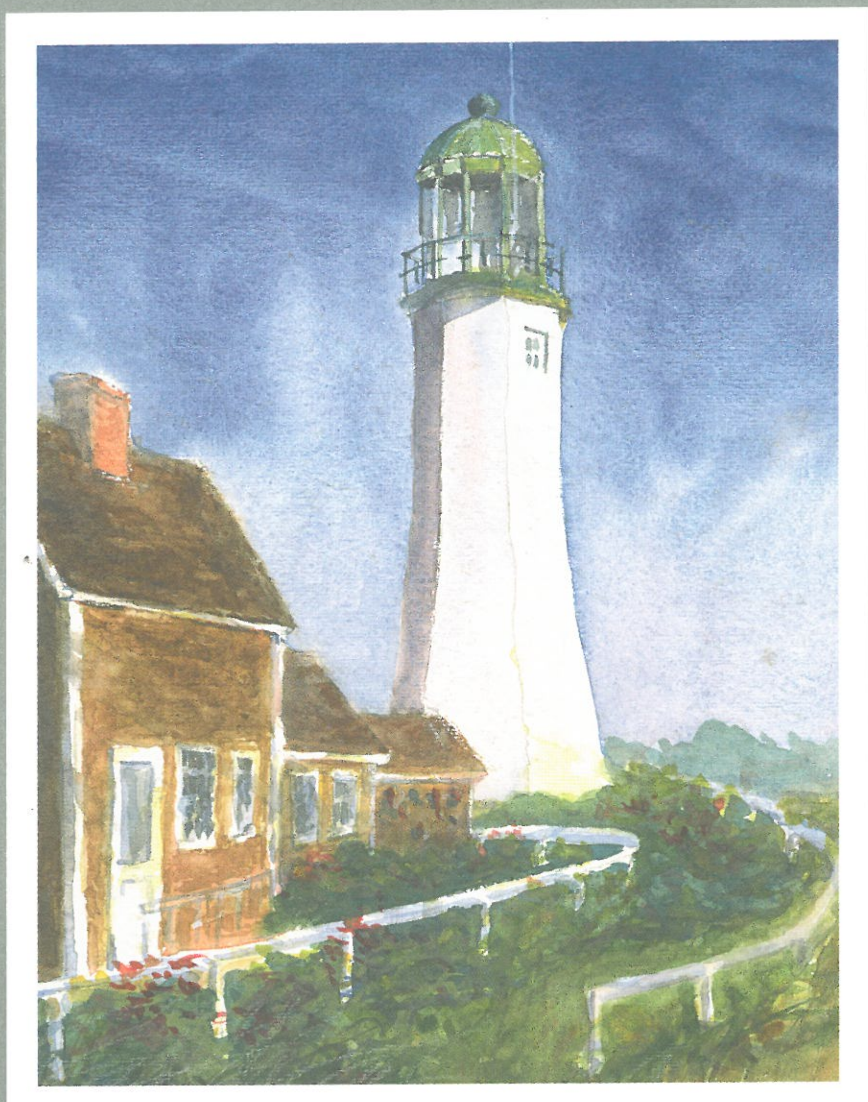
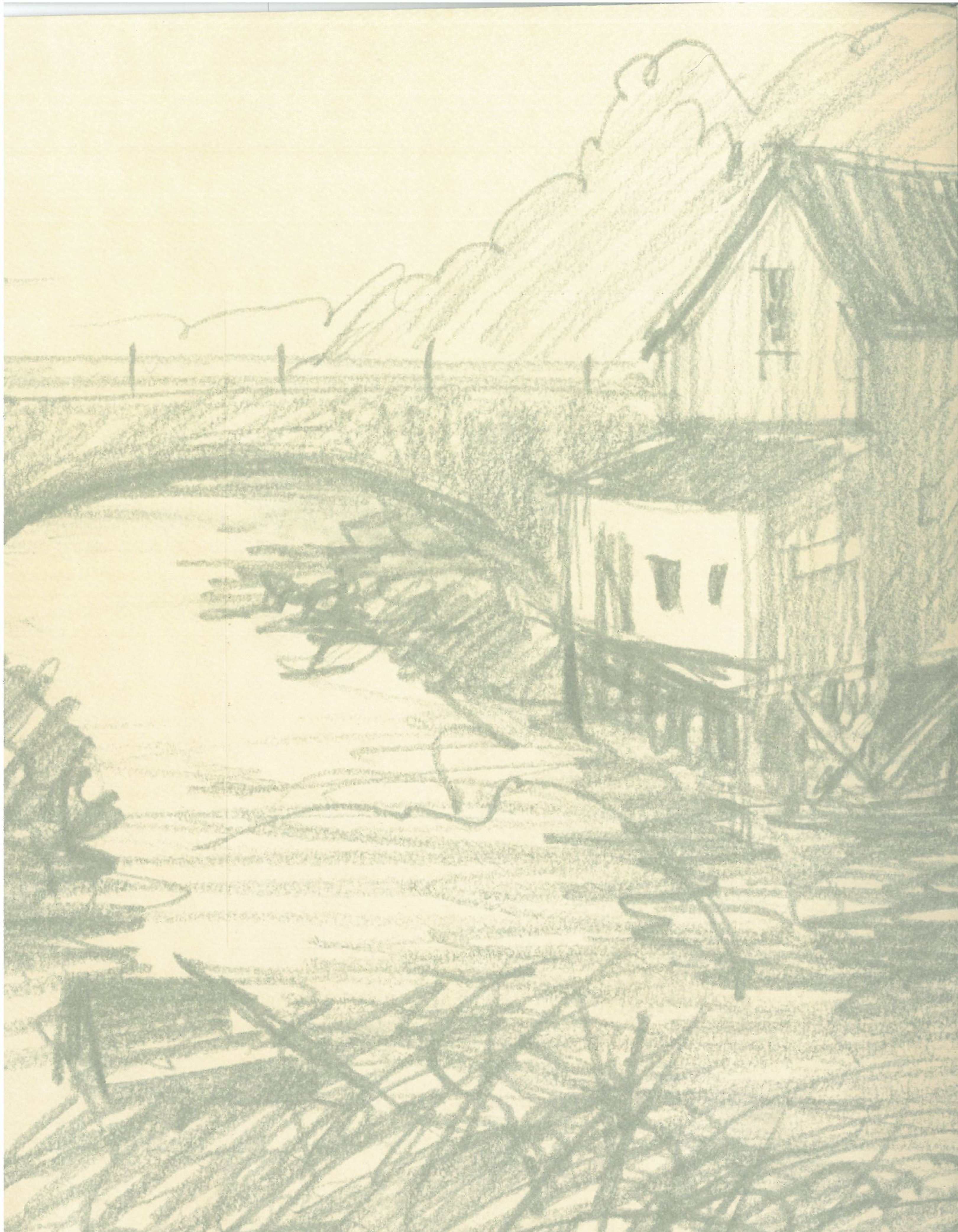
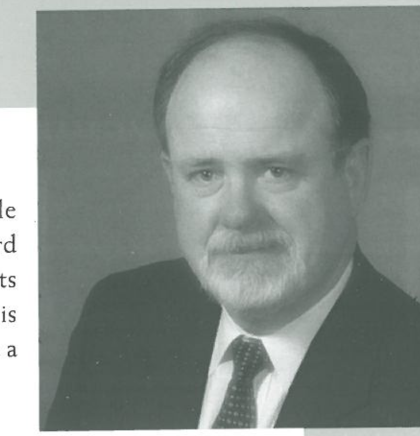
Hingham Institution for Savings



1999 Annual Report



President's Letter



Dear Shareholder:

We begin the twenty-first century in a position of remarkable financial strength. We have just completed a fourth year of record earnings. Our impressive growth rate in loans, deposits, and total assets remains firmly above industry averages. The quality of our assets is strong. Our expenses are well controlled. Our tier one capital level is a very healthy 9.16%.

In 1999 the Bank earned $3.2 million as compared to $3.0 million in 1998, $2.7 million in 1997, and $2.0 million in 1996. Our Return on Equity and Assets were 13.07% and 1.19% respectively.

Our total assets increased by 12.0% from $260.1 million at December 31, 1998 to $291.2 million at year end.

The loan portfolio increased by $24.9 million or 12.2%. The growth in our loan portfolio was fueled by a record $87.4 million in new loan originations for 1999. Additionally, our total deposits increased by $14.8 million or 8.3%. Our new Weymouth office, opened in 1999, has been well received and is contributing to this steady growth.

Our high level of asset quality was reflected by nonperforming loans totaling only 0.33% of total assets at year end. This asset quality is a direct result of an experienced lending team and the close involvement of a loan committee comprised of directors with significant ownership interest.

This performance allowed us to increase the dividends declared to stockholders by 18.4% over those of 1998. Additionally, our book value per share increased from $12.05 to $12.83.

The new millennium presents community banks with a sometimes bewildering array of opportunities. We remain blessed with a very healthy local economy, a knowledgeable management group, and a talented and dedicated staff. Our strategy of aggressively pursuing growth opportunities within our marketplace and remaining focused on the business lines with which we have significant experience has served us well. The continued development of our niche position as a multifamily real estate lender, in addition to our single family and home equity loan business, will produce favorable earnings potential. We are confident that consolidation within the industry will continue to provide real opportunity for those community banks that understand and capitalize on their strengths. In the longer term, we believe that the market will recognize the value inherent in a strong earnings performance.

We appreciate the continued support of our stockholders and customers and remain committed to the development of a bank that serves the best interests of both.

Very truly yours,

Robert H. Gaughen, Jr.
President & CEO

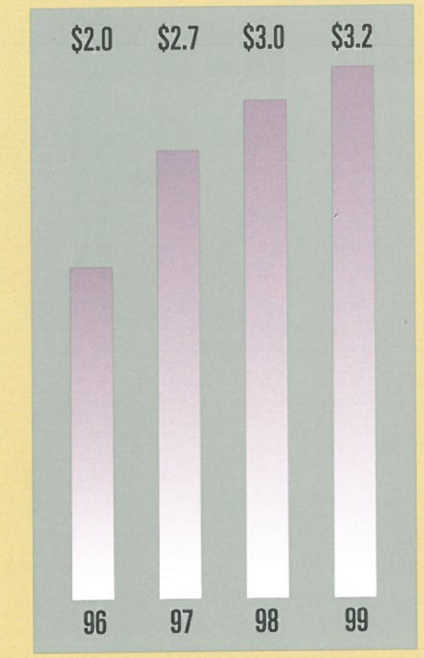
A community bank. Close to the ocean and close to our customers.

Founded in 1834, Hingham Institution for Savings was one of the first banks chartered in Massachusetts. We feel privileged to serve an area that is picturesque, vibrant, and rich in tradition. The strong community spirit is reflected in the importance our citizens place in local institutions, from town meetings to the preservation of historically significant landmarks, as well as an unwavering belief in locally controlled capital.

Our senior and middle management have deep roots in the community. Many staff members have years of loyal service to the bank and are on a first-name basis with regular customers. Additionally, our Board of Directors is comprised of local residents who are both active and heavily invested in the bank. This means that not only do they have a vested interest in the institution's well being, but they are also empathetic to the needs of customers in all the towns we serve.

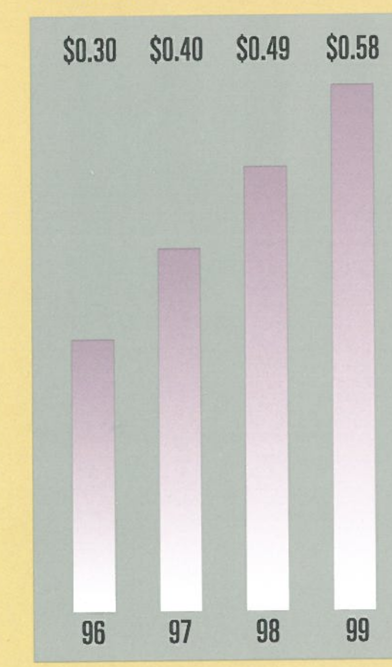
This commitment to serving our customers is reflected in our loan activity throughout the area. We are one of the major lenders in all of the towns we serve. Additionally, we are a niche lender in multifamily properties, both on the South Shore and in Boston.

Net Income
(in millions)



Growth in the loan portfolio and new fee opportunities, combined with the lowest operating expense ratio of its peers, translated into an **8%** *growth rate in net income for the year.*

Dividends Declared
(per share)



Steady growth in earnings has equated to steady growth in dividends. The Bank's payout ratio surpassed **35%** *in 1999.*

Growing up, growing strong on Boston's South Shore.

Hingham Institution for Savings is experiencing unprecedented growth within the coastal towns we serve. This is due in part to the vibrant economy in this part of Massachusetts, but more importantly, it can be attributed to the bank's sound management and forward-thinking practices.

*A strong **12%** growth in assets was fueled by more than $87 million in loan originations for the year.*

In the area of management, for example, our operating expenses are maintained at a level consistently lower than those of many other financial institutions. As a result, our profitability exceeds industry averages.

*The Bank has achieved seven consecutive years of double-digit loan growth with mortgage loans now accounting for nearly **80%** of total Bank assets.*

Looking to the future, we have invested aggressively in new technology and now have two Information Technology specialists on staff. We offer 24-hour telephone banking and our Internet banking operation should be fully functional in the summer of 2000. Daily, many customers visit our Web site for information.

Our address is: www.hinghamsavings.com.

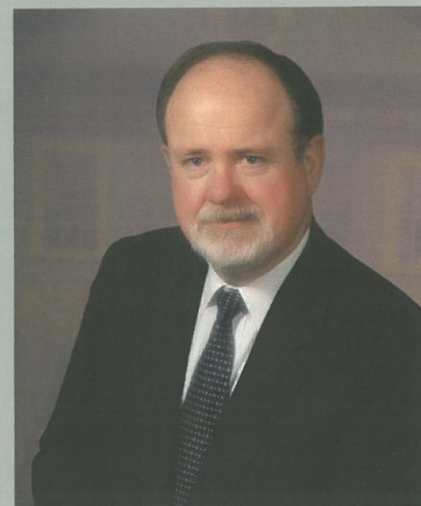
*In February, we opened our sixth office – in Weymouth. It has contributed significantly to our **8%** growth in deposits for the year.*

Assets
(in millions)

Loans
(in millions)

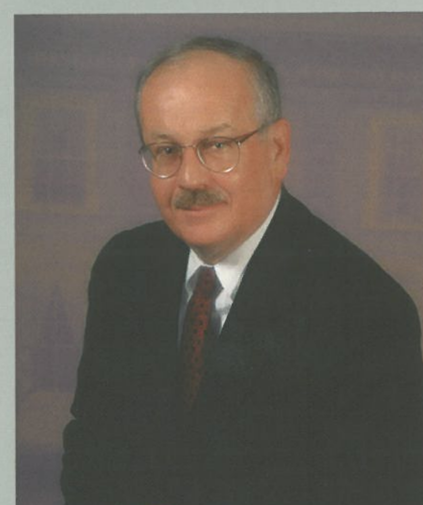
Deposits
(in millions)

Senior Officers



Robert H. Gaughen, Jr.
President and CEO

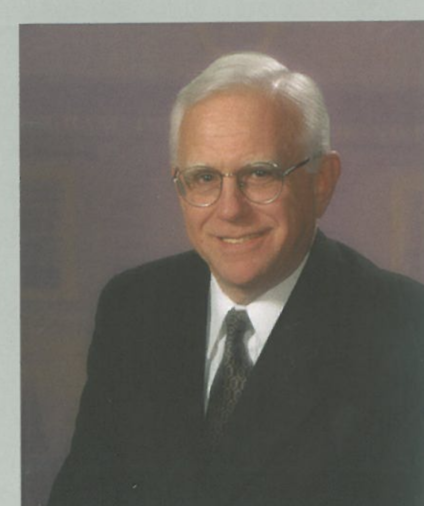
Deborah J. Jackson
Sr. Vice President and Treasurer



William M. Donovan, Jr.
Vice President - Administration

Peter R. Smollett
Vice President - Commercial Lending

Michael J. Sinclair
Vice President - Retail Lending



Edward P. Zec
Vice President - Branch Operations

Board of Directors

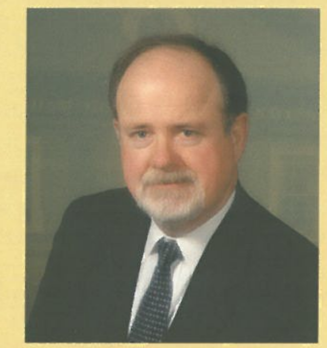
Howard M. Berger, Esq.

James V. Consentino

Marion J. Fahey

Ronald D. Falcione

Kevin W. Gaughen, Esq.



Robert H. Gaughen, Jr., Esq.

Julio R. Hernando, Esq.

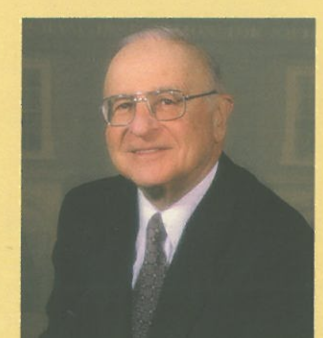
Robert A. Lane, Esq.

Warren B. Noble

Stacey M. Page

Edward L. Sparda

Donald E. Staszko



Donald M. Tardiff, M.D.

James R. White

Geoffrey C. Wilkinson, Sr.

Jacqueline M. Youngworth

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, 1999	1998	1997	1996	1995
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 291,183	$ 260,076	$ 222,584	$ 201,586	$ 175,409
Investment securities	35,532	28,235	35,369	32,321	39,152
Loans:					
Residential mortgage	108,999	95,629	83,522	79,418	69,872
Commercial mortgage	114,513	102,660	84,932	67,008	44,667
Construction, net	6,395	6,985	4,857	5,421	5,437
Other	1,592	1,219	1,209	938	1,066
Allowance for loan losses	1,976	1,729	1,560	1,393	1,277
Foreclosed real estate, net	—	—	—	—	34
Deposits	193,514	178,741	160,506	150,015	133,042
Federal Home Loan Bank advances	68,445	55,000	38,147	29,754	22,000
Other borrowed funds	248	56	319	188	—
Stockholders' equity	26,181	23,676	21,377	19,212	17,819

	Years Ended December 31, 1999	1998	1997	1996	1995
		(In Thousands, Except Per Share Amounts)			
Income Statement Data:					
Total interest and dividend income	$ 20,259	$ 18,161	$ 16,405	$ 13,962	$ 12,074
Total interest expense	9,968	9,223	8,160	6,956	5,871
Net interest income	10,291	8,938	8,245	7,006	6,203
Provision for loan losses	200	151	174	107	120
Other income	734	742	653	614	509
Operating expenses	5,540	4,716	4,458	4,066	3,641
Income before income taxes	5,285	4,813	4,266	3,447	2,951
Income tax provision	2,039	1,811	1,607	1,403	1,045
Net income	$ 3,246	$ 3,002	$ 2,659	$ 2,044	$ 1,906
Earnings per share:					
Basic	$ 1.65	$ 1.53	$ 1.36	$ 1.05	$ 0.98
Diluted	$ 1.62	$ 1.49	$ 1.33	$ 1.04	$ 0.97
Financial Ratios:					
Return on average assets	1.19%	1.26%	1.26%	1.10%	1.17%
Return on average equity	13.07	13.18	13.00	11.06	11.11
Average equity to average assets	9.07	9.59	9.67	9.94	10.54
Interest rate spread	3.38	3.35	3.48	3.37	3.42
Net yield on average earning assets	3.88	3.88	4.02	3.90	3.96
Dividend payout ratio	35.15	32.03	29.41	28.57	23.47
Cash dividends declared per share	$ 0.58	$ 0.49	$ 0.40	$ 0.30	$ 0.23

Management's Discussion and Analysis

Founded in 1834, Hingham Institution for Savings has served the local community for more than 165 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 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 1999, 1998, and 1997

RESULTS OF OPERATIONS

For the year ended December 31, 1999, the Bank earned $3.2 million, as compared to $3.0 million in 1998 and $2.7 million in 1997. On a per-share basis, the Bank earned $1.65 in 1999, $1.53 in 1998, and $1.36 in 1997. On a dilutive basis, which assumes that certain stock options have been exercised, earnings per share were $1.62 in 1999, $1.49 in 1998, and $1.33 in 1997.

Growth in earnings in each of the three periods was achieved primarily from growth in earning assets. In particular, loan originations were $87.4 million in 1999, as compared to $81.4 million in 1998 and $56.0 million in 1997. Contributing to earnings growth in 1998, when comparing to 1997, were net gains on sales of assets which totaled $106,000 in 1998 with no net gains reported for 1997. Partially offsetting improvements in earnings were increases in expenses in each of the three periods, resulting primarily from increased salaries and employee benefits expenses and, when comparing 1999 to 1998, increased occupancy and equipment expenses related to a new branch facility which commenced operation in the first quarter of 1999. Despite increased expenses, the Bank's efficiency ratio, which measures the percent of net operating revenues consumed by operating expenses, maintained its low level of 50.3% for 1999 as compared to 49.3% for 1998 and 50.1% for 1997.

Net Interest Income

The Bank reported $10.3 million in net interest income for 1999 as compared to $8.9 million in 1998 and $8.2 million in 1997. This positive trend was primarily the result of continued growth in loans. Outstanding loans averaged $219.7 million for 1999, as compared to $186.2 million for 1998 and $163.0 million for 1997.

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 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, 1999 Compared to 1998 Increase (Decrease) Due to Volume	Rate	Total	1998 Compared to 1997 Increase (Decrease) Due to Volume	Rate	Total
			(In Thousands)			
Interest and dividend income:						
Total loans	$ 2,723	$ (631)	$ 2,092	$ 1,934	$ (208)	$ 1,726
Investment securities and Federal Home Loan Bank stock	(138)	(22)	(160)	53	(74)	(21)
Interest-bearing deposits	191	(25)	166	58	(7)	51
Total interest and dividend income	2,776	(678)	2,098	2,045	(289)	1,756
Interest expense:						
Deposits	640	(564)	76	411	(102)	309
Borrowings	802	(133)	669	806	(52)	754
Total interest expense	1,442	(697)	745	1,217	(154)	1,063
Net interest income	$ 1,334	$ 19	$ 1,353	$ 828	$ (135)	$ 693

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

	Years Ended December 31,								
	1999			1998			1997		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans	$ 218,408	$17,617	8.07%	$ 184,924	$ 15,524	8.39%	$ 161,156	$13,752	8.53%
Commercial loans	210	24	11.43	260	32	12.31	764	71	9.29
Other loans	1,087	93	8.56	988	86	8.70	1,075	93	8.65
Total loans (1) (2)	219,705	17,734	8.07	186,172	15,642	8.40	162,995	13,916	8.54
Investment securities (3) (4)	35,031	2,016	5.75	37,431	2,176	5.81	36,537	2,197	6.01
Interest-bearing deposits	10,362	509	4.91	6,510	343	5.27	5,414	292	5.39
Total earning assets	265,098	20,259	7.64	230,113	18,161	7.89	204,946	16,405	8.00
Other assets	8,646			7,447			6,481		
Total assets	$ 273,744			$ 237,560			$ 211,427		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
NOW accounts (5)	$ 15,025	115	0.77	$ 14,012	158	1.13	$ 13,173	169	1.28
Money market deposits	24,049	638	2.65	20,641	595	2.88	20,600	621	3.01
Regular	35,788	763	2.13	32,712	806	2.46	31,257	783	2.51
Term certificates	98,408	5,132	5.22	89,747	5,013	5.59	83,257	4,690	5.63
Total interest-bearing deposits	173,270	6,648	3.84	157,112	6,572	4.18	148,287	6,263	4.22
Borrowings	60,859	3,320	5.46	46,260	2,651	5.73	32,212	1,897	5.89
Total interest-bearing liabilities	234,129	9,968	4.26	203,372	9,223	4.54	180,499	8,160	4.52
Demand deposits	13,438			10,216			9,291		
Other liabilities	1,339			1,200			1,188		
Stockholders' equity	24,838			22,772			20,449		
Total liabilities and stockholders' equity	$ 273,744			$ 237,560			$ 211,427		
Net interest income		$10,291			$ 8,938			$ 8,245	
Weighted average rate spread			3.38%			3.35%			3.48%
Net yield on average earning assets (6)			3.88%			3.88%			4.02%

(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, the investment portfolio, and interest-bearing deposits. The Bank earned an average yield of 7.6% on these assets in 1999, as compared to 7.9% in 1998 and 8.0% in 1997. For 1999, 1998, and 1997, interest income totaled $20.3 million, $18.2 million, and $16.4 million, respectively. Average total earning assets increased $35.0 million, or 15%, in 1999 over 1998 and $25.2 million, or 12%, in 1998 over 1997. The Bank achieved this growth by continuing to focus on real estate lending and decreasing its emphasis on the investment portfolio.

Average deposit balances increased in 1999 and 1998. As a result, interest expense, which is incurred on certificates of deposit, NOW, savings, and money market deposit accounts, increased in these periods. However, the average rate paid on interest-bearing deposit accounts declined to 3.8% during 1999, as compared to 4.2% for 1998 and 4.2% for 1997.

Interest expense on borrowings continued to rise during 1999 resulting primarily from an increase in FHLB advances which the Bank employed to fund its loan growth. However, the average rate paid on borrowings continued to decline to 5.5% in 1999 from 5.7% in 1998 and 5.9% in 1997 due to the downturn in market interest rates. Also, during 1999, 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. Competitive pressures for deposits and a recent rise in market interest rates indicate that the cost of funds in at least the near term can be expected to increase.

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 1999 was $200,000, as compared to $151,000 in 1998 and $174,000 in 1997. In 1999 and 1998, net recoveries of previously charged-off loans combined with a reasonable provision for loan losses enabled the Bank to maintain an adequate level of allowance for loan losses.

Other Income

The most significant component of other income was fees earned on customer accounts with $536,000 reported for 1999, $441,000 for 1998, and $491,000 for 1997. In 1999, the 22% growth in customer service fees was derived principally from increased debit card transactions and ATM fees. 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.

Other income is also comprised of net gains or losses on sales of investments and loans. In 1999, the Bank reported an $11,000 gain on sales of securities while in 1998 the Bank reported $106,000 in net gains on sales of loans and securities. There were no such sales in 1997.

Operating Expenses

As a percentage of average total assets, expenses remained at a low 2.0% for 1999, as compared to 2.0% in 1998 and 2.1% in 1997.

Salaries and employee benefits were the largest component of operating expenses at $3.1 million for 1999, $2.7 million for 1998, and $2.5 million for 1997. In 1999, salary expenses increased primarily due to the establishment of the new Weymouth branch. Annual merit-based raises have also contributed to the increase in salary expenses.

Occupancy and equipment expenses increased over the three periods. In 1999, the increase was the result of the addition of the new Weymouth branch. In 1998, the increase was the result of refurbishment of the main office and select computer equipment upgrades. The result of these improvements will be the ability to meet customer needs, enhance administrative efficiency, and lower maintenance expenses.

All other operating expenses including data processing, deposit insurance, legal, and other were $1.7 million combined for 1999, $1.4 million for 1998 and $1.5 million for 1997. 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 rates for 1999, 1998, and 1997 were 38.6%, 37.6%, and 37.7%, respectively. The Bank is in the process of implementing a strategy which may have the effect of reducing its effective tax rate for the year 2000.

COMPARISON OF THE YEARS 1999 AND 1998

BALANCE SHEET ANALYSIS

The Bank had total assets of $291.2 million at December 31, 1999, an increase of $31.1 million, or 12%, from the $260.1 million level at year end 1998.

Loans

At December 31, 1999, the Bank reported net loans of $229.7 million, or 79% of total assets. Comparably at December 31, 1998, net loans were $204.8 million, or 79% of total assets. This growth of $24.9 million, or 12%, was achieved through the origination of $87.4 million in mortgage and other loan products. A stringent underwriting policy continues to complement this lending strategy. At December 31, 1999 and 1998, mortgage loans accounted for more than 99% of gross loans with commercial and multi-family mortgages representing approximately 50% of the mortgage portfolio in 1999 and 1998.

The Bank's lending strategy during 1999 and 1998 has been to provide commercial property, single family, and multi-family loans at an initial fixed rate for three to seven years with an adjustable 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, 1999 and 1998, the allowance had a balance of $2.0 million and $1.7 million, respectively. The allowance is maintained at a level adequate to absorb losses. The allowance is reviewed by senior management on at least a quarterly basis to determine its adequacy. Factors considered include loan-to-value ratios, underlying collateral values, payment history, and any other available information specific to a loan. Loan losses are charged against the allowance when the collectibility of loan principal becomes unlikely. Recoveries are recorded as additional reserves when received. For 1999, there were $48,000 in recoveries of previously charged-off loans and $1,000 in loan charge-offs. There were $18,000 in recoveries and no charge-offs in 1998.

Non-accrual loans totaled $947,000, or 0.33% of total assets, at December 31, 1999, as compared to $492,000, or 0.19% of total assets, at year end 1998. The increase in non-accrual loans is primarily the result of one mortgage borrower and the Bank expects to resolve the delinquency without a loss. 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 were no such loans at December 31, 1999. There was no foreclosed real estate held during 1999 or 1998.

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

At December 31,	1999	1998
	(In Thousands)	
Residential Mortgages (1)	$ 135	$ 229
Commercial Mortgages	803	263
Installment Loans	9	—
Total non-accrual loans	$ 947	$ 492

(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, 1999, the portfolio was comprised of agency and mortgage-backed issues for a total of $35.5 million, or 12% of total assets, as compared to $28.2 million, or 11% of total assets, at year end 1998. 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, 1999, 87% of the portfolio consisted of agency bond issues. For the most part, these securities are offered at a fixed rate and term and at spreads above comparable U.S. Treasury issues. Approximately $6.0 million is callable at the discretion of the issuer. The remaining 13%, or $4.7 million, was comprised of mortgage-backed securities, a decline of $3.8 million from the $8.5 million held at December 31, 1998. 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 1999 and 1998, 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 (loss), a separate component of stockholders' equity. The unrealized loss on the investment portfolio amounted to $228,000, net of tax effects, at December 31, 1999 as compared to an unrealized gain of $87,000 at year end 1998, reflecting a decline in market conditions. The fair value of securities fluctuates with the movement of interest rates. Generally, during periods of rising interest rates, the fair values decrease whereas the opposite may hold true during a declining interest rate environment.

Deposits

At December 31, 1999, the Bank held a total of $193.5 million in deposits, an increase of $14.8 million, or 8%, from the $178.7 million in deposits at year end 1998. The Bank offers a wide range of products, competitively priced, accompanied by quality service. During the first quarter of 1999, the Bank opened its fifth branch office in South Weymouth. The branch has contributed significantly to the growth in deposits for 1999.

Primary competition for deposits are other banks and credit unions in the Bank's market area and mutual funds. Recent "big bank" merger activity in the Bank's market area has offered an opportunity to attract new customers. The Bank's ability to attract and retain deposits depends upon satisfaction of depositors' requirements with respect to product, rate, and service. The Bank offers traditional deposit products, competitive rates, convenient branch locations, automated teller machines, debit cards, and telephone banking.

Deposits are insured in full through the Federal Deposit Insurance Corporation and Deposit Insurance Fund of Massachusetts (DIF). Providing DIF insurance has become a competitive advantage as the mid-sized to regional banks cannot offer the coverage.

Core deposits, comprised of savings, NOW, money market, and demand deposit accounts were $88.4 million at December 31, 1999 as compared to $86.1 million at year end 1998, an increase of $2.3 million, or 3%. Certificates of deposit were $105.2 million, or 54% of total deposits, at December 31, 1999 as compared to $92.6 million, or 52% of total deposits, at year end 1998, an increase of $12.5 million.

Borrowings

The Bank had $68.4 million in FHLB advances at December 31, 1999, as compared to $55.0 million at year end 1998. The Bank borrowed an additional $13.4 million in 1999 to fund growth in the loan portfolio and to effectively manage its interest rate sensitivity position. Generally, the borrowings are drawn with a fixed rate and term; however, approximately $16.0 million, or 23%, can be called by the issuer after an initial specified term. The Bank is also a 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, 1999 and 1998, there were $248,000 and $56,000, 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 $117.1 million to meet its borrowing needs, based on the Bank's available qualified collateral which consists primarily of 1-4 family residential mortgages and the Bank's investment in its security corporation subsidiary. Upon specific approval from the FHLB, the Bank may also pledge other mortgages as collateral to secure as much as $29.5 million in additional borrowings. At December 31, 1999, the Bank had $68.4 million in advances outstanding.

The Bank can also enter into repurchase agreement transactions should the need for additional liquidity arise. At December 31, 1999, the Bank had no repurchase agreements outstanding.

At December 31, 1999, the Bank had capital of $26.2 million, or 9.0% of total assets, as compared to $23.7 million, or 9.1%, at December 31, 1998. 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, 1999, the Bank's entire securities portfolio was classified as available for sale, which had the effect of decreasing capital by $228,000. In comparison, at year end 1998, capital was increased by $87,000.

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 1999 and 1998.

These high capital levels were maintained despite a more aggressive dividend policy. During 1999, the Bank declared dividends of $0.58 per share, which included a $0.12 per share special dividend which was declared in the fourth quarter. In comparison, in 1998, the Bank declared dividends of $0.49 per share, which included an $0.11 per share special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share into earnings per share, increased to 35.2% for 1999 as compared to 32.0% for 1998.

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 1999 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 could have recognized a date using "00" as the year 1900 rather than the year 2000, which may have resulted in a system failure or miscalculations. This could have caused disruption to operations, including, among other things, a temporary inability to process transactions or engage in normal business activities.

The Bank assessed the potential impact of the Year 2000 Issue on its key operational areas, monitored the renovations of its critical software, and tested critical systems such as its data services provider, the components of its wide-area network, its interface with the Federal Reserve Bank of Boston, and various accounting applications. The Bank also developed a contingency plan in the event that the Year 2000 Issue proved to be disruptive to operations.

The Bank's efforts proved to be successful as the rollover to January 1, 2000 was relatively uneventful. In addition, another key processing date, February 29, 2000, was passed with no significant problems.

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 (ALCO) 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 4.60 % decrease in net interest income over a 24 month period. Conversely, 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 estimates a 0.85% increase in net interest income over a 24 month period.

The Bank's interest rate risk exposure is believed to be well managed and 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.

In 1999, new and re-financing loan customers took advantage of lower financing rates by opting to obtain longer-term fixed-rate loans and adjustable loans with extended rate reset periods. Alternately, certificate of deposit customers showed a

preference for products with shorter term maturities. In an effort to balance these consumer preferences, incremental borrowings were taken in the longer term sectors. As a result, the Bank's one- year negative gap position at December 31, 1999 was approximately 12% of assets and well within pre-defined limits.

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 18% 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 table reflects management's assumptions about the repricing characteristics of such deposits.

December 31, 1999

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	$ 25,021	$ 10,306	$ 7,235	$ 2,130	$ 986	$ —	$ 45,678
	5.64%	5.53%	6.20%	6.13%	6.25%	—	5.74%
Loans:							
Fixed rate	$ 28,615	$ 18,053	$ 14,704	$ 13,121	$11,432	$ 45,838	$131,763
	8.38%	8.07%	7.99%	7.87%	7.85%	7.88%	8.02%
Adjustable rate	$ 48,804	$ 17,483	$ 11,377	$ 10,894	$ 6,794	$ 4,384	$ 99,736
	8.65%	8.43%	8.23%	8.33%	8.09%	8.06%	8.47%
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts	$ 14,971	$ 14,975	$ 14,976	$ 7,164	$ 7,164	$ 14,254	$ 73,504
	2.32%	2.32%	2.32%	2.00%	2.00%	0.53%	1.91%
Term certificates	$ 86,306	$ 14,303	$ 2,598	$ 828	$ 1,123	$ —	$105,158
	5.16%	5.26%	5.28%	5.44%	5.12%	—	5.18%
Borrowings	$ 36,248	$ 12,000	$ 1,000	$ 1,500	$ 3,000	$ 14,945	$ 68,693
	5.59%	5.83%	5.83%	5.36%	5.58%	5.38%	5.58%

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%

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 subsidiary as of December 31, 1999 and 1998, 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, 1999. 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 subsidiary as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with generally accepted accounting principles.

Wolf + Company, P.C

Boston, Massachusetts
January 21, 2000

Consolidated Balance Sheets

ASSETS

	December 31, 1999	December 31, 1998
	(In Thousands)	
Cash and due from banks	$ 6,236	$ 5,227
Interest-bearing deposits	9,755	13,346
Cash and cash equivalents	15,991	18,573
Securities available for sale, at fair value	35,532	28,235
Loans, net of allowance for loan losses of $1,976,000 in 1999 and $1,729,000 in 1998	229,687	204,774
Banking premises and equipment, net	3,397	3,173
Accrued interest receivable	1,642	1,330
Deferred income tax asset, net	1,172	930
Federal Home Loan Bank stock, at cost	3,423	2,750
Other assets	339	311
	$ 291,183	$ 260,076

LIABILITIES AND STOCKHOLDERS' EQUITY

	1999	1998
Deposits	$ 193,514	$ 178,741
Federal Home Loan Bank advances	68,445	55,000
Other borrowed funds	248	56
Mortgagors' escrow accounts	870	637
Accrued interest payable	358	308
Other liabilities	1,567	1,658
Total liabilities	265,002	236,400
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; 2,040,750 and 1,964,250 shares issued and outstanding in 1999 and 1998, respectively	2,041	1,964
Additional paid-in capital	8,809	8,154
Undivided profits	15,559	13,471
Accumulated other comprehensive income (loss)	(228)	87
Total stockholders' equity	26,181	23,676
	$ 291,183	$ 260,076

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31,		
	1999	1998	1997
	(In Thousands, Except Per Share Amounts)		
Interest and dividend income:			
Loans	$17,734	$15,642	$13,916
Investment securities	2,016	2,176	2,197
Interest-bearing deposits	509	343	292
Total interest and dividend income	20,259	18,161	16,405
Interest expense:			
Deposits	6,648	6,572	6,263
Borrowed funds	3,320	2,651	1,897
Total interest expense	9,968	9,223	8,160
Net interest income	10,291	8,938	8,245
Provision for loan losses	200	151	174
Net interest income, after provision for loan losses	10,091	8,787	8,071
Other income:			
Customer service fees on deposits	536	441	491
Gain on sales of securities available for sale, net	11	48	—
Gain on sale of loans	—	58	—
Other	187	195	162
Total other income	734	742	653
Operating expenses:			
Salaries and employee benefits	3,120	2,711	2,467
Data processing	398	332	339
Occupancy and equipment	689	573	539
Legal	(1)	16	29
Deposit insurance	26	24	22
Other	1,308	1,060	1,062
Total operating expenses	5,540	4,716	4,458
Income before income taxes	5,285	4,813	4,266
Income tax provision	2,039	1,811	1,607
Net income	$ 3,246	$ 3,002	$ 2,659
Earnings per share:			
Basic	$ 1.65	$ 1.53	$ 1.36
Diluted	$ 1.62	$ 1.49	$ 1.33

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 1999, 1998 and 1997

	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	(In Thousands)				
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
Comprehensive income:					
Net income	—	—	3,246	—	3,246
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	(315)	(315)
Total comprehensive income					2,931
Stock options exercised, after tax effect of $217,000	77	655	—	—	732
Cash dividends declared ($0.58 per share)	—	—	(1,158)	—	(1,158)
Balance at December 31, 1999	$ 2,041	$ 8,809	$ 15,559	$ (228)	$ 26,181

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	1999	1998	1997
		(In Thousands)	
Cash flows from operating activities:			
Net income	$3,246	$3,002	$2,659
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	200	151	174
Amortization of securities, net	54	117	151
Amortization of deferred loan origination fees, net	(10)	(27)	(52)
Depreciation	358	283	248
Gain on sales of securities available for sale, net	(11)	(48)	—
Gain on sale of loans	—	(58)	—
Deferred tax benefit	(32)	(18)	(20)
Changes in operating assets and liabilities:			
Accrued interest receivable	(312)	(87)	(183)
Other assets	(28)	27	87
Accrued interest payable and other liabilities	98	135	(402)
Net cash provided by operating activities	3,563	3,477	2,662
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Sales	2,012	5,047	—
Maturities, prepayments and calls	12,205	15,328	8,123
Purchases	(22,082)	(13,091)	(10,996)
Loans originated, net of payments received	(25,103)	(35,128)	(21,795)
Proceeds from sale of loans	—	3,127	—
Increase in Federal Home Loan Bank stock	(673)	(850)	(450)
Additions to banking premises and equipment	(582)	(823)	(463)
Net cash used in investing activities	(34,223)	(26,390)	(25,581)

(continued)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Concluded)

	Years Ended December 31,		
	1999	1998	1997
		(In Thousands)	
Cash flows from financing activities:			
Increase in deposits, net	$14,773	$18,235	$10,491
Increase in mortgagors' escrow accounts	233	186	159
Proceeds from stock options exercised	515	82	63
Cash dividends paid on common stock	(1,080)	(875)	(690)
Proceeds (repayments) of borrowings with maturities of less than three months	192	(410)	(2,976)
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	54,500	53,500	38,500
Repayment of Federal Home Loan Bank advances with maturities of three months or more	(41,055)	(36,500)	(27,000)
Net cash provided by financing activities	28,078	34,218	18,547
Net increase (decrease) in cash and cash equivalents	(2,582)	11,305	(4,372)
Cash and cash equivalents at beginning of year	18,573	7,268	11,640
Cash and cash equivalents at end of year	$15,991	$18,573	$ 7,268
Supplementary information:			
Interest paid on deposit accounts	$ 6,668	$ 6,559	$ 6,684
Interest paid on borrowed funds	3,250	2,561	1,853
Income taxes paid, net of refunds	1,874	1,941	1,658

See accompanying notes to consolidated financial statements.

Years Ended December 31, 1999, 1998, and 1997

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 subsidiary, Hingham Securities Corporation which holds title to securities available for sale. 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 and operating segments

The Bank provides a variety of financial services to individuals and small businesses through its 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.

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective for fiscal years beginning after December 15, 1997. SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual and interim financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. Management evaluates the Bank's performance and allocates resources based on a single segment concept. Accordingly, there are no separately identified operating segments for which discrete financial information is available. The Bank does not derive revenues from, or have assets located in foreign countries, nor does it derive revenues from any single customer that represents 10% or more of the Bank's total revenues.

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 1998 and 1997 consolidated financial statements to conform to the 1999 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

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

Purchased premiums and discounts are amortized to earnings by the interest method over the terms of the securities. Declines in the value of securities that are deemed to be other than temporary are reflected in earnings when identified. Gains and losses on disposition of securities are recorded on the trade date and are determined using 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 principle 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.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 subsidiary 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

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," whereby 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, has provided 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 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 years ended December 31, 1999 and 1998, options applicable to 4,500 and 1,500, respectively, shares were anti-dilutive and excluded from the diluted earnings per share computations. There were no such anti-dilutive shares for the year ended December 31, 1997 .

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

	Years Ended December 31,		
	1999	1998 (In Thousands)	1997
Average number of common shares outstanding	1,966	1,959	1,953
Effect of dilutive options	41	53	42
Average number of common shares outstanding used to calculate diluted earnings per common share	2,007	2,012	1,995

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Comprehensive income

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 components of other comprehensive income (loss) and related tax effect are as follows:

	Years Ended December 31,		
	1999	1998 (In Thousands)	1997
Net unrealized holding gains (losses) on available-for-sale securities	$ (514)	$ 267	$ 326
Reclassification adjustment for gains realized in income	(11)	(48)	—
Net unrealized gains (losses)	(525)	219	326
Tax effect	210	(82)	(132)
Net-of-tax amount	$ (315)	$ 137	$ 194

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, 1999 and 1998, cash and due from banks included $200,000 and $250,000, 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, 1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
U.S. Government and federal agency obligations	$ 31,170	$ —	$ (302)	$ 30,868
Mortgage-backed - FHLMC	2,716	—	(40)	2,676
Mortgage-backed - FNMA	2,037	—	(49)	1,988
Total securities available for sale	$ 35,923	$ —	$ (391)	$ 35,532

	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

At December 31, 1999, the Bank has pledged U.S. Government obligations with an amortized cost of $1,100,000 and a fair value of $1,098,000 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, 1999 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	$ 8,106	$ 8,080
Over 1 year to 5 years	22,064	21,804
Over 5 to 10 years	1,000	984
	31,170	30,868
Mortgage-backed securities:		
Within 1 year	1,459	1,450
Over 1 year to 5 years	443	439
Over 5 years to 10 years	202	201
Over 10 years	2,649	2,574
	4,753	4,664
Total debt securities	$ 35,923	$ 35,532

For the years ended December 31, 1999 and 1998, proceeds from the sale of securities available for sale amounted to $2,012,000 and $5,047,000 resulting in gross realized gains of $11,000 and $63,000 and gross realized losses of $0 and $15,000, respectively. There were no sales of securities during 1997.

4. LOANS

A summary of the balances of loans follows:

	December 31, 1999	December 31, 1998
	(In Thousands)	
Mortgage loans:		
Residential	$ 99,657	$ 87,804
Commercial	112,132	101,004
Construction	10,101	9,835
Equity lines of credit	9,342	7,825
Second mortgages	2,381	1,656
	233,613	208,124
Unadvanced loan funds	(3,706)	(2,850)
Total mortgage loans, net	229,907	205,274
Other loans:		
Personal installment	1,229	917
Commercial	282	239
Revolving credit	81	63
Total other loans	1,592	1,219
Total loans	231,499	206,493
Allowance for loan losses	(1,976)	(1,729)
Net deferred interest and loan origination costs	164	10
Loans, net	$ 229,687	$ 204,774

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 $4,637,000, $6,230,000, and $5,615,000 at December 31, 1999, 1998, and 1997, 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, 1999	1998	1997
		(In Thousands)	
Balance at beginning of year	$ 1,729	$1,560	$1,393
Provision for loan losses	200	151	174
Loans charged off	(1)	—	(13)
Recoveries on loans previously charged off	48	18	6
Balance at end of year	$ 1,976	$1,729	$1,560

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

	December 31, 1999	1998
	(In Thousands)	
Impaired loans without a valuation allowance	$ 805	$ 400
Non-accrual loans	$ 947	$ 492

	Years Ended December 31, 1999	1998	1997
		(In Thousands)	
Average investment in impaired loans	$ 537	$ 413	$ 754
Interest income recognized on impaired loans	$ 23	$ 61	$ 103
Interest income recognized on a cash basis on impaired loans	$ 23	$ 61	$ 103

There were no additional 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, 1999	December 31, 1998	Estimated Useful Lives
	(In Thousands)		
Banking premises:			
Land	$ 683	$ 683	
Buildings	3,032	2,754	3 - 40 years
Equipment	2,147	1,845	4 - 25 years
	5,862	5,282	
Less accumulated depreciation	(2,465)	(2,109)	
	$ 3,397	$ 3,173	

Depreciation expense for the years ended December 31, 1999, 1998, and 1997 amounted to $358,000, $283,000, and $248,000, respectively.

6. DEPOSITS

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

	December 31, 1999	December 31, 1998
	(In Thousands)	
Regular	$ 36,200	$ 34,460
Money market deposits	23,050	22,721
NOW	14,254	15,725
Demand	14,852	13,187
Total non-certificate accounts	88,356	86,093
Term certificates less than $100,000	77,664	68,853
Term certificates $100,000 or more	27,494	23,795
Total certificate accounts	105,158	92,648
Total deposits	$ 193,514	$ 178,741

DEPOSITS (concluded)

The maturity distribution of term certificates is as follows:

	December 31, 1999		December 31, 1998	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Within 1 year	$ 86,306	5.16%	$ 69,196	5.31%
Over 1 year to 2 years	14,303	5.26	19,333	5.93
Over 2 years to 3 years	2,598	5.28	2,947	5.60
Over 3 years to 5 years	1,951	5.26	1,172	5.68
	$105,158	5.18%	$ 92,648	5.45%

A summary of interest expense on deposits is as follows:

	Years Ended December 31, 1999	1998	1997
	(In Thousands)		
Regular	$ 763	$ 806	$ 783
Money market deposits	638	595	621
NOW	115	158	169
Term certificates	5,132	5,013	4,690
	$ 6,648	$ 6,572	$ 6,263

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, 1999 Amount	Weighted Average Rate	December 31, 1998 Amount	Weighted Average Rate
	(Dollars in Thousands)			
1999	$ —	—%	$ 23,500	5.45%
2000	36,000	5.59	14,000	5.36
2001	12,000	5.83	6,000	5.73
2002	1,000	5.83	1,000	5.83
2003	1,500	5.36	1,500	5.36
2004	3,000	5.58	—	—
Thereafter	14,945	5.38	9,000	5.27
	$ 68,445	5.58%	$ 55,000	5.43%

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 and 90% of the fair value of the Bank's investment in its security corporation subsidiary. Expected maturities may differ from contractual maturities because certain borrowings can be called by the FHLB after an initial specified term.

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, 1999.

8. INCOME TAXES

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

	Years Ended December 31,		
	1999	1998	1997
		(In Thousands)	
Current tax provision:			
Federal	$ 1,694	$ 1,548	$ 1,343
State	377	281	284
	2,071	1,829	1,627
Deferred tax provision (benefit):			
Federal	(24)	(15)	(17)
State	(8)	30	(3)
	(32)	15	(20)
Change in valuation reserve realization assumptions	—	(33)	—
	(32)	(18)	(20)
	$ 2,039	$ 1,811	$1,607

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,		
	1999	1998	1997
Statutory rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	4.6	3.8	4.3
Other, net	—	(.2)	(.6)
Effective tax rates	38.6%	37.6%	37.7%

INCOME TAXES (continued)

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

	December 31,	
	1999	1998
	(In Thousands)	
Deferred tax asset:		
Federal	$ 1,047	$ 870
State	360	301
	1,407	1,171
Deferred tax liability:		
Federal	(179)	(194)
State	(56)	(47)
	(235)	(241)
Net deferred tax asset	$ 1,172	$ 930

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

	December 31,	
	1999	1998
	(In Thousands)	
Allowance for loan losses	$ 782	$ 679
Employee benefits	254	278
Other accrued expenses	153	180
Fees on loans	(189)	(147)
Net unrealized (gain) loss on securities available for sale	163	(47)
Other	9	(13)
Net deferred tax asset	$ 1,172	$ 930

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

	Years Ended December 31,		
	1999	1998	1997
	(In Thousands)		
Balance at beginning of year	$ 930	$ 994	$ 1,106
Deferred tax benefit	32	18	20
Net unrealized (gain) loss on securities available for sale	210	(82)	(132)
Balance at end of year	$ 1,172	$ 930	$ 994

INCOME TAXES (concluded)

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, 1999 and 1998, the following financial instruments were outstanding with contract amounts representing credit risk:

	December 31, 1999	December 31, 1998
	(In Thousands)	
Unused lines of credit	$ 13,524	$ 9,739
Commitments to originate loans:		
Commercial mortgages	19,444	10,846
Residential mortgages	2,459	6,392
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, 1999 and 1998, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 1999 and 1998, 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, 1999 and 1998 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, 1999						
Total Capital to Risk-Weighted Assets	$28,385	14.91%	$15,226	8.0%	$19,032	10.0%
Tier 1 Capital to Risk-Weighted Assets	26,409	13.88	7,613	4.0	11,419	6.0
Tier 1 Capital to Average Assets	26,409	9.16	11,532	4.0	14,415	5.0
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	10,070	4.0	12,588	5.0

11. STOCK OPTION PLANS

At December 31, 1999, 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,		
	1999	1998	1997
	(In Thousands, Except Per Share Amounts)		
Net Income:			
As reported	$3,246	$3,002	$2,659
Pro forma	3,201	2,993	2,651
Earnings per share:			
As reported	$ 1.65	$ 1.53	$ 1.36
Pro forma	1.63	1.53	1.36
Earnings per share-assuming dilution for stock options:			
As reported	$ 1.62	$ 1.49	$ 1.33
Pro forma	1.59	1.49	1.33

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 1999 are immediately exercisable, and options granted prior to 1993 vested 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,		
	1999	1998	1997
Dividend yield	3.64%	1.91%	3.27%
Expected life	10 years	10 years	10 years
Expected volatility	21.41%	32.83%	13.57%
Risk-free interest rate	5.08%	5.68%	6.93%

STOCK OPTION PLANS (concluded)

Stock option activity is as follows:

	Years Ended December 31,					
	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	138,000	$ 7.91	145,500	$ 7.83	150,000	$ 7.65
Granted	22,000	15.14	1,500	23.50	4,500	12.25
Exercised	(76,500)	6.73	(9,000)	9.17	(9,000)	7.00
Outstanding at end of year	83,500	$10.90	138,000	$ 7.91	145,500	$ 7.83
Options exercisable at end of year	83,500	$10.90	138,000	$ 7.91	145,500	$ 7.83
Weighted average fair value of options granted during the year		$ 3.36		$ 9.87		$ 3.01

Options outstanding consist of the following:

	December 31,			
	1999		1998	
Option price	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life In Years
$23.500	1,500	9	1,500	10
12.250	4,500	8	4,500	9
16.00	3,000	10	—	—
15.00	19,000	10	—	—
9.167	34,500	7	34,500	8
8.500	18,000	6	42,000	7
5.916	3,000	4	55,500	5
	83,500		138,000	

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,		
	1999	1998	1997
	(In Thousands)		
Service cost - benefits earned during year	$ 206	$ 184	$ 128
Interest cost on projected benefits	124	121	107
Expected return on plan assets	(170)	(164)	(145)
Net amortization and deferral	3	3	3
Amortization of net gain	(58)	(56)	(45)
Net periodic pension cost	$ 105	$ 88	$ 48

EMPLOYEE BENEFIT PLANS (concluded)

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

	Plan Years Ended October 31,	
	1999	1998
	(In Thousands)	
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 2,132	$ 2,054
Actual return on plan assets	406	165
Employer contribution	169	—
Benefits paid	(162)	(87)
Fair value of plan assets at end of year	2,545	2,132
Change in benefit obligation:		
Benefit obligation at beginning of year	1,841	1,660
Service cost	206	184
Interest cost	124	121
Actuarial gain	(118)	(37)
Benefits paid	(162)	(87)
Benefit obligation at end of year	1,891	1,841
Funded status	654	291
Unrecognized net actuarial gain	(1,277)	(981)
Unrecognized prior service cost	21	24
Accrued pension cost	$ (602)	$ (666)

For the plan years ended October 31, 1999, 1998, and 1997, actuarial assumptions include an assumed discount rate on benefit obligations of 7.75%, 6.75% and 7.25% and an annual salary increase of 5.50%, 6.00% and 6.00%, respectively. An expected long-term rate of return on plan assets of 8.00% was used for all years.

401(k) Plan

The Bank has 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. For the years ended December 31, 1999, 1998 and 1997, the Bank did not make matching contributions to the Plan. Effective January 1, 2000, the Bank will make limited matching contributions.

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 $18,000 at December 31, 1999 and $20,000 at December 31, 1998. 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, 1999 and 1998, 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,			
	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 15,991	$ 15,991	$ 18,573	$ 18,573
Securities available for sale	35,532	35,532	28,235	28,235
Loans, net	229,687	229,786	204,774	208,524
Accrued interest receivable	1,642	1,642	1,330	1,330
Federal Home Loan Bank stock	3,423	3,423	2,750	2,750
Financial liabilities:				
Deposits	193,514	193,762	178,741	179,336
Federal Home Loan Bank advances	68,445	66,910	55,000	54,807
Other borrowed funds	248	248	56	56
Accrued interest payable	358	358	308	308

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 1999 and 1998 are as follows:

	Years Ended December 31,							
	1999				1998			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In Thousands, Except Per Share Amounts)							
Interest and dividend income	$ 5,355	$ 5,116	$ 4,970	$ 4,818	$ 4,743	$ 4,548	$ 4,464	$ 4,406
Interest expense	2,663	2,477	2,438	2,390	2,416	2,309	2,285	2,213
Net interest income	2,692	2,639	2,532	2,428	2,327	2,239	2,179	2,193
Provision for loan losses	20	60	60	60	34	39	39	39
Net interest income, after provision for loan losses	2,672	2,579	2,472	2,368	2,293	2,200	2,140	2,154
Other income	216	168	183	167	215	155	218	154
Operating expenses	1,475	1,377	1,375	1,313	1,232	1,186	1,147	1,151
Income before income taxes	1,413	1,370	1,280	1,222	1,276	1,169	1,211	1,157
Income tax provision	543	531	494	471	451	449	468	443
Net income	$ 870	$ 839	$ 786	$ 751	$ 825	$ 720	$ 743	$ 714
Earnings per share[3]:								
Basic	$ 0.44	$ 0.43	$ 0.40	$ 0.38	$ 0.42	$ 0.37	$ 0.38	$ 0.36
Diluted	$ 0.43	$ 0.42	$ 0.39	$ 0.37	$ 0.41	$ 0.36	$ 0.37	$ 0.35
Cash dividends declared per share	$ 0.24[1]	$ 0.12	$ 0.11	$ 0.11	$ 0.21[2]	$ 0.10	$ 0.09	$ 0.09

(1) Includes a special dividend of $0.12 per share declared on November 29, 1999.

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

(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.

Stockholder Information

Hingham Institution for Savings
55 Main Street
Hingham, MA 02043
(781) 749-2200

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

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

Transfer Agent and Registrar
ChaseMellon Shareholder Services, L.L.C.
111 Founders Plaza, Suite 1100
East Hartford, CT 06108

Stockholder Inquiries and Dividend Reinvestment
ChaseMellon Shareholder Services, L.L.C.
P.O. Box 3315
South Hackensack, NJ 07606
(800) 288-9541

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

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

Form 10-K
A copy of the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 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, 1999 there were approximately 501 stockholders of record, holding 1,031,795 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
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
1999		
First Quarter	17.13	15.00
Second Quarter	16.63	13.75
Third Quarter	16.25	14.50
Fourth Quarter	15.38	13.63

The closing sale price of the Bank's common stock at December 31, 1999 was $15.00 per share.

Notes

HINGHAM
INSTITUTION FOR
SAVINGS
ESTABLISHED 1834

55 Main Street, Hingham, MA 02043
Tel: 781-749-2200 Fax: 781-740-4889 www.hinghamsavings.com