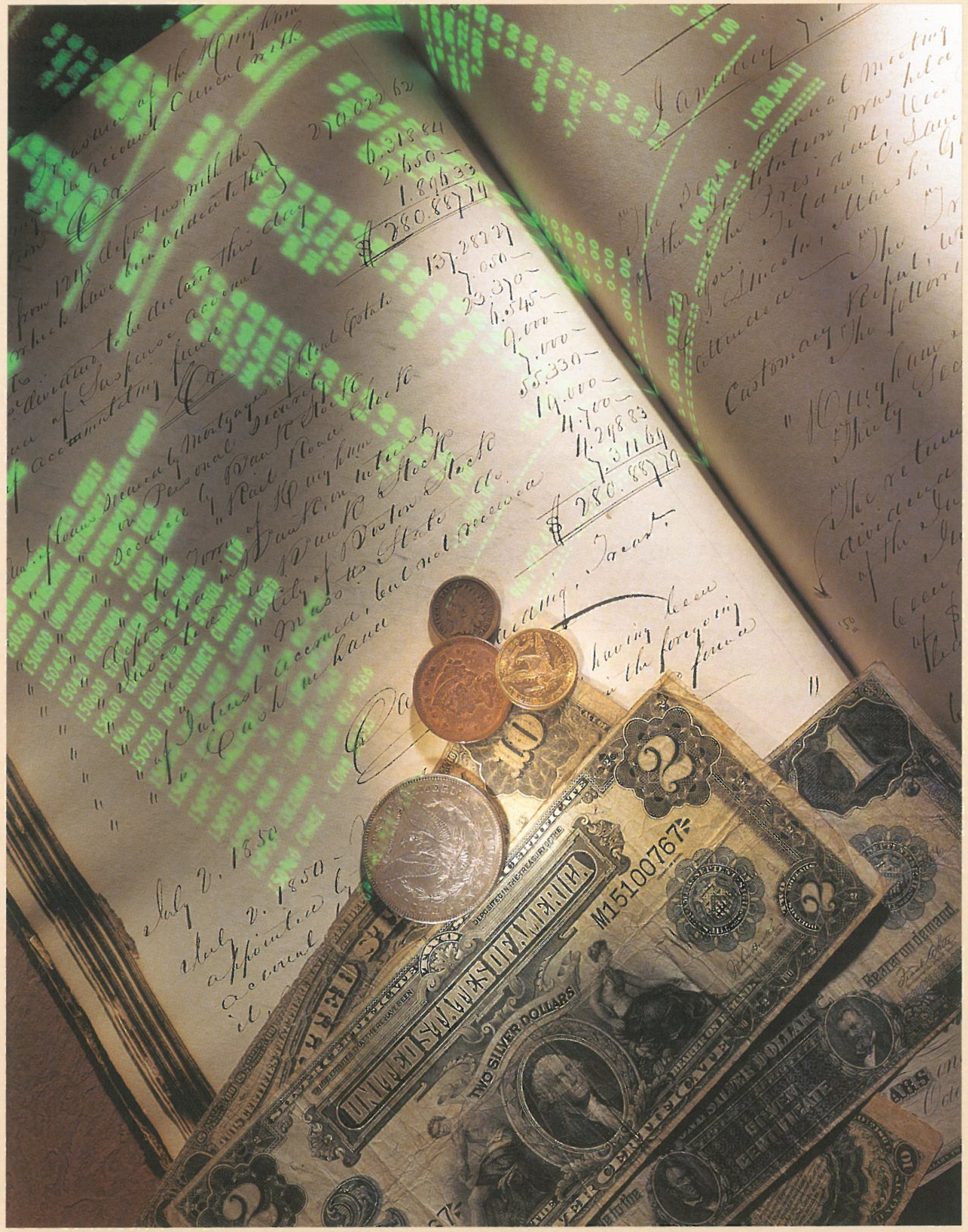
Mortgages for our neighbors

In 1835, our first mortgage loan was given to Isaac Sprague for $400 at 6%. Mr. Sprague was a prominent artist, widely acclaimed for his nature drawings in collaboration with Audubon.

Today, many young people throughout the area come to us for help in buying their first home. It's a service that makes us particularly proud because we're helping residents fulfill their dreams as they settle and raise families in our neighborhood. This commitment to residential mortgages is so successful, we continue to be a leader in financing home ownership on the South Shore.

And, of course, it is highly unlikely that a mortgage from Hingham Institution for Savings will be sold out of state. This is reassuring for our customers who believe that if they have a question about their mortgage, they should be able to stop into the bank and chat about it with a bank officer.

In the area of commercial real estate, our activity remains strong. We know the marketplace better than anyone, and this knowledge affords us an edge when helping businesses realize expansion goals and identify development opportunities.



The true meaning of family banking

A long line of Hingham's distinguished families has served the bank's management in various capacities. These include the Fearing, Barnes, Harding, Hersey, Cushing, Loring, and Lincoln families. The original Board of Trustees, for instance, included Solomon, Marshall, and George Lincoln. To this day, we continue to be the bank of choice for many of their descendants. Warren Lincoln, the former Hingham Fire Chief, is the fifth generation of the founding Lincolns. He had an account established for him by his two uncles on the day he was born. Warren's family continues this tradition with his son, granddaughter, and great-grandson all maintaining accounts at the bank.

Of course, it is not just the well-known names in Hingham who are loyal to the bank. A notable number of families throughout the communities we serve have accounts with us, from great-grandparents down to the very young.

Our "Savings Makes Sense" program reaches out to local area elementary schools where we encourage youngsters to open their own savings account. It is in this spirit of reaching out to our community that we will cultivate new generations of loyal customers.

Six branches, seventy-three people and growing

While we anticipate that our newest branch in South Weymouth will meet with a very positive response from the local community, we are well aware that its success will be determined by the people who staff it.

After all, a bank is so much more than the proverbial bricks and mortar. It is the personalities and attitudes of the people who work within its walls that make the difference. They are the heart and soul of Hingham Institution for Savings. Perhaps as important as an efficiently processed loan application or speedy counter transaction are a courteous greeting and a friendly smile. They take such little effort, but we have found from experience that they can make a huge difference.

Also, the fact that we know our customers, often on a first-name basis, sets us apart. It's much tougher for the large banks, with their mergers and acquisitions, to keep staff members who maintain a rapport with customers, year in and year out.

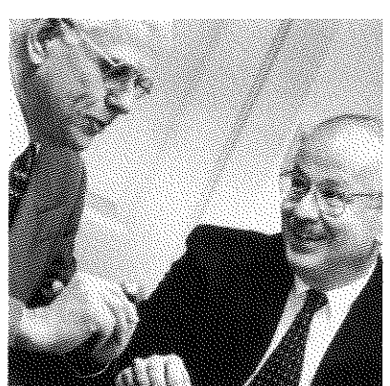
Our values may be old fashioned, but they have been the mainstay of our philosophy for 165 years. Certainly, we believe in state-of-the-art technology. At the same time, we are also committed to the personal touch and the honest warmth of our staff in every office. This is a quality we hope will be with us for the next 165 years.

Senior Officers

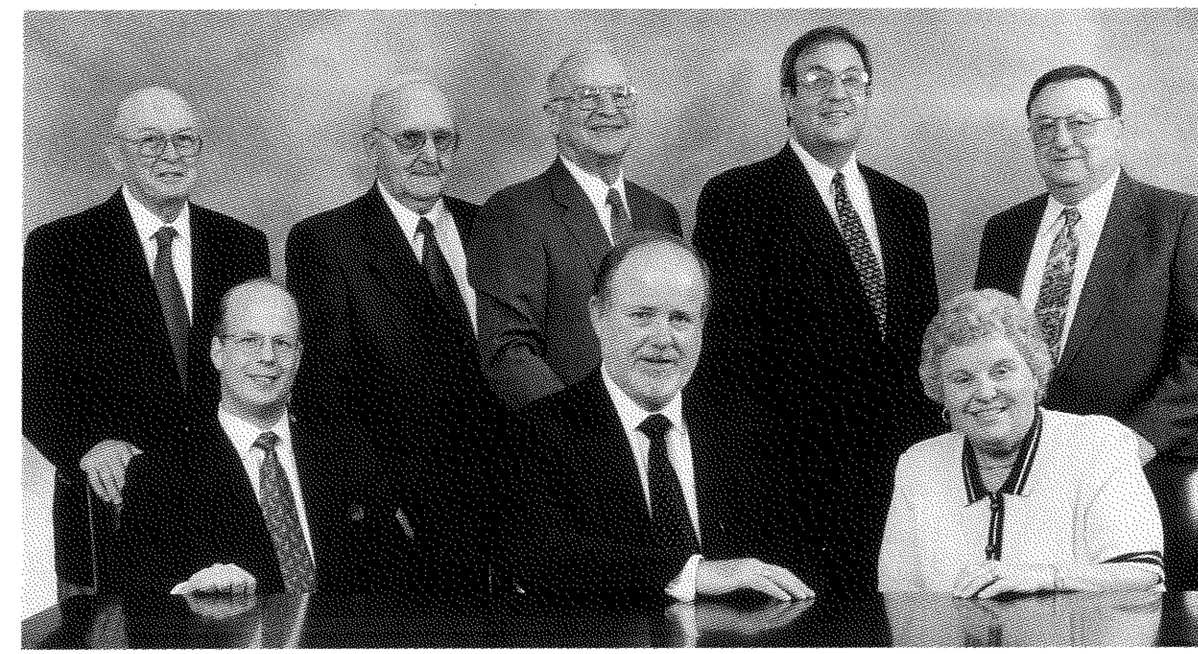
Photo above seated (left to right): *Robert H. Gaughen, Jr., President and CEO, Deborah J. Jackson, Sr. Vice President and Treasurer*
Standing: *William M. Donovan, Jr., Vice President-Administration, Peter R. Smollett, Vice President-Lending, Michael J. Sinclair, Retail Lending Officer, Edward P. Zec, Vice President-Branch Operations*

Photo opposite top (seated left to right): *Robert A. Lane, Esq., Robert H. Gaughen, Jr., Esq., Marion J. Fahey*
Standing: *James R. White, James V. Consentino, Donald M. Tardiff, M.D., Ronald D. Falcione, Warren B. Noble*

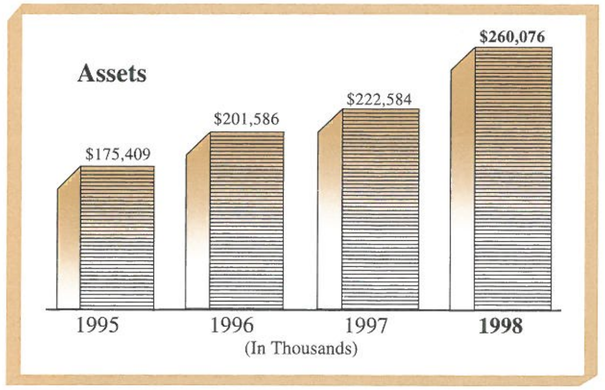
Photo opposite bottom (seated left to right): *Julio R. Hernando, Esq., Jacqueline M. Youngworth*
Standing: *Howard M. Berger, Esq., Edward L. Sparda, Stacey M. Page, Kevin W. Gaughen, Esq., Donald E. Staszko (missing from photo Geoffrey C. Wilkinson, Sr.)*



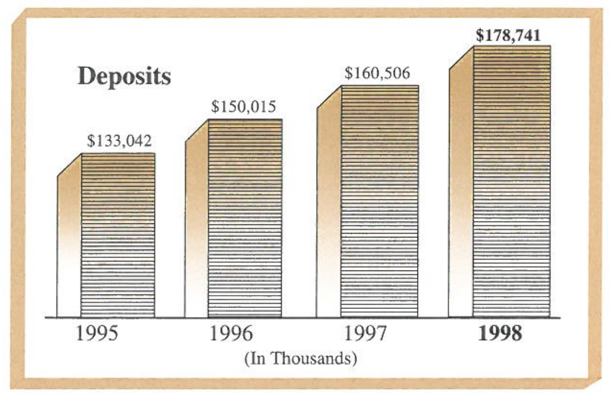
Board of Directors



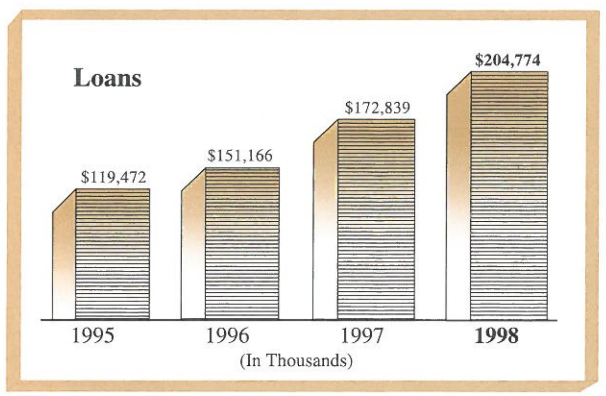
Financial Highlights



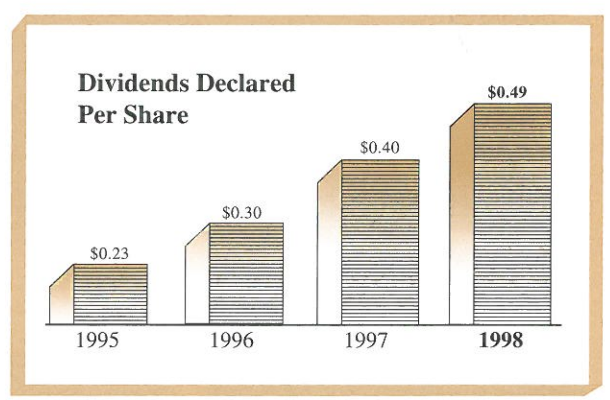
Solid asset growth continued in 1998 with the loan portfolio accounting for nearly 79% of total assets. Meanwhile, the Bank continued to surpass all regulatory capital maintenance requirements and reported capital to assets of 9.10%.



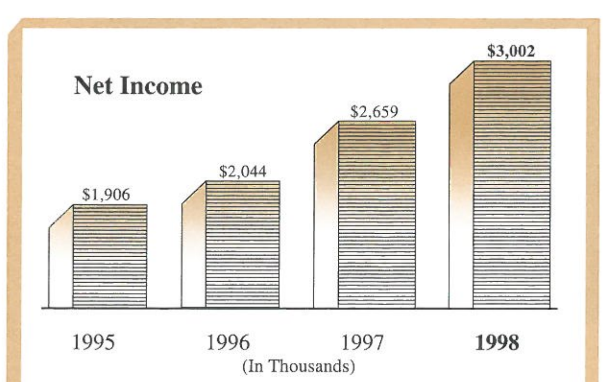
1998 marks the fourth consecutive year of strong deposit growth, with an $18.2 million increase over 1997. Deposit growth for 1999 will be assisted by the opening of a new branch in South Weymouth.



More than $81.4 million in loans were originated in 1998, resulting in a remarkable 18% growth in our loan portfolio over 1997. More than 99% of the loan portfolio is secured by mortgages.



Quarterly dividends continue to show steady improvement with the dividend payout ratio surpassing 30%. In 1998 dividends declared increased by approximately 23% over those of 1997.



The results for 1998 represent the third consecutive year of significant increases in net income. Net income for 1998 rose 13% over that of 1997.

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,				
	1998	1997	1996	1995	1994
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 260,076	$ 222,584	$ 201,586	$ 175,409	$ 153,192
Investment securities	28,235	35,369	32,321	39,152	42,930
Loans:					
Residential mortgage	95,629	83,522	79,418	69,872	61,607
Commercial mortgage	102,660	84,932	67,008	44,667	34,651
Construction, net	6,985	4,857	5,421	5,437	4,649
Other	1,219	1,209	938	1,066	1,116
Allowance for loan losses	1,729	1,560	1,393	1,277	1,338
Foreclosed real estate, net	—	—	—	34	439
Deposits	178,741	160,506	150,015	133,042	116,684
Federal Home Loan Bank advances	55,000	38,147	29,754	22,000	19,000
Other borrowed funds	56	319	188	—	—
Stockholders' equity	23,676	21,377	19,212	17,819	15,981

	Years Ended December 31,				
	1998	1997	1996	1995	1994
		(In Thousands, Except Per Share Amounts)			
Income Statement Data:					
Total interest and dividend income	$ 18,161	$ 16,405	$ 13,962	$ 12,074	$ 9,963
Total interest expense	9,223	8,160	6,956	5,871	4,324
Net interest income	8,938	8,245	7,006	6,203	5,639
Provision for loan losses	151	174	107	120	120
Other income	742	653	614	509	642
Operating expenses	4,716	4,458	4,066	3,641	3,860
Income before income taxes	4,813	4,266	3,447	2,951	2,301
Income tax provision (benefit)	1,811	1,607	1,403	1,045	(255)
Net income	$ 3,002	$ 2,659	$ 2,044	$ 1,906	$ 2,556
Earnings per share:					
Basic	$ 1.53	$ 1.36	$ 1.05	$ 0.98	$ 1.33
Diluted	$ 1.49	$ 1.33	$ 1.04	$ 0.97	$ 1.32
Financial Ratios:					
Return on average assets	1.26%	1.26%	1.10%	1.17%	1.70%
Return on average equity	13.18	13.00	11.06	11.11	17.09
Average equity to average assets	9.59	9.67	9.94	10.54	9.94
Interest rate spread	3.36	3.48	3.37	3.42	3.55
Net yield on average earning assets	3.88	4.02	3.90	3.96	3.92
Dividend payout ratio	32.03	29.41	28.57	23.47	8.27
Cash dividends declared per share	$ 0.49	$ 0.40	$ 0.30	$ 0.23	$ 0.11

Founded in 1834, Hingham Institution for Savings has served the local community for more than 164 years. On December 20, 1988, the Bank converted its ownership from mutual to stock form. Banking services are provided through branch offices in Hingham, South Hingham, Hull, Scituate, Cohasset, and in the first quarter of 1999, South Weymouth.

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

COMPARISON OF THE YEARS 1998, 1997, and 1996

RESULTS OF OPERATIONS

For the year ended December 31, 1998, the Bank earned $3.0 million, as compared to $2.7 million in 1997 and $2.0 million in 1996. On a per-share basis, the Bank earned $1.53 in 1998, $1.36 in 1997, and $1.05 in 1996. On a dilutive basis, which assumes that certain stock options have been exercised, earnings per share were $1.49 in 1998, $1.33 in 1997, and $1.04 in 1996.

Growth in earnings in each of the three periods was achieved primarily from growth in earning assets. In particular, loan originations were $81.4 million in 1998, as compared to $56.0 million in 1997, and $60.5 million in 1996. Also contributing to earnings growth in 1998, but to a much lesser degree, were net gains on sales of assets which totaled $106,000 in 1998 with no net gains reported for 1997 or 1996. Partially offsetting improvements in earnings were increases in expenses in each of the three periods, resulting primarily from increased salaries and employee benefits expenses. Despite increased expenses, the Bank's efficiency ratio, which measures the percent of net operating revenues consumed by operating expenses, dropped to 49.3% for 1998, as compared to 50.1% for 1997 and 53.4% for 1996.

Net Interest Income

The Bank reported $8.9 million in net interest income for 1998 as compared to $8.2 million in 1997 and $7.0 million in 1996. This positive trend was primarily the result of continued growth in loans. Outstanding loans averaged $186.2 million for 1998 as compared to $163.0 million for 1997 and $136.8 million for 1996.

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,					
	1998 Compared to 1997 Increase (Decrease)			1997 Compared to 1996 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Total loans	$ 1,934	$ (208)	$ 1,726	$ 2,226	$ 216	$ 2,442
Investment securities and Federal Home Loan Bank stock	53	(74)	(21)	(41)	43	2
Interest-bearing deposits	58	(7)	51	(8)	7	(1)
Total interest and dividend income	2,045	(289)	1,756	2,177	266	2,443
Interest expense:						
Deposits	411	(102)	309	694	(57)	637
Borrowings	806	(52)	754	569	(2)	567
Total interest expense	1,217	(154)	1,063	1,263	(59)	1,204
Net interest income	$ 828	$ (135)	$ 693	$ 914	$ 325	$ 1,239

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

	Years Ended December 31,								
	1998			1997			1996		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 184,924	$ 15,524	8.39%	$ 161,156	$13,752	8.53%	$ 134,775	$11,283	8.37%
Commercial loans	260	32	12.31	764	71	9.29	1,080	105	9.72
Other loans	988	86	8.70	1,075	93	8.65	994	86	8.65
Total loans (1) (2)	186,172	15,642	8.40	162,995	13,916	8.54	136,849	11,474	8.38
Investment securities (3) (4)	37,431	2,176	5.81	36,537	2,197	6.01	37,218	2,195	5.90
Interest-bearing deposits	6,510	343	5.27	5,414	292	5.39	5,564	293	5.27
Total earning assets	230,113	18,161	7.89	204,946	16,405	8.00	179,631	13,962	7.77
Other assets	7,447			6,481			6,277		
Total assets	$ 237,560			$ 211,427			$ 185,908		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
NOW accounts (5)	$ 14,026	158	1.13	$ 13,173	169	1.28	$ 12,980	184	1.42
Money market deposits	20,641	595	2.88	20,600	621	3.01	20,269	606	2.99
Regular	32,712	806	2.46	31,257	783	2.51	31,292	783	2.50
Term certificates	89,747	5,013	5.59	83,257	4,690	5.63	71,153	4,053	5.70
Total interest-bearing deposits	157,126	6,572	4.18	148,287	6,263	4.22	135,694	5,626	4.15
Borrowings	46,260	2,651	5.73	32,212	1,897	5.89	22,557	1,330	5.90
Total interest-bearing liabilities	203,386	9,223	4.53	180,499	8,160	4.52	158,251	6,956	4.40
Demand deposits	10,208			9,291			7,854		
Other liabilities	1,194			1,188			1,323		
Stockholders' equity	22,772			20,449			18,480		
Total liabilities and stockholders' equity	$ 237,560			$ 211,427			$ 185,908		
Net interest income		$ 8,938			$ 8,245			$ 7,006	
Weighted average rate spread			3.36%			3.48%			3.37%
Net yield on average earning assets (6)			3.88%			4.02%			3.90%

(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.

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

	Years Ended December 31,								
	1998			1997			1996		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 184,924	$ 15,524	8.39%	$ 161,156	$13,752	8.53%	$ 134,775	$11,283	8.37%
Commercial loans	260	32	12.31	764	71	9.29	1,080	105	9.72
Other loans	988	86	8.70	1,075	93	8.65	994	86	8.65
Total loans (1) (2)	186,172	15,642	8.40	162,995	13,916	8.54	136,849	11,474	8.38
Investment securities (3) (4)	37,431	2,176	5.81	36,537	2,197	6.01	37,218	2,195	5.90
Interest-bearing deposits	6,510	343	5.27	5,414	292	5.39	5,564	293	5.27
Total earning assets	230,113	18,161	7.89	204,946	16,405	8.00	179,631	13,962	7.77
Other assets	7,447			6,481			6,277		
Total assets	$ 237,560			$ 211,427			$ 185,908		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
NOW accounts (5)	$ 14,026	158	1.13	$ 13,173	169	1.28	$ 12,980	184	1.42
Money market deposits	20,641	595	2.88	20,600	621	3.01	20,269	606	2.99
Regular	32,712	806	2.46	31,257	783	2.51	31,292	783	2.50
Term certificates	89,747	5,013	5.59	83,257	4,690	5.63	71,153	4,053	5.70
Total interest-bearing deposits	157,126	6,572	4.18	148,287	6,263	4.22	135,694	5,626	4.15
Borrowings	46,260	2,651	5.73	32,212	1,897	5.89	22,557	1,330	5.90
Total interest-bearing liabilities	203,386	9,223	4.53	180,499	8,160	4.52	158,251	6,956	4.40
Demand deposits	10,208			9,291			7,854		
Other liabilities	1,194			1,188			1,323		
Stockholders' equity	22,772			20,449			18,480		
Total liabilities and stockholders' equity	$ 237,560			$ 211,427			$ 185,908		
Net interest income		$ 8,938			$ 8,245			$ 7,006	
Weighted average rate spread			3.36%			3.48%			3.37%
Net yield on average earning assets (6)			3.88%			4.02%			3.90%

(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, installment and commercial loans, and the investment portfolio. The Bank earned an average yield of 7.89% on these assets in 1998, as compared to 8.00% in 1997, and 7.77% in 1996. For 1998, 1997 and 1996, interest income totaled $18.2 million, $16.4 million, and $14.0 million, respectively. Average total earning assets increased $25.2 million, or 12%, in 1998 over 1997 and $25.3 million, or 14%, in 1997 over 1996. The Bank achieved this growth by continuing to focus on real estate lending and decreasing its emphasis on the investment portfolio.

Average deposit and borrowing balances increased in 1998 and 1997 as the Bank employed these sources to fund its loan growth. As a result, interest expense, which is incurred on certificates of deposit, NOW, savings and money market deposit accounts, Federal Home Loan Bank ("FHLB") advances and other borrowings, collectively increased in these periods.

The average rate paid on interest-bearing deposit accounts was 4.18% during 1998, as compared to 4.22% for 1997, and 4.15% for 1996. Over the three periods, the average rate paid on each deposit type has decreased. However, the balances held within each deposit type have fluctuated over the three periods, resulting in a shift to higher-yielding funds. This is evidenced by the certificate of deposit category which comprised 57% of average interest-bearing deposits in 1998, 56% in 1997, and 52% in 1996.

Interest expense on borrowings continued to rise during 1998, resulting primarily from an increase in advances. However, the average rate paid on borrowings continued to decline to 5.73% in 1998 from 5.89% in 1997 and 5.90% in 1996 due to the downturn in market interest rates. Also, during 1998, the Bank continued its participation as a note option depository for treasury, tax and loan deposits which allowed it to borrow short-term funds at a preferred interest rate.

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. The provision for loan losses for 1998 was $151,000 as compared to $174,000 in 1997, and $107,000 in 1996. In 1998 and 1996 net recoveries of previously charged-off loans enabled the Bank to maintain an adequate level of allowance for loan losses with a lower annual provision.

Other Income

The most significant component of other income was fees earned on customer accounts with $441,000 reported for 1998, $491,000 for 1997, and $451,000 for 1996. In 1998, customer service fees declined as a result of a lower volume of fee-based transactions and the introduction of the "Completely Free" checking account. This new product has dramatically increased the non-interest bearing deposit base which has positively contributed to the net interest margin. In 1997, the increase in fees reflected a higher volume of transactions along with a modest rise in the fee schedule.

Other income is also comprised of net gains or losses on sales of investments and loans. In 1998, the Bank reported $106,000 in net gains on sales of loans and securities classified as available for sale. There were no such sales in 1997 and 1996.

Operating Expenses

As a percentage of average total assets, expenses declined steadily to 1.99% in 1998 from 2.11% in 1997 and 2.19% in 1996.

Salaries and employee benefits were the largest component of operating expenses at $2.7 million for 1998, $2.5 million for 1997, and $2.3 million for 1996. Annual merit-based raises have contributed to the increase in salary expenses.

Occupancy and equipment expenses increased over the three periods. In 1998, the increase was the result of refurbishment of the main office and select computer equipment upgrades. In 1997, the increase was primarily the result of a Bank-wide computer system upgrade. The result of these improvements will be the ability to meet customer needs, enhance administrative efficiency, and lower maintenance expenses. In 1999, it is anticipated that these expenses will rise further due to the addition of a new branch office in South Weymouth.

All other operating expenses including data processing, deposit insurance, legal, and other were $1.4 million combined for 1998, $1.5 million for 1997, and $1.3 million for 1996. The Bank has successfully controlled these expenses despite significant asset growth and increased account and transaction volumes over the three periods.

Income Taxes

The Bank's effective tax rate for 1998, 1997 and 1996 was 37.6%, 37.7% and 40.7%, respectively. In 1997 the Bank employed strategies with respect to its securities portfolio which reduced its effective tax rate. The Bank continues to explore strategies which may have the effect of further reducing its effective tax rate.

COMPARISON OF THE YEARS 1998 AND 1997

BALANCE SHEET ANALYSIS

The Bank had total assets of $260.1 million at December 31, 1998, an increase of $37.5 million, or 17%, from the $222.6 million level at year end 1997.

Loans

At December 31, 1998, the Bank reported net loans of $204.8 million, or 79% of total assets. Comparably at December 31, 1997, net loans were $172.8 million, or 78% of total assets. This growth of $31.9 million, or 18%, was achieved through the origination of $81.4 million in mortgage and other loan products. A stringent underwriting policy continues to complement this lending strategy. At December 31, 1998 and 1997, mortgage loans accounted for more than 99% of gross loans with commercial mortgages representing approximately 49% of the mortgage portfolio in 1998 and 1997.

The Bank's lending strategy during 1998 and 1997 has been to provide commercial property, single family, and multi-family loans at an initial fixed rate for three 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 also offers home equity loans indexed to the prime lending rate.

The Bank's loan portfolio is reported net of the allowance for loan losses. At December 31, 1998 and 1997, the allowance had a balance of $1.7 million and $1.6 million, respectively. The allowance is maintained at a level adequate to absorb losses. Loan losses are charged against the allowance when the collectibility of loan principal becomes unlikely. Recoveries are recorded as additional reserves when received. For 1998 there were $18,000 in recoveries of previously charged-off loans and no loan charge-offs. There were $6,000 in recoveries and $13,000 in charge-offs in 1997.

Non-accrual loans totaled $492,000, or 0.19% of total assets, at December 31, 1998, as compared to $1.7 million, or 0.77% of total assets, at year end 1997. The decrease in non-accrual loans is primarily the result of two mortgage borrowers, with whom the Bank worked to resolve the delinquency. In 1998 there was a total of $1.5 million in loans 90 days or more past due and still accruing. These were matured loans and were all current with regard to interest payments. There was no foreclosed real estate held during 1998 or 1997.

The following table presents information regarding the Bank's non-accrual loans:

At December 31,	1998	1997
	(In Thousands)	
Residential Mortgages [1]	$ 229	$1,200
Commercial Mortgages	263	502
Commercial Loans	—	5
Installment Loans	—	1
Total Non-accrual Loans	$ 492	$1,708

(1) *Includes home equity loans.*

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, 1998, the portfolio was comprised of mortgage-backed and agency issues for a total of $28.2 million, or 11% of total assets, as compared to $35.4 million, or 16% of total assets, at year end 1997. 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.

At December 31, 1998, $8.5 million, or 30% of the Bank's investment portfolio, was comprised of mortgage-backed securities, a decline of $8.8 million from the $17.3 million held at December 31, 1997. These securities are subject to declines in principal balances due to principal repayments. Repayments tend to increase as market interest rates fall and the individual underlying mortgages are refinanced at lower rates. Conversely, repayments tend to decrease as market interest rates rise.

At year end 1998 and 1997, the entire investment portfolio was classified as available for sale and was carried at fair value with unrealized gains or losses reported in accumulated other comprehensive income as a separate component of stockholders' equity. The unrealized gain on the investment portfolio amounted to $87,000, net of tax effects, at December 31, 1998 as compared to an unrealized loss of $50,000 at year end 1997, reflecting an improvement in market conditions. The fair value of securities fluctuates with the movement of interest rates. Generally, during periods of decreasing interest rates, the fair values increase whereas the opposite may hold true during a rising interest rate environment.

Deposits

At December 31, 1998, the Bank held a total of $178.7 million in deposits, an increase of $18.2 million, or 11%, from the $160.5 million in deposits at year end 1997. The Bank offers a wide range of products, competitively priced, accompanied by quality service. During the first quarter of 1999, the Bank plans to open its fifth branch office, in South Weymouth.

Primary competition for deposits are other banks and credit unions 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, provides an advantage in allaying customer concerns regarding the safety of deposits.

Core deposits, comprised of savings, NOW, money market and demand deposit accounts were $86.1 million at December 31, 1998 as compared to $73.6 million at year end 1997, an increase of $12.5 million, or 17.0%. Certificates of deposit were $92.6 million, or 52% of total deposits, at December 31, 1998 as compared to $86.9 million, or 54% of total deposits, at year end 1997, an increase of $5.8 million.

Borrowings

The Bank had $55.0 million in FHLB advances at December 31, 1998, as compared to $38.1 million at year end 1997. The Bank borrowed an additional $16.9 million in 1998 to fund growth in the loan portfolio and to effectively manage its interest rate sensitivity position. During 1997, the Bank increased its note option depository for treasury, tax and loan deposits which provides the Bank with an additional source of short-term funding at a preferred interest rate. At December 31, 1998 and 1997, there was $56,000 and $319,000, respectively, in such borrowings.

Liquidity and Capital Resources

The Bank's primary sources of liquidity are its available-for-sale securities portfolio, principal and interest payments on loans and investment securities, net increases in deposit balances, and FHLB advances.

As a member of the Federal Home Loan Bank of Boston, the Bank is eligible to obtain both short and long-term credit advances. The Bank can borrow up to approximately $74.5 million to meet its borrowing needs, based on the Bank's available qualified collateral which consists primarily of 1-4 family residential mortgages. Upon specific approval from the FHLB, the Bank may also pledge securities and other mortgages as collateral to secure as much as $57.5 million in additional borrowings. At December 31, 1998, the Bank had $55.0 million in advances.

The Bank can also enter into repurchase agreement transactions should the need for additional liquidity arise. At December 31, 1998, the Bank had no repurchase agreements outstanding.

At December 31, 1998, the Bank had capital of $23.7 million, or 9.10% of total assets, as compared to $21.4 million, or 9.60%, at December 31, 1997. Total capital is adjusted by the unrealized gains or losses in the Bank's available-for-sale securities portfolio, and as such it is subject to fluctuations resulting from changes in the market values of its investment securities. At December 31, 1998 the Bank's entire securities portfolio was classified as available for sale, which had the effect of increasing capital by $87,000. In comparison, at year end 1997 capital was reduced by $50,000.

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 and average total assets. The Bank's ratios exceeded these regulatory capital requirements in both 1998 and 1997.

High capital levels were maintained despite a more aggressive dividend policy. During 1998 the Bank declared dividends of $0.49 per share, which included an $0.11 per share special dividend which was declared in the fourth quarter. In comparison, in 1997, the Bank declared dividends of $0.40 per share, which included a $0.09 per share special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share into earnings per share, increased to 32.03% for 1998 as compared to 29.41% for 1997.

On September 4, 1998, the Board of Directors declared a three-for-two stock split, effected in the form of a stock dividend. The split had the effect of increasing the number of shares outstanding from 1.3 million to nearly 2.0 million. The stock split also had the effect of reclassification of $654,000 from additional paid-in capital to common stock. All current

and historical per-share amounts presented in this 1998 Annual Report have been adjusted to reflect this event.

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.

IMPACT OF THE YEAR 2000 ISSUE

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which may result in a system failure or miscalculations. This could cause disruption to operations, including, among other things, a temporary inability to process transactions or engage in normal business activities.

The Bank has assessed the potential impact of the Year 2000 Issue on its key operational areas. Virtually all of the Bank's deposit and loan data processing is supplied by one vendor who has substantially completed renovations of its software. The first stage of the testing process was completed in October of 1998, and the results indicated that in all material respects, the software will accurately calculate date-sensitive data.

The Bank has also completed testing of other critical systems such as the components of its wide-area network, its interface with the Federal Reserve Bank of Boston and various accounting applications. In each case, the results have indicated Year 2000 compliancy.

The Bank continues to work with its other vendors who provide software, hardware, and other date-sensitive equipment to ensure that all systems will remain operational in the Year 2000 and beyond. Also under consideration are the Bank's commercial loan customers, whose operations may be impacted by Year 2000 problems and may subsequently impair their ability to meet their financial obligations to the Bank.

The Bank is in the process of refining and testing its Year 2000 Contingency Plan. The Plan defines the Bank's most critical functions and addresses the alternative and ancillary procedures which should be followed if the Year 2000 issue proves to be disruptive. The Plan is expected to be finalized by the second quarter of 1999.

It is the Bank's belief that all key systems are, or will be, Year 2000 compliant in advance of the millennium, and expenditures are not expected to be material.

FORWARD-LOOKING STATEMENTS

This annual report may contain statements relating to future results of the Bank (including certain projections and business trends) that are considered "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a result of certain risks and uncertainties including, but not limited to, changes in political and economic conditions, interest rate fluctuations, competitive product and pricing pressures within the Bank's market, bond market fluctuations, personal and corporate customers' bankruptcies, and inflation, as well as other risks and uncertainties.

ASSET/LIABILITY MANAGEMENT

The earnings of most banking institutions are exposed to interest rate risk because their balance sheets, both assets and liabilities, are predominantly interest bearing. It is the Bank's objective to minimize, to the degree prudently possible, its exposure to interest rate risk, bearing in mind that the Bank, by its very nature, will always be in the business of taking on interest rate risk. Interest rate risk is monitored on a quarterly basis by the Asset Liability Committee of the Bank. The primary tool used by the Bank in managing interest rate risk is income simulation modeling. Income simulation modeling measures changes in net interest income by projecting the future composition of the Bank's balance sheet and applying different interest rate scenarios. Management incorporates numerous assumptions into the simulation model, such as prepayment speeds, balance sheet growth and deposit elasticity. Rates are assumed to rise, or decline, steadily over a twelve-month period, then remain constant over the remaining period.

Assuming an upward shift in the yield curve resulting in a 200 basis-point increase in short-term rates and an approximate 54 basis-point increase in long-term rates, management estimates a 1.65% decrease in net interest income over a 24-month period. Conversely, management estimates a 1.81% decrease in net interest income over a 24-month period assuming a downward shift in the yield curve resulting in a 200 basis-point decrease in short-term rates and an approximate 74 basis-point decrease in long-term rates.

Management's Discussion and Analysis

The Bank's interest rate risk exposure is believed to be managed and well within pre-defined limits.

To a significantly lesser degree, the Bank also utilizes GAP analysis which involves comparing the difference between interest-rate sensitive assets and liabilities that mature or reprice during a given period of time. However, GAP analysis does not measure the financial impact of mismatched assets to liabilities, nor does it measure the velocity at which assets and liabilities reprice.

During 1998, the Bank took advantage of lower long-term interest rates by lengthening the terms of its borrowings. At December 31, 1998, 68% of the borrowing balance matured within two years as compared to December 31, 1997 when 100% of the borrowings matured within the same time period. The Bank's assets were also affected by the lower interest rate environment. There was $20.4 million in prepayments, calls, sales and maturities of investments during the year, the majority of which were longer term and higher yielding. Mortgage customers preferred longer-term fixed-rate mortgages, as evidenced by the $5.6 million increase in the greater-than-five-year, fixed-rate category, and the $20.2 million increase in fixed-rate loans overall. Some adjustable-rate loans lengthened as well, with approximately 88% of the portfolio repricing within three years at year end 1998 as compared to 94% at year end 1997.

The following tables present interest-rate sensitive assets and liabilities categorized by expected maturity (or interest rate adjustment date, if earlier) and weighted average rate. Expected maturities are contractual maturities adjusted for amortization and prepayment of principal. Prepayment speeds range from 4% to 24% depending upon the particular asset category. Generally, adjustable rate loans are indexed to Prime or Treasury rates and can reprice as much as 200 basis points per year and 600 basis points over the life of the loan. Non-certificate deposits do not have contractual maturities. The tables reflect management's assumptions about the repricing characteristics of such deposits.

December 31,1998

Maturing or repricing within:	One Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Thereafter	Total
	(Dollars in Thousands)						
Interest-earning assets:							
Investments, at cost	$ 27,142	$ 11,485	$ 2,480	$ 112	$ 144	$ 84	$ 41,447
	5.37%	5.81%	5.79%	6.76%	5.98%	6.53%	5.52%
Loans:							
Fixed rate	$ 32,625	$ 17,781	$ 12,964	$ 9,618	$ 9,613	$ 30,237	$112,838
	8.37%	8.23%	8.02%	7.88%	7.74%	8.05%	8.13%
Adjustable rate	$ 51,124	$ 19,401	$ 11,790	$ 4,809	$ 5,994	$ 537	$ 93,655
	8.59%	8.60%	8.44%	8.25%	8.33%	10.36%	8.55%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 34,208	$ 11,487	$ 27,211	$ —	$ —	$ —	$ 72,906
	2.84%	2.52%	1.83%	—	—	—	2.41%
Term certificates	$ 69,196	$ 19,333	$ 2,947	$ 587	$ 585	$ —	$ 92,648
	5.31%	5.93%	5.60%	5.84%	5.52%		5.45%
Borrowings	$ 23,556	$ 14,000	$ 6,000	$ 1,000	$ 1,500	$ 9,000	$ 55,056
	5.45%	5.36%	5.73%	5.83%	5.36%	5.27%	5.43%

December 31,1997

Maturing or repricing within:	One Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Thereafter	Total
	(Dollars in Thousands)						
Interest-earning assets:							
Investments, at cost	$ 13,127	$ 9,113	$ 9,187	$ 1,150	$ 656	$ 5,685	$ 38,918
	6.41%	6.45%	6.44%	6.82%	7.13%	6.52%	6.47%
Loans:							
Fixed rate	$ 23,013	$ 22,281	$ 10,931	$ 6,969	$ 4,890	$ 24,595	$ 92,679
	8.63%	8.41%	8.28%	8.03%	7.71%	7.64%	8.18%
Adjustable rate	$ 46,542	$ 13,443	$ 16,981	$ 2,716	$ 1,108	$ 1,051	$ 81,841
	9.03%	8.31%	8.71%	8.61%	8.49%	8.48%	8.82%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 20,359	$ 20,359	$ 23,973	$ —	$ —	$ —	$ 64,691
	2.75%	2.75%	1.80%	—	—	—	2.40%
Term certificates	$ 63,632	$ 13,793	$ 7,781	$ 1,262	$ 408	$ —	$ 86,876
	5.58%	5.84%	6.45%	5.71%	6.03%	—	5.70%
Borrowings	$ 33,466	$ 5,000	$ —	$ —	$ —	$ —	$ 38,466
	5.84%	5.96%	—	—	—	—	5.85%

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, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hingham Institution for Savings and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

Wolf + Company, P.C

Boston, Massachusetts
January 22, 1999

Consolidated Balance Sheets

ASSETS

	December 31, 1998	December 31, 1997
	(In Thousands)	
Cash and due from banks	$ 5,227	$ 3,804
Interest-bearing deposits	13,346	3,464
Cash and cash equivalents	18,573	7,268
Securities available for sale	28,235	35,369
Loans, net of allowance for loan losses of $1,729,000 in 1998 and $1,560,000 in 1997	204,774	172,839
Banking premises and equipment, net	3,173	2,633
Accrued interest receivable	1,330	1,243
Deferred income tax asset, net	930	994
Federal Home Loan Bank stock, at cost	2,750	1,900
Other assets	311	338
	$ 260,076	$ 222,584

LIABILITIES AND STOCKHOLDERS' EQUITY

	1998	1997
Deposits	$ 178,741	$ 160,506
Federal Home Loan Bank advances	55,000	38,147
Other borrowed funds	56	319
Mortgagors' escrow accounts	637	451
Accrued interest payable	308	205
Other liabilities	1,658	1,579
Total liabilities	236,400	201,207
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $1.00 par value, 2,500,000 shares authorized; none issued	—	—
Common stock, $1.00 par value, 5,000,000 shares authorized; 1,964,250 and 1,955,250 shares issued and outstanding in 1998 and 1997, respectively	1,964	1,956
Additional paid-in capital	8,154	8,041
Undivided profits	13,471	11,430
Accumulated other comprehensive income (loss)	87	(50)
Total stockholders' equity	23,676	21,377
	$ 260,076	$ 222,584

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31, 1998	1997	1996
	(In Thousands, Except Per Share Data)		
Interest and dividend income:			
Loans	$15,642	$13,916	$11,474
Investment securities	2,176	2,197	2,195
Interest-bearing deposits	343	292	293
Total interest and dividend income	18,161	16,405	13,962
Interest expense:			
Deposits	6,572	6,263	5,626
Borrowed funds	2,651	1,897	1,330
Total interest expense	9,223	8,160	6,956
Net interest income	8,938	8,245	7,006
Provision for loan losses	151	174	107
Net interest income, after provision for loan losses	8,787	8,071	6,899
Other income:			
Customer service fees on deposits	441	491	451
Gain on sales of securities available for sale, net	48	—	—
Gain on sale of loans	58	—	—
Other	195	162	163
Total other income	742	653	614
Operating expenses:			
Salaries and employee benefits	2,711	2,467	2,268
Data processing	332	339	331
Occupancy and equipment	573	539	485
Legal	16	29	10
Deposit insurance	24	22	4
Other	1,060	1,062	968
Total operating expenses	4,716	4,458	4,066
Income before income taxes	4,813	4,266	3,447
Income tax provision	1,811	1,607	1,403
Net income	$ 3,002	$ 2,659	$ 2,044
Earnings per share:			
Basic	$ 1.53	$ 1.36	$ 1.05
Diluted	$ 1.49	$ 1.33	$ 1.04

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 1998, 1997 and 1996

	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
			(In Thousands)		
Balance at December 31, 1995	$1,295	$8,597	$8,082	$(155)	$17,819
Comprehensive income:					
Net income	—	—	2,044	—	2,044
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	(89)	(89)
Total comprehensive income					1,955
Stock options exercised, after tax effect of $11,000	3	19	—	—	22
Cash dividends declared ($0.30 per share)	—	—	(584)	—	(584)
Balance at December 31, 1996	1,298	8,616	9,542	(244)	19,212
Comprehensive income:					
Net income	—	—	2,659	—	2,659
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	194	194
Total comprehensive income					2,853
Stock options exercised, after tax effect of $20,000	6	77	—	—	83
Cash dividends declared ($0.40 per share)	—	—	(771)	—	(771)
Balance at December 31, 1997	1,304	8,693	11,430	(50)	21,377
Comprehensive income:					
Net income	—	—	3,002	—	3,002
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	137	137
Total comprehensive income					3,139
Three for two stock split	654	(654)	—	—	—
Stock options exercised, after tax effect of $39,000	6	115	—	—	121
Cash dividends declared ($0.49 per share)	—	—	(961)	—	(961)
Balance at December 31, 1998	$1,964	$8,154	$13,471	$87	$23,676

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31, 1998	1997	1996
		(In Thousands)	
Cash flows from operating activities:			
Net income	$3,002	$2,659	$2,044
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	151	174	107
Amortization of securities, net	117	151	242
Amortization of deferred loan origination fees, net	(27)	(52)	(73)
Depreciation	283	248	195
Gain on sale of securities available for sale, net	(48)	—	—
Gain on sale of loans	(58)	—	—
Gain on sale of foreclosed real estate	—	—	(31)
Deferred tax benefit	(18)	(20)	(16)
Changes in operating assets and liabilities:			
Accrued interest receivable	(87)	(183)	(12)
Other assets	27	87	(49)
Accrued interest payable and other liabilities	135	(402)	(164)
Net cash provided by operating activities	3,477	2,662	2,243
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Sales	5,047	—	—
Maturities, prepayments and calls	15,328	8,123	10,446
Purchases	(13,091)	(10,996)	(3,991)
Loans originated, net of payments received	(35,128)	(21,795)	(31,694)
Proceed from sale of loans	3,127	—	—
Proceeds from sale of foreclosed real estate	—	—	31
Increase in Federal Home Loan Bank stock	(850)	(450)	(250)
Additions to banking premises and equipment	(823)	(463)	(117)
Net cash used in investing activities	(26,390)	(25,581)	(25,575)

(continued)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Concluded)

	Years Ended December 31,		
	1998	1997	1996
	(In Thousands)		
Cash flows from financing activities:			
Increase in deposits, net	$18,235	$10,491	$16,973
Increase in mortgagors' escrow accounts	186	159	5
Proceeds from stock options exercised	82	63	11
Cash dividends paid on common stock	(875)	(690)	(545)
Proceeds (repayments) from borrowings with maturities of less than three months	(410)	(2,976)	3,442
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	53,500	38,500	24,000
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(36,500)	(27,000)	(19,500)
Net cash provided by financing activities	34,218	18,547	24,386
Net increase (decrease) in cash and cash equivalents	11,305	(4,372)	1,054
Cash and cash equivalents at beginning of year	7,268	11,640	10,586
Cash and cash equivalents at end of year	$18,573	$ 7,268	$11,640
Supplementary information:			
Interest paid on deposit accounts	$ 6,559	$ 6,684	$ 5,579
Interest paid on borrowed funds	2,561	1,853	1,300
Income taxes paid	1,941	1,658	1,734

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended December 31, 1998, 1997, and 1996

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, Hingham Securities Corporation and Hingham Motel Corporation. Hingham Securities Corporation holds title to securities available for sale and Hingham Motel Corporation was dissolved in December 1998. All intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Business

The Bank provides a variety of financial services to individuals and small businesses through its five offices in southeastern Massachusetts. Its primary deposit products are savings, checking, and term certificate accounts, and its primary lending products are residential and commercial mortgage loans.

Reclassification and restatement

Prior period common per share data has been restated to reflect the Bank's three for two stock split declared on September 4, 1998 to shareholders of record on September 14, 1998. In addition, certain amounts have been reclassified in the 1997 and 1996 consolidated financial statements to conform to the 1998 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.

Securities Available for Sale

Investments are classified as available for sale and reflected at fair value, with unrealized gains and losses, after tax effect, excluded from earnings and reported in accumulated other comprehensive income as a separate component of stockholders' equity.

Federal Home Loan Bank of Boston stock is reflected at cost.

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.

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, construction and general economic sectors.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, 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. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is 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. Substantially all of the Bank's loans which are identified as impaired are measured by the fair value of existing collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures.

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.

Transfers of financial assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Income taxes

Deferred tax assets and liabilities are 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. The Bank's base amount of its federal income tax

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

reserve for loan losses is a permanent difference for which there is no recognition of a deferred tax liability. However, the loan loss allowance maintained for financial reporting purposes is a temporary difference with allowable recognition of a related deferred tax asset, if it is deemed realizable. The Bank and its subsidiaries file state and consolidated federal income tax returns based on an October 31 year end.

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.

Stock compensation plans

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No.123, "Accounting for Stock-Based Compensation," issued by the Financial Accounting Standards Board ("FASB"), the Bank has elected to continue to measure compensation cost for those plans using the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued under the Bank's stock option plans have no intrinsic value at the grant date, and under Opinion No. 25 no compensation cost is recognized for them. The Bank has elected to continue with the accounting methodology in Opinion No. 25 and, as a result, must make pro forma disclosures of net income and earnings per share and other disclosures, as if the fair value-based method of accounting had been applied. The pro forma disclosures required by SFAS No.123 include the effects of all awards granted on or after January 1, 1995.

Earnings per share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options and are determined using the treasury stock method.

For the year ended December 31, 1998, options applicable to 1,500 shares were anti dilutive and excluded from the diluted earnings per share computations. There were no such anti dilutive shares for the years ended December 31, 1997 and 1996.

Earnings per common share have been computed based on the following:

	Years Ended December 31,		
	1998	1997	1996
		(In Thousands)	
Average number of common shares outstanding	1,959	1,953	1,946
Effect of dilutive options	53	42	20
Average number of common shares outstanding used to calculate diluted earnings per common share	2,012	1,995	1,966

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Comprehensive income

The Bank adopted SFAS No. 130, "Reporting Comprehensive Income," as of January 1, 1998. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The adoption of SFAS No. 130 had no effect on the Bank's net income or stockholders' equity.

The components of the change in other comprehensive income and related tax effects are as follows:

	Years Ended December 31,		
	1998	1997	1996
		(In Thousands)	
Net unrealized holding gains (losses) on available-for-sale securities	$ 267	$ 326	$(134)
Reclassification adjustment for gains realized in income	(48)	—	—
Net unrealized gains (losses)	219	326	(134)
Tax effect	(82)	(132)	45
Net-of-tax amount	$ 137	$ 194	$ (89)

Recent accounting pronouncement

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," effective for fiscal years beginning after December 15, 1997. The Statement revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practical, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that were previously required by generally accepted accounting principles. The Bank has adopted these disclosure requirements for the years ended December 31, 1998, 1997, and 1996.

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, 1998 and 1997, cash and due from banks included $250,000 and $531,000, respectively, to satisfy such reserve requirements.

3. SECURITIES AVAILABLE FOR SALE

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

	December 31, 1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
U.S. Government and federal agency obligations	$ 19,595	$ 172	$ —	$ 19,767
Mortgage-backed - FHLMC	4,189	2	(23)	4,168
Mortgage-backed - FNMA	4,317	6	(23)	4,300
Total securities available for sale	$ 28,101	$ 180	$ (46)	$ 28,235

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
U.S. Government and federal agency obligations	$ 18,001	$ 83	$ (12)	$ 18,072
Mortgage-backed - FHLMC	7,656	22	(57)	7,621
Mortgage-backed - FNMA	7,897	12	(82)	7,827
REMIC's - FNMA	1,900	—	(51)	1,849
Total securities available for sale	$ 35,454	$ 117	$ (202)	$ 35,369

At December 31, 1998, the Bank has pledged U.S. Government obligations with an amortized cost of $1,100,000 and a fair value of $1,107,000 as collateral against its treasury, tax and loan account.

SECURITIES AVAILABLE FOR SALE (concluded)

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 1998 are shown below. Expected maturities will differ from contractual maturities because of prepayments and scheduled payments on mortgage-backed securities. Further, certain obligors have the right to call bonds and obligations without prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Bonds and obligations:		
Within 1 year	$ 8,503	$ 8,545
Over 1 year to 5 years	11,092	11,222
	19,595	19,767
Mortgage-backed securities:		
Within 1 year	1,508	1,509
Over 1 year to 5 years	3,263	3,260
Over 5 years to 10 years	284	287
Over 10 years	3,451	3,412
	8,506	8,468
Total debt securities	$ 28,101	$ 28,235

For the year ended December 31, 1998, proceeds from the sale of securities available for sale amounted to $5,047,000 resulting in gross realized gains of $63,000 and gross realized losses of $15,000. There were no sales of securities during 1997 or 1996.

4. LOANS

A summary of the balances of loans follows:

	December 31, 1998	1997
	(In Thousands)	
Mortgage loans:		
Residential	$ 87,804	$ 76,414
Commercial	101,004	84,362
Construction	9,835	8,071
Equity lines of credit	7,825	7,108
Second mortgages	1,656	570
	208,124	176,525
Unadvanced loan funds	(2,850)	(3,214)
Total mortgage loans, net	205,274	173,311
Other loans:		
Personal installment	917	895
Commercial	239	247
Revolving credit	63	67
Total other loans	1,219	1,209
Total loans	206,493	174,520
Allowance for loan losses	(1,729)	(1,560)
Net deferred interest and loan origination costs (fees)	10	(121)
Loans, net	$ 204,774	$ 172,839

The Bank has sold mortgage loans in the secondary mortgage market and has retained the servicing responsibility and receives fees for the services provided. Loans sold and serviced for others amounted to $6,230,000, $5,615,000, and $6,667,000 at December 31, 1998, 1997, and 1996, respectively. All loans serviced for others were sold without recourse provisions and are not included in the accompanying consolidated balance sheets.

LOANS (concluded)

An analysis of the allowance for loan losses follows:

	Years Ended December 31,		
	1998	1997	1996
		(In Thousands)	
Balance at beginning of year	$1,560	$1,393	$1,277
Provision for loan losses	151	174	107
Loans charged-off	—	(13)	(48)
Recoveries on loans previously charged-off	18	6	57
Balance at end of year	$1,729	$1,560	$1,393

The following is a summary of information pertaining to impaired and non-accrual loans:

	December 31,	
	1998	1997
	(In Thousands)	
Impaired loans without a valuation allowance	$ 400	$ 189
Impaired loans with a valuation allowance	—	639
Total impaired loans	$ 400	$ 828
Valuation allowance allocated to impaired loans	$ —	$ 71
Non-accrual loans	$ 492	$ 1,708

	Years Ended December 31,		
	1998	1997	1996
		(In Thousands)	
Average investment in impaired loans	$413	$754	$992
Interest income recognized on impaired loans	$ 61	$103	$ 53
Interest income recognized on a cash basis on impaired loans	$ 61	$103	$ 53

At December 31,1998, there were no funds committed to be advanced in connection with impaired loans.

5. 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,		Estimated Useful
	1998	1997	Lives
	(In Thousands)		
Banking premises:			
Land	$ 683	$ 548	
Buildings	2,754	2,217	3 - 40 years
Equipment	1,845	1,694	3 - 25 years
	5,282	4,459	
Less accumulated depreciation	(2,109)	(1,826)	
	$ 3,173	$ 2,633	

Depreciation expense for the years ended December 31, 1998, 1997, and 1996 amounted to $283,000, $248,000, and $195,000, respectively.

At December 31, 1998, land, buildings, and equipment include $135,000, $519,000, and $55,000 respectively, related to a new branch to be opened in 1999. Remaining commitments to prepare the new branch location for operation amounted to approximately $242,000 at December 31, 1998.

6. DEPOSITS

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

	December 31,	
	1998	1997
	(In Thousands)	
Non-certificate accounts:		
Regular	$ 34,460	$ 31,285
Money market deposits	22,721	20,070
NOW	15,725	13,336
Demand	13,187	8,939
Total non-certificate accounts	86,093	73,630
Term certificates less than $100,000	68,853	64,065
Term certificates $100,000 or more	23,795	22,811
Total certificate accounts	92,648	86,876
Total deposits	$ 178,741	$ 160,506

DEPOSITS (concluded)

The maturity distribution of term certificates is as follows:

	December 31, 1998 Amount	1998 Weighted Average Rate	1997 Amount	1997 Weighted Average Rate
	(Dollars in Thousands)			
Within 1 year	$ 69,196	5.31%	$ 63,632	5.58%
Over 1 year to 2 years	19,333	5.93	13,793	5.84
Over 2 years to 3 years	2,947	5.60	7,781	6.45
Over 3 years to 5 years	1,172	5.68	1,670	5.79
	$ 92,648	5.45%	$ 86,876	5.70%

A summary of interest expense on deposits is as follows:

	Years Ended December 31, 1998	1997	1996
	(In Thousands)		
Regular	$ 806	$ 783	$ 783
Money market deposits	595	621	606
NOW	158	169	184
Term certificates	5,013	4,690	4,053
	$ 6,572	$ 6,263	$ 5,626

7. FEDERAL HOME LOAN BANK ADVANCES

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

Maturing During the Year Ending December 31,	December 31, 1998 Amount	1998 Weighted Average Rate	1997 Amount	1997 Weighted Average Rate
	(Dollars in Thousands)			
1998	$ —	—%	$ 33,147	5.84%
1999	23,500	5.45	5,000	5.96
2000	14,000	5.36	—	—
2001	6,000	5.73	—	—
2002	1,000	5.83	—	—
2003	1,500	5.36	—	—
Thereafter	9,000	5.27	—	—
	$ 55,000	5.43%	$ 38,147	5.86%

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 75% of the carrying value of first mortgage loans on owner-occupied residential property.

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 $4,633,000 at December 31, 1998.

8. INCOME TAXES

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

	Years Ended December 31, 1998	1997	1996
	(In Thousands)		
Current tax provision:			
Federal	$ 1,548	$ 1,343	$ 1,094
State	281	284	325
	1,829	1,627	1,419
Deferred tax provision (benefit):			
Federal	(15)	(17)	(5)
State	30	(3)	(11)
	15	(20)	(16)
Change in valuation reserve realization assumptions	(33)	—	—
	$ 1,811	$1,607	$1,403

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

	Years Ended December 31, 1998	1997	1996
Statutory rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	3.8	4.3	6.0
Other, net	(.2)	(.6)	.7
Effective tax rates	37.6%	37.7%	40.7%

INCOME TAXES (continued)

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

	December 31, 1998	December 31, 1997
	(In Thousands)	
Deferred tax asset:		
Federal	$ 870	$ 834
State	301	358
	1,171	1,192
Valuation reserve on asset	—	(55)
	1,171	1,137
Deferred tax liability:		
Federal	(194)	(111)
State	(47)	(32)
	(241)	(143)
Net deferred tax asset	$ 930	$ 994

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

	December 31, 1998	December 31, 1997
	(In Thousands)	
Allowance for loan losses	$ 679	$ 610
Employee benefits	278	239
Other accrued expenses	180	193
Fees on loans	(147)	(97)
Net unrealized (gain) loss on securities available for sale	(47)	35
Other	(13)	69
	930	1,049
Valuation reserve	—	(55)
Net deferred tax asset	$ 930	$ 994

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

	Years Ended December 31, 1998	1997	1996
	(In Thousands)		
Balance at beginning of year	$ 994	$ 1,106	$ 1,045
Deferred tax benefit	18	20	16
Net unrealized (gain) loss on securities available for sale	(82)	(132)	45
Balance at end of year	$ 930	$ 994	$ 1,106

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, 1998	1997	1996
	(In Thousands)		
Balance at beginning of year	$ 55	$ 57	$ 65
Benefits expired	(22)	(2)	(8)
Change in assumptions due to anticipation of future income	(33)	—	—
Balance at end of year	$ —	$ 55	$ 57

Tax reserve for loan losses

The federal income tax reserve for loan losses at the Bank's base year was $3,780,000. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used, limited to the amount of the reserve, will be subject to taxation in the fiscal year in which used. As the Bank intends to use the reserve only to absorb loan losses, a deferred tax liability of approximately $1,550,000 has not been provided.

9. 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, 1998 and 1997, the following financial instruments were outstanding with contract amounts representing credit risk:

	December 31, 1998	December 31, 1997
	(In Thousands)	
Unused lines of credit	$ 9,739	$ 8,483
Commitments to originate loans:		
Commercial mortgages	10,846	6,583
Residential mortgages	6,392	3,695
Standby letters of credit	30	30

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.

Employment agreements

The Bank has entered into employment agreements with certain senior executives. The original terms of the agreements are for three or two years and automatically extend unless either party gives notice to the contrary. The agreements generally provide for certain lump sum severance payments under certain circumstances, within a one-year period following a "change in control," as defined in the agreements.

Other contingencies

Various legal claims 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.

10. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 1998 and 1997, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31,1998 and 1997, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, it must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 1998 and 1997 are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
December 31,1998						
Total Capital to Risk-Weighted Assets	$25,318	14.59%	$13,881	8.0%	$17,352	10.0%
Tier 1 Capital to Risk-Weighted Assets	23,589	13.59	6,941	4.0	10,411	6.0
Tier 1 Capital to Average Assets	23,589	9.37	7,553 to 12,588	3.0 to 5.0	12,588	5.0
December 31,1997						
Total Capital to Risk-Weighted Assets	$22,987	15.66%	$11,741	8.0%	$14,676	10.0%
Tier 1 Capital to Risk-Weighted Assets	21,427	14.60	5,870	4.0	8,806	6.0
Tier 1 Capital to Average Assets	21,427	9.80	6,559 to 10,932	3.0 to 5.0	10,932	5.0

11. STOCK OPTION PLANS

At December 31,1998, the Bank has two fixed stock option plans as described below. The Bank applies APB Opinion 25 and related Interpretations in accounting for the plans. Accordingly, no compensation cost has been recognized for the plans. Had compensation cost for the plans been determined based on the fair value at the grant dates for awards under the plans consistent with the method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," the Bank's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Years Ended December 31,		
	1998	1997	1996
	(In Thousands, except per share amounts)		
Net Income:			
As reported	$3,002	$2,659	$2,044
Pro forma	2,993	2,651	1,966
Earnings per share:			
As reported	$ 1.53	$ 1.36	$ 1.05
Pro forma	1.53	1.36	1.01
Earnings per share-assuming dilution for stock options:			
As reported	$ 1.49	$ 1.33	$ 1.04
Pro forma	1.49	1.33	1.00

Under the Bank's 1988 and 1996 stock option plans, 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 were reserved for issuance pursuant to options granted under the 1988 plan, and a total of 60,000 shares of common stock were reserved for issuance pursuant to options granted under the 1996 plan. Both "incentive options" and "non-qualified options" may be granted under the plans. All options under both plans 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 from 1993 through 1998 are immediately exercisable, and options granted prior to 1993 vest over a five-year period.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Years Ended December 31,		
	1998	1997	1996
Dividend yield	1.91%	3.27%	3.27%
Expected life	10 years	10 years	10 years
Expected volatility	32.83%	13.57%	25.79%
Risk-free interest rate	5.68%	6.93%	6.11%

STOCK OPTION PLANS (concluded)

Stock option activity is as follows:

	Years Ended December 31,					
	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	145,500	$ 7.83	150,000	$ 7.65	105,750	$ 6.78
Granted	1,500	23.50	4,500	12.25	48,000	9.17
Exercised	(9,000)	9.17	(9,000)	7.00	(3,750)	2.67
Outstanding at end of year	138,000	$ 7.91	145,500	$ 7.83	150,000	$ 7.65
Options exercisable at end of year	138,000	$ 7.91	145,500	$ 7.83	150,000	$ 7.65
Weighted average fair value of options granted during the year		$ 9.87		$ 3.01		$ 2.74

Options outstanding consist of the following:

	December 31,			
	1998		1997	
Option price	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life In Years
$23.500	1,500	10	—	—
12.250	4,500	9	4,500	10
9.167	34,500	8	43,500	9
8.500	42,000	7	42,000	8
5.916	55,500	5	55,500	6
	138,000		145,500	

12. EMPLOYEE BENEFIT PLANS

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"). Each employee reaching the age of 21 and having completed at least one year of continuous service and 1,000 hours of service during each twelve-month period beginning with such employee's date of employment becomes a Participant of the Plan. All Participants become fully vested after three years of service or age 62 if earlier. 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, if required, are based on assessments from SBERA.

Net periodic pension cost is as follows:

	Plan Years Ended October 31,		
	1998	1997	1996
	(In Thousands)		
Service cost - benefits earned during year	$ 184	$ 128	$ 123
Interest cost on projected benefits	121	107	95
Expected return on plan assets	(164)	(145)	(111)
Net amortization and deferral	3	3	3
Amortization of net gain	(56)	(45)	(33)
Net periodic pension cost	$ 88	$ 48	$ 77

EMPLOYEE BENEFIT PLANS (concluded)

Information pertaining to the activity in the plan is as follows:

	Plan Years Ended October 31, 1998	1997
	(In Thousands)	
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 2,054	$ 1,808
Actual return on plan assets	165	328
Employer contribution	—	—
Benefits paid	(87)	(82)
Fair value of plan assets at end of year	2,132	2,054
Change in benefit obligation:		
Benefit obligation at beginning of year	1,660	1,425
Service cost	184	128
Interest cost	121	107
Actuarial loss (gain)	(37)	82
Benefits paid	(87)	(82)
Benefit obligation at end of year	1,841	1,660
Funded status	291	394
Unrecognized net actuarial gain	(981)	(1,000)
Unrecognized prior service cost	24	27
Accrued pension cost	$ (666)	$ (579)

For the plan years ended October 31, 1998, 1997, and 1996, actuarial assumptions include an assumed discount rate on benefit obligations of 6.75%, 7.25%, and 7.50%, respectively. An expected long-term rate of return on plan assets of 8.00% and an annual salary increase of 6.00% were utilized for all years.

401(k) Plan

Effective August 1, 1996, the Bank adopted a 401(k) Plan whereby each employee reaching the age of 21 and having completed at least 1,000 hours of service in a twelve-month period, beginning with date of employment, becomes eligible to participate in the Plan. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Bank does not make matching contributions to the Plan.

13. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to $20,000 at December 31, 1998 and $21,000 at December 31, 1997. In 1993, the Bank established a policy whereby new loans (excluding passbook loans) cannot be granted to employees, officers, or directors.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of estimated fair values of all financial instruments where it is practicable to estimate such values. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Statement No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank.

FAIR VALUE OF FINANCIAL INSTRUMENTS (concluded)

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts of cash, due from banks and interest-bearing deposits approximate fair values.

Securities available for sale: Fair values for securities available for sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Federal Home Loan Bank stock: The carrying value of Federal Home Loan Bank stock is deemed to approximate fair value based on the redemption provisions of the Federal Home Loan Bank of Boston.

Deposits: The fair values of non-certificate accounts are, by definition, equal to the amount payable on demand at the reporting date which is their carrying amount. Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank advances: The fair values of the Bank's borrowings are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Other borrowed funds: The carrying amounts of other borrowed funds approximate fair value.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. At December 31, 1998 and 1997, the fair value of commitments outstanding is not significant since fees charged are not material.

The carrying amounts and estimated fair values of the Bank's financial instruments are as follows:

	December 31, 1998 Carrying Amount	1998 Fair Value	1997 Carrying Amount	1997 Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 18,573	$ 18,573	$ 7,268	$ 7,268
Securities available for sale	28,235	28,235	35,369	35,369
Loans, net	204,774	208,524	172,839	174,668
Accrued interest receivable	1,330	1,330	1,243	1,243
Federal Home Loan Bank stock	2,750	2,750	1,900	1,900
Financial liabilities:				
Deposits	178,741	179,336	160,506	160,852
Federal Home Loan Bank advances	55,000	54,807	38,147	38,139
Other borrowed funds	56	56	319	319
Accrued interest payable	308	308	205	205

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 1998 and 1997 are as follows:

	Years Ended December 31,							
	1998				1997			
	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	$ 4,743	$ 4,548	$ 4,464	$ 4,406	$ 4,268	$ 4,214	$ 4,059	$ 3,864
Interest expense	2,416	2,309	2,285	2,213	2,143	2,102	1,995	1,920
Net interest income	2,327	2,239	2,179	2,193	2,125	2,112	2,064	1,944
Provision for loan losses	34	39	39	39	48	48	39	39
Net interest income, after provision for loan losses	2,293	2,200	2,140	2,154	2,077	2,064	2,025	1,905
Other income	215	155	218	154	173	144	157	179
Operating expenses	1,232	1,186	1,147	1,151	1,149	1,103	1,108	1,098
Income before income taxes	1,276	1,169	1,211	1,157	1,101	1,105	1,074	986
Income tax provision	451	449	468	443	420	424	411	352
Net income	$ 825	$ 720	$ 743	$ 714	$ 681	$ 681	$ 663	$ 634
Earnings per share(3):								
Basic	$ 0.42	$ 0.37	$ 0.38	$ 0.36	$ 0.35	$ 0.35	$ 0.34	$ 0.32
Diluted	$ 0.41	$ 0.36	$ 0.37	$ 0.35	$ 0.34	$ 0.34	$ 0.33	$ 0.32
Cash dividends declared per share	$ 0.21(1)	$ 0.10	$ 0.09	$ 0.09	$ 0.17(2)	$ 0.08	$ 0.08	$ 0.07

(1) Includes a special dividend of $0.11 per share declared on December 7, 1998.

(2) Includes a special dividend of $0.09 per share declared on December 1, 1997.

(3) Per share amounts have been adjusted to reflect the 3-for-2 stock split effected in the form of a stock dividend, declared on September 4, 1998.

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Form 10-K
A copy of the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 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 Stock Market under the symbol HIFS.

As of December 31, 1998 there were approximately 500 stockholders of record, holding 968,008 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
1997		
First Quarter	$12.83	$12.17
Second Quarter	14.50	12.00
Third Quarter	19.08	13.83
Fourth Quarter	19.33	17.83
1998		
First Quarter	$24.67	$18.33
Second Quarter	24.67	20.17
Third Quarter	20.17	15.17
Fourth Quarter	17.50	15.00

The closing sale price of the Bank's common stock at December 31, 1998 was $16.50 per share.

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